

**DUNAV - RE A.D.O., BEOGRAD**

**Financial Statements  
Year Ended December 31, 2019 and  
Independent Auditors' Report**

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*This is a translation of the Auditors' Report issued in the Serbian language  
In case of any discrepancy between the Serbian and English versions, the Serbian version shall prevail*

## **INDEPENDENT AUDITORS' REPORT**

**To the Shareholders and Management of the Shareholding Reinsurance Company "DUNAV - RE", Belgrade**

### **Opinion**

We have audited the accompanying financial statements (pages 4 to 61) of the *Shareholding Reinsurance Company "DUNAV - RE," Belgrade* (the "Company"), which comprise the balance sheet as at December 31, 2019, and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, in all material respects, give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the accounting regulations of the Republic of Serbia.

### **Basis for Opinion**

We conducted our audit in accordance with the standards on auditing applicable in the Republic of Serbia and the Law on Audit of the Republic of Serbia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters in the Audit of the Annual Financial Statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year ended December 31, 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

(Continued)

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**INDEPENDENT AUDITORS' REPORT**

**To the Shareholders and Management of the Shareholding Reinsurance Company "DUNAV - RE", Belgrade  
(Continued)**

**Key Audit Matters in the Audit of the Annual Financial Statements (Continued)**

<i>Key audit matter</i>	<i>Responsive audit procedure</i>
<b>Valuation of provisions for incurred but not reported (IBNR) claims</b>	
<p><i>For information on the accounting and measurement policies used for IBNR claim reserves, please see Notes 2.4 c) and 3.6 to the financial statements. Further information about the line items in the financial statements can be found in Notes 7, 10 and 29</i></p> <p>As of December 31, 2019, the Company's gross technical reserves totaled RSD 3,102,973 thousand. Of the total gross technical reserves, the outstanding claim reserves, gross, amounted to RSD 1,983,619 thousand (Notes 10 and 29) as of the reporting date, which is equal to 0.33 of the Company's total assets. The major portion of the outstanding claim reserves gross relates to the reserves for incurred but not reported (IBNR) claims and then to the reserves for reported but not settled (RBNS) claims. Within the total outstanding claim reserves, IBNR claim reserves amounted to RSD 443,718 thousand. The technical reserves for IBNR claims reflect the uncertainties inherent in the reinsurance industry.</p> <p>The calculation of technical reserves for insurance contracts, particularly IBNR claim reserves, is a demanding process as it involves a great extent of estimation uncertainty and complex mathematical and statistical computations.</p> <p>Valuation of the year-end provisions is based on the integrity of the underlying data, including claim settlement and individual assessments of unsettled claims made by the Company's competent staff, external lawyers representing the Company and the management.</p> <p>Data on claims are collected and monitored aggregately so as to determine the total amount of future losses per insurance class. Outstanding claim provisioning models take into account historical experience, claim development patterns, market conditions, as well as any other assumptions sensitive to legal, economic and various other uncertainty factors in order to make adequate estimates of future losses. Outstanding claim reserves are calculated taking into account the nature of risks and generally accepted actuarial valuation methods in line with the requirements of the local regulations.</p> <p>Due to significance of the aforesaid estimates and the share of the outstanding claim reserves within the Company's total liabilities, we consider their valuation and allocation to be a key audit matter.</p>	<p>During our audit of the outstanding claim reserves, we engaged our in-house actuaries as audit team members to verify the key assumptions underlying the assessment of the adequacy of the Company's IBNR claim reserves as well as LAT of such reserves as of December 31, 2019.</p> <p>Our in-house actuaries' task was to analyze and critically review the methodology used for calculation of IBNR claim reserves and compliance of the methodology with the regulations governing reinsurance business effective in the Republic of Serbia, as well as to review the LAT for IBNR claim reserves, which are which are most susceptible to uncertainty. In addition, our actuaries analyzed the actual development of outstanding claim provisions set for the previous year based on the run-off analysis results in order to draw conclusions about the reliability of the estimates.</p> <p>In addition, our audit procedures involved the assessment of the process for setting aside provisions,, identification of key controls and testing of their design and operating effectiveness. The controls include both the completeness and accuracy of the data used, and the qualitative and quantitative aspects of valuation.</p>

**Report on Other Legal and Regulatory Requirements**

Management is responsible for preparation of an annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia, which is not an integral part of the accompanying financial statements. In accordance with the Law on Audit of the Republic of Serbia, it is our responsibility to express an opinion on the compliance of the Company's annual business report for the year 2019 with its financial statements for the same financial year. In our opinion, the financial information disclosed in the Company's annual business report for 2019 is consistent with its audited financial statements for the year ended December 31, 2019.

(Continued)

## **INDEPENDENT AUDITORS' REPORT**

### **To the Shareholders and Management of the Shareholding Reinsurance Company "DUNAV - RE", Belgrade (Continued)**

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

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

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

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

#### **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 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 the standards on auditing applicable in the Republic of Serbia and the Law on Audit of the Republic of Serbia 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 the standards on auditing applicable in the Republic of Serbia and the Law on Audit of the Republic of Serbia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Zoran Nešić  
Certified Auditor

Terazije 8, 11000 Belgrade  
March 19, 2020

**INCOME STATEMENT**  
**Year Ended December 31, 2019**  
**(Thousands of RSD)**

	Note	2019	2018
<b>OPERATING (FUNCTIONAL) INCOME</b>	<b>14</b>		
Written reinsurance and retrocession premiums		4,785,880	3,122,259
Premiums transferred through retrocession of reinsurance and retrocession		(3,362,433)	(2,325,384)
Increase in unearned premium reserves and reserves for unexpired risks		<u>(448,751)</u>	<u>(34,098)</u>
		<b>974,696</b>	<b>762,777</b>
<b>OPERATING (FUNCTIONAL) EXPENSES</b>	<b>15</b>		
Expenses for long-term provisions and functional contributions		(837)	(940)
Expenses per settlement of claims and contractual amounts		(518,614)	(358,885)
Increase in outstanding claims		(89,559)	(34,349)
Recourse revenues and revenues from sales of damaged assets insured		7,118	12,069
Increase in other technical reserves, net		(2,581)	(953)
Decrease in other technical reserves, net		-	3,091
		<u>(604,473)</u>	<u>(379,967)</u>
		<b>370,223</b>	<b>382,810</b>
<b>OPERATING PROFIT – GROSS OPERATING RESULT</b>		<b>370,223</b>	<b>382,810</b>
Income from investment of insurance assets		104,229	66,838
Expenses from investment of insurance assets		(24,059)	(30,156)
<b>PROFIT FROM INVESTING ACTIVITIES</b>	<b>16</b>	<b>80,170</b>	<b>36,682</b>
<b>INSURANCE ADMINISTRATION (UNDERWRITING) EXPENSES</b>	<b>17</b>		
<i>Policy acquisition costs:</i>		(543,175)	(457,361)
Fees and commissions		(481,100)	(402,632)
Other acquisition costs		<u>(62,075)</u>	<u>(54,729)</u>
<i>Management costs:</i>		(120,405)	(108,761)
Depreciation and amortization		(9,923)	(9,795)
Cost of materials, energy, services and non-material costs		(23,763)	(20,892)
Staff costs		(63,058)	(57,643)
Other management costs		<u>(23,661)</u>	<u>(20,431)</u>
Other insurance administration (underwriting) expenses		(6,379)	(8,739)
Reinsurance and retrocession commissions		453,392	373,633
<b>Total insurance administration (underwriting) expenses</b>		<u>(216,567)</u>	<u>(201,228)</u>
<b>OPERATING PROFIT – NET OPERATING RESULT</b>		<b>233,826</b>	<b>218,264</b>
Finance income	18	31,590	33,236
Finance expenses	19	(29,220)	(35,399)
Gains on value adjustment of receivables and other assets	21	75,639	167,005
Losses from impairment of receivables and other assets	22	(83,066)	(131,127)
Other income	20	1,991	4,422
Other expenses	20	<u>(1,752)</u>	<u>(5,159)</u>
		<b>229,008</b>	<b>251,242</b>
<b>PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES</b>		<b>229,008</b>	<b>251,242</b>
Prior years' error adjustment		(492)	(118)
		<u><b>228,516</b></u>	<u><b>251,124</b></u>
<b>PROFIT BEFORE TAXES</b>		<b>228,516</b>	<b>251,124</b>
<b>Income taxes:</b>	<b>24</b>		
Current income tax expense		(29,734)	(40,233)
Gains from created deferred tax assets and decrease in deferred tax liabilities		(6,564)	(4,877)
		<u>457</u>	<u>509</u>
<b>NET PROFIT FOR THE YEAR</b>		<u><b>204,889</b></u>	<u><b>215,259</b></u>
Basic earnings per share (in RSD)	28	2,527	2,655

Notes on the following pages form  
an integral part of these financial statements.

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Approved and signed on behalf of Dunav RE a.d.o., Beograd by:

Zorana Pejčić, Executive Board Chairperson

Vesna Katić, Executive Board Member

**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**Year Ended December 31, 2019**  
**(Thousands of RSD)**

	<u>2019</u>	<u>2018</u>
<b>Net operating result for the year</b>		
Profit for the year	204,889	215,259
<b>Components of other comprehensive income that may be subsequently reclassified to profit or loss</b>		
(Losses)/gains on securities available for sale	(8,994)	10,259
<b>Other (negative)/positive comprehensive income, gross</b>	<u>(8,994)</u>	<u>10,259</u>
<b>TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR, NET</b>	<u><u>195,895</u></u>	<u><u>225,518</u></u>

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Approved and signed on behalf of Dunav RE a.d.o., Beograd by:

Zorana Pejčić, Executive Board Chairperson

Vesna Katić, Executive Board Member

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**BALANCE SHEET**  
**As of December 31, 2019**  
**(Thousands of RSD)**

	Note	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets, software and other rights	4	9,733	15,885
Property, plant and equipment		17,568	10,480
Long-term financial investments		253,260	76,113
		<u>280,561</u>	<u>102,478</u>
<b>Current assets</b>			
Inventories		463	619
Trade receivables	5	1,088,125	883,516
Receivables for prepaid income taxes	5	9,859	-
Financial investments	5	1,985,231	2,087,376
Cash and cash equivalents	6	454,658	313,882
Prepayments		14,630	783
Technical reserves borne by the coinsurers, reinsurers and retrocessionaires	7	2,192,707	1,609,788
		<u>5,745,673</u>	<u>4,895,964</u>
<b>Total assets</b>		<u><b>6,026,234</b></u>	<u><b>4,998,442</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued (share) capital	8	1,737,240	1,660,114
State and socially owned capital		729,747	729,747
Other capital		35,055	35,055
Reserves		3,444	3,444
Unrealized gains		211,756	211,756
Unrealized losses		26,928	36,216
Retained earnings		2,590	2,884
		<u>732,900</u>	<u>646,780</u>
<b>Non-current provisions</b>	9	46,779	39,209
<b>Non-current liabilities</b>	9	-	-
<b>Deferred tax liabilities</b>		2,839	5,215
<b>Current liabilities</b>	9	1,011,428	783,366
Short-term financial liabilities		-	1,473
Liabilities for settlement of claims and contractual amounts		335,406	230,834
Liabilities for premiums, salaries and other liabilities		676,022	551,059
<b>Accruals</b>	10	1,244,328	778,978
Unearned premium reserves		1,094,588	645,837
Reserves for unexpired risks		4,074	1,492
Other accruals		145,666	131,649
<b>Outstanding claim reserves</b>	10	1,983,620	1,731,560
		<u>4,288,994</u>	<u>3,338,328</u>
<b>Total equity and liabilities</b>		<u><b>6,026,234</b></u>	<u><b>4,998,442</b></u>

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Approved and signed on behalf of Dunav RE a.d.o., Beograd by:

Zorana Pejčić, Executive Board Chairperson

Vesna Katić, Executive Board Member



**STATEMENT OF CHANGES IN EQUITY**  
**Year Ended December 31, 2019**  
**(Thousands of RSD)**

	Share capital	State and socially owned capital	Other capital	Reserves	Unrealized gains	Unrealized losses	Retained earnings	Total
<b>Opening balance at January 1, 2018</b>	<b>729,747</b>	<b>35,055</b>	<b>3,444</b>	<b>211,756</b>	<b>26,653</b>	<b>(3,580)</b>	<b>550,255</b>	<b>1,553,330</b>
Increase in unrealized gains/(losses)	-	-	-	-	18,295	(94)	-	18,201
Decrease in unrealized gains/(losses)	-	-	-	-	(8,732)	790	-	(7,942)
Net profit for the year	-	-	-	-	-	-	215,259	215,259
Decrease through dividend payment	-	-	-	-	-	-	(118,734)	(118,734)
<b>Closing balance at December 31, 2018</b>	<b>729,747</b>	<b>35,055</b>	<b>3,444</b>	<b>211,756</b>	<b>36,216</b>	<b>(2,884)</b>	<b>646,780</b>	<b>1,660,114</b>
Increase in unrealized gains/(losses)	-	-	-	-	19,852	-	-	19,852
Decrease in unrealized gains/(losses)	-	-	-	-	(29,140)	294	-	(28,846)
Net profit for the year	-	-	-	-	-	-	204,889	204,889
Decrease through dividend payment	-	-	-	-	-	-	(118,769)	(118,769)
<b>Closing balance at December 31, 2019</b>	<b>729,747</b>	<b>35,055</b>	<b>3,444</b>	<b>211,756</b>	<b>26,928</b>	<b>(2,590)</b>	<b>732,900</b>	<b>1,737,240</b>

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Approved and signed on behalf of Dunav RE a.d.o., Beograd by:

Zorana Pejčić, Executive Board Chairperson

Vesna Katić, Executive Board Member

**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2019**  
**(Thousands of RSD)**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b><i>Cash inflows from operating activities</i></b>	<b>4,579,487</b>	<b>2,982,533</b>
Reinsurance and retrocession premiums received	4,311,691	2,645,192
Receipts from share in claim settlement deductible	226,420	279,833
Other cash receipts from operating activities	41,376	57,508
<b><i>Cash outflows from operating activities</i></b>	<b>4,311,233</b>	<b>2,765,021</b>
Liabilities for claims and reinsurance and retrocession share in claims	706,550	583,412
Coinsurance, reinsurance and retrocession premiums	3,386,878	1,981,704
Cash paid to and on behalf of employees	98,880	98,632
Other insurance administration (underwriting) expenses	70,988	73,419
Interest paid	222	391
Income taxes paid	39,593	18,988
Other public duties paid	8,122	8,475
<b>Net cash generated by operating activities</b>	<b>268,254</b>	<b>217,512</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b><i>Cash inflows from investing activities</i></b>	<b>72,031</b>	<b>22,987</b>
Sales of intangible assets, property, plant and equipment and biological assets		
Interest received from investing activities	27,163	19,326
Dividend and profit sharing receipts	44,868	3,661
<b><i>Cash outflows from investing activities</i></b>	<b>86,298</b>	<b>74,210</b>
Purchase of intangible assets, property, plant, equipment and biological assets	12,631	297
Other financial investments – deposits and investments, net outflows	73,667	73,913
<b>Net cash used in investing activities</b>	<b>(14,267)</b>	<b>(51,223)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b><i>Cash inflows from financing activities</i></b>	<b>125</b>	<b>125</b>
Long-term and short-term borrowings, net inflows	125	125
<b><i>Cash outflows from financing activities</i></b>	<b>113,321</b>	<b>113,285</b>
Dividend payment and profit sharing	113,321	113,285
<b>Net cash used in financing activities</b>	<b>(113,196)</b>	<b>(113,160)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>140,791</b>	<b>53,129</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>313,882</b>	<b>259,695</b>
<b>Foreign exchange (losses)/gains on translation of cash, net</b>	<b>(15)</b>	<b>1,058</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>454,658</b>	<b>313,882</b>

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Approved and signed on behalf of Dunav RE a.d.o., Beograd by:

Zorana Pejčić, Executive Board Chairperson

Vesna Katić, Executive Board Member

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***1. BACKGROUND****1.1. Foundation and Activity**

The Shareholding Reinsurance Company Dunav-Re a.d.o., Beograd (the "Company") was registered with the Serbian Business Registers Agency under Decision no. 43206/2005 dated July 22, 2005 as a shareholding company involved in reinsurance. The Company was originally established on July 1, 1977 under the name Reinsurance Association Dunav Re [Zajednica reosiguranja Dunav Re]. On October 1, 1990 it was transformed into a shareholding company.

Under Decision of the Federal Ministry of Finance on Operating License Issue no. 4/1-11-004/97 dated May 15, 1997, the Company was registered to perform the activity from the said Decision with the Commercial Court of Belgrade under no. IV-Fi-6153/97 on June 20, 1997, with the corporate ID no. 07046901, which was registered with the Republic Statistical Office of Serbia in the form of Notification on Classification according to the Business Activity Classification – registry excerpt no. 052-89 dated January 29, 1998.

The Company's business activity code is 6520, and its tax identification number (fiscal code) is 100001327, while the corporate identification number is 07046901. The person authorized to represent the Company is its Executive Board Chairperson, Ms. Zorana Pejčić.

During 2005 the Company harmonized its Statute with the Insurance Law (Official Gazette of RS no. 70/04), and changed its registered name into Dunav Re a.d.o.

On June 28, 2012 the Company adopted amendments and supplements to the Statute, thereby harmonizing the Statute with the effective Company Law.

On May 13, 2016, the Company aligned its business, assets, equity, liabilities, governing bodies, organization and bylaws and enactments with the provisions of the Insurance Law (Official Gazette of RS no. 139/2014) and fulfilled the requirements and criteria for performing reinsurance business in accordance with the Law.

The Company is headquartered in Belgrade, at no. 6, Knez Mihailova Street.

The Company is involved in assumption into reinsurance, i.e. retrocession, of risks of domestic and foreign insurance companies (active reinsurance operations) as well as assignment or ceding into retrocession with domestic and foreign reinsurance companies surplus risks assumed in reinsurance (passive reinsurance operations).

Dunav - Re successfully performs the function of reinsurance protection of the risks insured from its cedents observing general economic principles and those of the reinsurance industry. The Company has a years' long tradition in reinsurance of the major risks of domestic business companies.

The Company is engaged in reinsurance of domestic and foreign insurer risks and assigns risks assumed from domestic and foreign cedents to foreign reinsurers.

During 2019, the Company assumed risks from both domestic and foreign markets (with the shares of 48% and 52%, respectively (former Yugoslavia, Europe, Asia and Africa).

Retrocession is performed in foreign markets, where the Company has long ago established relations with well reputed reinsurers with excellent ratings, such as: Hannover Re, SCOR Global P&C, Allianz, Swiss Re, Sava Re, Axis Re, Partner Re, Odyssey Re, XL Catlin, Sirius Re, Mapfre Re, DVK Rückversicherung Köln and many others.

