**BOSNA REOSIGURANJE D.D.**
**SARAJEVO**

Financial statements for the year
ended 31 December 2018
and Independent auditor's report

This version of the report is a translation from the original, which was prepared in Bosnian 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 our financial reports and the accompanying audit report takes precedence over this translation.

Contents



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# Statement of Management's responsibility

The Management is required to prepare separate and consolidated financial statements, which give a true and fair view of the financial position of Bosna Reosiguranje d.d. Sarajevo (the Company) and the Company and associates, and 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 separate and consolidated financial statements at any time. Management has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

The Management is responsible for the submission to the Supervisory Board of its annual report on the Company together with the annual financial statements, following which the Supervisory Board is required to approve the financial statements.

Separate and consolidated financial statements set out on pages 6 to 51 were authorised by the Management on 9 April 2019 for issue to the Supervisory Board, and are signed below to signify this, on behalf of the Company, by:

Signed on behalf of Management:

BOSNA REOSIGURANJE • SARAJEVO • DIONIČKO DRUŠTVO

Zlatan Filipović, Director

Bosna Reosiguranje d.d. Sarajevo

Zmaja od Bosne 74

71000 Sarajevo

Bosnia and Herzegovina

Deloitte d.o.o.
Zmaja od Bosne 12c
71000 Sarajevo
Bosnia and Herzegovina

Tel: +387 (0) 33 277 560
Fax: +387 (0) 33 277 561
www.deloitte.com/ba

# Independent Auditor's Report

**To the shareholders of Bosna Reosiguranje d.d. Sarajevo:**

## Opinion

We have audited the financial statements of Bosna Reosiguranje d.d. (the "Company") and its associates (together the "Group"), which comprise the statement of financial position of the Company and Group as at 31 December 2018, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity, and statement of cash flows of the Company and Group for the year then ended, and notes including a summary of significant accounting policies and other explanations.

In our opinion, the accompanying financial statements truly and fairly present the financial position of the Company and Group as at 31 December 2018, and their financial performance and their cash flows for the year then ended in accordance with the 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 paragraph *Auditor's Responsibilities for the Audit of the Financial Statements*. We are independent of the Company and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Federation of Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

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

### Valuation of technical reserves (insurance reserves)

In the consolidated and separate financial statements as at 31 December 2018, technical reserves amounted to KM 98,238 thousand, which comprises 84.8% of total liabilities of the Company (31 December 2017: KM 94,923 thousand, 85.2%). The structure of technical reserves is as follows: reserve for reported but not settled claims ("RBNS") KM 36,767 thousand, reserve for incurred but not reported and reactivated claims ("IBNR") KM 43,880 thousand, and reserve for unearned premium KM 18,220 thousand.

Please refer to pages 25 to 27 (Summary of significant accounting policies), page 28 (Accounting estimates and key sources of estimation uncertainty), and Note 27 Assets and liabilities from insurance operations.

**Key audit matters (continued)**

| Key audit matter | Our approach to the key audit matter |
|---|---|
| Reserves for insurance contracts represent the most individually significant liability of the Company in the statement of financial position. Their valuation involves a significant judgement of uncertain future outcomes as it requires the Management to develop complex and subjective assumptions that are used as input variables in the model for calculation of reserves for insurance contracts that uses the standard actuarial methodology.<br><br>The Management's estimate of IBNR and RBNS is highly complex. Various methods can be used, and often standard actuarial models need to be adjusted to specific circumstances, and such adjustments also require specific judgment. Management evaluates the IBNR using a complex model based on key assumptions, including those on the appropriateness of using historical trends in predicting patterns of future trends in claims and their settlement. In addition, the Company applies the terms of the reinsurance contracts, and for large claims uses expert assessment to develop its own RBNS estimates. | Our audit procedures related to this area included, inter alia:<br><br>▪ Assessment whether the methodology applied by the Company when calculating technical reserves is in accordance with relevant regulatory and reporting requirements, as well as assessment of the consistency of its application during the reporting period;<br><br>With the assistance of our own actuaries:<br><br>▪ harmonization of data on claims which are the base for actuarial projections with accounting records and (in total and by type of insurance). |
| In addition, at each reporting date, the Company is required to carry out a liability adequacy test (hereinafter "LAT") in order to determine whether recognized reserves for insurance contracts, less any related assets, are sufficient to cover the claims arising from reinsurance contracts. The test is based on the best estimate of the present value of future cash flows arising from contract assets and liabilities, as well as taking into account claims and cost estimates.<br><br>In the event that the LAT test shows that the amount of the reserve for insurance contracts is insufficient, the difference is recognized in profit or loss in correspondence with the decrease in the value of financial assets (receivables from the counterparts or by increase of liabilities arising from reinsurance contracts.<br><br>Relatively small changes in these assumptions can have a significant impact on the recognized amounts of reserves. The integrity and accuracy of data based on actuarial projections also represents the area of our focus in the audit.<br><br>With respect to the aforementioned, we believe that valuation of technical reserves is a key risk in our audit and a key audit matter. | ▪ Performing independent valuation of technical reserves for claims for selected types of insurance, in such a way that we conducted the following on a selected sample, inter alia:<br>  ○ assessed the methodology applied by the Company and tested the applied ratio of costs, and compared it with the ratio of costs used in calculation of IBNR reserves, and verified whether the Company used the adequate formula;<br>  ○ made an independent recalculation of IBNR reserves, and compared the amounts received with those recognized by the Company, and seek explanations for significant differences.<br><br>▪ Assessing the adequacy of IBNR and RBNS reserves by comparing actual amounts in previous periods with previous forecasts of claims movements;<br><br>▪ Assessed whether the data delivered by the independent actuary delivered to Deloitte's expert team are reconciled with the financial statements.<br><br>▪ Reviewed the information disclosed in the financial statements of the Company to assess their sufficiency in the sense of intelligibility of the transaction to the users of the financial statements. |

**Other matters**

Financial statements of the Company for the year ended 31 December 2017 were audited by another auditor, who expressed an unmodified opinion on those financial statements on 30 march 2018.

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

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

In preparing the financial statements, the Management Board is responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and 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 Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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

- 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 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and 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 concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless 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 auditor's report is Sabina Softić.

Sead Bahtanović, Director and licensed auditor

Sabina Softić, Partner and licensed auditor

Deloitte
d.o.o.
Zmaja od Bosne 12c
71000 Sarajevo
ID: 4200047380000

**Deloitte d.o.o.**
Zmaja od Bosne 12c
Sarajevo, Bosnia and Herzegovina
9 April 2019

| | Notes | Company and associates 2018 | Company and associates 2017 | Company 2018 | Company 2017 |
|---|---|---|---|---|---|
| Reinsurance revenue | 5 | 52,219,324 | 51,967,035 | 52,219,324 | 51,967,035 |
| Premium revenue ceded to reinsurers, net | 5 | (29,284,057) | (27,103,864) | (29,284,057) | (27,103,864) |
| **Net premium revenue** | | **22,935,267** | **24,863,171** | **22,935,267** | **24,863,171** |
| Reinsurance claims and expenses | 6 | (27,834,630) | (41,273,071) | (27,834,630) | (41,273,071) |
| Reinsurance claims and expenses covered by reinsurers, net | 6 | 11,206,403 | 24,331,153 | 11,206,403 | 24,331,153 |
| **Net claims expenses** | | **(16,628,227)** | **(16,941,918)** | **(16,628,227)** | **(16,941,918)** |
| Commission income | | 6,800,408 | 6,104,728 | 6,800,408 | 6,104,728 |
| Commission expenses | | (9,320,480) | (9,841,762) | (9,320,480) | (9,841,762) |
| **Net commission expenses** | | **(2,520,072)** | **(3,737,034)** | **(2,520,072)** | **(3,737,034)** |
| **Net income from insurance** | | **3,786,968** | **4,184,219** | **3,786,968** | **4,184,219** |
| Investment income | 7,8 | 982,078 | 1,613,540 | 982,078 | 13,101,204 |
| Other operating income | 9 | 109,291 | 703,356 | 109,291 | 703,356 |
| General and administrative expenses | 10 | (3,049,401) | (3,938,800) | (3,049,401) | (3,938,800) |
| Investment losses | 11 | - | (337,000) | - | (337,000) |
| Other expenses | 12 | - | (4,639) | - | (4,639) |
| Foreign exchange losses, net | | (24,077) | (10,649) | (24,077) | (10,649) |
| Share in profit of associates | 17 | 314,720 | 348,483 | - | - |
| **Profit before tax** | | **2,119,579** | **2,558,510** | **1,804,859** | **13,697,691** |
| Income tax expense | 13 | (166,817) | (1,398,732) | (166,817) | (1,398,732) |
| **Net profit** | | **1,952,762** | **1,159,778** | **1,638,042** | **12,298,959** |
| **Earnings per share** | 14 | **104,73** | **678,33** | **87,85** | **659,64** |

The accompanying notes are an integral part of these financial statements.

## Statement of comprehensive income
## for the year ended 31 December

*(All amounts are expressed in KM, unless otherwise stated)*

| | Notes | Company and associates 2018 | Company and associates 2017 | Company 2018 | Company 2017 |
|---|---|---|---|---|---|
| **Net profit for the year** | | **1,952,762** | **1,159,778** | **1,638,042** | **12,298,959** |
| ***Other comprehensive income*** | | | | | |
| *Items that will not be subsequently reclassified to statement of profit or loss* | | - | - | - | - |
| *Items that will be subsequently reclassified to statement of profit or loss when specific conditions are met* | | - | - | - | - |
| Net changes in fair value of financial assets available for sale | 18 | 304,029 | 477,202 | 304,029 | 477,202 |
| | | ***304,029*** | ***477,202*** | ***304,029*** | ***477,202*** |
| **Total comprehensive income** | | **2,256,791** | **1,636,980** | **1,942,071** | **12,776,161** |

The accompanying notes are an integral part of these financial statements.

| | Notes | Company and associates 31 December 2018 | Company and associates 31 December 2017 | Company 31 December 2018 | Company 31 December 2017 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property, plant and equipment, and intangible assets | 15 | 3,973,414 | 4,084,068 | 3,973,414 | 4,084,068 |
| Investment property | 16 | 3,192,462 | 3,324,047 | 3,192,462 | 3,324,047 |
| Investment in associates | 17 | 4,321,530 | 4,006,810 | 1,878,529 | 1,878,529 |
| Deferred acquisition costs | 20 | 3,019,551 | 3,017,612 | 3,019,551 | 3,017,612 |
| Financial assets available-for-sale | 18 | 3,164,347 | 5,860,318 | 3,164,347 | 5,860,318 |
| Financial assets held-to-maturity | 19 | 4,753,658 | 2,750,503 | 4,753,658 | 2,750,503 |
| Deposits | 21 | 37,493,614 | 41,721,289 | 37,493,614 | 41,721,289 |
| Reinsurance assets (reinsurers' share in reinsurance liabilities) | 28 | 72,356,474 | 70,698,828 | 72,356,474 | 70,698,828 |
| Reinsurance premium receivables and for claims recovered by reinsurers | 22 | 16,252,543 | 13,084,793 | 16,252,543 | 13,084,793 |
| Other receivables | 23 | 208,774 | 291,111 | 208,774 | 291,111 |
| Corporate tax receivables | | 249,513 | - | 249,513 | - |
| Other assets | 24 | 13,612 | 11,979 | 13,612 | 11,979 |
| Cash and cash equivalents | 25 | 2,878,556 | 3,363,446 | 2,878,556 | 3,363,446 |
| **TOTAL ASSETS** | | **151,878,048** | **152,214,804** | **149,435,047** | **150,086,523** |
| **EQUITY AND LIABILITIES** | | | | | |
| Share capital | 26 | 6,339,300 | 6,339,300 | 6,339,300 | 6,339,300 |
| Reserves | | 20,098,815 | 19,810,376 | 20,098,815 | 19,810,376 |
| Revaluation reserves for financial assets available-for-sale | | 528,369 | 224,340 | 528,369 | 224,340 |
| Retained earnings | | 9,081,043 | 14,427,240 | 6,638,042 | 12,298,959 |
| | | **36,047,527** | **40,801,256** | **33,604,526** | **38,672,975** |
| **LIABILITIES** | | | | | |
| Reinsurance liabilities | 28 | 98,238,097 | 94,922,822 | 98,238,097 | 94,922,822 |
| Reinsurance premium and claims payables | 27 | 12,490,325 | 9,649,179 | 12,490,325 | 9,649,179 |
| Deferred reinsurance commission | 20 | 1,356,017 | 1,452,620 | 1,356,017 | 1,452,620 |
| Other liabilities | 29 | 3,332,087 | 3,721,595 | 3,332,088 | 3,721,595 |
| Tax liabilities | | - | 1,153,412 | - | 1,153,412 |
| Provisions for employee benefits | | 413,994 | 513,920 | 413,994 | 513,920 |
| | | **115,830,521** | **111,413,548** | **115,830,521** | **111,413,548** |
| **TOTAL EQUITY AND LIABILITIES** | | **151,878,048** | **152,214,804** | **149,435,047** | **150,086,523** |

The accompanying notes are an integral part of these financial statements.

**Company and associates**

| | Share capital | Reserves | Revaluation reserves for financial assets available-for-sale | Retained earnings | Total |
|---|---|---|---|---|---|
| **As at 31 December 2016** | **6,339,300** | **19,810,316** | **(252,862)** | **16,596,960** | **42,493,714** |
| Dividend payment | - | - | - | (3,329,498) | (3,329,498) |
| Transfer to regulatory reserves | - | 60 | - | (60) | - |
| Net profit | - | - | - | 1,159,778 | 1,159,778 |
| Other comprehensive income | - | - | 477,202 | - | 477,202 |
| *Total comprehensive income* | *-* | *-* | *477,202* | *1,159,778* | *1,636,980* |
| **As at 31 December 2017** | **6,339,300** | **19,810,376** | **224,340** | **14,427,240** | **40,801,256** |
| Dividend payment | - | - | - | (7,010,520) | (7,010,520) |
| Transfer to regulatory reserves | - | 288,439 | - | (288,439) | - |
| Net profit | - | - | - | 1,952,762 | 1,952,762 |
| Other comprehensive income | - | - | 304,029 | - | 304,029 |
| *Total comprehensive income* | *-* | *-* | *304,029* | *1,952,762* | *2,256,791* |
| **As at 31 December 2018** | **6,339,300** | **20,098,815** | **528,369** | **9,081,043** | **36,047,527** |

The accompanying notes are an integral part of these financial statements.

**Company**

| | Share capital | Reserves | Revaluation reserves for financial assets available-for-sale | Retained earnings | Total |
|---|---|---|---|---|---|
| **As at 31 December 2016** | **6,339,300** | **19,810,316** | **(252,862)** | **3,329,498** | **29,226,252** |
| Dividend payment | - | - | - | (3,329,498) | (3,329,498) |
| Transfer to regulatory reserves | - | 60 | - | (60) | - |
| Net profit | - | - | - | 12,298,959 | 12,298,959 |
| Other comprehensive income | - | - | 477,202 | - | 477,202 |
| *Total comprehensive income* | *-* | *-* | *477,202* | *12,298,959* | *12,776,161* |
| **As at 31 December 2017** | **6,339,300** | **19,810,376** | **224,340** | **12,298,959** | **38,672,975** |
| Dividend payment | - | - | - | (7,010,520) | (7,010,520) |
| Transfer to regulatory reserves | - | 288,439 | - | (288,439) | - |
| Net profit | - | - | - | 1,638,042 | 1,638,042 |
| Other comprehensive income | - | - | 304,029 | - | 304,029 |
| *Total comprehensive income* | *-* | *-* | *304,029* | *1,638,042* | *1,942,071* |
| **As at 31 December 2018** | **6,339,300** | **20,098,815** | **528,369** | **6,638,042** | **33,604,526** |

The accompanying notes are an integral part of these financial statements

## Statement of cash flows

## for the year ended 31 December 2017

*(All amounts are expressed in KM, unless otherwise stated)*

| | Note | Company and associates 2018 | Company and associates 2017 | Company 2018 | Company 2017 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Profit before tax | | 2,119,579 | 2,558,510 | 1,804,859 | 13,697,691 |
| Adjustments for: | | | | | |
| - depreciation and amortization | 10 | 365,954 | 375,332 | 365,954 | 375,332 |
| - allowance for impairment losses on premium and for claims recovered from reinsurers | 12 | - | 4,639 | - | 4,639 |
| - collected written off receivables | 9 | (1,706) | (701,505) | (1,706) | (701,505) |
| - write-off of irreversible losses on financial assets available-for-sale | 11 | - | 337,000 | - | 337,000 |
| - transfer to regulatory reserves | | - | 60 | - | 60 |
| - share in profit of associates | 17 | (314,720) | (348,483) | - | - |
| - provision for unearned premium, net | 5 | 488,846 | (809,356) | 488,846 | (809,356) |
| - provision for incurred but not reported claims, net | 6 | 1,163,901 | 733,842 | 1,163,901 | 733,842 |
| - provision for reported but not settled claims, net | 6 | (433,329) | 887,963 | (433,329) | 887,963 |
| - provision for bonuses, discounts and premiums, net | 6 | 438,211 | (1,100,364) | 438,211 | (1,100,364) |
| - deferred acquisition costs, net | 20 | (98,542) | 217,191 | (98,542) | 217,191 |
| - provision for employee benefits, net | 9, 10 | (99,926) | 35,270 | (99,926) | 35,270 |
| - gain from disposal of tangible assets | 7, 10 | - | (3,542) | - | (3,542) |
| - gain from sale of financial instruments | 7, 8 | (15,914) | - | (15,914) | - |
| - gain from disposal of shares in associates | 7, 8 | - | (445,454) | - | (11,933,118) |
| - dividend income recognized in profit or loss | 7, 8 | (91,763) | (158,933) | (91,763) | (158,933) |
| - interest income recognized in profit or loss | 7, 8 | (657,327) | (786,369) | (657,327) | (786,369) |
| *Operating cash flow before movements in working capital* | | *2,863,264* | *795,801* | *2,863,264* | *795,801* |
| *Changes in:* | | | | | |
| - reinsurance premium receivables and claims recovered from re-insurers | 22 | (3,166,044) | (1,469,132) | (3,166,044) | (1,469,132) |
| - other assets and receivables | 23 | 80,705 | 19,170 | 80,705 | 19,170 |
| - reinsurance premium and claims payable | 27 | 2,841,146 | 2,098,164 | 2,841,146 | 2,098,164 |
| - other liabilities | 29 | (1,543,296) | 1,399,681 | (1,543,296) | 1,399,681 |
| *Cash generated from operations* | | *1,075,775* | *2,843,684* | *1,075,775* | *2,843,684* |
| Income tax paid | 13 | (416,330) | (84,798) | (416,330) | (84,798) |
| **Net cash from operating activities** | | **659,445** | **2,758,886** | **659,445** | **2,758,886** |
| **Investing activities** | | | | | |
| Purchases of property and equipment | 15 | (123,715) | (64,263) | (123,715) | (64,263) |
| Proceeds from sale of investment property | 16 | - | 15,000 | - | 15,000 |
| Proceeds from sale of tangible assets | 15 | - | 13,555 | - | 13,555 |
| Proceeds from sale of financial assets available-for-sale | 18 | 3,015,914 | - | 3,015,914 | - |
| Proceeds from sale of shares in associates | 7, 17 | - | 13,351,124 | - | 13,351,124 |
| Dividends received | 7 | 91,763 | 158,933 | 91,763 | 158,933 |
| Interest received | 21 | 664,004 | 785,990 | 664,004 | 785,990 |
| Purchase of financial assets held-to-maturity | 19 | (2,003,100) | (352,212) | (2,003,100) | (352,212) |
| Purchase of financial assets available-for-sale | 18 | - | (3,500,000) | - | (3,500,000) |
| Decrease / (increase) in deposits | 21 | 4,220,943 | (11,639,417) | 4,220,943 | (11,639,417) |
| **Net cash from / (used in) investing activities** | | **5,865,809** | **(1,231,290)** | **5,865,809** | **(1,231,290)** |
| **Financing activities** | | | | | |
| Dividends paid | | (7,010,144) | (3,329,498) | (7,010,144) | (3,329,498) |
| **Net cash used in financing activities** | | **(7,010,144)** | **(3,329,498)** | **(7,010,144)** | **(3,329,498)** |
| **Net decrease in cash and cash equivalents** | | **(484,890)** | **(1,801,902)** | **(484,890)** | **(1,801,902)** |
| **Cash and cash equivalents at the beginning of year** | | **3,363,446** | **5,165,348** | **3,363,446** | **5,165,348** |
| **Cash and cash equivalents at the end of year** | | **2,878,556** | **3,363,446** | **2,878,556** | **3,363,446** |