Owing to its expert teams and by following the reinsurance market trends, both locally and globally, the Company has maintained its reputation of a reliable reinsurer for years.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

*All amounts expressed in thousands of RSD, unless otherwise stated.*

## 1. BACKGROUND (Continued)

## 1.2. Share Capital Structure

As of December 31, 2019, according to the records of the Central Securities Register, the structure of the Company's share capital was as follows:

Shareholders	Share Count	Interest Held	Share Capital Amount RSD '000	Interest Held in
		in Share Capital %		Issued Capital %
Domestic legal entities	79,817	98.45	718,434	93.94
Foreign legal entities	823	1.02	7,407	0.97
Domestic private individuals	443	0.53	3,906	0.51
<b>Total share capital</b>	<b>81,083</b>	<b>100.00</b>	<b>729,747</b>	<b>95.42</b>
<b>State-owned capital</b>	<b>3,895</b>	<b>-</b>	<b>35,055</b>	<b>4.58</b>
<b>Total issued capital</b>	<b>84,978</b>	<b>-</b>	<b>764,802</b>	<b>100.00</b>

The Company's majority shareholder is Shareholding Insurance Company Dunav Osiguranje a.d.o., Beograd (the "Parent Company") holding a 92.65% interest in the share capital and an 88.41% interest in the total issued capital of the Company.

The Parent Company's capital is predominantly state-owned capital (Republic of Serbia holding a 94.09% interest).

## 1.3. Employees

As of December 31, 2019, the Company had 39 employees.

The breakdown of qualification levels of employees as at December 31, 2019 and 2018 is provided below:

Qualification	Headcount	
	December 31, 2019	December 31, 2018
University graduates	22	21
College graduates	7	8
Secondary school graduates	10	7
<b>Total</b>	<b>39</b>	<b>36</b>
<i>Average number of employees</i>	39	34

## 2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

## 2.1. Basis of Preparation and Presentation of the Financial Statements

Legal entities and entrepreneurs incorporated in the Republic of Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the Law on Accounting (hereinafter: the "Law", Official Gazette of the Republic of Serbia nos. 62/2013 and 30/2018) and other effective bylaws and regulations. As a large entity, the Company is required to apply International Financial Reporting Standards ("IFRS"), which, as per the aforementioned Law, comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and subsequent amendments to those standards and related interpretations approved by the International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)**

The Ministry enacted Decision dated March 13, 2014, published in the Official Gazette of the Republic of Serbia no. 35 on March 27, 2014 ("Decision on Adoption of the Translations") to adopt and publish the translation of the basic texts of the IFRS and IAS, the Conceptual Framework for Financial Reporting (the "Conceptual Framework") issued by IASB, and the related interpretations issued by IFRIC. The aforesaid translations, adopted by the Decision on Adoption of the Translations, do not include the bases for closure, illustrating examples, guidelines and comments, contrary opinions, elaborated examples or other additional explanatory materials that can be adopted as associated with the standards and interpretations unless it is expressly stated that such materials form an integral part of the standards and interpretations. Based on this Decision on Adoption of the Translations, the Conceptual Framework, IAS, IFRS, IFRIC and related interpretations that have been translated, have all been applied to the financial statements prepared as of December 31, 2014.

In addition to the foregoing, some legislative and other regulations applicable in the Republic of Serbia define certain accounting procedures resulting in further departures from IFRS, as follows:

- The Company has prepared these financial statements in line with the requirements of the Rules on the Chart of Accounts and Contents of Accounts within the Chart of Accounts for Insurance Companies (Official Gazette of RS nos. 135/2014 and 102/2015) and format prescribed by the Decision on the Content and Layout of Financial Statement Forms for Insurance Undertakings (Official Gazette of RS nos. 135/2014, 141/2014 and 102/2015), which depart from the format defined by IAS 1 (revised) – "Presentation of the Financial Statements and IAS 7 – "Statement of Cash Flows".
- Decision of the Republic of Serbia Ministry of Finance no. 401-00-896/2014-16 dated March 13, 2014 (Official Gazette of the Republic of Serbia no. 35/2014) stipulates that official standards comprise the official translations of the International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as well as interpretations of the standards issued by the International Financial Reporting Interpretations Committee ("IFRIC") until July 31, 2013. After July 31, 2013 IASB and IFRIC issued a significant number of amendments, annual improvements and supplements to the existing or revised standards and interpretations and pronounced new IFRS and replaced some of the existing IAS, which have not been translated and official adopted in the Republic of Serbia.
- Certain bylaws effective in the current period require recognition, measurement and classification of assets, liabilities and equity, as well as revenues and expenses, that depart from the requirements of the translated and adopted IFRS and IAS.
- The accounting regulations and the aforesaid Rulebooks do not stipulate all the disclosures requires under IFRS 4 "Insurance Contracts" so that the accompanying financial statements do not include all the disclosures prescribed by the said standard.

In accordance with the foregoing, and given the potentially material effects, which the departures of accounting regulations of the Republic of Serbia from IFRS and IAS may have on the fairness of presentations made in the Company's financial statements, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IFRS and IAS.

At its session held on October 10, 2019, the National Assembly of the Republic of Serbia adopted the Bill on Accounting. As a result, the Law on Accounting was adopted and published in the Official Gazette of RS no. 73/2019. The new Law on Accounting shall be in force as from January 1, 2020, except for some provisions with subsequent application

In the preparation of the accompanying financial statements, the Company did not apply IFRS and IAS the provisions of which permit early adoption or those standards the translation of which has not been adopted and published by the Ministry of Finance.

These financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)**

In the preparation of the accompanying financial statements, the Company adhered to the accounting policies described in Note 3.

In accordance with the Law on Accounting, the Company's financial statements are stated in thousands of dinars (RSD), dinar being the official reporting currency in the Republic of Serbia.

These financial statements were approved by the Company's Executive Director in March 2020.

These financial statements are prepared for the purpose of compliance with legal requirements. The Company is legally required to obtain an independent audit of these financial statements. The audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction. The audited financial statements are not intended for use by any party for purposes of decision making concerning any ownership, financing or any other specific transactions relating to the Company. Accordingly, users of the audited statutory financial statements should not rely exclusively on the financial statements and should undertake other special-purpose procedures before making decisions.

**2.2. Comparative Information**

Comparative information in these financial statements comprises the Company's financial statements as of and for the year ended December 31, 2018.

**2.3. Going Concern**

The Company's financial statements have been prepared on a going concern basis, assuming that the Company will continue to operate for an indefinite period in the foreseeable future.

**2.4. Use of Estimates and Key Accounting Estimates and Judgments**

Presentation of the financial statements requires the Company's management to make the best possible estimates and reasonable assumptions that influence the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the accounting period. These estimations and assumptions are based on historical and other information available as of the financial statements' preparation date. Actual results may vary from these estimates. Estimates and assumptions are subject to constant review. Changes to accounting estimates are recognized in the period when they are made if their impact is limited to that period or in the current and future periods in cases where the change impacts future periods as well.

What follows are the key assumptions in respect of the future events and other sources of estimation uncertainties as of the balance sheet date which represent risk from material adjustments to the amounts of balance sheet items in the fiscal year.

**a) Depreciation and Amortization Charge and Rates Applied**

The calculation of depreciation and amortization, as well as depreciation and amortization rates, are based on the economic useful lives of equipment and intangible assets. Once a year, the Company assesses the economic useful lives of assets based on the current estimates.

**Sensitivity Analysis in the Event of Estimate Change**

Had depreciation/amortization rates, based on the estimated useful lives of property, equipment and intangible assets as described above, been 10% higher/(lower) than those used in calculation of depreciation/amortization for the year ended December 31, 2019, the depreciation/amortization charge for the year to be recognized in the financial statements would have increased/(decreased) by RSD 980 thousand.

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2019

*All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.4. Use of Estimates and Key Accounting Estimates and Judgments (Continued)****b) Allowance for Impairment of Trade Receivables**

The Company calculates the allowance for impairment of doubtful trade receivables based on the estimated losses resulting from the customer inability to settle their liabilities. The assessment is based on the aging analysis of trade receivables, historical write-offs, customer creditworthiness and changes to the terms of sales when determining the adequacy of allowance for impairment of bad and doubtful receivables. This includes the assumptions on the future customer behavior and resultant future collections. The management assesses that additional allowance for impairment of receivables is not necessary.

**c) Assessment of Outstanding Claim Reserves (Provisions)**

Reserves for outstanding claims refer to the provisions for incurred and reported but not settled (RBNS) claims and provisions for incurred but not reported (IBNR) claims.

Each reported claim is assessed individually by the Company, on a case basis, taking into consideration the circumstances surrounding the claim, information available and historical experience with claimed amounts. The assessed amounts of reserves for claims are regularly reassessed and updated on an individual basis in accordance with the most recent information. However, actual amount of claims may vary as a result of subsequent changes in the available data.

The Company calculated IBNR reserves in line with its Rulebook on Forming Outstanding Claim Reserves, which is aligned with the National Bank of Serbia's Decision on Technical Provisions (Official Gazette of RS nos. 42/2015 and 36/2017).

IBNR claim reserves were calculated using the lump sum method for all insurance classes except for motor third party liability insurance (MTPL), where the Company used the chain ladder method based on the reported claim development triangles, the chain ladder method based on the settled claim development triangles and expected claim ratio method. IBNR claim reserves entail a great extent of uncertainty and the assessment of such provisions requires actuarial judgment as well as that of the Company's management.

**d) Fair Value of Financial Instruments**

The fair value of financial instruments for which there is no active market is determined by applying appropriate assessment methods. The Company uses professional judgment when selecting appropriate methods and assumptions. It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts. In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot readily or reliably be determined in the absence of an active market. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1. Equipment and Intangible Assets**

An item of equipment is initially measured at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent expenditure is recognized as an increase in cost of the respective assets or as separate assets, as applicable, when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the relevant asset will flow to the Company and if the cost can be reliably measured. The carrying value of an asset being replaced is derecognized. All other expenses of current maintenance and repairs are charged to the relevant period income statement.

The Company depreciates equipment using the prescribed annual rates to write down the cost of assets over the useful lives of assets.

Intangible assets are initially measured at cost. After initial recognition, intangible assets are stated at cost less accumulated amortization and aggregate impairment losses, if any. Subsequent expenditure is capitalized when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the relevant intangible asset will flow to the Company and if the cost attributable to the asset can be reliably measured.

**3.2. Depreciation/Amortization**

Depreciation of equipment and amortization of intangible assets are calculated on straight-line basis in order to write down the cost of assets over their useful lives. Calculation of depreciation/amortization commences from the month following the month of the asset's placement in use.

In 2019 there were no changes in depreciation/amortization applied in comparison to the previous year. The applicable rates were as follows:

ASSET	USEFUL LIFE (years)	DEPRECIATION / AMORTIZATION RATE
<b>1. INTANGIBLE ASSETS</b>		
1.1. Investments in development	5.00	20.00%
1.2. Licenses	5.00	20.00%
1.3. Software	5.00	20.00%
<b>2. EQUIPMENT</b>		
2.1. Passenger vehicles	6.45	15.50%
2.2. Mobile telephones - handsets	3.00	33.33%
2.3. Telephone and telegraph switchboards and related equipment	14.29	7.00%
2.4. Telephone sets and related equipment	10.00	10.00%
2.5. Air conditioners and other ventilation equipment	6.06	16.50%
2.6. Equipment for maintenance of premises	5.00	20.00%
2.7. Carpets, paintings and other accessories for interior design of offices	8.00	12.50%
2.8. Office furniture	10.00	10.00%
2.9. Electronic computers, printers, photocopiers and other equipment for data processing	5.00	20.00%
2.10. Other equipment, elsewhere not mentioned	9.09	11.00%
2.11. Fire extinguishing equipment – fire extinguishers, devices, tools and other equipment	8.00	12.50%

**3.3. Impairment of Assets**

At each balance sheet date, the Company's management reviews the carrying amounts of the Company's tangible assets in order to determine the indications of impairment loss. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. In cases where it is impossible to assess the recoverable amount of an individual asset, the Company assesses the recoverable value of the cash generating unit to which the asset belongs.



**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.3. Impairment of Assets (Continued)**

Recoverable amount based on the higher of net selling price and value in use. The estimate of the value in use comprises the assessment of future cash flows discounted to their present value by applying the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset at issue.

If the estimated recoverable amount of assets (or cash generating unit) is below their carrying value, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period under operating expenses, except in case of land and buildings that are not used as investment property which is stated at revalued amount in which case impairment loss is presented as a loss (decrease) on revaluation of assets.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the respective asset is carried at a revalued amount, in which instance, the reversal of the impairment loss is treated as a revaluation increase.

As of December 31, 2019, in the assessment of the Company's management, there were no indications that the value of equipment and intangible assets had suffered impairment.

**3.4. Equity Investments in Subsidiaries/Associates**

Equity investments in subsidiaries and/or associates are stated at cost less accumulated impairment losses.

**3.5. Financial Instruments**

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis – date when the Company committed to sell or purchase a financial asset. Financial assets are initially recognized as increased for all transaction costs for all financial assets stated at fair value whose effects of changes in fair value are stated in the income statement. Borrowings and receivables and investments held to maturity are stated at amortized cost using the effective interest method.

*a) Financial Asset Available for Sale*

Available-for-sale (AFS) financial assets are initially measured at cost increased by transaction costs directly attributable to the acquisition of assets.

AFS assets are subsequently stated at fair value. Fair value is determined in an active market (stock exchange) and represent the bidding price for an instrument as at the measurement date or, in the absence of an active market, the Company's best estimate of fair value based on discounted expected cash flows or by placing reliance on an independent expert's opinion.

Gains and losses arising from changes in fair value are recognized directly in equity, within revaluation reserves. Where the investment is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

*b) Financial Assets Held to Maturity*

Held-to-maturity investments are recorded at amortized cost using the effective interest method. Amortized cost is cost of an asset net of principal repayment and adjusted for any difference between the cost and amount upon maturity and reduced by any write-off due to impairment or irrecoverability. The effective interest rate is the rate used for discounting the expected cash flows of the future cash payment up to maturity.

Income earned over the period of holding these securities in the Company's portfolio is presented as interest income. All regular way purchases and sales of securities are accounted for upon transaction.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Financial Instruments (Continued)***c) Financial Assets Held for Trading*

Financial assets held for trading represent portion of the financial asset portfolio managed by the Company for which there is evidence that such assets:

- were acquired in order to be sold and/or repurchased in the near future;
- were acquired in order to derive profit from the short-term price fluctuations; or
- are derivatives of financial assets or financial liabilities (other than part of an effective hedging instrument).

Financial assets held for trading are initially measured at fair value. For this type of financial assets, fair value does not include transaction costs directly attributable to the acquisition or issue of an asset. Such costs are entirely charged to profit and loss upon asset acquisition/issue. Fair value of a financial instrument upon initial recognition is its common transaction cost.

Trading financial assets are subsequently measured at fair value. Fair value is determined in an active market (stock exchange) and represent the bidding price for an instrument as at the measurement date. Gains and losses arising from changes in fair value of trading financial assets are credited or charged to income statement of the period in which these occurred.

*d) Short-Term Loans and Receivables*

Loans and receivables are initially measured at cost increased by transaction costs directly attributable to the issue of such instruments (IAS 39.43). Subsequently, loans and receivables are stated at amortized cost using the effective interest rate (IAS 39.47). The effective interest rate is the rate that exactly discounts the future cash flows (inflows and outflows) to the initial carrying value of a loan or investment (present value) over the expected life of a loan or investment. Gains or losses due to amortization are recognized in the net amounts and credited or charged to the income statement. Interest and fee income is calculated by applying the effective interest rate to the amortized cost.

Short-term receivables are measured at originally invoiced amounts. If such amounts are denominated in foreign currencies, they are translated into RSD using the exchange rates effective as at the transaction date. Changes in the exchange rates occurred from the transaction date up to the receivable collection date are stated as foreign exchange gains or losses and included within income or expenses. Receivables stated in foreign currencies as at the balance sheet date are translated into RSD at the exchange rates prevailing at the balance sheet date and the resulting foreign exchange gains or losses are recognized within income or expenses of the period.

*Impairment Allowance of Receivables*

If it is probable that the Company will not be able to collect all its amounts receivable matured according to the contractually defined terms, the management assesses the amount of impairment allowance adjusting the receivables to their realistically recoverable values. The Company assesses the value and recoverability of receivables, i.e. appropriate individual recoverable amounts of the receivables based on the individual assessment of liquidity of each debtor.

The Company makes individual impairment allowance of receivables in the full amount for all receivable categorized as non-liquid assets in accordance with the NBS Decision on Capital Adequacy of Insurance/Reinsurance Undertakings.

Individual impairment allowance is also made according to the criteria stipulated by IAS 39.58, when there is objective evidence of impairment, i.e. probable irrecoverability of receivables and other financial assets. If for any reason objective evidence of impairment is limited or not entirely relevant, the Company uses its own experience and judgment in assessing recoverability of receivables.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Financial Instruments (Continued)***d) Short-Term Loans and Receivables (Continued)**Impairment Allowance of Receivables (Continued)*

Receivables arising from the core activity or investment activities not subject to the individual impairment assessment are assessed for impairment at the level of the aggregate receivables from a single counterparty according to the following criteria:

- history of cooperation with the particular debtor;
- the debtor's arrears in matured liability settlement;
- the debtor's financial capability; and
- significance of cooperation with the debtor to the future operations of the Company.

Such receivables are classified into the following categories:

## Category I

- receivables due from a single debtor with satisfactory maturities;
- receivables from debtors with good history of liability settlement;
- cooperation with the debtor is significant to the future operations of the Company;
- the debtor's financial standing/capability is satisfactory.

## Category II

- receivables due from a single debtor without satisfactory maturities; and
- receivables from debtors whose financial standing/capability is not satisfactory but not expected to deteriorate, except for receivables from non-liquid or insolvent debtors.

## Category III

- receivables due from a single debtor without satisfactory maturities without satisfactory maturities;
- receivables due from a single debtor where going concern principle is not compromised according to the information available to the Company; and
- receivables due from debtors where there is a basis for contract termination or certainty of instigation of legal proceedings.

Impairment allowances or long-term provisions are made for receivables within:

- category I in the amount from 0% to 30%;
- category II in the amount from 31% to 70%; and
- category III in the amount from 71% to 100%.

All uncollected receivables matured due from a single debtor are classified into a certain category based on the prevailing criterion.

Write-off of receivables is made under the relevant decisions of the Company's governing bodies in accordance with their respective competences, at the proposal of the Central Committee for the Annual Asset and Liability Statement only if the following criteria are met:

- there is undoubted evidence that the receivables have previously been included within the Company's income;
- the receivables have been assessed as irrecoverable in the Company's books of account; and
- there is undoubted evidence that the stated receivables cannot be collected (court ruling, decisions of liquidation/bankruptcy council/administrator, obsolescence and the like).