The accompanying notes are an integral part of these financial statements.

## 1. GENERAL INFORMATION

Bosna Reosiguranje d.d. Sarajevo (the "Company") was registered in the Federation of Bosnia and Herzegovina as a shareholders' company. The principal activities of the Company include reinsurance of life and non-life insurance.

As at 31 December 2018, the Company had 25 employees (2017: 27).

***Management***

| | |
|---|---|
| Zlatan Filipović | Director |
| Hasan Delić | Executive director for finance until 31 May 2018 |
| Bakir Pilav | Executive director for finance since 1 June 2018 |

***Supervisory Board***

| | |
|---|---|
| Ismet Hadžić | President |
| Enisa Babić | Member |
| Midhad Salčin | Member |
| Jasenko Karahmet | Member since |
| Semiha Repak | Member since 12 June 2017 |

***Audit Committee***

| | |
|---|---|
| Alma Kozarić | President |
| Edin Muhović | Member |
| Kornelije Vujnović | Member since 12 June 2017 |

## 2. ADOPTION OF NEW AND REVISED STANDARDS

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

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),

IFRS 9 Financial Instruments, which will have a significant impact on the classification and measurement of financial assets and financial liabilities of the Company, as well as measurement of expected credit losses, has been fully completed and issued by the International Accounting Standards Board in 2014 with mandatory application from 1 January 2018. According to the standard, reporting entities should disclose key determinants of the methodological approach used in the application of IFRS 9 as well as effects on balance sheet items and capital level on the first day of application (1 January 2018) in the financial statements for 2017. The Company meets the criteria for a temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contract standard (IFRS 17) effective for periods beginning on or after 1 January 2021 (as described below).

## 2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

*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 predominance test and concluded that its activities were primarily related to insurance as at 31 December 2016. During 2018 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.

- Amendments to IAS 40 "Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

## 2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

### 2.2 New standards and amendments to existing standards in issue not yet adopted

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

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

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 (e.g. personal computers) and short-term rentals (i.e. 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.

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),

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.
- A Contractual Service Margin (CSM) is measured as a positive difference (net inflow) between the risk-weighted present value of expected inflows and outflows for a certain group of contracts. As such, it represents at the beginning of a contract the expected profitability of the contract and is recognised in profit or loss over the entire 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.

## 2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

### 2.2 New standards and amendments to existing standards in issue not yet adopted (continued)

- Amounts that the policyholder will always receive, regardless of whether an insured event happens are not presented in profit or loss, 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.

- Amendments to IFRS 3 "Business Combinations" – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 19 "Employee Benefits" – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),

## 2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

### 2.2 New standards and amendments to existing standards in issue not yet adopted (continued)

- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020),
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019).

The Company has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The Company anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board.

These financial statements consist of separate and consolidated financial statements, where investments in associates in the consolidated financial statements of the Company and associates are presented using the equity method, while in the separate financial statements of the Company these investments are stated at cost less impairment if there are any indications of impairment.

**Basis of preparation**

These financial statements have been prepared on a historical cost basis, except for certain for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except the measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date; fair value indicators are those derived from quoted prices in active markets;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements are presented in Convertible marks since that is the functional currency of the Company. The Convertible mark (KM) is officially tied to the Euro (EUR 1 = KM 1.95583).

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those 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 if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Basis of preparation (continued)**

Information on amounts where significant uncertainty exists in their estimate and critical judgments in applying accounting policies that have the most impact on the amounts disclosed in these financial statements are disclosed in Note 4.

**Basis of consolidation**

In accordance with IFRS 10, as the Company has investments in associates, the Company prepares consolidated financial statements.

**Investments in associates**

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the financial statements of the Company and associates using the equity method of accounting from the date that significant influences commences until the date the significant influences ceases, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Under the equity method, investments in associates in the financial statements are carried at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate which includes any long-term interests that, in substance, form part of the Company's net investment in the associate are not recognised unless it has further liabilities towards an associate or has made payments in favour of an associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities after reassessment is recognised immediately in profit or loss.

Investments in associates in the financial statements of the Company are stated at cost less any impairment in the value of individual investments if needed.

Dividends received from associates are recognized as a reduction in investments in associates in the Company's consolidated statement of financial position and also as dividend income in the Company's separate statement of profit and loss.

Unrealized gains from transactions between the Company and its associates are eliminated to the extent of the Company's share in the associate. Unrealized losses are also eliminated unless there is evidence of a decrease in the value of the transferred property in the market.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue recognition**

Gross reinsurance premiums are recognised as revenue on a pro-rata basis over the periods of the respective contracts of reinsurance.

Reinsurance premiums, which are subject to adjustments, are estimated based upon available information. Any variances from the estimates are recorded in the periods in which they become known.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate.

**Foreign currencies**

Transactions denominated in foreign currencies are converted into KM at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are translated at the rates prevailing on the reporting period date due to official exchange rate of Central Bank of Bosnia and Herzegovina. Profits and losses arising on exchange are included in net profit or loss for the period.

**Employee benefits**

On behalf of its employees, the Company pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Company pays the tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal level). In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the local legislation. These expenses are recorded in the statement of profit or loss in the period in which the salary expense is incurred.

***Jubilee awards***

The Company pays to its employees certain benefits for completing long service (jubilee awards) in accordance with local laws and its internal Rulebook on employment. Jubilee award payments range from 1 to 5 average salaries paid to the employee in the preceding 3 months for tenure from 10 to 40 years.

***Retirement severance payments***

According to the local legislation and internal Rulebook on employment, the Company makes retirement severance payments of minimum 6 average monthly salaries paid in the Federation of Bosnia and Herzegovina based on latest data published by the Federal Office of Statistics.

The Company records the costs of jubilee awards and retirement severance payments, when they become due.

**Taxation**

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

***Current Income tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss, because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting period date.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Taxation (continued)**

***Deferred Income tax***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Property, plant and equipment**

Property and equipment are started at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised. Gains or losses on the retirement or disposal of property, plant and equipment are included in the statement of profit or loss in the period they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Investment property is accounted for under the cost model and the accounting treatment after initial recognition follows that applied to property and equipment.

Depreciation commences when the assets are ready for their intended use. Depreciation is calculated so that it will reduce book values to their estimated realisable values over their estimated useful lives, which are as follows:

| | **2018** | **2017** |
|---|---|---|
| Buildings | 33.3 years (3%) | 33.3 years (3%) |
| Equipment | 4 to 6.67 years (15%-25%) | 4 to 6.67 years (15%-25%) |
| IT equipment | 3 to 5 years (20%-33.3%) | 3 to 5 years (20%-33.3%) |

The Company reassesses useful lives of its property and equipment annually. In 2017 the Company revised its estimate of useful lives of property, plant and equipment as stated in the table above, which are applicable as of 1 January 2017. As of that date, property, plant and equipment are depreciated under new rates. As a result of this change in accounting estimate, the annual depreciation cost has decreased by KM 28 thousand.

Gains or losses on the retirement or disposal of tangible assets are recognized in the statement of profit or loss and other comprehensive income for the period they occur in.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Impairment of non-financial assets**

At each reporting period date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Intangible assets**

Intangible assets are valued at purchase costs and amortized over their useful lives using the straight-line method.

| | **2018** | **2017** |
|---|---|---|
| Intangible assets | 5 years (20%) | 5 years (20%) |

The Company annually evaluates the useful life of intangible assets.

**Investment property**

Investment property, which is property held to earn rental income and/or for capital appreciation, is measured initially at its cost, including transaction costs. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated based on the estimated based on the estimated useful lives of the applicable assets, which is as follows:

| | **2018** | **2017** |
|---|---|---|
| Investment property – buildings | 33.3 years (3%) | 33.3 years (3%) |

The Company annually evaluates the useful life of investment property.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**a) Financial assets**

Financial assets are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned.

Financial assets are classified into the following specified categories: financial assets as "at fair value through profit or loss" (FVTPL), "available-for-sale" (AFS), "held-to-maturity investments", and "loans and receivables".

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently, the Company has no financial assets at FVTPL.

***Effective interest method***

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

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

***Loans and receivables***

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

***Financial assets available-for-sale***

Financial assets available-for-sale is non-derivative financial assets which is classified in this category or is not classified in any other category. It is intended to be held for a while, but it can be sold in response to liquidity needs or changes in interest rates, prices, and so. It includes stocks and investments in investment funds.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments (continued)**

**a) Financial assets (continued)**

***Financial assets available-for-sale (continued)***

Listed and unlisted shares held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. For such investments a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or is based on the expected cash flows or the underlying net asset base of the investment. Investments whose fair value cannot be reliably measured are carried at cost.

Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting period date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

***Held-to-maturity investments***

Bonds with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis. This financial assets includes Federation of BiH bonds.

***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at each reporting period date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, including redeemable notes classified as AFS, objective evidence of impairment could include:

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments (continued)**

**a) Financial assets (continued)**

***Impairment of financial assets (continued)***

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

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

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

In respect of AFS equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

***Derecognition of financial assets***

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another company. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

**b) Financial liabilities and equity instruments issued by the Company**

***Classification as debt or equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Financial liabilities***

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities". as at the reporting date, the Company had no financial liabilities at FVTPL

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

**b) Financial liabilities and equity instruments issued by the Company (continued)**

***Financial liabilities (continued)***

*Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

*Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

**Reinsurance contracts**

The Company issues reinsurance contracts for the transfer of reinsurance or finance risk. These contracts include contracts on reinsurance of insurance portfolios from accidents, property reinsurance, reinsurance from responsibility and short-term life reinsurance contracts.

Insurance from responsibility protects the insured individuals from the risk of inflicting damage upon third parties as a result of their activities. This type of reinsurance covers events specified in the contract. A typical example of this type of insurance is product responsibility insurance.

Property insurance provides compensation to the insured person for any damages inflicted upon his/her property, or for a decrease in its value. Insured persons who perform business activities using insured property can also be compensated for a loss in profit caused by an inability to use the insured property. A typical example of this type of insurance is insurance against fire and other perils that property can be exposed to.

Insurance against accidents protects insured persons and/or members of their family from the consequences of death or disability caused by a calamity. Should the calamity result in the death or disability of the insured person, they or their families receive a specified compensation to alleviate the consequences of the calamity.

***Written premiums***

Gross written premiums for non-life business include all policies written during the accounting period that came out from reconciliation of reinsurance accounts with partners - cadent, irrespective of whether these amounts relate wholly or partially to subsequent accounting periods. Retrocession premiums are calculated for accounting period by the same way as reinsurance premiums. Income from non-life insurance premium is recognized after reconciliation of Company's report with cadent.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Reinsurance contracts (continued)**

***Unearned premiums***

Unearned premiums are calculated for reinsurances in which reinsurance coverage lasts after accounting period, since accounting and reinsurance periods are not the same. Unearned premium for non-life insurance is calculated using "*pro rata temporis method*". Basis for calculation is gross written premium. For insurance with multi-annual reinsurance coverage, unearned premium is calculated for duration of each insurance for the total amount that belongs to the future period. Calculation of unearned premium is done based on technical premium.

Net unearned premium is gross premium decreased by portion recoverable from re-insurers. Participation of reinsurers in unearned premiums is determined through existing reinsurance contracts. Provision for unearned premium is presented separate from reinsurer's portion of unearned premium in the statement of financial position.

***Provisions for claims reported but not settled***

Provisions for reported but not settled claims relate to claims that incurred and were reported by the end of the financial statement period for which the claim request has not been settled. The level of provisions is determined by assessing each potential claim individually. In determining the level of provisions, the following is adhered to: conditions from the reinsurance contracts; documentation available in the file; available standards and the experience of the evaluators; current court practices in determining claim compensations. All this is considered having in mind potential changes that can be expected to occur in the forthcoming period and that might affect increases or decreases of these provisions.

***Provision for incurred but not reported claims***

Provisions for claims that have incurred but are yet to be reported are calculated on the basis of the Company's own statistical data on subsequently reported damages in past years. These calculations use methods that rely on "run-off triangles". The provisions for reactivated claims are also formed on the basis of statistical trends in the movement of these claims. The provision is calculated on the basis of the expected number of reactivated claims in the forthcoming year and the average level of reactivated claims for each insurance category.

These provisions are based on estimates and final liabilities may be lower or higher than available resources for as long as the Management considers the estimate to be appropriate. In accordance with economic practice, adaptations of these estimates and the difference between the estimate and the amounts actually paid out are recorded in the period in which they occur.

***Mathematical reserve of life-insurance premium***

The Company does not have reinsurance contracts based on which mathematical reserve should be provided.

***Reinsurance assets and liabilities***

Assets and liabilities from reinsurance contracts are recognised when they become due. These amount include re-insurers' assets and liabilities, compensations paid to and collected from agents, brokers and insurance policy holders.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Reinsurance contracts (continued)**

***Receivables and payables for reinsurance premium and claims payable***

The Company cedes reinsurance with retrocessionists with the intention of limiting the potential loss. Reinsurance contracts do not deprive the Company of any direct liabilities towards insurance companies. Ceded premiums and recoverable amounts are presented in gross amount in the financial statements

The Company signs reinsurance contracts with reinsuring companies on the basis of which the Company receives compensation for losses arising from individual or group contracts. The Company reinsures premiums of life and non-life insurance in order to limit its exposure to significant losses. Reinsurance premiums and reinsuring parties' participation in claims are presented on appropriate accounts of the statement of profit or loss. Reinsurance premiums are recorded in their gross non-discounted amounts.

On every reporting period date the Company re-evaluates the recorded amounts of its receivables on the basis of insurance and reinsurance contracts in order to determine whether a loss has arisen from a decrease in value of the said financial asset. If there are indications that this is indeed the case, the value of this loss is estimated and recognised in the statement of profit or loss.

***Acquisition costs***

Acquisition costs comprise compensations paid to agents for the services of acquisition of new insurances in accordance with existing contracts. Compensation is paid on the basis of collected premium. Acquisition costs are included in statement of profit or loss when the reconciliation of the underlying insurance premiums is made. Acquisition costs are deferred in line with the movement in provision for unearned premiums. Provision for unearned premium is presented separate from reinsurer's portion of unearned premium in the statement of financial position.

***Liability adequacy test***

On each reporting period date, the Company performs a liability adequacy test in order to determine whether the reinsurance liabilities, less related assets, are sufficient to cover claims from reinsurance contracts. When performing this test, the best estimates of future cash flows related to contractual assets and liabilities, as well as estimates of claims and processing costs and income from investments related to the contracts, are taken into consideration. Should the recognised liability turn out to be insufficient, its value is increased by reducing the financial result for the period either by reducing the value of financial assets (receivables from re-insurers) or by increasing provisions arising from reinsurance contracts.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Capital and reserves**

***Share capital***

Ordinary share capital represents the nominal value of paid-in ordinary shares as equity.

***Reserves***

The statutory reserves represent accumulated apportions from retained earnings in accordance with Companies Law of Federation of Bosnia and Herzegovina. The statutory reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

***Retained earnings***

Profit for the period after appropriations to owners and allocations to other reserves are transferred to retained earnings. Profit for the period after appropriations to owners is transferred to retained earnings.

***Revaluation reserve for properties***

Revaluation reserve for properties includes the cumulative effects of increase in the carrying amount of properties arising on the revaluation of them.

***Revaluation reserve for financial assets available for sale***

Revaluation reserve for financial assets available for sale comprises changes in fair value of this assets.

***Dividends***

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Company's shareholders.

**Earnings per share**

The Company publishes basic and diluted earnings per share (EPS) data.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, excluding ordinary shares bought by the Company and classified as treasury shares.

During 2017 and 2018 there were no dilution effects.

If the number of ordinary or potential shares is increased as a result of a capitalization, bonus/free issue or sharing of shares, or if the number decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented is adjusted retrospectively.

If these changes occur after the statement of financial position date, but before issuing of financial statements, calculation of the amount per share for these financial statements and any previous period is based on the new number of shares.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Estimations are used but not limited to the actuarial reserves, periods of amortization and remained property and equipment value, and allowance for impairment of receivables.

***Estimation of uncertainty in relation to actuarial reserves***

The most significant estimate in relation to the Company's financial statements relates to reserving. The Company takes a reasonably prudent approach to reserving and applies regulations set by the Agency for supervision of the insurance companies in Federation of Bosnia and Herzegovina. The Company's policy is to make a provision for unexpired risks arising from non-life insurance where the claims and deferred acquisition costs likely to arise after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums available under the contracts. Such provision is included in the unearned premium.

***Provisions for claims reported***

The nature of business makes it difficult to predict with certainty the outcome of every particular claim and the ultimate cost of every reported claim. Each reported claim is assessed on a separate, case by case basis, with due regard to the claim circumstances, information available and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims. The risk associated with estimate of provisions for claims reported but not settled is mitigated through reinsurance arrangements.