The Company may exceptionally write off receivables even if the above listed criteria are not met, yet such write-off expenses will not be recognized for tax purposes under the effective Corporate Income Tax Law (Official Gazette of RS nos. 25/2001, 80/2002, 80/2002 – the other law, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014 – the other law, 142/2014, 91/2015 – the authentic interpretation, 112/2015, 113/2017, 95/2018 and 86/2019).

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Financial Instruments (Continued)***d) Short-Term Loans and Receivables (Continued)**Impairment Allowance of Receivables (Continued)*

If the Company writes off a receivable impaired in the previous period, rather than recognizing the write-off as a new expense, the Company derecognizes both the receivable and the related impairment allowances in its books.

Impairment losses are recognized within profit and loss. The amounts of impairment losses reducing the value of loans and receivables are carried on the impairment allowance account.

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 recognized, the previously recognized impairment loss is reversed and reversal is credited to profit and loss to the extent of the amortized cost at the reversal date had the impairment loss not been recognized.

*e) Cash and Cash Equivalents*

Cash and cash equivalents comprise cash on hand in RSD and foreign currencies and balances held on RSD and foreign accounts with commercial banks.

Cash and cash equivalents in the local currency are stated in nominal amounts in RSD.

Cash and cash equivalents denominated in foreign currencies are translated into RSD using the middle exchange rates of the National Bank of Serbia for respective currencies effective as at the balance sheet date.

Cash is assessed and stated as follows:

- local currency cash funds are stated at nominal value;
- foreign currency cash funds are translated into RSD using the middle exchange rates of the National Bank of Serbia for respective currencies effective as at the balance sheet date;
- funds held on the foreign currency accounts with commercial banks are translated into RSD using the middle exchange rates of the National Bank of Serbia for respective currencies effective as at the balance sheet date.

All subsequent measurements of cash and cash equivalents as at the balance sheet date are recognized within income or expenses in the income statement.

*f) Other Long-Term Investments*

Long-term loans and other long-term investments are stated in the amounts of funds disbursed (at nominal value), less estimated allowance for impairment.

*g) Financial Liabilities*

Financial liabilities comprise non-current liabilities (liabilities due to related parties and legal entities with mutual interests, long-term borrowings, liabilities in respect of long-term securities and other long-term liabilities), current liabilities (trade payables and other operating liabilities) and other current liabilities.

Current liabilities are those maturing within a year from the performance date or from the annual balance sheet date. A financial liability is each contractual obligation entailing:

- a) delivery of cash or another financial instrument to another legal entity; or
- b) exchange of financial instruments with other legal entities.

Financial liabilities are initially measured at cost representing the fair value of consideration received for the liability. Transaction costs are included within expenses of the period in which these were paid for.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Financial Instruments (Continued)***g) Financial Liabilities (Continued)*

After initial recognition, financial liabilities are measured at amortized cost, except for liabilities held for trading and derivatives representing liabilities measured at fair value.

Financial assets and liabilities are recognized on the Company's balance sheet from the moment the Company has become a party to the contractual provisions of a particular financial instrument.

Financial assets cease to be recognized when the Company loses control of the contractual rights governing such instruments, which occurs when the rights of use of such instruments have been realized, abandoned, and/or ceded or they expire.

Financial liabilities cease to be recognized when the Company fulfills the obligations, or when the contractual repayment obligation has either been cancelled or has expired.

**3.6. Technical Reserves**

The Company has formed technical reserves in accordance with the Insurance Law, National Bank of Serbia's Decision on Technical Provisions and the following Rulebooks:

- Rulebook on Forming and Manner of Calculating Mathematical Reserves;
- Rulebook on Forming Reserves for Unearned Premiums;
- Rulebook on Forming Reserves for Unexpired Risks;
- Rulebook on Forming Reserves for Bonuses and Rebates;
- Rulebook on Forming Outstanding Claim Reserves;
- Rulebook on Forming Risk Equalization Reserves.

Technical Reserves are monitored per type and decreased or reversed with the decrease/reversal credited to income.

Mathematical Reserve

Mathematical reserves are calculated in accordance with the Rulebook on Forming and Manner of Calculating Mathematical Reserves enacted and adopted by the Company in accordance with the Decision on Technical Provisions of the National Bank of Serbia. Mathematical reserves are calculated by risk cedents under the effective technical criteria approved by the National Bank of Serbia. It is the practice of most reinsurers to receive the calculated mathematical reserves from the cedents. The mathematical reserve calculation signed by a certified actuary is to be submitted to the reinsurer. The passive mathematical reserve of the cedent is actually the active mathematical reserve of the Company (reinsurer). In accordance with the prevailing regulations, unearned premiums are included in the mathematical reserves.

Mathematical reserves for foreign currency-denominated insurance contracts are calculated for each currency separately and shown in both foreign currency and RSD, applying the official middle RSD exchange rate at the date of mathematical reserve calculation.

Unearned Premiums

Reserves for unearned premiums are calculated in accordance with the Rulebook on Forming Reserves for Unearned Premiums enacted and adopted by the Company in accordance with the Decision on Technical Provisions of the National Bank of Serbia.

Reserves for unearned premiums are calculated using the *pro rata temporis* method. This method is applied to the contracts where a uniform spread of risk through the policy period may be assumed, which is the case of the Company's existing portfolio. In case of reinsurance contracts where the amount of coverage is subject to change during the reinsurance period, the *pro rata temporis* method is applied in calculation of reserves for unearned premiums in accordance with the change in the level of coverage during the reinsurance period. Unearned premium reserves are also calculated using the same method for contracts where the amount of coverage changes linearly during the reinsurance period by applying a special formula. In specific cases of coverage amount changes during the reinsurance period other accepted actuarial methods can be used.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.6. Technical Reserves (Continued)**

The basis for calculation of the unearned premium reserves is the total reinsurance premium defined by each reinsurance contract.

An unearned premium represents portion of a premium that relates to the ensuing accounting period. In accordance with the Company's business policy enactments, unearned premiums are calculated on the last day of the current accounting period and as at the date of the portfolio transfer.

Reserves for Unexpired Risks

Reserves for unexpired risks are calculated in accordance with the Rulebook on Forming Reserves for Unexpired Risks enacted and adopted by the Company in accordance with the Decision on Technical Provisions of the National Bank of Serbia (Official Gazette of RS nos. 42/2015 and 36/2017).

Unexpired risk reserves are assessed by establishing the sufficiency/insufficiency of the unearned premium reserves for coverage of the expected claims and expenses of the Company in the ensuing period in connection with the contracts in force during the current period.

Unexpired risk reserves are only formed in the event that the Company has established that the expected amount of claims and expenses in the ensuing period in connection with the contracts in force during the current period exceeds the unearned premium reserves.

The expected amount of expenses is determined as the sum of the expected management expenses and other insurance administration expenses. The expected management expenses and other insurance administration expenses are assessed based on the share of the actual such expenses in the relevant premium in the current period and by applying the ratio to the unearned premium.

The expected amount of claims is calculated using the principles and rules of actuarial and insurance professions, by applying the relevant actuarial and statistical methods. A three-year average claims ratio per insurance class is used at each financial year-end as the relevant indicator of the expected claims ratio in the ensuing period.

Reserves for Bonuses and Rebates

Calculation of reserves for bonuses and rebates entails assessment of reserves for insureds' entitlement to profit sharing, future partial reduction of the premium and partial refund of the premium.

Reserves for insureds' entitlement to profit sharing and future partial reduction of the premium are determined per each individual reinsurance contract and are formed if the Company has commitments in its portfolio such as partial premium refund in the event that the actual claim rate is lower or equal to the claim rate initially agreed with the insureds (cedents).

Reserves for partial premium refund relate to the terminated or cancelled reinsurance contracts where the Company realized income arising from those contracts in the previous accounting period.

Reserves for Outstanding Claims

Reserves for incurred and reported but not settled claims (RBNS) are determined based on the assessments and reports received from the cedents.

Reserves for incurred but not reported (IBNR) claims are calculated based on the information on the settled and RBNS claims (the lump sum method as defined by the Decision on the Technical Provisions enacted by the National Bank of Serbia) and by applying the chain ladder method to the settled claims, chain ladder method to the reported claims and for MTPL using the expected claim ratio in the assumed reinsurance business. . The chain ladder method takes into account the settled and reported claims per year of occurrence, with the settled claims incurred in 2009 and prior years included in the calculation for the opening (base) year 2009.

All the Company's domestic motor third-party liability (MTPL) reinsurance contracts include the sunset clause – which stipulates a five-year period for the cedent to report the claims, after which period the reinsurer has no liability per claims.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.6. Technical Reserves (Continued)***Risk Equalization Reserves (Provisions)*

The Company's Rulebook on Forming Risk Equalization Reserves governs the manner and the process of calculation of the risk equalization reserves for credit reinsurance. These provisions are formed, i.e. increased, only if net profit is realized in this insurance class.

**3.7. Long-Term Provisions Employee Benefits**

The Company forms and calculates provisions for employee retirement and other benefits and makes the related disclosures in accordance with IAS 19 "Employee Benefits." The Company also makes provisions for employee jubilee awards. In calculation of these provisions the Company uses the actuarial projected unit credit ("PUC") method.

**3.8. Employee Benefits**

In accordance with the regulatory requirements applied in the Republic of Serbia, the Company is under an obligation to pay contributions to the relevant tax authorities and to various state social security funds that guarantee social security insurance benefits to employees. These legal obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in amounts computed by applying the specific, legally prescribed rates. The Company is also obligated to withhold contributions from gross salaries to employees, and on their behalf, to transfer such withheld portions directly to the appropriate government funds. These taxes and contributions, payable on the behalf of both, the employee and employer, are charged to expenses in the period in which they arise.

Under the Collective Bargaining Agreement ("CBA"), the Company is required to pay retirement benefits to the vesting employees in the amount of two average salaries paid in the Republic of Serbia according to the most recent data published by the Republic Statistical Office or three salaries earned by the vesting employee/paid by the Company in the month preceding the month of the retirement benefit payment, whichever arrangement is the most favorable for the employee.

In addition, the Company is under obligation to pay the employees jubilee awards for 10, 20 and 30 consecutive years of service with the Company. Jubilee award amounts are determined based on the average monthly salary paid by the Company in the month preceding the jubilee award payment, ranging from one to three average salaries, depending on the years of service with the Company.

The Company stated long-term liabilities per retirement benefits and jubilee awards based on its own actuarial calculation performed in accordance with the requirements of IAS 19. Severance pays upon consensual employment termination are charged to the current year's income statement.

Liabilities for defined post-employment benefits are estimated on an annual basis by independent, qualified actuaries by applying the projected unit credit method. The present value of liabilities for defined benefits is determined by discounting expected future payments.

Actuarial gains or losses arising from the experience-based adjustments to or changes in the actuarial expectations are credited or charged to the income statement of the period of their occurrence

Costs of vested employee benefits are recognized immediately to the extent the benefits are already vested, or are amortized on a straight-line basis over the average period until the benefits become vested. Long-term liabilities per defined benefit plans stated in the Company's balance sheet represent the present value of the expected future payments to employees adjusted for the costs of vested employee benefits.

Costs and liabilities per other long-term benefits are determined in the same manner as those per defined benefit plans, except for the vested employee benefits, which are recognized in the period when they become vested.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.9. Taxes and Contributions***a) Current Income Tax*

Current income tax is payable at the legally prescribed rate of 15% on the taxable income determined and reported in the annual corporate income tax return, which includes the profit before taxation shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules of the Republic of Serbia, less any prescribed tax credits.

The Corporate Income Tax Law of the Republic of Serbia does not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, current period tax losses may be used to reduce or eliminate taxes to be paid in future periods for duration of no longer than five ensuing years. Tax losses incurred before January 1, 2010 are available for carryforward for duration of ten ensuing years.

*b) Deferred Income Taxes*

Deferred income taxes are provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits available for carryforward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits carryforwards can be utilized. Deferred tax assets and liabilities are determined at the tax rate expected to be applied in the period of the relevant asset realization/liability settlement.

*c) Indirect Taxes and Contributions*

Indirect taxes and contributions include property taxes, payroll taxes and contributions charged to the employer and various other taxes and contributions payable pursuant to the effective republic and municipal regulations

**3.10. Income**

Income includes revenues from the Company's regular activities and gains. Revenues comprise operating revenues (from reinsurance premiums, from share in claim settlement, from recoured claims, fees and commissions from reinsurance operations, income from investment of reinsurance funds, finance income other than income from investing activity, gains on the value adjustment of receivables and other assets used for performance of the Company's registered activity and other income).

The accounts of revenues include reversal or decrease of provisions, gains on value adjustment of assets and other income.

*Reinsurance Premium Income*

Income from reinsurance premiums represent amounts of premiums invoiced net of deferred (unearned) premium. A premium includes a net retained (pure) premium and an overhead expense load. The overhead expense load is used to cover for the reinsurance administration (claim handling) costs.

Income is stated at amounts invoiced for the period they relate to.

*Income from Investing Activities*

Income from investment of reinsurance assets is part of finance and other income. Finance income of this sort includes interest income from deposits and debt securities, foreign exchange gains on deposits, current accounts and dividend earned. Other income portion arising on investment of reinsurance assets relates to the effects of value adjustments of long-term and short-term financial investments.

*Finance Income*

Finance income other finance income from investment of reinsurance assets includes foreign exchange gains (realized and unrealized) arising from receivables and payables, foreign exchange gains arising from impairment allowance of receivables and positive currency clause effects.



**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.10. Income (Continued)***Value Adjustment Effects*

Effects of value adjustment of receivables and other assets used for performance of the Company's registered business activity include receivables provided for in the previous period and collected in the following period and other valuation effects.

Should any uncertainty arise in respect of collectability of amounts already recorded within income, the uncollectable amounts or amounts not likely to be collected or deemed equity deductible items in accordance with the Insurance Law and related NBS regulations are recognized as expenses and not as adjustment of the initially recognized income amount.

Interest, royalty and dividend income are earned from investing own assets or assignment of own assets for use by other legal entities. Such income is recognized as follows:

- interest income – using the effective interest method;
- royalties, i.e. income from patent rights, trademarks, copyrights and similar rights – on an accrual basis (event occurrence basis) in accordance with relevant contracts;
- dividend income – upon determining shareholder entitlement to dividend payment.

*Gains*

Gains represent increases in economic benefits and as such are no different from revenues. Gains refer to other items meeting the criteria of the income definition yet they need not arise from regular business activities.

Gains include gains on the sales of non-current assets and unrealized gains. Gains are presented in net amounts, i.e. less the related expenses.

All realized and unrealized gains on the fair market value adjustment of financial assets held for trading are credited or charged to the income statement.

All realized and unrealized gains on the fair market value adjustment of financial assets available for sale are credited or charged to equity and presented in the statement of other comprehensive income.

**3.11. Expenses**

Expenses relate to costs arising in the normal course of the business and losses. Expense accounts include operating expenses, expenses arising from investment of reinsurance assets, finance expenses other than finance expenses arising from investment activity, effects of value adjustment of receivables and other assets used in the performance of the Company's business activity and other expenses.

*Claim Settlement Expenses*

Expenses for settlement of claims and contractual insurance amounts are expenses determined based on the relevant contracts and business policy enactments and bylaws of the Company. These expenses include claim appraisal expenses and other expenses stipulated by the Company's bylaws.

*Expenses from Investing Activities*

Expenses from investment of reinsurance assets are part of both finance and other expenses. Finance expenses of this sort include foreign exchange losses on deposits. Other expenses portion arising on investment of reinsurance assets relates to the effects of value adjustments of long-term and short-term financial investments. Interest expenses including penalty interest and other expenses relating to the interest-bearing liabilities (borrowings, deposits received and liabilities) are calculated using the effective interest rate.

*Finance Expenses*

Finance expenses other than finance expenses from investing activities comprise foreign exchange losses (realized and unrealized) arising from receivables and liabilities, foreign exchange loss arising from impairment allowance of receivables and negative currency clause effects.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.11. Expenses (Continued)***Long-Term Provisions and Functional Contributions*

Expenses of long-term provisions and functional contributions arise on the increases in life insurance mathematical reserves except for the voluntary pension insurance, risk equalization reserves and provisions for employee retirement benefits and jubilee awards per IAS 19.

Costs of provisions in accordance with IAS 19 represent increases in provisions for employee retirement benefits and jubilee awards as compared to the previous accounting period.

Policies regarding recognition and measurement of functional contribution expenses are provided within the relevant balance sheet items.

*Losses*

Losses represent reductions of economic benefits, and as such, are not in their nature different from other expenses. Losses include those losses arising from the sales of non-current and current assets. Expenses also include unrealized foreign exchange losses.

**3.12. Allocation of Income and Expenses to Insurance Classes**

All income and expenses are recorded on appropriate accounts in accordance with the Decision on the Chart of Accounts and Content of the Accounts within the Chart of Accounts for Insurance Undertakings (Official Gazette of RS nos. 135/2014 and 102/2015), with the required analytical accounts within each income and expense accounts. Mandatory analytical accounts contain income and expenses per insurance class.

Functional income and expenses (income and expenses arising from the performance of the Company's registered activity) are recorded on certain analytical accounts prescribed within the synthetic accounts in accordance with the Decision of the National Bank of Serbia per insurance class.

Income and expenses arising from the performance of the Company's registered activity are allocated to insurance class upon issue of the respective invoices or other accounting documents.

Income and expenses from group 66 – finance income, group 67 – other income, 68 – gains on value adjustment of assets, group 69 – profit from discontinued operations, effects of changes in accounting policies and prior years' error adjustment and transfer of expenses on one hand and group 56 – finance expenses, group 57 – other expenses, group 58 – losses on impairment of assets, group 59 – loss from discontinued operations, effects of changes in accounting policies and prior years' error adjustment and transfer of expenses on the other, i.e., income and expenses not related to the Company's core business activity are recorded per cedent, at the level of the Company's cedent code, and are allocated in the current year to insurance classes using the allocation key of the "share of the gross active premium for insurance class in the aggregate gross active premium in the previous year."

Calculation of costs and performance is stated on the prescribed accounts of account class 9. The Company takes over the income and expenses from financial accounting from the predefined accounts of account class 9.

Within account group 99 the Company determines the net operating profit or loss (the difference between the income and expenses of the accounting period per insurance class as determined by the National Bank of Serbia Decision on the Content and Layout of the Financial Statement Forms for Insurance Undertakings.

**3.13. Operating Expenses and Reinsurance Administration Expenses**

Total operating expenses within group 53 – depreciation/amortization charge and provisions, group 54 – cost of materials, fuel and energy, cost of production services and non-material costs and group 55 – staff costs are allocated per cost location to the management costs, policy acquisition costs, forensic, appraisal and claim settlement costs, costs of depositing and investing reinsurance funds and other costs and are thereafter allocated to insurance classes using the defined allocation key.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.13. Operating Expenses and Reinsurance Administration Expenses**

Policy acquisition costs are costs incurred in obtaining reinsurance activities aimed at increase or maintenance of the existing volume of business and income therefrom.