***Provision for claims incurred but not reported (IBNR)***

Provision for claims incurred but not reported are estimated using actuarial methods. The source of data used as inputs for the assumptions are internal, using detailed studies carried out by the Company. There is more emphasis on current trends, and when in early years there is insufficient information to make reliable best estimate of claims development, prudent assumptions are used.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

**Key sources of estimation uncertainty (continued)**

***Provision for claims incurred but not reported (IBNR) (continued)***

Provision for claims incurred but not reported is based on calculations performed for each line of business. For each line of business calculations are based on statistical data for claims for last five years. For the calculation of provision following methods are used:

- Chain ladder method,
- Average amount reported claims method,
- Average amount of expected claims methods,
- Bornhuetter-Ferguson method.

Based on quality and quantity of data, relevant method is applied. Management believes that the current level of technical reserves is sufficient.

***Useful lives of property and equipment, and investment property***

As described in the Note 3, the Company reviews the estimated useful lives of property and equipment, and investment property at the end of each annual reporting period.

***Provision for claims arising from reinsurance contracts***

At each reporting date, the Company reviews whether there is objective evidence of reinsurance contracts receivables impairment. Impairment of receivables arising from reinsurance contracts is carried out if there is objective evidence that an event has occurred that causes impairment after initial recognition of assets and that this event causing impairment has an impact on future cash flows of the asset that can be reliably estimated.

***Fair value of financial instruments***

If the price for a financial instrument is not quoted, or if, for any reason, fair value cannot be reliably determined on the basis of market prices, the Company determines fair value by applying valuation techniques except for non-listed equity instruments. These techniques involve the reference to recent transactions, the reference to the fair value of other instruments that are basically the same and the analysis of discounted cash flows.

## 5. REINSURANCE REVENUE

| | 2018 | 2017 |
|---|---|---|
| Reinsurance premium, domestic | 48,371,163 | 45,291,202 |
| Reinsurance premium, foreign | 4,855,517 | 6,137,174 |
| Change in unearned premium | (1,007,356) | 538,659 |
| ***Reinsurance revenue arising from the reinsurance contracts issued*** | ***52,219,324*** | ***51,967,035*** |
| Reinsurance premium ceded to reinsurers | (29,802,567) | (27,374,561) |
| Change in unearned premiums ceded to reinsurers | 518,510 | 270,697 |
| ***Reinsurance premium ceded to reinsurers, net*** | ***(29,284,057)*** | ***(27,103,864)*** |
| | **22,935,267** | **24,863,171** |

## 6. REINSURANCE CLAIMS AND EXPENSES

| | 2018 | 2017 |
|---|---|---|
| Reinsurance claims and expenses, domestic | 21,888,262 | 26,444,153 |
| Reinsurance claims and expenses, foreign | 3,638,448 | 3,635,026 |
| Change in the provision for incurred but not reported claims | (2,283,565) | 5,558,887 |
| Change in the provision for reported but not settled claims | 3,986,584 | 6,878,546 |
| Change in the provision for bonuses, discounts and premiums | 604,901 | (1,243,541) |
| ***Reinsurance claims and expenses*** | ***27,834,630*** | ***41,273,071*** |
| Reinsurance claims and expenses covered by reinsurers | (10,067,266) | (13,658,703) |
| Change in the provision for incurred but not reported claims | 1,850,236 | (4,825,045) |
| Change in the provision for reported but not settled claims | (2,822,683) | (5,990,583) |
| Change in the provision for bonuses, discounts and premiums | (166,690) | 143,178 |
| ***Reinsurance claims and expenses covered by reinsurers, net*** | ***(11,206,403)*** | ***(24,331,153)*** |
| | **16,628,227** | **16,941,918** |

## 7. INVESTMENT INCOME – COMPANY

| | 2018 | 2017 |
|---|---|---|
| Interest on bank deposits | 559,398 | 693,101 |
| Rent income | 217,074 | 216,574 |
| Interest on financial assets held to maturity | 97,929 | 93,268 |
| Dividends | 91,763 | 158,933 |
| Gains on sale of financial instruments | 15,914 | - |
| Income from sale of tangible assets and investment property | - | 6,210 |
| Realized gains from sale of associate (Note 17) | - | 11,933,118 |
| | **982,078** | **13,101,204** |

## 8. INVESTMENT INCOME – THE COMPANY AND ASSOCIATES

| | 2018 | 2017 |
|---|---|---|
| Interest on bank deposits | 559,398 | 693,101 |
| Rent income | 217,074 | 216,574 |
| Interest on financial assets held to maturity | 97,929 | 93,268 |
| Dividends | 91,763 | 158,933 |
| Gains on sale of financial instruments | 15,914 | - |
| Income from sale of tangible assets and investment property | - | 445,454 |
| Realized gains from sale of associate | - | 6,210 |
| | **982,078** | **1,613,540** |

## 9. OTHER OPERATING INCOME

| | 2018 | 2017 |
|---|---|---|
| Decrease in provisions for other employee benefits, net | 99,926 | - |
| Collected impaired reinsurance premium receivables and claims recovered from reinsurers (Note 22) | 1,706 | 482,285 |
| Collected impaired other receivables (Note 23) | - | 219,220 |
| Other | 7,659 | 1,851 |
| | **109,291** | **703,356** |

## 10. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2018 | 2017 |
|---|---|---|
| Gross salaries | 1,578,755 | 2,347,013 |
| Services | 390,302 | 392,675 |
| Depreciation (Notes 15 and 16) | 365,954 | 375,332 |
| Other employee benefits | 205,846 | 175,378 |
| Memberships | 191,160 | 193,576 |
| Fees to members of Supervisory Board and Audit Committee | 84,469 | 94,848 |
| Material and energy | 54,899 | 58,183 |
| Maintenance | 47,054 | 64,664 |
| Costs of payment transactions | 43,235 | 101,957 |
| Advertising and entertainment | 32,463 | 44,875 |
| Taxes | 22,451 | 18,606 |
| Insurance premiums | 14,966 | 20,339 |
| Donations and scholarships | 10,300 | 11,691 |
| Provisions for other employee benefits | - | 35,270 |
| Disposal of tangible assets | - | 2,668 |
| Other expenses | 7,547 | 1,725 |
| | **3,049,401** | **3,938,800** |

## 11. INVESTMENT LOSSES

| | 2018 | 2017 |
|---|---|---|
| Write-off of unrecoverable losses on financial assets available for sale (Note 18) | - | 337,000 |
| | **-** | **337,000** |

## 12. OTHER EXPENSES

| | 2018. | 2017. |
|---|---|---|
| Impairment losses claims receivables (Note 22) | - | 4,639 |
| | **-** | **4,639** |

## 13. INCOME TAX EXPENSE

Total tax is recognized in the statement of profit or loss and can be summarized as follows:

| | Company and associates 2018 | Company and associates 2017 | Company 2018 | Company 2017 |
|---|---|---|---|---|
| Current income tax | 166,817 | 1,398,732 | 166,817 | 1,398,732 |
| **Income tax** | **166,817** | **1,398,732** | **166,817** | **1,398,732** |

The taxable income can be reconciled to the profit per the statement of profit or loss as follows:

| | Company and associates 2018 | Company and associates 2017 | Company 2018 | Company 2017 |
|---|---|---|---|---|
| **Profit before income tax** | **2,119,579** | **2,558,510** | **1,804,859** | **13,697,69 1** |
| Income tax expense at 10% - statutory rate | 211,958 | 255,851 | 180,486 | 1,369,769 |
| Effect of non-deductible expenses | 8,945 | 46,592 | 8,945 | 46,592 |
| Revenues recognised in previous periods | - | 1,148,766 | - | - |
| Effect of non-taxable income | (54,086) | (52,477) | (22,614) | (17,629) |
| **Income tax** | **166,817** | **1,398,732** | **166,817** | **1,398,732** |
| **Effective tax rate for the year** | **7.87%** | **54.66%** | **9.24%** | **10.21%** |

## 14. EARNINGS PER SHARE

| | Company and associates 2018 | Company and associates 2017 | Company 2018 | Company 2017 |
|---|---|---|---|---|
| Net profit available to the shareholders | 1,952,762 | 12,647,442 | 1,638,042 | 12,298,959 |
| Weighted average number of ordinary shares during the year | 18,645 | 18,645 | 18,645 | 18,645 |
| **Basic earnings per share** | **104.73** | **678.33** | **87.85** | **659.64** |

Diluted earnings per share are not presented as the Company has not issued dilutive equity instruments.

## 15. PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

| | Land | Buildings | Equipment and furniture | Electronic equipment | Other | Total |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| **At 31 December 2016** | **95,850** | **5,121,687** | **498,569** | **381,392** | **662,991** | **6,760,489** |
| Additions | - | - | 50,631 | 13,632 | - | 64,263 |
| Disposals and sale | - | - | (120,988) | - | - | (120,988) |
| **At 31 December 2017** | **95,850** | **5,121,687** | **428,212** | **395,024** | **662,991** | **6,703,764** |
| Additions | - | - | 70,000 | 52,039 | 1,676 | 123,715 |
| **At 31 December 2018** | **95,850** | **5,121,687** | **498,212** | **447,063** | **664,667** | **6,827,479** |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| **At 31 December 2016** | - | **1,171,586** | **428,405** | **256,339** | **624,674** | **2,481,004** |
| Depreciation | - | 153,651 | 34,382 | 43,016 | 12,408 | 243,457 |
| Disposals and sale | - | - | (104,765) | - | - | (104,765) |
| **At 31 December 2017** | - | **1,325,237** | **358,022** | **299,355** | **637,082** | **2,619,696** |
| Depreciation | - | 153,651 | 30,655 | 39,039 | 11,024 | 234,369 |
| **At 31 December 2018** | - | **1,478,888** | **388,677** | **338,394** | **648,106** | **2,854,065** |
| **CARRYING VALUE** | | | | | | |
| **At 31 December 2018** | **95,850** | **3,642,799** | **109,535** | **108,669** | **16,561** | **3,973,414** |
| **At 31 December 2017** | **95,850** | **3,796,450** | **70,190** | **95,669** | **25,909** | **4,084,068** |

## 16. INVESTMENT PROPERTY

| | Land | Buildings | Total |
|---|---|---|---|
| **COST** | | | |
| **At 31 December 2016** | 81,650 | 4,409,400 | 4,491,050 |
| Disposals and sale | - | (23,241) | (23,241) |
| **At 31 December 2017** | 81,650 | 4,386,159 | 4,467,809 |
| Disposals and sale | - | - | - |
| **At 31 December 2018** | 81,650 | 4,386,159 | 4,467,809 |
| **ACCUMULATED DEPRECIATION** | | | |
| **Balance as of 31 December 2016** | - | 1,026,338 | 1,026,338 |
| Depreciation | - | 131,875 | 131,875 |
| Disposals and sale | - | (14,451) | (14,451) |
| **Balance as of 31 December 2017** | - | 1,143,762 | 1,143,762 |
| Depreciation | - | 131,585 | 131,585 |
| Disposals and sale | - | - | - |
| **Balance as of 31 December 2018** | - | 1,275,347 | 1,275,347 |
| **CARRYING VALUE** | | | |
| **At 31 December 2018** | 81,650 | 3,110,812 | 3,192,462 |
| **At 31 December 2017** | 81,650 | 3,242,397 | 3,324,047 |

In May 2017, the Company has sold garage located in Kolodvorska street no. 11A, Sarajevo.

The Management believes that the carrying amounts of investment property recorded at cost less accumulated depreciation and accumulated impairment in the financial statements are approximate to its fair value.

## 17. INVESTMENTS IN ASSOCIATES

The Company's investments in its associates using equity method are as follows:

| | | Voting interest % | Company and associates | Company and associates | Company | Company |
|---|---|---|---|---|---|---|
| **Company name** | **Business** | | **31 December 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** |
| DUF Prof-in d.o.o. Sarajevo | Fund management company | 35.39 | 2,494,696 | 2,382,993 | 678,529 | 678,529 |
| ASA osiguranje d.d. Sarajevo | Insurance | 20.00 | 1,826,834 | 1,623,817 | 1,200,000 | 1,200,000 |
| | | | **4,321,530** | **4,006,810** | **1,878,529** | **1,878,529** |

Reporting period date for all associates is 31 December.

## 17. INVESTMENTS IN ASSOCIATES (CONTINUED)

Summary of financial information of the Company's associates is presented below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total revenue | 24,178,669 | 19,769,575 |
| Result for the period | 1,986,764 | 1,390,506 |
| **Share in profit of associates** | **446,204** | **348,483** |
| Total assets | 38,762,950 | 32,405,003 |
| Total liabilities | (22,578,986) | (17,280,518) |
| **Net assets** | **16,183,964** | **15,124,485** |
| **Share in net assets of associates** | **4,321,530** | **4,006,810** |

Movement in investments in associates can be presented as follows:

| | Company and associates | Company and associates | Company | Company |
|---|---|---|---|---|
| | at equity method | | at cost | |
| | 2018 | 2017 | 2018 | 2017 |
| **Balance at the beginning of the year** | **4,006,810** | **16,563,997** | **1,878,529** | **3,296,535** |
| Share in total comprehensive income of associates | 314,720 | 348,483 | - | - |
| Sale of shares during the year | - | (12,905,670) | - | (1,418,006) |
| **Balance at the end of the year** | **4,321,530** | **4,006,810** | **1,878,529** | **1,878,529** |

In January 2017, the Company sold a 29.05% stake in the company Triglav osiguranje d.d., which consisted of 12,077 ordinary shares of the company Triglav osiguranje d.d., for a price of KM 1,105.5 per share. The total selling price was KM 13,351,123.5. The realized sales value of shares is KM 11,933,117.5 higher than the book value of shares (Note 7), and the difference is recorded as a gain from the sale of financial assets. The buyer of these shares is the company Triglav INT d.d. Ljubljana.

## 18. FINANCIAL ASSETS AVAILABLE-FOR-SALE

| Available for sale | Principal activity | Proportion of ownership interest (%) 31 December 2018 | 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|
| Adriatic osiguranje d.d., Sarajevo | Insurance | 5.20% | 1,277,406 | 1,155,453 |
| Raiffeisen BALANS, Sarajevo | Open investment fund | - | 488,282 | 510,881 |
| ZIF Prof plus d.d., Sarajevo | Investment fund | 2.52% | 459,435 | 298,633 |
| Osiguratelna Polisa, Skopje, Macedonia | Insurance | 4.44% | 425,006 | 425,077 |
| Sarajevo osiguranje d.d., Sarajevo | Insurance | 1.45% | 443,439 | 336,960 |
| Union banka d.d., Sarajevo | Banking | 0.48% | 50,118 | 100,025 |
| Sava reosiguranje d.d., Ljubljana, Slovenia.d., Sarajevo | Reinsurance | 0.001% | 14,962 | 15,451 |
| Conny d.o.o., Belgrade, Serbia | Trading | 43.00% | 4,269 | 4,269 |
| Privredna banka Sarajevo d.d. Sarajevo | Banking | 0.02% | 1,430 | 1,144 |
| Raiffeisen CASH | Open investment fund | - | - | 3,012,425 |
| | | | **3,164,347** | **5,860,318** |

Movements in the fair value of shares were as follows:

| | 2018 | 2017 |
|---|---|---|
| **Balance at beginning of the year** | **5,860,318** | **2,220,116** |
| Fair value gain | 304,029 | 477,202 |
| Impairment allowance (Note 11) | - | (337,000) |
| (Sale) / purchase during the year | (3,000,000) | 3,500,000 |
| **Balance at end of the year** | **3,164,347** | **5,860,318** |

## 19. FINANCIAL ASSETS HELD-TO-MATURITY

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Bonds of the Federation of Bosnia and Herzegovina ("FBiH") | 4,753,658 | 2,750,503 |
| | **4,753,658** | **2,750,503** |

In 2015, Company purchased 1,400 bonds issued by the Ministry of Finance of FBiH, with nominal value of KM 1,400,000. Those bonds purchased in 2015 bear annual interest of 3.90%; the maturity date is 27 November 2022. In 2016, the Company purchased 1,000 bonds issued by the Ministry of Finance of FBiH, with nominal value of KM 1,000,000. Bonds purchased in 2016 bear annual interest in the range of 3.6% to 3.95%, with the maturity date of 21 December 2021. In 2017, the Company purchased 350 bonds issued by the Sarajevo Canton with nominal value of KM 350,000. Expected return on these bonds is in the range of 2.50%-2.90%, while the maturity date is 31 May 2020. In 2018, the Company purchased 20,000 bonds issued by JP Autoceste FBiH, with nominal value of KM 2,000,000. Maturity date of bonds purchased in 2018 is 21 December 2020, while they bear interest rate of 2.6%.

## 20. DEFERRED ACQUISITION COSTS, NET

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Deferred acquisition costs | 3,019,551 | 3,017,612 |
| Deferred reinsurance commission | (1,356,017) | (1,452,620) |
| | **1,663,534** | **1,564,992** |

## 21. DEPOSITS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Raiffeisen Bank d.d. Sarajevo, 4 deposits due in the period from 3 February 2019 to 24 August 2021, bearing interest within the range from 0.65% to 2.00% p.a. | 8,348,295 | 6,200,904 |
| Ziraat Bank BH d.d Sarajevo, 7 deposits due in the period from 28 February 2019 to 24 August 2021, bearing interest within the range from 0.95% to 1.95% p.a. | 6,467,298 | 6,085,108 |
| NLB Banka d.d. Tuzla, 7 deposits due in the period from 2 March 2019 to 14 September 2019, bearing interest within the range from 0.6% to 2.10% p.a. | 6,314,921 | 7,499,981 |
| Intesa Sanpaolo Banka d.d. Bosna i Hercegovina, 6 deposits due in the period from 6 February 2019 to 28 April 2020, bearing interest within the range from 1.05% to 1.75% p.a. | 5,170,466 | 7,251,033 |
| Sberbank BH d.d. Sarajevo, 7 deposits due in the period from 6 February 2019 to 19 June 2019, bearing interest within the range from 0.68% to 1.30% p.a. | 4,992,824 | 6,917,293 |
| Bosna Bank International d.d. Sarajevo, 2 deposits due in the period from 30 April 2019 to 25 May 2019, bearing interest within the range from 0.75% to 1.00% p.a. | 3,106,776 | 3,109,272 |
| Sparkasse Bank d.d. Sarajevo, 5 deposits due in the period from 6 February 2019 to 5 July 2019, bearing interest within the range from 0.90% to 1.20% p.a. | 3,093,034 | 3,093,034 |
| UniCredit Bank d.d. Mostar, 3 deposits matured in the period from 5 October 2018 to 16 November 2018, bearing interest within the range from 2.10% to 2.20% p.a. | - | 1,564,664 |
| | **37,493,614** | **41,721,289** |

Deposits include due and accrued interest receivables.