Forensic, appraisal and claim settlement costs entail costs incurred in performance of the activities of examination appraisal, settlement and payout of claims.

Costs of depositing and investing reinsurance funds are costs incurred in performing business activities aimed at earning income in this respect.

Management costs include all reinsurance administration costs not related to the direct reinsurance contract execution, settlement of claims and Company's investing activities.

Reinsurance administration costs comprise the management costs, policy acquisition costs and other costs.

The following accounts are classified into cost categories as follows:

- depreciation/amortization costs (account group 53) are entirely analytically allocated to the management costs;
- taxes and contributions payable (recorded on account 546) are entirely analytically allocated to a separate analytical category of the other reinsurance administration costs;
- payroll contributions charged to employer and payable to chambers and membership fees payable to the insurers' associations (accounts 5490 and 5493) are entirely allocated to the management costs;
- bank charges (account 547) are entirely analytically allocated to the policy acquisition costs;
- remunerations to the Supervisory Board and Audit Committee members (account 556) are not distributed, i.e., they are entirely analytically allocated to the management costs.

Cost location is determined based on the actual costs designated in the relevant accounting document. Costs for which it is not possible to determine the actual cost location are distributed using the allocation key for undistributed amounts.

The key for allocation of the undistributed amounts in the current accounting period to the cost categories is the number of staff and time the staff spent on operations of reinsurance management, policy acquisition, forensic, appraisal and claim settlement and payout tasks and activities of depositing and investing reinsurance funds at the previous accounting period-end. Distributions of the forensic, appraisal and claim settlement and payout costs is performed using the allocation key of the share of settled claims of each reinsurance class in the total claims settled at the previous accounting period-end.

Cost and performance accounting represents distribution of account group 92 costs to the insurance classes, and distribution account group 95 revenues to the insurance classes.

**3.14. Foreign Exchange Translation**

Foreign currency transactions (transactions performed in other than functional currency) are translated into RSD currency at the official middle exchange rates of NBS effective at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into RSD currency at the official middle exchange rates of NBS prevailing at the balance sheet date.

Foreign exchange positive and negative effects arising from the translation of the transactions and balance sheet items are credited and charged to the income statement as foreign exchange gains and losses.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 4. NON-CURRENT ASSETS

## 4.1. Intangible Assets, Software and Equipment

	December 31, 2019	December 31, 2018
<i>Intangible assets:</i>		
Intangible assets (licenses)	2,049	3,078
Software	7,684	12,807
	<b>9,733</b>	<b>15,885</b>
Equipment	<b>17,568</b>	<b>10,480</b>

Movements on the accounts of equipment and intangible assets are presented in the table below:

Class	Equipment	Other equipment	Total equipment	Licenses	Software	Intangible assets in progress	Total
<b>Cost</b>							
<b>Balance at January 1, 2018</b>	<b>35,584</b>	<b>227</b>	<b>35,811</b>	<b>11,617</b>	<b>51,051</b>	-	<b>98,479</b>
Additions	391	-	391	-	-	-	391
Retirement and disposal	(237)	-	(237)	(37)	-	-	(274)
Other increases	-	-	-	-	-	-	-
Other decreases	-	-	-	-	-	-	-
<b>Balance at December 31, 2018</b>	<b>35,738</b>	<b>227</b>	<b>35,965</b>	<b>11,580</b>	<b>51,051</b>	-	<b>98,596</b>
Additions	9,673	-	9,673	1,188	-	-	10,861
Retirement and disposal	(235)	-	(235)	(7)	-	-	(242)
Other increases	-	-	-	-	-	-	-
Other decreases	-	-	-	-	-	-	-
<b>Balance at December 31, 2018</b>	<b>45,176</b>	<b>227</b>	<b>45,403</b>	<b>12,761</b>	<b>51,051</b>	-	<b>109,215</b>
<b>Accumulated Depreciation/Amortization</b>							
<b>Balance at January 1, 2018</b>	<b>23,974</b>	-	<b>23,974</b>	<b>6,034</b>	<b>32,703</b>	-	<b>62,711</b>
Charge for the year	1,749	-	1,749	2,505	5,541	-	9,795
Depreciated/amortized cost	(237)	-	(237)	(37)	-	-	(274)
<b>Balance at December 31, 2018</b>	<b>25,486</b>	-	<b>25,486</b>	<b>8,502</b>	<b>38,244</b>	-	<b>72,232</b>
Charge for the year	2,584	-	2,584	2,217	5,123	-	9,924
Depreciated/amortized cost	(235)	-	(235)	(7)	-	-	(242)
<b>Balance at December 31, 2019</b>	<b>27,835</b>	-	<b>27,835</b>	<b>10,712</b>	<b>43,367</b>	-	<b>81,914</b>
<b>Net Book Value at December 31, 2018</b>	<b>10,252</b>	<b>227</b>	<b>10,479</b>	<b>3,078</b>	<b>12,807</b>	-	<b>26,365</b>
<b>at December 31, 2019</b>	<b>17,341</b>	<b>227</b>	<b>17,568</b>	<b>2,049</b>	<b>7,684</b>	-	<b>27,301</b>

Additions to the equipment – purchased equipment – totaled RSD 9.673 thousand (computers, mobile phones and furniture). At the proposal of the Central Asset Count Commission and under the Supervisory Board's Decision no. 2/32 the Company retired and derecognized equipment fully depreciated at the derecognition date (the cost and accumulated depreciation both amounted to RSD 235 thousand).

The value of intangible assets (licenses) decreased by the amortization charge for the year of RSD 7 thousand.

## 4.2. Long-Term Financial Investments

## 4.2.1. Investments Held to Maturity

	December 31, 2019	December 31, 2018
Debt securities of the Republic of Serbia	74,752	75,190
Deposits held with banks	177,621	-
Other investments held to maturity	887	923
<b>Balance at December 31</b>	<b>253,260</b>	<b>76,113</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 4. NON-CURRENT ASSETS (Continued)

## 4.2. Long-Term Financial Investments (Continued)

## 4.2.1. Investments Held to Maturity (Continued)

The breakdown of debt securities as of December 31, 2019 and 2018 is provided in the table below:

	December 31, 2019				December 31, 2018			
	Nominal Interest Rate	Maturity	Amount in EUR	RSD '000	Nominal Interest Rate	Maturity	Amount in EUR	RSD '000
RS bonds	5.85%	Feb-16, 2026	204,387.50	24,052	5.85%	Feb-16, 2026	204,387.50	24,158
RS bonds	4.15%	Jan-25, 2023	-	50,700	4.15%	Jan-25, 2023	-	51,032
			<b>204,387.50</b>	<b>74,752</b>			<b>204,387.50</b>	<b>75,190</b>

On July 25, 2019 the Company placed EUR 1,500,000 as a term deposit with Halk banka a.d., Beograd for a period up to August 25, 2021 at an interest rate of 1.6% per annum, which made the total of RSD 177,621 thousand of term deposits held with banks as of December 31, 2019.

## 5. CURRENT ASSETS

## 5.1. Trade Receivables

	December 31, 2019	December 31, 2018
<b>Receivables</b>		
Reinsurance premium receivables	939,906	788,626
Receivables from reinsurers and retrocessionaires	248,081	193,479
Recourse receivables	988	4,914
Other receivables	19,990	9,953
<b>Total gross receivables</b>	<b>1,208,965</b>	<b>996,972</b>
<i>Less: Impairment allowance of</i>		
- reinsurance premium receivables	(34,156)	(29,594)
- receivables from reinsurers and retrocessionaires	(86,684)	(83,862)
<b>Total impairment allowance of receivables</b>	<b>(120,840)</b>	<b>(113,456)</b>
	<b>1,088,125</b>	<b>883,516</b>

## 5.2. Receivables for Prepaid Taxes

	December 31, 2019	December 31, 2018
Receivables for prepaid income taxes	9,859	-
	<b>9,859</b>	<b>-</b>

## 5.3. Financial Investments

As of December 31, 2019, the Company's financial investments totaling RSD 1,985,231 thousand (December 31, 2018: RSD 2,087,376 thousand) comprised the following:

	December 31, 2019	December 31, 2018
<b>Receivables</b>		
Financial assets available for sale	126,707	131,462
Financial assets carried at fair value through profit and loss	515,374	1,014,038
Short-term deposits held with banks	1,343,150	941,876
<b>Balance at December 31</b>	<b>1,985,231</b>	<b>2,087,376</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 5. CURRENT ASSETS (Continued)

## 5.3. Financial Investments (Continued)

## 5.3.1. Financial Assets Available for Sale

	December 31, 2019	December 31, 2018
Equity instruments available for sale	126,707	131,462
<b>Balance at December 31</b>	<b>126,707</b>	<b>131,462</b>

As of December 31, 2019 financial assets available for sale totaling RSD 126,707 thousand (December 31, 2018: RSD 131,462 thousand) comprised the following:

Issuer	Address of the Issuer	% Interest	December 31, 2019	December 31, 2018
<i>Investments in banks and other entities</i>				
Komercijalna banka a.d., Beograd	Belgrade	below 1%	58,030	37,850
MTS banka a.d., Beograd	Belgrade	2.75%	254,524	256,529
<i>Less: Impairment allowance of</i>				
- MTS banka a.d., Beograd	Belgrade		(216,819)	(216,819)
Nikola Tesla Airport	Belgrade	below 1%	28,174	50,928
		<b>Total:</b>	<b>123,909</b>	<b>128,488</b>
<i>Investments in insurance companies</i>				
Lovćen osiguranje a.d., Podgorica	Podgorica	below 1%	395	397
Bosna RE a.d., Sarajevo	Sarajevo	below 1%	2,228	2,239
Swiss osiguranje a.d., Podgorica	Podgorica	below 1%	175	338
		<b>Total:</b>	<b>2,798</b>	<b>2,974</b>
			<b>126,707</b>	<b>131,462</b>

Equity instruments available for sale are measured at fair value. Fair value changes are recorded within equity and presented in the statement of other comprehensive income.

Given that shares of MTS banka a.d., Beograd are not traded in an organized active market, as of December 31, 2019, the Company assessed the existence of impairment indicators, and determined that there were none. The value of this investment after impairment amounted to RSD 37,705 thousand as of December 31, 2019.

## 5.3.2. Financial Assets Carried at Fair Value through Profit and Loss

## a) Debt Securities

Securities	December 31, 2019				December 31, 2018			
	Interest Rate	Maturity	Amount in EUR	RSD '000	Interest Rate	Maturity	Amount in EUR	RSD '000
RS bonds	3.0%	29/10/2020	1,928,779.81	226,811	3.0%	29/10/2020,	1,943,521.26	229,714
RS bonds	-	-	-	-	2.0%	20/06/2019,	2,037,139.11	240,779
RS bonds	-	-	-	-	2.0%	24/06/2019,	2,046,320.80	241,864
RS bonds	2.0%	24/03/2020	2,009,520.38	236,305	2.0%	24/03/2020,	2,036,057.16	240,651
			<b>3,938,300.19</b>	<b>463,116</b>			<b>8,063,038.33</b>	<b>953,008</b>

## b) Investment Units

Investment Fund	December 31, 2019			December 31, 2018		
	Unit count	Unit price	RSD '000	Unit count	Unit price	RSD '000
KomBank Cash Fund	37,478	1,394	52,258	37,478	1,361	51,008
Illirika DZU ad, Beograd			-	5,133	1,952	10,022
			<b>52,258</b>			<b>61,030</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 5. CURRENT ASSETS (Continued)

## 5.3. Financial Investments (Continued)

## 5.3.3. Short-Term Deposits

The Company's short-term deposits placed with banks at December 31, 2019 are provided below:

	Interest Rate	Maturity	Amount in EUR	RSD '000
Addiko Bank a.d., Beograd	1.70%	03/07/2020	1,000,000	117,593
Srpska banka a.d., Beograd	1.60%	23/01/2020	500,000	58,796
SberBank a.d., Beograd	0.90%	08/04/2020	1,000,000	117,593
Halkbank a.d., Beograd	1.40%	11/02/2020	500,000	58,796
ProCredit banka a.d., Beograd	1.10%	13/06/2020	1,000,000	117,593
Eurobank EFG a.d., Beograd	1.50%	20/01/2020	2,000,000	235,186
NLB banka a.d., Beograd	1.45%	20/08/2020	1,000,000	117,593
Poštanska štedionica a.d., Beograd	3.10%	10/04/2020		100,000
Direktna banka	2.90%	24/04/2020		100,000
Vojvođanska banka a.d., Novi Sad	3.50%	30/07/2020		60,000
Vojvođanska banka a.d., Novi Sad	3.80%	12/06/2020		100,000
Komercijalna Banka .d., Beograd	3.15%	27/09/2020		60,000
Komercijalna Banka .d., Beograd	2.75%	08/05/2020		100,000
Univerzal banka a.d., Beograd in bankruptcy			1,000,000	117,593
Less: Impairment allowance of Univerzal banka a.d. Beograd, in bankruptcy			(1,000,000)	(117,593)
			<b>7,000,000</b>	<b>1,343,150</b>

The Company's short-term deposits placed with banks at December 31, 2018 are provided below:

	Interest Rate	Maturity	Amount in EUR	RSD '000
Addiko banka a.d. Beograd	1.60%	3/1/2019	1,000,000	118,195
Eurobank EFG a.d., Beograd	1.15%	8/1/2019	1,000,000	118,195
ProCredit banka a.d., Beograd	1.30%	13/6/2019	1,000,000	118,195
NLB banka a.d. Beograd	1.40%	21/2/2019	1,000,000	118,195
Halkbank a.d., Beograd	1.05%	9/2/2019	500,000	59,096
Halkbank a.d., Beograd	3.25%	30/1/2019	-	60,000
OTP banka a.d. Novi Sad	3.40%	12/6/2019	-	100,000
Poštanska štedionica a.d. Beograd	3.30%	16/4/2019	-	100,000
Vojvođanska banka a.d., Novi Sad	3.25%	26/4/2019	-	50,000
UniCredit banka a.d., Beograd	3.66%	8/5/2019	-	100,000
Univerzal banka a.d., Beograd, in bankruptcy			1,000,000	118,195
Less: Impairment allowance of Univerzal banka a.d. Beograd, in bankruptcy			(1,000,000)	(118,195)
			<b>4,500,000</b>	<b>941,876</b>

## 6. CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018
Foreign currency accounts	218,994	194,454
Current accounts – RSD funds	235,664	119,017
Other cash funds	-	411
<b>Balance at December 31</b>	<b>454,658</b>	<b>313,882</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 7. TECHNICAL RESERVES BORNE BY REINSURERS AND RETROCESSIONAIRES

As of December 31, 2019, the technical reserves borne by reinsurers and retrocessionaires totaled RSD 2,192,707 thousand (December 31, 2018: RSD 1,609,788 thousand). Breakdown per type of reserves is provided below:

## 7.1. Reserves for Unearned Premiums

	December 31, 2019	December 31, 2018
Reserves for unearned premiums borne by the reinsurers	997,550	576,674

## 7.2. Reserves for Outstanding Claims Borne by the Reinsurers

	December 31, 2019	December 31, 2018
Reserves for outstanding claims borne by the reinsurers	1,179,348	1,017,512

## 7.3. Other Technical Reserves Borne by the Reinsurers

	December 31, 2019	December 31, 2018
Passive mathematical reserve	15,809	15,602

## 8. SHARE AND OTHER CAPITAL

	December 31, 2019	December 31, 2018
Share capital	729,747	729,747
State and socially owned capital	35,055	35,055
Other capital	3,444	3,444
<b>Balance at December 31</b>	<b>768,246</b>	<b>768,246</b>

In accordance with Article 27 of the Insurance Law, a reinsurance company's core capital must at all times be equal to or above EUR 3,200,000, whereas the Company's issued capital as of December 31, 2019 amounted to EUR 6,533,104 (December 31, 2018: EUR 6,499,842). The Company's shares are listed on the stock exchange, where the price per share as of December 31, 2019 amounted to RSD 13,589 (December 31, 2018: RSD 17,999) exceeding the par value per share (RSD 9,000). The Company's market capitalization amounted to EUR 9,369,935 (2018: EUR 12,347,543).