## 22. RECEIVABLES FOR REINSURANCE PREMIUM AND FOR CLAIMS RECOVERED FROM REINSURERS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Reinsurance premium receivables – domestic | 15,149,886 | 12,248,805 |
| Receivables for claims recovered from reinsurer | 621,038 | 313,941 |
| Reinsurance premium receivables – foreign | 481,619 | 522,047 |
| Bad and doubtful receivables | 118,069 | 119,775 |
| Less: Impairment allowance | (118,069) | (119,775) |
| | **16,252,543** | **13,084,793** |

Movement in impairment allowance for reinsurance premium receivables and for claims recovered from reinsurers, were as follows:

| | 2018 | 2017 |
|---|---|---|
| **Balance at beginning of the year** | **119,775** | **597,421** |
| Increase (Note 12) | - | 4,639 |
| Collected impaired receivables (Note 9) | (1,706) | (482,285) |
| **Balance at the end of the year** | **118,069** | **119,775** |

The impairment of receivables is done in accordance with the legal regulations defined by the Regulator.

The Company does not hold any collateral over these balances. Valuation and recognition of the allowance for impairment losses, if any, is done on a yearly basis.

Aging structure of receivables:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Undue | 13,433,942 | 9,637,636 |
| 1 – 90 days | 2,811,305 | 3,446,635 |
| 91 – 180 days | 3,251 | 522 |
| 181 – 360 days | 3,646 | - |
| Over 36 days | 399 | - |
| | **16,252,543** | **13,084,793** |

## 23. OTHER RECEIVABLES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Commission and brokerage receivables | 206,435 | 288,398 |
| Other receivables | 2,339 | 2,713 |
| Bad and doubtful receivables | 385,732 | 385,732 |
| Less: Allowance for impairment of other receivables | (385,732) | (385,732) |
| | **208,774** | **291,111** |

Changes in allowance for impairment of other receivables can be shown as follows:

| | 2018 | 2017 |
|---|---|---|
| **Balance at the beginning of the year** | **385,732** | **604,952** |
| Collected impaired receivables (Note 9) | - | (219,220) |
| **Balance at the end of the year** | **385,732** | **385,732** |

## 24. OTHER ASSETS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Prepaid insurance expenses | 9,133 | 8,472 |
| Other prepaid expenses | 4,479 | 3,507 |
| | **13,612** | **11,979** |

## 25. CASH AND CASH EQUIVALENTS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cash with domestic banks – KM accounts | 2,533,685 | 1,921,801 |
| Cash with domestic banks – foreign currency accounts | 343,331 | 1,439,787 |
| Cash on hand | 1,294 | 1,034 |
| Cash with foreign banks – foreign currency accounts | 246 | 824 |
| | **2,878,556** | **3,363,446** |

## 26. SHARE CAPITAL

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| 18,645 ordinary shares of par value KM 340 each (2017: 18,645 shares of per value KM 340 each) | 6,339,300 | 6,339,300 |
| | **6,339,300** | **6,339,300** |

The Assembly of Bosna Reosiguranje d.d. at an extraordinary meeting held on 15 February 2016, adopted the decision to withdraw 700 treasury shares and reduce the Company's equity accordingly, due to inability to sell the shares within the legally defined timeframe. Before this decision was adopted, the share capital amounted to KM 6,577,300, and was decreased by KM 238.000, which is the nominal value of 700 treasury shares. After the withdrawal of treasury shares the value of the Company's share capital amounts to KM 6,339,300.

Ownership of ordinary shares is as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | % share | Share amount | % share | Share amount |
| Triglav osiguranje d.d. Sarajevo | 13.65 | 865,300 | 13.65 | 865,300 |
| Sarajevo osiguranje d.d. Sarajevo | 12.74 | 807,500 | 12.74 | 807,500 |
| Euroherc osiguranje d.d. Zagreb, Croatia | 10.97 | 695,300 | 10.97 | 695,300 |
| Adriatic osiguranje d.d. Sarajevo | 8.55 | 542,300 | 8.55 | 542,300 |
| Union banka d.d. Sarajevo | 5.87 | 372,300 | 5.87 | 372,300 |
| UniCredit Bank d.d. Mostar | 3.19 | 202,300 | 3.19 | 202,300 |
| Intesa Sanpaolo Banka d.d. Bosna i Hercegovina | 0.05 | 3,400 | 0.05 | 3,400 |
| Other legal entities | 10.73 | 680,000 | 11.03 | 699,040 |
| Private persons | 34.25 | 2,170,900 | 33.95 | 2,151,860 |
| | **100.00** | **6,339,300** | **100.00** | **6,339,300** |

## 27. REINSURANCE PREMIUM AND CLAIMS PAYABLE

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Claims payable, domestic | 6,551,128 | 5,203,361 |
| Reinsurance premium payables | 5,531,980 | 4,027,663 |
| Claims payable, foreign | 407,217 | 418,155 |
| | **12,490,325** | **9,649,179** |

## 28. REINSURANCE ASSETS AND LIABILITIES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| ***Gross*** | | |
| Provision for unearned premium | 18,220,336 | 17,212,981 |
| Provision for claims reported but not settled | 36,767,265 | 32,780,681 |
| Provision for claims incurred but not reported | 43,880,137 | 46,163,702 |
| Provision for bonuses, discounts and premiums | (629,641) | (1,234,542) |
| ***Total insurance liabilities, gross*** | **98,238,097** | **94,922,822** |
| ***Covered by reinsurers*** | | |
| Provision for unearned premium | (7,244,194) | (6,725,685) |
| Provision for claims reported but not settled | (28,236,855) | (25,414,172) |
| Provision for claims incurred but not reported | (36,955,297) | (38,805,533) |
| Provision for bonuses, discounts and premiums | 79,872 | 246,562 |
| ***Total insurance assets, gross*** | **(72,356,474)** | **(70,698,828)** |
| Provision for unearned premium | 10,976,142 | 10,487,296 |
| Provision for claims reported but not settled | 8,530,410 | 7,366,509 |
| Provision for claims incurred but not reported | 6,924,840 | 7,358,169 |
| Provision of bonuses, discounts and premiums | (549,769) | (987,980) |
| **Total insurance liabilities, net** | **25,881,623** | **24,223,994** |

## 29. OTHER LIABILITIES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Liabilities based on commissions | 3,182,799 | 2,701,806 |
| Employee payables | 118,964 | 959,218 |
| Liabilities toward suppliers | 12,043 | 9,531 |
| Liabilities for VAT | 3,776 | 3,694 |
| Advances received | - | 30,788 |
| Other | 14,506 | 16,558 |
| | **3,332,088** | **3,721,595** |

Interest is not charged on the trade payables. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The Company has no overdue liabilities nor has given any collateral for their timely repayment.

## 30. RELATED PARTY TRANSACTIONS

During the year, the Company had the following related party transactions with related parties, who are related due to the Company's equity share. These transactions are related to the reinsurance premium and dividend income earned and claims paid, as well as related assets and liabilities at the reporting period date. The transactions are recorded at fair exchange amount, which is the amount agreed to between the related parties.

| | Income | | Expenses | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| ASA osiguranje d.d. Sarajevo | 4,865,498 | 4,327,458 | 3,667,970 | 3,037,356 |
| Sarajevo osiguranje d.d. Sarajevo | 7,533,044 | 7,257,307 | 7,270,064 | 11,379,798 |
| Adriatic osiguranje d.d. Sarajevo | 935,104 | 700,744 | 517,357 | 624,001 |
| UniCredit Bank d.d. Mostar | 27,592 | 37,434 | 1,390 | 16,101 |
| Intesa Sanpaolo Banka d.d. Bosna i Hercegovina | 109,137 | 134,970 | 8,967 | 1,690 |
| | **13,470,375** | **12,457,913** | **11,465,748** | **15,058,946** |

The Company has sold vehicle to the Board member with loss arising in amount of KM 2,668. Taxes and contributions were paid regarding this loss.

At year-end the following amounts were due to or due (presented for the Company) from related parties:

| | Receivables | | Liabilities | |
|---|---|---|---|---|
| | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| ASA osiguranje d.d. Sarajevo | 1,791,894 | 1,604,980 | 1,670,733 | 1,520,157 |
| Sarajevo osiguranje d.d. Sarajevo | 3,321,058 | 1,929,195 | 3,008,945 | 1,388,207 |
| Adriatic osiguranje d.d. Sarajevo | 275,647 | 178,806 | 102,445 | 61,096 |
| Union banka d.d. Sarajevo | 1,057 | 1,057 | - | - |
| UniCredit Bank d.d. Mostar | 40,256 | 1,910,158 | 1,390 | 16,101 |
| Intesa Sanpaolo Banka d.d. Bosna i Hercegovina | 7,393,939 | 8,103,098 | 8,967 | 1,690 |
| | **12,823,851** | **13,727,294** | **4,792,480** | **2,987,251** |

### Management remuneration

The remuneration of directors and other members of key management during the year was as follows:

| | 2018 | 2017 |
|---|---|---|
| Management | 1,210,767 | 628,626 |
| Supervisory Board | 68,900 | 68,900 |
| | **1,279,667** | **697,526** |

## 31. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS

### Insurance risks

The Company signs active reinsurance contracts on the basis of which insurance risk is transferred from its clients - insurance or reinsurance companies to the Company, as well as passive reinsurance contracts for the transfer of insurance risk from the Company to other reinsurance institutions.

The nature of every particular insurance risk is such that it is unpredictable and fortuitous. Reinsurance operations relate to various methods of covering individual risks by means of facultative reinsurance contracts; thus the risk is reflected in the possibility of the realisation of damage whose monetary value cannot be determined before it occurs.

When reinsuring entire portfolios or parts of portfolios of one or several different types of insurance provided by an insurance or reinsurance company, the basic risk arises from the fact that total claims and compensation payments disbursed in accordance to contracts may exceed the amount paid in as premium or the liability commitments for each individual risk, due to recurrence or extent of the damage.

Past experiences have shown that larger portfolios, when reinsured, tend to produce smaller discrepancies from expectation; therefore the Company aims to develop its operations in such a direction as to increase the portfolios of some types of reinsurance by increasing the number of assignors, which contributes to better personal and geographic dispersion which is favourable to the business position of the Company as a regional reinsurance company.

The Company has not been exposed to potentially numerous claims arising from responsibility for the use of asbestos; elimination of asbestos is one of the standard eliminations in the business of the Company. Reinsurance from responsibility (with the exception of responsibility for motor vehicles) and life insurance policies constitute a marginal portion of the Company's total operations, due to the low volume of such reinsurance in the present market.

The basic operations include: reinsurance from accidents of property, from motor vehicle responsibility – both within the country and "green card" reinsurance – and comprehensive motor vehicle insurance.

The Company transfers excessive risk on to other reinsurance companies. For particular types of insurance the maximum risk exposure is limited through contracts on insurance from excess damage, as well as from cumulative claims, depending on the requirements arising from this particular risk.

## 32. FINANCIAL INSTRUMENTS

### 32.1 Categories of financial instruments

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Financial assets** | | |
| Deposits and receivables (including cash and cash equivalents) | 57,083,001 | 58,460,639 |
| Financial assets available-for-sale | 3,164,347 | 5,860,318 |
| Financial assets held-to-maturity | 4,753,658 | 2,750,503 |
| | **65,001,006** | **67,071,460** |
| **Financial liabilities** | | |
| At amortised cost | 15,822,410 | 13,367,080 |
| | **15,822,410** | **13,367,080** |

## 32. FINANCIAL INSTRUMENTS (CONTINUED)

### 32.2 Financial risk management objectives

The Finance function provides services to the business co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

### 32.3 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below). Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

### 32.4 Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The amounts of the monetary assets and monetary liabilities of the Company at the reporting period date denominated in foreign currencies were as follows:

| *(amounts in KM)* | Assets | | Liabilities | |
|---|---|---|---|---|
| | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| EUR | 39,038,261 | 43,779,042 | 5,939,100 | 4,381,336 |
| USD | 15,372 | 168,796 | 5,846 | 72,258 |
| GBP | 65 | - | - | 2,026 |

#### *32.4.1 Foreign currency sensitivity analysis*

The Company is exposed to foreign currency risk related to EUR, USD and GBP. The following table details the Company's sensitivity to a 10% increase and decrease in KM against these currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where KM strengthens 10% against the relevant currency. For a 10% weakening of KM against the relevant currency there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | Gain or loss | |
|---|---|---|
| | 2018 | 2017 |
| Effects of change in EUR rate | 3,905,488 | 3,939,771 |
| Effects of change in USD rate | 1,537 | 9,654 |
| Effects of change in GBP rate | 6 | (203) |

## 32. FINANCIAL INSTRUMENTS (CONTINUED)

### 32.4 Foreign currency risk management (continued)

#### *32.4.1 Foreign currency sensitivity analysis (continued)*

In the Management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk related to change of EUR exchange rate, since in accordance with the Law on Central Bank of Bosnia and Herzegovina the Convertible Mark ("KM") is officially tied to the Euro. Change in the exchange rate would require the amendments of the law and approval by Parliamentary Assembly of Bosnia and Herzegovina.

### 32.5 Interest rate risk management

The Company is exposed to interest rate risk as it places funds at fixed interest rates. The Company's exposures to interest rates on financial assets and financial liabilities are detailed in liquidity risk management section, Note 32.7.

#### *32.5.1 Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting period date. The analysis is prepared assuming the amount of financial instruments outstanding at the reporting period date was outstanding for the whole year. A 50 basis point increase or decrease (0.5%) is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (0.5%) higher/lower and all other variables were held constant, the net result of the Company for the year ended 31 December 2018 would increase / decrease by KM 187,468 (2017: KM 218,020).

### 32.6 Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Management Board annually.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities.

Maximum exposure to credit risk is the carrying value of financial assets presented in financial reports (Note 32.1) decreased by impairment losses.

## 32. FINANCIAL INSTRUMENTS (CONTINUED)

### 32.7 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board which has built an appropriate liquidity risk management framework for the management of the Company's short medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserve, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

#### *32.7.1 Liquidity and interest risk tables*

The following table details the remaining contractual maturity of the Company for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

*Maturity of non-derivative financial assets*

| | Weighted average effective interest rate | Up to 1 month | 1 to 6 months | 6 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | | |
| Non-interest bearing | - | 19,589,387 | - | 3,164,347 | - | - | 22,753,734 |
| Fixed interest rate instruments | 1.31% | - | 30,709,859 | 1,858,039 | 4,850,000 | - | 37,417,898 |
| | | **19,589,387** | **30,709,859** | **5,022,386** | **4,850,000** | **-** | **60,171,632** |
| **31 December 2017** | | | | | | | |
| Non-interest bearing | - | 16,448,239 | 291,111 | - | 5,860,318 | - | 22,599,668 |
| Fixed interest rate instruments | 1.79% | 2,491,509 | 6,700,296 | 6,234,415 | 30,051,514 | - | 45,477,734 |
| | | **18,939,748** | **6,991,407** | **6,234,415** | **35,911,832** | **-** | **68,077,402** |

The following table details the remaining contractual maturity for non-derivative financial liabilities of the Company. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

## 32. FINANCIAL INSTRUMENTS (CONTINUED)

### 32.7 Liquidity risk management (continued)

#### *32.7.1 Liquidity and interest risk tables (continued)*

*Maturity for non-derivative financial liabilities*

| | Weighted average effective interest rate | Up to 1 month | 1 to 6 months | 6 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | | |
| Non-interest bearing | - | 15,215,177 | 607,233 | - | - | - | 15,822,410 |
| **TOTAL** | | **15,215,177** | **607,233** | **-** | **-** | **-** | **15,822,410** |
| **31 December 2017** | | | | | | | |
| Non-interest bearing | - | 11,818,371 | 1,539,178 | 9,531 | - | - | 13,367,080 |
| **TOTAL** | | **11,818,371** | **1,539,178** | **9,531** | **-** | **-** | **13,367,080** |

## 33. FAIR VALUE MEASUREMENT

### 33.1 Fair value of the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis

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

| Financial assets / financial liabilities | Fair value as at 31 December 2018 | Fair value as at 31 December 2017 | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| Financial assets at fair value through profit and loss (see Note 17) | Listed equity securities on stock exchanges in Bosnia and Herzegovina:<br>• Adriatic osiguranje d.d., Sarajevo – KM 1,277,406<br>• Sarajevo osiguranje d.d., Sarajevo – KM 443,439<br>• ZIF Prof plus d.d., Sarajevo – KM 459,435<br>• Union banka d.d., Sarajevo – KM 50,118<br>• Privredna banka Sarajevo d.d., Sarajevo – KM 1,430<br>Freely Transferable Securities:<br>• Open Investment Fund with a public offering Raiffeisen CASH – KM 0<br>• Open Investment Fund with a public offering Raiffeisen BALANCE – KM 488,282 | Listed equity securities on stock exchanges in Bosnia and Herzegovina:<br>• Bosna Sunce osiguranje d.d., Sarajevo – KM 1,155,453<br>• Sarajevo osiguranje d.d., Sarajevo – KM 336,960<br>• ZIF Prof plus d.d., Sarajevo – KM 298,633<br>• Union banka d.d., Sarajevo – KM 100,025<br>• Privredna banka Sarajevo d.d., Sarajevo – KM 1,144<br>Freely Transferable Securities:<br>• Open Investment Fund with a public offering Raiffeisen CASH – KM 3,012,425<br>• Open Investment Fund with a public offering Raiffeisen BALANCE – KM 510,881 | Level 1 | Quoted bid prices in an active market. |
| | Listed equity securities on stock exchanges in other countries:<br>• Sava reosiguranje d.d., Ljubljana, Slovenia – KM 14,962 | Listed equity securities on stock exchanges in other countries:<br>• Sava reosiguranje d.d., Ljubljana, Slovenia – KM 12,928 | Level 1 | Quoted bid prices in an active market. |
| | Listed equity securities on stock exchanges in other countries:<br>• Osiguratelna Polisa, Skoplje, Macedonia – KM 425,006<br>• Conny d.o.o., Beograd, Serbia – KM 4,269 | Listed equity securities on stock exchanges in other countries:<br>• Osiguratelna Polisa, Skoplje, Macedonia – KM 425,077<br>• Conny d.o.o., Beograd, Serbia – KM 4,269 | Level 2 | Discounted cash flow, by considering the last available rate on owned or similar equity securities as yield rate |

There were no transfers between Level 1 and Level 2 during the period.

## 33. FAIR VALUE MEASUREMENT (CONTINUED)

### 33.2 Fair value of the Company's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the Management consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| ***Financial assets*** | | | | |
| *Loans and receivables:* | | | | |
| - deposits | 37,493,614 | 36,940,086 | 41,721,289 | 41,125,037 |

| | Fair value hierarchy as at 31 December 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ***Financial assets*** | | | | |
| *Loans and receivables:* | | | | |
| - deposits | - | 36,940,086 | - | 36,940,086 |
| **Total** | **-** | **36,940,086** | **-** | **36,940,086** |

The fair values of the financial assets included in Level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

## 34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Management and authorised for issue on 9 April 2019.

Zlatan Filipović, Director

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