Changes on equity accounts during 2019 and 2018 are presented in the table below:

	Share and other capital	Share issue premium	Reserves	Unrealized gains	Unrealized losses	Retained earnings	Total
<b>Balance at January 1, 2018</b>	<b>768,246</b>	<b>57,996</b>	<b>153,760</b>	<b>26,653</b>	<b>(3,580)</b>	<b>550,254</b>	<b>1,553,329</b>
Gains on securities	-	-	-	18,295	790	-	19,085
Losses on securities	-	-	-	(8,732)	(94)	-	(8,826)
Profit distribution – dividend payment	-	-	-	-	-	(118,733)	(118,733)
Profit for the year	-	-	-	-	-	215,259	215,259
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income, net	-	-	-	9,563	696	215,259	225,518
<b>Balance at December 31, 2018</b>	<b>768,246</b>	<b>57,996</b>	<b>153,760</b>	<b>36,216</b>	<b>(2,884)</b>	<b>646,780</b>	<b>1,660,114</b>
Gains on securities	-	-	-	19,852	-	-	19,852
Losses on securities	-	-	-	(29,140)	294	-	(28,846)
Profit distribution – dividend payment	-	-	-	-	-	(118,769)	(118,769)
Profit for the year	-	-	-	-	-	204,889	204,889
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income, net	-	-	-	(9,288)	294	204,889	195,895
<b>Balance at December 31, 2019</b>	<b>768,246</b>	<b>57,996</b>	<b>153,760</b>	<b>26,928</b>	<b>(2,590)</b>	<b>732,900</b>	<b>1,737,240</b>



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 8. SHARE AND OTHER CAPITAL (Continued)

## 8.1. Shareholders

The Company's shareholders as of December 31, 2019 and 2018 were as follows:

	December 31, 2019				December 31, 2018			
	Share Count	Share Capital Amount	Interest Held in Share Capital %	Interest Held in Issued Capital %	Share Count	Share Capital Amount	Interest Held in Share Capital %	Interest Held in Issued Capital %
Dunav osiguranje a.d.o. Beograd	75,126	676,134	92.65	88.41	75,126	676,134	92.65	88.41
Sava Osiguranje a.d.o. Beograd	2,731	24,579	3.37	3.21	2,731	24,579	3.37	3.21
Konvest a.d. Novi Sad	910	8,190	1.12	1.07	910	8,190	1.12	1.07
Lovćen osiguranje Podgorica	631	5,679	0.78	0.74	631	5,679	0.78	0.74
Erste banka – custody acc.	629	5,661	0.78	0.74	620	5,580	0.76	0.73
AMS osiguranje a.d.o.	353	3,177	0.44	0.42	353	3,177	0.44	0.42
Swiss agroosiguranje a.d.o.	192	1,728	0.24	0.23	192	1,728	0.24	0.23
Sebić Saša	214	1,926	0.26	0.25	180	1,620	0.22	0.21
Lukić Nikola	69	621	0.09	0.08	60	540	0.07	0.07
Hadžini Adire	58	522	0.07	0.07	58	522	0.07	0.07
Brkić Milenko	51	459	0.06	0.06	51	459	0.06	0.06
Triglav osiguranje a.d.o. Beograd	46	414	0.06	0.05	46	414	0.06	0.05
Vojvođanska banka – custody acc.	31	279	0.04	0.04	31	279	0.04	0.04
Perišić Veljko	19	171	0.02	0.02	19	171	0.02	0.02
Perišić Marko	6	54	0.01	0.01	6	54	0.01	0.01
Varašenić Darko	4	36	0.00	0.00	4	36	0.00	0.00
Drakulić Slobodan	4	36	0.00	0.00				
Macura Slobodan	3	27	0.00	0.00	4	36	0.00	0.00
Lukić Stefan	3	27	0.00	0.00	3	27	0.00	0.00
Poznanović Rade	2	18	0.00	0.00	1	9	0.00	0.00
Adamov Predrag	1	9	0.00	0.00				
Stanišić Zoran					30	270	0.04	0.04
Nedeljković Igor					18	162	0.02	0.02
Tepavčević Aleksandar					9	81	0.01	0.01
<b>Share capital</b>	<b>81,083</b>	<b>729,747</b>	<b>100.00</b>	<b>95.42</b>	<b>81,083</b>	<b>729,747</b>	<b>100.00</b>	<b>95.42</b>
<b>State-owned capital</b>	<b>3,895</b>	<b>35,055</b>		<b>4.58</b>	<b>3,895</b>	<b>35,055</b>		<b>4.58</b>
<b>TOTAL ISSUED CAPITAL</b>	<b>84,978</b>	<b>764,802</b>		<b>100.00</b>	<b>84,978</b>	<b>764,802</b>		<b>100.00</b>

## 8.2. Reserves

	December 31, 2019	December 31, 2018
Share premium	57,996	57,996
Legal, statutory and other reserves	153,760	153,760
<b>Balance at December 31</b>	<b>211,756</b>	<b>211,756</b>

## 8.3. Unrealized Gains on Securities Available for Sale

	December 31, 2019	December 31, 2018
Unrealized gains	26,928	36,216

Unrealized gains on securities available for sale totaled RSD 26,928 thousand as of December 31, 2019 (December 31, 2018: RSD 36,216 thousand). In its portfolio the Company has securities classified in accordance with the accounting policies as available for sale and changes in their fair value are recorded in the balance sheet and reported within the statement of other comprehensive income.

## 8.4. Unrealized Losses on Securities Available for Sale

	December 31, 2019	December 31, 2018
Unrealized losses	2,590	2,884

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 8. SHARE AND OTHER CAPITAL (Continued)

## 8.4. Unrealized Losses on Securities Available for Sale (Continued)

Unrealized losses on securities available for sale totaled RSD 2,590 thousand as of December 31, 2019 (December 31, 2018: RSD 2,884 thousand). In its portfolio the Company has securities classified in accordance with the accounting policies as available for sale and changes in their fair value are recorded in the balance sheet and reported within the statement of other comprehensive income.

## 9. PROVISIONS AND LIABILITIES

## 9.1. Long-Term Provisions

	December 31, 2019	December 31, 2018
Mathematical reserves	19,438	19,211
Risk equalization reserves	1,253	1,117
Other long-term provisions	26,088	18,881
<b>Balance at December 31</b>	<b>46,779</b>	<b>39,209</b>

Movements on the accounts of long-term provisions are provided below:

	Mathematical reserves	Risk equalization reserves	Other long- term provisions	Total
<b>Balance at January 1, 2018</b>	<b>19,814</b>	<b>647</b>	<b>17,488</b>	<b>37,949</b>
Charge for the year		470	3,023	3,493
Release	(572)	-	(1,630)	(2,202)
Other	(31)	-		(31)
<b>Balance at December 31, 2018</b>	<b>19,211</b>	<b>1,117</b>	<b>18,881</b>	<b>39,209</b>
Charge for the year	309	136	8,342	8,787
Release	-	-	(1,135)	(1,135)
Other	(82)	-	-	(82)
<b>Balance at December 31, 2018</b>	<b>19,438</b>	<b>1,253</b>	<b>26,088</b>	<b>46,779</b>

*Risk Equalization Reserves*

As of December 31, 2019, under the Rulebook on Forming Risk Equalization Reserves and in accordance with NBS Decision on Technical Provisions and actuarial professional rules, the Company calculated risk equalization reserves only for the credit insurance class in the amount of RSD 1,253 thousand (December 31, 2018: RSD 1,117 thousand).

	December 31, 2019	December 31, 2018
Risk equalization reserves	1,253	1,117

*Other Long-Term Provisions*

Other long-term provisions relate to the provisions for employee benefits. The total long-term provisions per IAS 19 amounted to RSD 26,088 thousand as of December 31, 2019 (December 31, 2018: RSD 18,881 thousand), of which provisions for retirement benefits amounted to RSD 15,094 thousand (December 31, 2018: RSD 10,578 thousand), and RSD 10,994 thousand (December 31, 2018: RSD 8,095 thousand) pertains to jubilee awards.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

**9. PROVISIONS AND LIABILITIES (Continued)****9.1. Long-Term Provisions (Continued)***Other Long-Term Provisions (Continued)*

Long-term provisions as per IAS 19, for retirement benefits and jubilee awards, were calculated using the following:

- data on the employees – their age, years of service and amount of salaries in accordance with the internal bylaws and accounting policies of the Company;
- data of the Republic Statistical Office on wages and salaries paid in the Republic of Serbia and provisions of the effective Labor Law and Personal Income Tax Law;
- forecasts of economic trends issued by the Republic of Serbia Government and NBS; and
- actuarial assumptions.

The following actuarial assumptions were used for calculation of long-term provisions for employee benefits:

- projected salary growth rate of 4.5%, based on forecasts of economic trends issued by the Republic of Serbia Government and NBS;
- discount rate of 3%, according to the projection on return on the high-quality securities with the longest maturities; and
- Used fluctuation rate of 0.0%
- Detailed mortality rate tables for the Republic of Serbia in the period from 2010 to 2012, published by the Republic Statistical Office (ISBN 978-86-6161-119-3).

**9.2. Deferred Tax Liabilities**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Deferred tax liabilities	<u>2,839</u>	<u>5,215</u>

Deferred tax liabilities arose on the temporary differences in measurement of assets measured at fair value (securities held to maturity and equity instruments available for sale), to which the tax rate of 15% is applied.

**9.3. Current Liabilities**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Short-term financial liabilities	-	1,473
Liabilities for reinsurance claim settlement and contractual amounts:		
Reinsurance premium payable, staff costs and other liabilities	335,406	230,834
Current income tax liabilities	676,022	548,893
	<u>-</u>	<u>2,166</u>
<b>Balance at December 31</b>	<u><b>1,011,428</b></u>	<u><b>783,366</b></u>

Liabilities for reinsurance claim settlement totaling RSD 335,406 thousand as of December 31, 2019 (December 31, 2018: RSD 230,834 thousand), relate to domestic claims and foreign claims in the respective amounts of RSD 256,336 thousand and RSD 79,070 thousand (December 31, 2018: RSD 174,682 thousand and RSD 56,152 thousand, respectively).

Reinsurance premium payable, staff costs and other liabilities totaling RSD 676,022 thousand as of December 31, 2019 (December 31, 2018: RSD 548,893 thousand) mostly, in the amount of RSD 567,666 thousand, thousand, relate foreign reinsurance premiums payable (83.97%) (December 31, 2018: RSD 450,659 thousand or 82.10%), while the other liabilities amounted to RSD 108,356 thousand or 16.03% (December 31, 2018: RSD 98,234 thousand or 17.90%).

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 10. ACCRUALS

## 10.1. Reserves for Unearned Premiums

	December 31, 2019	December 31, 2018
Reserves for unearned premiums	1,094,588	645,837
Reserves for unearned premiums borne by the coinsurers, reinsurers and retrocessionaires	(997,550)	(576,674)
<b>Unearned premiums in self-retention</b>	<b>97,038</b>	<b>69,163</b>

The breakdown of unearned premiums in self-retention per insurance class is provided below:

Class code	Insurance class	December 31, 2019	December 31, 2018
1	Accident insurance	103	313
2	Voluntary medical insurance	-	-
3	Motor hull (Casco)	2,414	4,057
4	Rolling stock insurance	2,337	2,425
5	Aircraft Casco	647	649
6	Marine Casco	-	19
7	Goods in transit	3,298	3,312
8	Insurance against fire and other perils	18,045	8,317
9	Other damage to property	54,083	37,621
10	Motor third-party liability	1,519	-
11	Aircraft liability	119	190
12	Marine liability	1,313	515
13	General liability	12,357	11,540
14	Credit insurance	33	33
15	Surety insurance	4	-
16	Miscellaneous financial losses	766	172
	<b>Balance at December 31</b>	<b>97,038</b>	<b>69,163</b>

## 10.2. Other Accruals

	December 31, 2019	December 31, 2018
Deferred interest income	10,388	5,484
Other accruals	72	-
Uninvoiced accrued expenses	131,512	123,059
Provisions for unused employees' annual leaves	3,694	3,106
<b>Total other accruals</b>	<b>145,666</b>	<b>131,649</b>

Uninvoiced accrued expenses of RSD 131,512 thousand as of December 31, 2019 (December 31, 2018: RSD 123,059 thousand) pertain to the estimated expenses for premiums, claim settlements, recoured claims and reinsurance fees and commissions, which, in their substance, belong to the expenses of the current period.

## 10.3. Reserves for Outstanding Claims

	December 31, 2019	December 31, 2018
Reserves for outstanding claims	1,983,620	1,731,560
Reserves for outstanding claims borne by the coinsurers, reinsurers and retrocessionaires	(1,179,348)	(1,017,512)
<b>Outstanding claims in self-retention</b>	<b>804,272</b>	<b>714,048</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 10. ACCRUALS (Continued)

## 10.3. Reserves for Outstanding Claims (Continued)

Breakdown of outstanding claims in self-retention per insurance class as of December 31, 2019 and 2018 is provided below:

Insurance class	December 31, 2019	December 31, 2018
01 - Accident insurance	400	423
02 - Voluntary medical insurance	205	36
03 - Motor hull (Casco)	76,285	60,257
04 - Rolling stock insurance	812	1,792
05 - Aircraft Casco	856	548
06 - Marine Casco	379	-
07 - Goods in transit	71,519	64,038
08 - Insurance against fire and other perils	351,710	312,781
09 - Other damage to property	60,289	45,556
10 - Motor third-party liability	151,140	173,142
11 - Aircraft liability	27	54
12 - Marine liability and inland waterway liability	134	18
13 - General liability	37,744	949
14 - Credit insurance	945	534
15 - Guarantee (surety) insurance	48,923	49,503
16 - Miscellaneous financial losses	523	1,707
18 - Road assistance insurance	25	1
20 - Life insurance	114	102
22 - Life insurance rider	2,242	2,607
<b>Total non-life insurance</b>	<b>801,916</b>	<b>711,339</b>
<b>Total life insurance</b>	<b>2,356</b>	<b>2,709</b>
<b>Total</b>	<b>804,272</b>	<b>714,048</b>

## 10.4 Unexpired Risk Reserves

Under the relevant Rulebook, unexpired risk reserves are only formed in the event that the Company has established that the expected amount of claims and expenses in the ensuing period in connection with the contracts in force during the current period exceeds the unearned premium reserves. The assessed unexpired risk reserves as of December 31, 2019 amounted to RSD 4,074 thousand (December 31, 2018: RSD 1,492 thousand).

## 11. TECHNICAL RESERVE FUNDS

The breakdown of technical reserve funds was as follows:

	December 31, 2019	December 31, 2018
Mathematical reserves	19,438	19,211
Unearned premiums	1,094,588	645,837
Risk equalization reserves	1,253	1,117
Outstanding claim reserves	1,983,620	1,731,560
Unexpired risk reserves	4,074	1,492
<b>Balance at December 31</b>	<b>3,102,973</b>	<b>2,399,217</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 11. TECHNICAL RESERVE FUNDS (Continued)

As of December 31, 2019 and 2018, the Company invested the funds of technical reserves as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Deposits placed with banks	323,997	262,285
Shares from the A list of the Belgrade Stock Exchange	86,206	88,778
Shares off the A list of the Belgrade Stock Exchange	-	-
Republic of Serbia Treasury bills – non-life insurance	287,005	308,704
Republic of Serbia Treasury bills – life insurance	24,052	7,137
Assets held on accounts without restrictions – non-life insurance	136,681	122,512
Assets held on accounts without restrictions – life insurance	2	2
Assets in unearned premiums and claim reserves – life insurance	35,096	41,567
Assets in unearned premiums and claim reserves – non - life ins.	2,157,676	1,568,232
Investment units	52,258	-
<b>Balance at December 31</b>	<b><u>3,102,973</u></b>	<b><u>2,399,217</u></b>

The structure of invested technical reserve funds is in conformity with Article 114 of the Insurance Law and NBS Decision on Investment of Insurance Funds (Official Gazette of RS, no.55/2015).

## 12. SURETY (GUARANTEE) RESERVES

The breakdown of surety (guarantee) reserves was as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
1. Issued capital	822,798	822,798
<i>State-owned capital</i>	35,055	35,055
<i>Share capital</i>	729,747	729,747
<i>Share premium</i>	57,996	57,996
2. Reserves from profit stipulated by the Company's bylaws	153,760	153,760
3. Revaluation reserves, unrealized gains and losses	24,338	33,332
4. Prior years' retained earnings	528,011	431,521
5. Current year's net loss		
6. Current year's retained earnings of 50% (not above 25% of the guarantee reserves)	102,445	107,630
7. Deductible item (investments in software and licenses)	(225,180)	(155,738)
<b>Balance at December 31</b>	<b><u>1,406,172</u></b>	<b><u>1,393,303</u></b>

## 13. SURETY (GUARANTEE) RESERVE FUNDS

As of December 31, 2019 and 2018 the Company invested the guarantee reserve funds as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Deposits placed with banks	858,589	404,585
Shares within the A list traded abroad, out of EU and OECD countries	2,798	2,974
Bonds and debt securities traded domestically and abroad	226,811	712,357
Monetary (Cash ) Fund assets	-	61,030
Funds held on transaction accounts	317,974	212,357
<b>Balance at December 31</b>	<b><u>1,406,172</u></b>	<b><u>1,393,303</u></b>

The structure of invested guarantee reserve funds is in conformity with Article 124 of the Insurance Law and NBS Decision on Investment of Insurance Funds (Official Gazette of RS, no.55/2015).

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

*All amounts expressed in thousands of RSD, unless otherwise stated.*

## 14. OPERATING (FUNCTIONAL) INCOME

## 14.1. Income from reinsurance premium and retrocession

	Year Ended December 31,	
	2019	2018
Reinsurance and retrocession premiums	4,785,880	3,122,259
Unearned premiums assigned into reinsurance retrocession	(3,362,433)	(2,325,384)
Increase in unearned premium reserves	(448,751)	(34,098)
	<u>974,696</u>	<u>762,777</u>

Reinsurance and retrocession premium income stated in the income statement as totaling RSD 974,696 thousand in 2019 (2018: RSD 762,777 thousand) includes life and non-life reinsurance premiums, domestic and foreign, less the passive premiums and less the increase in the reserves for in earned reinsurance premiums.

## 15. OPERATING (FUNCTIONAL) EXPENSES

	Year Ended December 31,	
	2019	2018
Long-term provisions	837	940
Expenses for claim settlement and contractual amounts	518,614	358,885
Increase in reserves for outstanding claims	89,559	34,349
Recourse claim income	(7,118)	(12,069)
Increase in other technical reserves	2,581	953
Decrease in other technical reserves	-	(3,091)
	<u>604,473</u>	<u>379,967</u>

Operating (functional) expenses include expenses per long-term provisions, expenses for settlement of claims and contractual amounts, increase/decrease in the reserves for outstanding claims less recourse claim income.

## 15.1. Long-Term Provisions

	Year Ended December 31,	
	2019	2018
Mathematical reserves	701	469
Risk equalization reserves (provisions)	136	471
	<u>837</u>	<u>940</u>

Long-term provisions refer to the increase in mathematical reserve for life reinsurance and increase in risk equalization reserves.

## 15.2. Expenses for Settlement of Claims and Contractual Amounts

	Year Ended December 31,	
	2019	2018
Settled claims – share in reinsurance and retrocession claim settlement	970,771	721,450
Forensic, appraisal, claim settlement and payout costs	16,329	18,498
Income from the share in reinsurance and retrocession claim settlement	(468,486)	(381,063)
	<u>518,614</u>	<u>358,885</u>

Expenses for settlement of claims and contractual amounts include settled claim expenses of RSD 970,771 thousand and forensic, appraisal, claim settlement and payout costs of RSD 16,329 thousand, net of income from the share in reinsurance and retrocession claim settlement of RSD 468,486 thousand.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

*All amounts expressed in thousands of RSD, unless otherwise stated.*

## 15. OPERATING (FUNCTIONAL) EXPENSES (Continued)

## 15.3. Outstanding Claims - Increase

	Year Ended December 31,	
	2019	2018
Outstanding claims – increase	554,620	807,299
Outstanding claims – decrease	(465,061)	(772,950)
	<u>89,559</u>	<u>34,349</u>

Increase in outstanding claims includes expenses per increase in outstanding claims decreased by the income from decrease in outstanding claims.

## 16. INCOME AND EXPENSES FROM INVESTING REINSURANCE FUNDS

## 16.1. Income from Investing Reinsurance Funds

	Year Ended December 31,	
	2019	2018
Interest income	55,545	49,746
Gains on the value adjustment of financial assets measured at fair value through profit and loss	1,765	5,757
Foreign exchange gains	2,051	7,671
Other income from investing activities	44,868	3,664
	<u>104,229</u>	<u>66,838</u>

Interest income of RSD 55,545 thousand in 2019 (2018: RSD 49,746 thousand) relates to the income from the Republic of Serbia bonds and Treasury bills and interest accrued on deposits. Gains on the value adjustment of financial assets measured at fair value through profit and loss of RSD 1,765 thousand in 2019 (2018: RSD 5,757 thousand) refer to the gains on value adjustment of long-term financial investments and housing loans approved.

Foreign exchange gains of RSD 2,051 thousand in 2019 (2018: RSD 7,671 thousand) refer to the foreign exchange gains on deposits, interest and per funds held on the foreign currency account. Other income from investing activities of RSD 44,868 thousand (2018: RSD 3,664 thousand) relate to the dividend received per equity investments in other entities.

## 16.2. Expenses from Investing Reinsurance Funds

	Year Ended December 31,	
	2019	2018
Losses on the value adjustment of financial assets measured at fair value through profit and loss	11,524	17,440
Foreign exchange losses	9,573	10,110
Other expenses from investing activities	2,962	2,606
	<u>24,059</u>	<u>30,156</u>

Losses on the value adjustment of financial assets measured at fair value through profit and loss of RSD 11,524 thousand (2018: RSD 17,440 thousand) relate to the value adjustment of securities held for trading.

Foreign exchange losses of RSD 9,573 thousand for 2019 (2018: RSD 10,110 thousand) relate to foreign exchange losses per deposits, current account funds and securities.



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 17. REINSURANCE ADMINISTRATION COSTS

	Year Ended December 31,	
	2019	2018
Policy acquisition costs	543,175	457,361
Commissions payable	481,100	402,632
Other policy acquisition costs	62,075	54,729
Management costs	120,405	108,761
Depreciation/amortization charge	9,923	9,795
Cost of materials, fuel and energy	23,763	20,892
Staff costs	63,058	57,643
Other management costs	23,661	20,431
Other reinsurance administration costs	6,379	8,739
Reinsurance commissions	(453,392)	(373,633)
	<u>216,567</u>	<u>201,228</u>

## 18. FINANCE INCOME

	Year Ended December 31,	
	2019	2018
<i>Finance income other than income from investing activities:</i>		
- Unrealized foreign exchange gains	20,606	21,080
- Realized foreign exchange gains	5,399	5,008
- Positive currency clause effects	5,585	7,148
	<u>31,590</u>	<u>33,236</u>

## 19. FINANCE EXPENSES

	Year Ended December 31,	
	2019	2018
<i>Finance expenses other than expenses from investing activities</i>		
- Unrealized foreign exchange losses	18,497	23,267
- Realized foreign exchange losses	6,382	8,587
- Negative currency clause effects	4,118	3,103
- Default interest and interest payable under court rulings	223	442
	<u>29,220</u>	<u>35,399</u>

## 20. OTHER INCOME AND OTHER EXPENSES

	Year Ended December 31,	
	2019	2018
Other income	1,991	4,422
Other expenses	(1,752)	(5,159)

## 21. GAINS ON THE VALUE ADJUSTMENT OF ASSETS AND OTHER INCOME

	Year Ended December 31,	
	2019	2018
Gains on the value adjustment of receivables and other assets used in performance of business activity	<u>75,639</u>	<u>167,005</u>

Gains on the value adjustment of receivables and other assets used in performance of business activity totaling RSD 75,639 thousand in 2019 (2018: RSD 167,005 thousand) entirely relate to the value adjustment of receivables, i.e., receivables impaired (provided for) in the previous accounting period and collected in the current period.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

**22. LOSSES ON THE VALUE ADJUSTMENT OF ASSETS AND OTHER EXPENSES**

	Year Ended December 31, 2019	2018
Losses on the value adjustment of receivables and other assets used in performance of business activity	83,066	131,127

Losses on the value adjustment of receivables and other assets used in performance of business activity of RSD 83,066 thousand in 2019 (2018: RSD 131,127 thousand) entirely refer to the impairment allowance of receivables.

**23. PRIOR YEARS' ERROR ADJUSTMENT**

	Year Ended December 31, 2019	2018
Prior years' error adjustment	492	118

Prior years' error adjustment mostly refers to the adjustment of income from ceded reinsurance premiums for the previous accounting period, while the expense adjustment entirely relates to the payment of salaries, payroll taxes and contributions for the period from 2015 through 2017 under the relevant court decision.

**24. INCOME TAXES****a) Components of Income Taxes**

	Year Ended December 31, 2019	2018
Gains on creation of deferred tax assets	(6,564)	(4,877)
Losses on creation of deferred tax liabilities	457	509
Net deferred tax benefits	(6,107)	(4,368)
Current income tax expense	29,734	40,233
	<u>23,627</u>	<u>35,865</u>

**b) Numerical Reconciliation of the Tax Expense and the Product of Accounting Results as Multiplied by the Statutory Income Tax Rate**

	Year Ended December 31, 2019	2018
Profit before taxes	228,516	251,124
Income tax calculated at the statutory tax rate of 15%	34,277	37,669
Tax effects of expenses not recognized for tax purposes	34,845	7,223
Tax effects of income not recognized for tax purposes	(65,136)	(4,659)
Effects of deferred taxes	(6,107)	(4,368)
Income tax liability	<u>23,627</u>	<u>35,865</u>
Effective tax rate	<u>10.34%</u>	<u>14.28%</u>

The tax base and taxable income reported in the tax statement represent the gross profit from the statutory income statement increased by expenses not recognized for tax purposes under the effective Corporate Income Tax Law, and decreased by interest income on debt securities issued by the Republic of Serbia.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***25. LITIGATION**

As of December 31, 2019, there were twelve legal suits filed against the Company.

In the first case against the Company filed by the Claimant "Triglav osiguranje" a.d.o., Beograd for collection of the monetary receivable of RSD 236,690 thousand the final hearing was completed and the Company expects that, in the repeated procedure before the first-instance court, the Claimant's claim will be accepted. Therefore the Company made a provision of RSD 236,690 thousand (100%) in this respect.

On July 14, 2014, the Company's employee Branislav Savić, filed a suit against the Company for annulment of the executed annex to his employment contract. The Company expects a favorable outcome as the Claimant did not contest the ground for execution of the annex, which is the subject of the case.

In another lawsuit filed before the First Basic Court of Belgrade by the Claimant Filip Pejović for annulment of the employment contract, the value of the claim was assessed to amount to RSD 60 thousand. The first-instance court's decision adopted the claim, but the Company filed an appeal within the prescribed deadline. The outcome was estimated as favorable for Dunav Re since there is no legal basis for the annulment of the employment contract at issue.

In a lawsuit filed against the Company, the Claimant Takovo osiguranje a.d.o. under Liquidation claimed RSD 5,735 thousand. The Company anticipates a negative outcome of this lawsuit based on the judicial practice in lawsuits of the same type and has therefore made a provision for the claim amount plus the expected litigation costs.

In seven other lawsuits filed against the Company, the Claimant Takovo osiguranje a.d.o. under Liquidation claimed the total of RSD 49,309 thousand. The Company anticipates a negative outcome based on the judicial practice in lawsuits of the same type. Therefore, the Company made a contingent litigation loss provision in this respect.

The Company was also involved in a single lawsuit as a Claimant against the Defendant, its former employee Ivana Rakočević, claiming the total of RSD 262 thousand. The Company anticipates a favorable outcome of this lawsuit.

**26. RELATED PARTY TRANSACTIONS**

Legal entities are considered to be related parties where one legal entity exercises control, joint control or exerts significant influence on the financial and operating decisions of the other entity. Related parties are also entities under the joint control of the same parent entity.

In the course of ordinary business operations, the Company enters into business relationships with its related parties, primarily based on agreements for provision of services. These transactions are performed under commercial market terms.

During 2019, remunerations the Company paid to the key management personnel - Supervisory Board and Executive Board members - amounted to RSD 18,556 thousand (2018: RSD 17,469 thousand).

## NOTES TO THE FINANCIAL STATEMENTS

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All amounts expressed in thousands of RSD, unless otherwise stated.

## 26. RELATED PARTY TRANSACTIONS (Continued)

Balances of receivables and payables, and revenues and expenses arising from the transactions with related parties are provided in the following tables:

	Year Ended December 31,	
	2019	2018
<b>INCOME</b>		
<b><i>Income from reinsurance premiums</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	1,824,311	1,328,058
Dunav osiguranje a.d., Banja Luka	58,246	59,181
<b>Total income from reinsurance premiums</b>	<b>1,882,557</b>	<b>1,387,239</b>
<b><i>Income from recourses of non-life insurance</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	1,687	2,075
<b>Total income from recourses</b>	<b>1,687</b>	<b>2,075</b>
<b><i>Commissions per reinsurance contracts</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	24,966	24,673
<b>Total income from commissions per reinsurance contracts</b>	<b>24,966</b>	<b>24,673</b>
<b><i>Positive currency clause effects</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	5,375	13,592
<b>Total positive currency clause effects</b>	<b>5,375</b>	<b>13,592</b>
<b><i>Foreign exchange gains</i></b>		
Dunav osiguranje a.d., Banja Luka	44	483
<b>Total foreign exchange gains</b>	<b>44</b>	<b>483</b>
<b><i>Gains on the value adjustment of assets</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	357	4,249
Dunav osiguranje a.d., Banja Luka	2,694	34,798
<b>Total gains on the value adjustment of assets</b>	<b>3,051</b>	<b>39,047</b>
<b>Total income</b>	<b>1,917,680</b>	<b>1,467,109</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 26. RELATED PARTY TRANSACTIONS (Continued)

	Year Ended December 31,	
	2019	2018
<b>EXPENSES</b>		
<b><i>Expenses for share in the reinsurance claims</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	208,757	208,919
Dunav osiguranje a.d., Banja Luka	16,404	12,738
<b>Total expenses for share in the reinsurance claims</b>	<b>225,161</b>	<b>221,657</b>
<b><i>Commissions for domestic reinsurance operations</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	105,098	117,279
Dunav osiguranje a.d., Banja Luka	10,794	9,883
<b>Total commissions for domestic reinsurance operations</b>	<b>115,892</b>	<b>127,162</b>
<b><i>Cost of production services</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	11,961	11,993
Dunav Auto d.o.o., Beograd	2,087	2,015
<b>Total cost of production services</b>	<b>14,048</b>	<b>14,008</b>
<b><i>Costs of insurance premiums</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	1,144	3
<b>Total costs of insurance premiums</b>	<b>1,144</b>	<b>3</b>
<b><i>Cost of non-production services</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	421	320
Dunav Stockbroker a.d., Beograd	762	762
<b>Total cost of non-production services</b>	<b>1,183</b>	<b>1,082</b>
<b><i>Other expenses, elsewhere not mentioned</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	3	
Dunav Voluntary Pension Fund Management Company	2,183	1,906
<b>Total other expenses, elsewhere not mentioned</b>	<b>2,186</b>	<b>1,906</b>
<b><i>Negative currency clause effects</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	6,834	2,241
<b>Total negative currency clause effects</b>	<b>6,834</b>	<b>2,241</b>
<b><i>Foreign exchange losses</i></b>		
Dunav osiguranje a.d., Banja Luka	161	256
<b>Total foreign exchange losses</b>	<b>161</b>	<b>256</b>
<b><i>Losses on value adjustment of assets</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	1,881	7,940
Dunav osiguranje a.d., Banja Luka	5,812	11,815
<b>Total losses on value adjustments of assets</b>	<b>7,693</b>	<b>19,755</b>
<b><i>Prior years' expenses</i></b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	31	-
<b>Total prior years' expenses</b>	<b>31</b>	<b>-</b>
<b>Total expenses</b>	<b>374,333</b>	<b>388,070</b>
<b>INCOME, NET</b>	<b>1,543,347</b>	<b>1,079,039</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 26. RELATED PARTY TRANSACTIONS (Continued)

	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Equity investments</b>	<b>1,243</b>	<b>1,243</b>
Dunav turist d.o.o., Zlatibor	1,243	1,243
<b>Impairment allowance of equity investments</b>		
Dunav turist d.o.o., Zlatibor	(1,243)	(1,243)
<b>Total impairment allowance of equity investments</b>	<b>(1,243)</b>	<b>(1,243)</b>
<b>Reinsurance premium receivables</b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	367,653	311,419
Dunav osiguranje a.d., Banja Luka	48,165	42,912
<b>Total reinsurance premium receivables</b>	<b>415,818</b>	<b>354,331</b>
<b>Advances paid</b>		
Dunav Voluntary Pension Fund Management Company	-	172
<b>Total advances paid</b>	<b>-</b>	<b>172</b>
<b>Commission receivables</b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	294	-
<b>Total commission receivables</b>	<b>294</b>	<b>-</b>
<b>Impairment allowance of receivables</b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	(3,679)	(2,155)
Dunav osiguranje a.d., Banja Luka	(13,140)	(10,790)
<b>Total impairment allowance of receivables</b>	<b>(16,819)</b>	<b>(12,945)</b>
<b>Prepaid expenses</b>		
Kompanija Dunav Osiguranje a.d.o., Beograd	52	63
<b>Total prepaid expenses</b>	<b>52</b>	<b>63</b>
<b>Total assets</b>	<b>399,345</b>	<b>341,621</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Share capital</b>	<b>676,134</b>	<b>676,134</b>
Kompanija Dunav Osiguranje a.d.o., Beograd	676,134	676,134
<b>Share premium</b>	<b>57,996</b>	<b>57,996</b>
Kompanija Dunav Osiguranje a.d.o., Beograd	57,996	57,996
<b>Liabilities for reinsurance claim settlement and contractual amounts</b>	<b>130,466</b>	<b>50,494</b>
Kompanija Dunav Osiguranje a.d.o., Beograd	130,295	49,908
Dunav Osiguranje a.d., Banja Luka	171	586
<b>Reinsurance commissions payable</b>	<b>30,413</b>	<b>29,756</b>
Kompanija Dunav Osiguranje a.d.o., Beograd	30,413	29,756
<b>Reinsurance premium refunds</b>	<b>1,482</b>	<b>655</b>
Kompanija Dunav Osiguranje a.d.o., Beograd	1,482	655
<b>Domestic trade payables</b>	<b>1,288</b>	<b>1,059</b>
Kompanija Dunav Osiguranje a.d.o., Beograd	994	999
Dunav Stockbroker a.d., Beograd	120	60
Dunav Auto d.o.o., Beograd	174	-
<b>Accruals – uninvoiced accrued expenses</b>	<b>71</b>	<b>-</b>
Kompanija Dunav Osiguranje a.d.o., Beograd	71	-
<b>Total equity and liabilities</b>	<b>897,850</b>	<b>816,094</b>
<b>Liabilities, net</b>	<b>(498,505)</b>	<b>(474,473)</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

*All amounts expressed in thousands of RSD, unless otherwise stated.***27. BALANCE RECONCILIATION OF RECEIVABLES AND LIABILITIES**

For the purpose of preparing the annual financial statements, the Company performed annual balance reconciliation of liabilities and receivables as of October 31, 2019.

Balance reconciliation is presented in the table below:

Breakdown	Receivables	RSD Share
Prior active operations	54,573.08	0.01%
Due from entities in liquidation	5,229,821.91	0.72%
Claimed in litigation	52,223,773.57	7.23%
<b>Total amount for reconciliation</b>	<b>664,659,128.15</b>	<b>92.04%</b>
<b>Total in RSD</b>	<b>722,167,296.71</b>	<b>100.00%</b>

The result of balance reconciliation procedure is provided in the table below:

Breakdown	Receivables	RSD Share
<b>Total amount for reconciliation</b>	<b>664,659,128.15</b>	<b>100.00%</b>
Non-responded requests	2,917,795.45	0.44%
Contested	1,469.07	0.00%
Confirmed	661,739,863.63	99.56%

In accordance with its internal bylaw, the Company sent outstanding item statements (OIS) to its counterparties as of October 31, 2019 requesting balance confirmations. The OIS forms were not sent to the entities subject to the liquidation procedure, domestic and foreign or to a group of business partners taking part in the risk assumed for the claim of EOS vessel, which was provided in full and subject to an international arbitration procedure against the leading reinsurer. The prior active operations relate to the foreign entities in the process of liquidation.

There was an unreconciled receivable balance with Triglav Osiguranje a.d.o., Beograd in respect of KOLZEC claim of RSD 236,690 thousand subject to litigation, which the Company provided for in full.

**28. EARNINGS PER SHARE**

	2019	2018
Net profit (in RSD '000)	204,889	215,259
Weighted average number of shares outstanding	81,083	81,083
Basic earnings per share (in RSD)	<b>2,527</b>	<b>2,655</b>

**29. OTHER INFORMATION****29.1. External Inspection Findings**

In 2019 the Company was not subject to the external inspections of the competent authorities or the regulator.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

*All amounts expressed in thousands of RSD, unless otherwise stated.***29. OTHER INFORMATION (Continued)****29.2. Opinion of the Certified Actuary**

In accordance with the Insurance Law (Official Gazette of RS no.139/14), NBS Decision on Reporting of Insurance/Reinsurance Undertakings (Official Gazette of RS no. 55/2015), and Decision on the Contents of the Opinion of the Certified Actuary (Official Gazette of RS no. 38/2015), a certified actuary expressed the following opinion on the Company's financial statements and the annual business report for 2019:

- In FY 2019, the Company realized positive financial result – a profit of RSD 204,889 thousand;
- In 2019, the Company recorded a 53.28% increase in reinsurance premiums per active operations and a 25.95% increase in the reinsurance premiums in self-retention year on year.
- Reinsurance premium was determined in accordance with the actuarial professional rules and regulations and was sufficient for permanent settlement of the Company's liabilities per reinsurance contracts.
- All the technical reserves were determined in under the premium sufficiency principle applying adequate computation methods and as such ensure permanent settlement of all the Company's commitments. The technical reserves were calculated in accordance with the actuarial professional rules, regulations, the Company's bylaws and NBS Decision on Technical Provisions. In 2019, the Company recorded an increase of 29.33% in the technical reserves per active operations and a 15.31% increase in the technical reserves in self-retention as compared to the previous year.
- The Company deposited and invested its funds in accordance with the effective legislation.
- The circumstances and the manner of transfer of surplus risk in excess of the Company's self-retention were in conformity with the executed reinsurance contracts and the Decision on the Criteria, Manner of Determining and Tables of the Maximum Self-Retention Amount in accordance with the Rules on the Criteria and Manner of Coinsurance and Reinsurance. By adequate transfer of surplus risk the Company ensured permanent stability and safety of its operations. This is primarily evident in the achieved favorable claims (loss) ratio, expense ratio and combined ratio in self-retention. The combined self-retention ratio in 2019 equaled 84.39%, having increased year on year.
- The Company fulfilled all the legal capital adequacy requirements. The surety (guarantee) capital was above the required solvency margin and exceeded the amount of the core capital prescribed by the Insurance Law. Moreover, the surety (guarantee) (available solvency margin) exceeded the required solvency margin.

**Certified actuary's conclusion:**

The certified actuary expresses **an unqualified opinion** on the financial statements and annual business report of the Reinsurance Company DUNAV-RE a.d.o., Beograd for 2019.

Based on the analyses performed and available relevant information and data, it can be concluded the Company's reinsurance premium was determined in accordance with the standards of the actuarial profession and effective regulations and that it ensures permanent settlement of the Company's contractual liabilities.

All the Company's technical reserves were determined in compliance with the standards of the actuarial profession and effective regulations and they ensure permanent settlement of the Company's contractual liabilities.

The opinion on the reinsurance premium is formed based on the analysis of the amount and structure of the Company's premium, overall and in self-retention, changes in the premium amount, overall and per risk concentration by insurance class, impact of the implemented retrocession policy, value and changes of the claim ratio, cost ratio and the combined ratio, overall and per insurance class, and of the current market conditions and expected trends in the key market indicators.

The opinion on the technical reserves is formed based on the internal data, mostly generated from the Company's information system, which are subject to constant assessment and control, for both their logical appropriateness and consistency with the data obtained from other sources. The data used in calculation of the technical reserves per insurance class are appropriate, complete, accurate and consistent.

The circumstances and the manner of transfer of surplus risk in excess of the Company's self-retention were in conformity with the executed reinsurance contracts, and the Decision on the Criteria, Manner of Determining and Tables of the Maximum Self-Retention Amount in accordance with the Rules on the Criteria and Manner of Coinsurance and Reinsurance.



**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***29. OTHER INFORMATION (Continued)****29.3. Internal Controls and Risks Arising in the Course of Reinsurance Business Activity**

The Company organizes, implements and develops a system of internal controls and risk management in accordance with Article 147 of the Insurance Law, Decision on the Internal Control System and Risk Management by the Insurance Undertaking (Official Gazette of RS no. 51/2015) and the Company's Risk Management Strategy dated March 4, 2016.

The overall internal control function is performed by the Controlling and Business Development Department in collaboration with all other organizational units of the Company in accordance with the Rulebook on the Internal Organization and Basics of Job Systematization no. IA-350 dated June 21, 2016.

Identification, assessment, measurement and control of the risks the Company is exposed to are developed on an ongoing basis and adapted to changing condition of the reinsurance business across all the Company's organizational units in accordance with its internal organization and job systematization, adopted internal bylaws, rules of the insurance/reinsurance profession, good business practices, business ethics and effective legislation. Management of certain risks is the responsibility of the competent Company's organizational units where the risks have been identified. Executive Officers/Department Heads are responsible for consistent implementation of the Company's adopted risk management policies at all levels within the Company and for thorough understanding of the responsibilities entailed by the risk management processes on the part of all employees participating in such processes, observing the ethical and professional standards in place.

In the process of risk management, the procedures in place enable comprehensive and preventive identification, assessment and measurement of risks the Company is exposed to in its operations, in such a manner that the Company ensures permanent maintenance of the capital adequacy and risk exposure at the level that will not compromise its assets and operations.

The risk management process allows consideration of all the key factors and elements instrumental in streamlining all the financial, human and other resources so as to achieve high risk dispersion and distribution and risk minimization.

The Company's risk profile is defined by the acceptable risk exposure level, i.e., the level of risk that the Company is willing to assume, which is in line in the Company's adopted risk management policies, objectives and principles. The Company's Executive Board continually monitors and evaluates the risk management system in place and reports its findings to the Supervisory Board.

During the observed period, there were no changes to the Company's set of instruments for risk identification, assessment, measurement and control. The Company continued monitoring the movements of the risk impact on its operations, achievement of the business goals and implementation of the strategies and operating plans. In accordance with the Decision on the Internal Control System and Risk Management by the Insurance/Reinsurance Undertaking, the Company identified the total of 35 risks.

The Company has an internal control system in place, which, among other things, entails procedures and actions aimed at prevention of the Company's excessive exposure to risks.

The Company's internal controls promote efficiency, minimize a risk of loss of assets and contribute to the reliability of the financial statements and compliance with the legislation, policies and internal business policy bylaws. In implementing internal controls the focus is on preservation of the integrity of assets, prevention and detection of operational errors, as well as on accuracy and completeness of the accounting records and timely preparation of reliable financial information and improvement of the Company's information system.

The risks are classified into 7 groups, as follows:

1. Reinsurance risks,
2. Market risks,
3. Counterparty default risks,
4. Liquidity risks,
5. Operational risks,
6. Legal risks, and
7. Other significant risks.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

*All amounts expressed in thousands of RSD, unless otherwise stated.***29. OTHER INFORMATION (Continued)****29.3. Internal Controls and Risks Arising in the Course of Reinsurance Business Activity (Continued)**

Upon classification, risks are ranked according to the extent of their impact on the Company's operations as low, medium-intensity, high-intensity and extreme risks, i.e., insignificant, low, significant, critical and unacceptable risks.

**29.4. Disclosures Regarding Insurance Contracts*****Breakdown of Reinsurance Premium per Insurance Classes***

Reinsurance risk is a risk of loss or adverse changes in the value of liabilities in the event the Company is unable to absorb the risks assumed, which are inherent to the reinsurance business.

The Company exercises control of all risks prior to risk assumption into the reinsurance coverage. In addition to the control of risk acceptability, before making the final decision on risk acceptance, the Company assesses the risk and provides adequate risk dispersions, both horizontal and vertical, through retrocession and self-insured retention.

<b>Reinsurance class</b>	<b>Current Year</b>	<b>Previous Year</b>
01 Accident insurance	7,424	5,418
03 Motor hull (Casco)	244,369	213,357
07 Goods in transit	90,388	90,251
10 Motor third-party liability	267,162	214,135
08, 09 Property insurance	3,059,986	1,847,347
Other	982,789	623,195
Total non-life insurance	<u>4,652,118</u>	<u>2,993,703</u>
Life insurance	<u>133,762</u>	<u>128,556</u>
<b>Total</b>	<b><u>4,785,880</u></b>	<b><u>3,122,259</u></b>

***Concentration Risks***

The Company had no significant exposures to any group of retrocedents and was not exposed to the concentration risk in this respect.

As for the risk type, the highest probability of significant losses to the Company arises from the catastrophic events such as floods, storms, hail storms, fires or damages caused by earthquakes.

The Company ensured adequate coverage through retrocession, which significantly neutralizes concentration risks arising from catastrophic events.

***Disclosure of Information Regarding the Breakdown of Settled Claims******Breakdown of Settled Claims per Risk Lines***

<b>Portion of settled claims</b>	<b>Current Year</b>			<b>Previous Year</b>		
	<b>Non-Life</b>	<b>Life</b>	<b>Total</b>	<b>Non-Life</b>	<b>Life</b>	<b>Total</b>
In self-retention	493,285	9,000	502,285	334,694	5,693	340,387
In reinsurance	415,820	52,666	468,486	345,635	35,428	381,063
<b>Total</b>	<b><u>909,105</u></b>	<b><u>61,666</u></b>	<b><u>970,771</u></b>	<b><u>680,329</u></b>	<b><u>41,121</u></b>	<b><u>721,450</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 29. OTHER INFORMATION (Continued)

## 29.4. Disclosures Regarding Insurance Contracts (Continued)

**Concentration Risks (Continued)**

Breakdown of Settled Claims per Reinsurance Class

<b>Reinsurance class</b>	<b>Current Year</b>	<b>Previous Year</b>
01 Accident insurance	5,501	3,234
03 Motor hull (Casco)	147,664	117,594
07 Goods in transit	42,070	5,453
10 Motor third-party liability	127,231	172,710
08, 09 Property insurance	431,670	339,775
Other	154,969	41,563
Total non-life insurance	909,105	680,329
Life insurance	61,666	41,121
<b>Total</b>	<b>970,771</b>	<b>721,450</b>

Decisions on the type and amount of risk coverage through retrocession are made under the Rules on the Criteria and Manner of Coinsurance and Reinsurance and Decision on the Company's Maximum Self-Retention.

During 2019, the Company was prudent and responsible in implementing the policy of ceding the surplus risks into retrocession in accordance with its effective bylaws.

Breakdown of Gross Premium per Risk Lines

<b>Portion of gross premium</b>	<b>Current Year</b>			<b>Previous Year</b>		
	<b>Non-Life</b>	<b>Life</b>	<b>Total</b>	<b>Non-Life</b>	<b>Life</b>	<b>Total</b>
In self-retention	986,779	15,793	1,002,572	781,472	14,553	796,025
In reinsurance	3,665,339	117,969	3,783,308	2,212,231	114,003	2,326,234
<b>Total</b>	<b>4,652,118</b>	<b>133,762</b>	<b>4,785,880</b>	<b>2,993,703</b>	<b>128,556</b>	<b>3,122,259</b>

**Breakdown of Technical Reserves**

The Company calculates technical reserves in accordance with the Insurance Law and regulations enacted under the Law, as well as its own internal bylaws and enactments.

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Portion of technical reserves</b>		
Unearned premiums	1,094,588	645,837
Outstanding claim reserves (non-life insurance)	1,962,042	1,702,896
Risk equalization reserves	1,253	1,117
Other technical reserves	4,074	1,492
<b>Technical reserves (non-life insurance), gross</b>	<b>3,061,957</b>	<b>2,351,342</b>
Transferred to reinsurance (non-life insurance)	2,157,676	1,568,232
<b>Technical reserves in self-retention (non-life insurance)</b>	<b>904,281</b>	<b>783,110</b>
Mathematical reserves	19,438	19,211
Outstanding claim reserves (life insurance)	21,578	28,664
<b>Technical reserves (life insurance), gross</b>	<b>41,016</b>	<b>47,875</b>
Transferred to reinsurance (life insurance)	35,031	41,557
<b>Technical reserves in self-retention (life insurance)</b>	<b>5,985</b>	<b>6,318</b>
<b>Total technical reserves, gross</b>	<b>3,102,973</b>	<b>2,399,217</b>
Total transferred to reinsurance	2,192,707	1,609,788
<b>Total technical reserves in self-retention</b>	<b>910,266</b>	<b>789,429</b>

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All amounts expressed in thousands of RSD, unless otherwise stated.

## 29. OTHER INFORMATION (Continued)

## 29.4. Disclosures Regarding Insurance Contracts (Continued)

*Breakdown of Technical Reserves (Continued)**Movements on unearned premiums are presented below:*

<i>Indicators</i>	<b>Current Year</b>			<b>Previous Year</b>		
	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
Balance at January 1	645,838	576,675	69,163	611,739	575,824	35,915
Premium written over the year	4,785,880	3,783,308	1,002,572	3,122,259	2,326,234	796,025
Net earned premium	4,337,129	3,362,433	974,696	3,088,160	2,325,383	762,777
<b>Balance at December 31</b>	<b>1,094,589</b>	<b>997,550</b>	<b>97,039</b>	<b>645,838</b>	<b>576,675</b>	<b>69,163</b>

*Movements on Outstanding Claims*

The Company calculates outstanding claim reserves under the relevant regulations of the National Bank of Serbia as the regulator and the Company's own internal bylaws.

*Movements on Outstanding (Reported but not Settled –RBNS) Claims*

<i>Indicators</i>	<b>Current Year</b>			<b>Previous Year</b>		
	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
Balance at January 1	1,354,108	809,035	545,073	1,393,652	917,050	476,602
Changes in outstanding claim reserves	153,786	92,906	60,880	(39,544)	(108,015)	68,471
<b>Balance at December 31</b>	<b>1,507,894</b>	<b>901,941</b>	<b>605,953</b>	<b>1,354,108</b>	<b>809,035</b>	<b>545,073</b>

<i>Indicators</i>	<b>December 31, 2019</b>			<b>December 31, 2018</b>		
	<b>Total portfolio outstanding claims, gross</b>	<b>Reinsurer and coinsurer share in the outstanding claims</b>	<b>Outstanding claims in self-retention, gross</b>	<b>Total portfolio outstanding claims, gross</b>	<b>Reinsurer and coinsurer share in the outstanding claims, gross</b>	<b>Outstanding claims in self-retention, gross</b>
Opening balance at January 1	1,354,108	809,035	545,073	1,393,652	917,050	476,602
Movements in outstanding claim reserves	153,786	92,906	60,880	(39,544)	(108,015)	68,471
<b>Closing balance at December 31</b>	<b>1,507,894</b>	<b>901,941</b>	<b>605,953</b>	<b>1,354,108</b>	<b>809,035</b>	<b>545,073</b>
<b>Of which</b>						
- non-life insurance	1,493,446	888,910	604,536	1,335,982	792,089	543,893
- life insurance	14,448	13,031	1,417	18,126	16,946	1,180

*Movements on Outstanding (Incurred but not Reported –IBNR) Claims*

<i>Indicators</i>	<b>Current Year</b>			<b>Previous Year</b>		
	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
Balance at January 1	335,388	208,477	126,911	537,536	403,055	134,481
Changes in outstanding claim reserves	108,330	68,930	39,400	(202,148)	(194,578)	(7,570)
<b>Balance at December 31</b>	<b>443,718</b>	<b>277,407</b>	<b>166,311</b>	<b>335,388</b>	<b>208,477</b>	<b>126,911</b>

## NOTES TO THE FINANCIAL STATEMENTS

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All amounts expressed in thousands of RSD, unless otherwise stated.

## 29. OTHER INFORMATION (Continued)

## 29.4. Disclosures Regarding Insurance Contracts (Continued)

Disclosure of information and data on underwriting results and expenses per insurance class for 2019 and 2018 are provided below:

## a) Ratios per active operations

Insurance class	December 31, 2019						December 31, 2018					
	Net earned premium	Net claims	CLAIMS RATIO	Reinsurance administration expenses	EXPENSE RATIO	COMBINED RATIO	Net earned premium	Net claims	CLAIMS RATIO	Reinsurance administration expenses	EXPENSE RATIO	COMBINED RATIO
Accident insurance	7,398,405	6,183,927	83.58%	2,093,438	28.29%	111.87%	5,969,629	2,299,211	38.51%	2,219,984	37.18%	75.69%
Voluntary medical insurance	20,758,022	5,609,228	27.02%	819,085	3.94%	30.96%	10,856,372	1,396,020	12.85%	598,838	5.51%	18.36%
Motor hull (Casco)	245,588,247	166,174,823	67.66%	62,900,713	25.61%	93.27%	211,227,713	130,219,892	61.64%	51,829,707	24.53%	86.17%
Rolling stock insurance	18,703,800	-380,798	-2.03%	1,034,821	5.53%	3.50%	18,604,094	3,200,667	17.20%	1,440,114	7.74%	24.94%
Aircraft Casco	103,709,946	61,041,110	58.85%	5,413,620	5.21%	64.06%	77,573,789	19,467,796	25.09%	8,856,737	11.41%	36.50%
Marine Casco	2,791,827	3,721,534	133.30%	374,803	13.42%	146.72%	493,849			25,834	5.23%	5.23%
Goods in transit	91,192,453	86,753,251	95.13%	11,678,727	12.80%	107.93%	86,139,882	24,158,004	28.04%	11,922,191	13.84%	41.88%
Insurance against fire and other perils	1,235,087,414	307,906,050	24.92%	234,586,470	18.99%	43.91%	1,008,667,388	439,223,834	43.54%	222,332,023	22.04%	65.58%
Other damage to property	1,564,316,240	190,541,583	12.18%	205,516,587	13.13%	25.31%	843,146,746	102,421,509	12.14%	139,098,624	16.49%	28.63%
Motor third-party liability	265,324,354	64,860,324	24.44%	11,064,442	4.17%	28.61%	215,076,510	-122,508,203	-56.96%	12,046,454	5.60%	-51.36%
Aircraft liability	88,679,916	-399,791	-0.45%	4,772,877	5.38%	4.93%	76,366,441	-4,277,947	-5.60%	5,383,472	7.04%	1.44%
Marine liability	21,010,293	9,022,254	42.94%	1,503,864	7.15%	50.09%	20,592,954	2,264,854	10.99%	1,732,021	8.41%	19.40%
General liability	395,852,995	239,167,264	60.41%	48,819,589	12.33%	72.74%	309,064,938	-214,340,022	-69.35%	42,972,148	13.90%	-55.45%
Credit insurance	36,433,304	5,344,913	14.67%	9,178,460	25.19%	39.86%	4,433,057	506,516	11.42%	1,465,468	33.05%	44.47%
Guarantee insurance	22,351,931	-579,775	-2.59%	13,200,645	59.05%	56.46%	8,815,988	49,502,902	561.51%	20,990,688	238.09%	799.60%
Miscellaneous financial losses	76,649,596	35,655,265	46.51%	9,918,664	12.94%	59.45%	60,898,993	2,937,619	4.82%	7,617,517	12.50%	17.32%
Legal protection insurance	-	-	-	-	-	-	-	-	-	-	-	-
Road assistance insurance	7,518,531,24	2,922,100,55	38.86%	296,698,75	3.94%	42.80%	1,676,542	132,630	7.91%	92487	5.51%	13.42%
<b>NON-LIFE INSURANCE</b>	<b>4,203,367,274</b>	<b>1,183,543,263</b>	<b>28.15%</b>	<b>623,173,504</b>	<b>14.82%</b>	<b>42.97%</b>	<b>2,959,604,885</b>	<b>436,605,282</b>	<b>14.75%</b>	<b>530,624,307</b>	<b>17.93%</b>	<b>32.68%</b>

## NOTES TO THE FINANCIAL STATEMENTS

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All amounts expressed in thousands of RSD, unless otherwise stated.

## 29. OTHER INFORMATION (Continued)

## 29.4. Disclosures Regarding Insurance Contracts (Continued)

Disclosure of information and data on underwriting results and expenses per insurance class for 2019 and 2018 are provided below:

## b) Ratios for self-retention

Insurance class	December 31, 2019						December 31, 2018					
	Net earned premium	Net claims	CLAIMS RATIO	Reinsurance administration expenses	EXPENSE RATIO	COMBINED RATIO	Net earned premium	Net claims	CLAIMS RATIO	Reinsurance administration expenses	EXPENSE RATIO	COMBINED RATIO
Accident insurance	1,062,036	733,609	69.07%	131,735	12.40%	81.47%	573,927	176,086	30.68%	262,275	45.69%	76.37%
Voluntary medical insurance	3,459,670	1,010,819	29.21%	819,085	23.67%	52.88%	1,809,395	268,747	14.85%	598,838	33.09%	47.94%
Motor hull (Casco)	214,864,630	166,176,049	77.33%	49,001,227	22.80%	100.13%	175,476,362	130,219,822	74.20%	38,253,436	21.79%	95.99%
Rolling stock insurance	17,499,911	-737,494	-4.21%	945,591	5.40%	1.19%	18,287,980	3,046,931	16.66%	1,383,293	7.56%	24.22%
Aircraft Casco	1,694,376	1,355,143	79.97%	1,304,563	76.99%	156.96%	1,280,079	634,718	49.58%	2,965,975	231.70%	281.28%
Marine Casco	2,673,110	3,721,534	139.22%	374,803	14.02%	153.24%	375,132	-	-	25,834	6.88%	6.88%
Goods in transit	15,075,764	15,719,255	104.26%	-501,827	-3.32%	100.94%	14,404,823	-3,747,238	-26.01%	694,734	4.82%	-21.19%
Insurance against fire and other perils	373,891,111	165,379,302	44.23%	73,005,324	19.52%	63.75%	316,932,448	232,255,274	73.28%	72,895,570	23.00%	96.28%
Other damage to property	182,363,792	153,064,813	83.93%	69,342,383	38.02%	121.95%	109,961,015	-2,541,803	-2.31%	52,449,915	47.69%	45.38%
Motor third-party liability	72,332,464	52,107,764	72.03%	-2,047,038	-2.83%	69.20%	60,097,600	4,210,893	7.00%	4,503,815	7.49%	14.49%
Aircraft liability	1,017,590	-21,527	-2.11%	2,446,831	240.45%	238.34%	707,819	-172,117	-24.31%	3,736,092	527.83%	503.52%
Marine liability	1,704,912	655,747	38.46%	231,322	13.56%	52.02%	1,356,850	200,797	14.79%	529,913	39.05%	53.84%
General liability	43,916,327	38,895,199	88.56%	7,890,563	17.96%	106.52%	31,485,689	-18,212,425	-57.84%	10,260,622	32.58%	-25.26%
Credit insurance	2,522,141	987,169	39.14%	1,330,700	52.76%	91.90%	4,433,057	506,516	11.42%	1,448,105	32.66%	44.08%
Guarantee insurance	17,288,094	-579,775	-3.35%	3,591,788	20.77%	17.42%	2,766,552	49,502,902	1789.33%	40,216	1.45%	1790.78%
Miscellaneous financial losses	7,386,973	580,967	7.86%	1,999,013	27.06%	34.92%	8,241,826	-7,560,753	-91.73%	2,943,913	35.71%	-56.02%
Legal protection insurance	-	-	-	-	-	-	-	-	-	-	-	-
Road assistance insurance	150,371	105,733,72	70.31%	183,920,31	122.31%	192.62%	33532	5900	17.59%	67339	200.81%	218.40%
<b>NON-LIFE INSURANCE</b>	<b>958,903,272</b>	<b>599,154,308</b>	<b>62.48%</b>	<b>210,049,983</b>	<b>21.90%</b>	<b>84.38%</b>	<b>748,224,086</b>	<b>388,794,250</b>	<b>51.96%</b>	<b>193,059,885</b>	<b>25.80%</b>	<b>77.76%</b>

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT****30.1. Reinsurance Risk**

Reinsurance risk arises from the Company's inability to absorb the risks assumed and is inherent to the reinsurance business. The Company executes active reinsurance contracts whereby the insurance risk is transferred from the insurers (ceding companies) to the Company and passive reinsurance contracts whereby the reinsurance risk is transferred from the Company to retrocessionaires.

Within reinsurance risks, the Company regularly monitors and analyzes the following risks:

- a) risk of adequacy of technical reserves and risks with regard to the planning of the Company's technical reserves;
- b) risk of inadequately calculated mathematical reserve;
- c) risk of inadequately determined reinsurance premium;
- d) risk of inappropriate definition of reinsurance terms;
- e) risk of inadequately determined self-retention; and
- f) risk of inadequately assessed risks assumed in reinsurance

in order to ensure permanent and constant maintenance of the risk exposure at the level where the assets and operations of the Company will not be compromised and which will ensure protection of the interests of the Company's cedents (ceding insurance companies) and other creditors and vendors.

Within the reinsurance risk group, all the risks were classified as low-level according to their impact on the Company's operations.

**30.2. Categories of Financial Instruments**

Categories of financial instruments are provided in the table below:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<b>Financial assets</b>		
Long-term financial investments	253,260	76,113
Trade receivables	1,088,125	883,516
Short-term financial investments	1,985,231	2,087,376
Cash and cash equivalents	454,658	313,882
	<u>3,781,274</u>	<u>3,360,887</u>
<b>Financial liabilities</b>		
Short-term financial liabilities	-	1,473
Liabilities for settlement of claims and other contractual amounts	335,406	230,834
Liabilities for premiums, commissions and other liabilities	676,022	548,893
	<u>1,011,428</u>	<u>781,200</u>

**30.3. Market Risks**

Market risks arise from the unfavorable changes in the market, primarily insurance and financial markets. These may be manifest as contingent gains or losses.

These risks include in particular:

- a) competition risk;
- b) risk of inadequate adjustment to the requirements of reinsurance service users;
- c) risk of decrease in self-retention premium;
- d) interest rate risk;
- e) equity (security) price risk;
- f) foreign currency risk.

All risks within market risk group are classified as low-intensity risks according to their impact on the Company's business operations.

## NOTES TO THE FINANCIAL STATEMENTS

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*All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT (Continued)****30.3. Market Risks (Continued)***a) Competition Risk*

The Company regularly analyzes its positioning in the reinsurance market both in the country and abroad and makes efforts to preserve the trust and reputation in the European market through direct contact with reinsurers and increased cooperation with reinsurers from the Balkans Region (principally Bosnia and Herzegovina and Slovenia).

*b) Risk of Inadequate Adjustment to the Requirements of Reinsurance Service Users*

In order to minimize the risk of inadequate adjustment to the requirements of reinsurance service users, the Company follows up on the European and global trends in new reinsurance product development and assesses their adequacy of implementation in relation to the user requirements.

As a result of better adjustment to the requirements of insurers, the Company increased the reinsurance premium.

*c) Risk of Decrease in Self-Retention Premium*

The Company analyzes the achievement in a certain period against the plan and achievement for the same period in the previous year.

The Company focuses on recovery of the self-retention premium from other reinsurance operations such as

- a) execution of new reinsurance contracts with other cedents where the Company's capacities would be engaged to the maximum extent; and
- b) the Company ensures that there are capacities and resources for new products in the market and for the less developed products with potential in the local market.

*d) Interest Rate Risk*

Risk of changes in interest rates relates to the risk that the Company's asset value and income will suffer due to the fluctuations of interest rates. In addition, the Company is also exposed to the risk of changes in the future cash flows, i.e. decrease in the future inflows caused by the decline in interest rates. The Company regularly monitors and analyzes the impact of the interest rate risk, which is part of the risk of decrease in income from depositing and investing activities due to decrease in interest rates and equity prices, which are classified as low risks.

Income from the investment portfolio is monitored and analyzed on regular basis by the Company's management as are the parameters of the financial market, particularly the fluctuations in the interest rates, for the purpose of controlling the financial assets downgrade risk.

Financial instruments exposed to the interest rate risk are presented below:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Financial assets</b>		
<i>Non-interest bearing</i>		
Trade receivables	1,088,125	883,516
<i>Fixed interest rate</i>		
Long-term financial investments	253,260	76,113
Short-term financial investments	1,985,231	2,087,376
	2,238,491	2,163,489
<i>Variable interest rate</i>		
Cash and cash equivalents	454,658	313,882
	<u>3,781,274</u>	<u>3,360,887</u>



## NOTES TO THE FINANCIAL STATEMENTS

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## 30. RISK MANAGEMENT (Continued)

## 30.3. Market Risks (Continued)

## d) Interest Rate Risk (Continued)

	December 31, 2019	December 31, 2018
<b>Financial liabilities</b>		
<i>Non-interest bearing</i>		
Liabilities for settlement of claims and other contractual amounts	335,406	230,834
Liabilities for premiums, commissions and other liabilities	676,022	548,893
	<u>1,011,428</u>	<u>779,727</u>
<i>Variable interest rate</i>		
Short-term financial liabilities	-	1,473
	<u>1,011,428</u>	<u>781,200</u>

The previous year's downward trend in interest rates continued in 2019. The Company will continue ongoing monitoring of the interest yield rates in the financial market in order to invest in the financial instruments with the highest interest. The following table provides the contractually agreed interest rate ranges for specific financial instruments:

Financial assets	Interest rate range	
	2019	2018
Long-term financial investments	1.60%-5.85%	2.59%-4.15%
Short-term financial investments		
<i>RSD demand deposits</i>	1.25%-3.00%	0.10%-3.00%
<i>RSD term deposits</i>	2.50%-3.80%	3.25%-3.66%
<i>Foreign currency term deposits</i>	0.90%-1.70%	1.05%-1.60%
<i>RS bonds</i>	0.90%-1.60%	1.68%-4.00%

Breakdown of the interest income earned in 2019 and 2018 per type of investment is provided below:

Assets	2019	2018
Term deposits held with banks	<b>27,451</b>	<b>16,187</b>
- RSD	16,544	10,685
- Foreign currency	10,907	5,502
Demand deposits held with banks	<b>6,010</b>	<b>4,112</b>
- RSD	4,369	2,912
- Foreign currency	1,641	1,200
Republic of Serbia treasury bills	-	56
Interest income on bonds	22,084	29,391
<b>Total</b>	<b>55,545</b>	<b>49,746</b>
The effect of a 10% interest rate decline	5,555	4,975
Equity	1,737,240	1,660,114
<b>Equity after the interest rate decline effect</b>	<b>1,731,686</b>	<b>1,655,139</b>

## e) Equity (Securities) Price Risk

The Company analyzes the movements in the value of securities included in the Company's portfolio and monitors the impact of the gains/losses from such investments on the total gains/losses from depositing and investing the Company's reinsurance funds.

In addition to regular monitoring of the movement in the value of securities within its portfolio, the Company maintains an ongoing communication with the corporate agent in order to be able to consider the optimum terms for sale or acquisition of new securities.

The Company invested funds in accordance with the relevant NBS Decision and investment policy.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 30. RISK MANAGEMENT (Continued)

## 30.3. Market Risks (Continued)

## f) Foreign Currency Risk

In monitoring this sort of risk the Company analyzes the foreign exchange rate trends and assesses the currency structure of assets and liabilities. In order to hedge large currency risk exposures, the Company always includes currency clause in reinsurance contracts executed with its cedents, and deposits and invests funds in such a manner that a high share of foreign currency items within assets is ensured.

The foreign currency risk was classified as a low-intensity risk by the Company in 2019.

5% change to the foreign exchange rate scenario	FX Amount	FX Variance	RSD '000 Variance
Financial assets in EUR	18,961,933	13,635,147	1,603,395
Financial assets in USD	3,141,680	735,187	77,135
Financial liabilities in EUR	5,326,786	-	-
Financial liabilities in USD	2,406,493	-	-
<b>Total difference in RSD '000</b>			<b>1,680,530</b>

<b>The effect of 5% change to the foreign exchange rates</b>	<b>84,026</b>
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Breakdown of the Company's currency risk exposure per currency

	USD	EUR	Other currencies	RSD	RSD '000 Total
Long-term financial investments	-	201,655	-	51,605	253,260
Trade receivables	262,334	572,319	73,896	179,576	1,088,125
Short-term financial investments	-	1,286,824	2,239	696,168	1,985,231
Cash and cash equivalents	8,312	187,841	22,841	235,664	454,658
<b>Total</b>	<b>270,646</b>	<b>2,248,639</b>	<b>98,976</b>	<b>1,163,013</b>	<b>3,781,274</b>
Long-term provisions	-	19,317	179	27,283	46,779
Current liabilities	246,920	601,910	9,040	153,558	1,011,428
<b>Total</b>	<b>246,920</b>	<b>621,227</b>	<b>9,219</b>	<b>180,841</b>	<b>1,058,207</b>
<b>Net foreign currency position at December 31, 2019</b>	<b>23,726</b>	<b>1,627,412</b>	<b>89,757</b>	<b>982,172</b>	<b>2,723,067</b>
<b>Net foreign currency position at December 31, 2018</b>	<b>99,624</b>	<b>1,681,995</b>	<b>17,642</b>	<b>739,051</b>	<b>2,538,312</b>

## 30.4. Credit Risk

Credit risk is a risk of adverse effects on the financial position and equity of the Company due to counterparty default.

Financial assets	December 31, 2019		December 31, 2018	
	Gross Exposure	Impairment Allowance	Net Exposure	Net Exposure
Long-term financial investments	255,569	2,309	253,260	76,113
Trade receivables	1,218,824	120,840	1,097,984	883,516
Short-term financial investments	2,320,581	335,350	1,985,231	2,087,376
<b>Total</b>	<b>3,794,974</b>	<b>458,499</b>	<b>3,336,475</b>	<b>3,047,005</b>

The Company is exposed to the credit risk through the items of premium receivables, claims, commission and recourses, as well as in the respect of depositing and investing funds with the commercial banks.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT (Continued)****30.4. Credit Risk (Continued)**

The Company monitors and analyzes credit risk exposure on an ongoing basis and prevention and protection are ensured by implementing the Rules on the Manner of Assessment of Balance Sheet and Off-Balance Sheet Items and through depositing and investing funds in accordance with NBS Decision on Restrictions of Specific Forms of Depositing and Investing Technical Reserve Assets and Maximum Amounts of Specific Forms of Depositing and Investing Guarantee Reserve Assets of the Insurance Undertakings and the Company's internal Rules.

**30.5. Operational Risk**

Operational risk arises from the omissions occurring in the work of the Company's employees and bodies, inappropriate internal procedures and processes, inadequate information and other system management as well as due to unpredictable external events.

In order to protect itself from operational risks recognized and quantified by the management, the Company has commenced active upgrading and improvement of the internal control system that is in line with the nature, complexity and risk inherent in the reinsurance business. Within operational risks, the Company particularly monitors the following:

- a) strategic risk of departures of actually achieved parameters from those projected;
- b) risk of information system management;
- c) ITC security risk;
- d) business continuity and disaster recovery risk management,
- e) risk of inadequate protection from computer viruses.

**30.6. Risk of Maturity and Structural Mismatch between Assets and Liabilities**

	Within a Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Intangible assets	-	-	-	17,568	-	17,568
Equipment	-	-	-	9,733	-	9,733
Long-term financial investments	-	-	-	177,621	75,639	253,260
Inventories	463	-	-	-	-	463
Trade receivables	226,007	53,640	818,336	-	-	1,097,983
Short-term financial investments	526,725	682,126	134,300	515,374	126,707	1,985,232
Cash and cash equivalents	454,658	-	-	-	-	454,658
Prepayments	-	-	2,207,337	-	-	2,207,337
<b>Total</b>	<b>1,207,853</b>	<b>735,766</b>	<b>3,159,973</b>	<b>720,296</b>	<b>202,346</b>	<b>6,026,234</b>
Equity and reserves	-	-	-	-	1,737,240	1,737,240
Long-term provisions and liabilities	-	-	-	20,691	26,088	46,779
Current liabilities	176,535	130,558	704,335	-	-	1,011,428
Accruals	-	-	3,227,948	-	-	3,227,948
Deferred tax liabilities	-	-	2,839	-	-	2,839
<b>Total</b>	<b>176,535</b>	<b>130,558</b>	<b>3,935,122</b>	<b>20,691</b>	<b>1,763,328</b>	<b>6,026,234</b>
<b>Maturity mismatch at December 31, 2019</b>	<b>1,031,318</b>	<b>605,208</b>	<b>(775,149)</b>	<b>699,605</b>	<b>(1,560,982)</b>	<b>-</b>
<b>Maturity mismatch at December 31, 2018</b>	<b>650,443</b>	<b>197,431</b>	<b>(362,162)</b>	<b>1,004,663</b>	<b>(1,490,375)</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 30. RISK MANAGEMENT (Continued)

## 30.7. Liquidity Risk

In general, liquidity risk results from financing the Company's business operations as well as from managing risk-weighted items. It also includes the risk of the failure to disburse payments either when they fall due or if increased by interest accrued and the risk of incapability of asset liquidation at an acceptable price and within acceptable time frame.

The ultimate responsibility for liquidity risk management resides with the Company's management, which is also responsible for managing the Company's short-term, medium-term and long-term financing and liquidity management. The Company manages liquidity by maintaining the necessary level of cash reserves, based on continued monitoring over the planned and actual cash flows, as well as by adequately matching the maturities of financial assets and liabilities.

The following tables detail the Company's remaining contractual maturity of its financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets liabilities based on the earliest date on which the Company may be required to collect such receivables or make payments based on such liabilities.

Maturities of the Company's financial assets at December 31, 2018 and 2019:

	December 31, 2018					Total
	Within a Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	
Non-interest bearing	780,424	38,439	23,915	26,365	-	869,143
Fixed interest rate	296,389	177,292	529,225	980,681	221,259	2,204,846
Variable interest rate	313,882	-	-	-	-	313,882
	1,390,695	215,731	553,140	1,007,046	221,259	3,387,871

  

	December 31, 2019					Total
	Within a Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	
Non-interest bearing	226,007	53,640	818,336	-	-	1,097,983
Fixed interest rate	526,725	682,126	134,300	692,994	202,346	2,238,491
Variable interest rate	454,658	-	-	-	-	454,658
	1,207,390	735,766	952,636	692,994	202,346	3,791,132

Maturities of the Company's financial liabilities at December 31, 2018 and 2019:

	December 31, 2018				Total
	From 0 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	
Non-interest bearing	758,551	10,121	2,383	12,311	783,366
Variable interest rate	-	-	-	-	-
	758,551	10,121	2,383	12,311	783,366

  

	December 31, 2019				Total
	From 0 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	
Non-interest bearing	307,093	704,335	-	-	1,011,428
Variable interest rate	-	-	-	-	-
	307,093	704,335	-	-	1,011,428

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

All amounts expressed in thousands of RSD, unless otherwise stated.

## 30. RISK MANAGEMENT (Continued)

## 30.8. Fair Value of Financial Instruments

The following table provides the carrying values of financial assets and liabilities arising from insurance contracts and their fair values as of December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets</b>				
Long-term financial investments	253,260	253,260	76,113	76,113
Trade receivables	1,088,125	1,088,125	883,516	883,516
Short-term financial investments	1,985,231	1,985,231	2,087,376	2,087,376
Cash and cash equivalents	454,658	454,658	313,882	313,882
	<u>3,781,274</u>	<u>3,781,274</u>	<u>3,360,887</u>	<u>3,360,887</u>
<b>Financial liabilities</b>				
Short term financial liabilities	-	-	1,473	1,473
Liabilities for settlement of claims and other contractual amounts	335,406	335,406	230,834	230,834
Liabilities for premiums, commissions and other liabilities	676,022	676,022	548,893	548,893
	<u>1,011,428</u>	<u>1,011,428</u>	<u>781,200</u>	<u>781,200</u>

Fair values of financial assets and financial liabilities are determined in the following manner:

- Level 1 inputs: quoted market prices (unadjusted) in an active market for identical assets, i.e. identical liabilities available to the reporting entity as of the measurement date;
- Level 2: valuation inputs which are not quoted market price for identical instruments in market, instead are based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 inputs: inputs for valuation techniques applied to financial assets and financial liabilities representing inputs that cannot be found in the market (unobservable inputs).

The following table provides the breakdown of financial instruments measured at fair value after initial recognition at fair value and grouped into levels 1 to 3, depending on the fair value assessibility.

	December 31, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>								
Long-term financial investments	-	253,260	-	253,260		76,113		76,113
Trade receivables	-	1,088,125	-	1,088,125			883,516	883,516
Short-term financial investments	77,746	1,907,485	-	1,985,231	77,746	1,956,084		2,033,830
Cash and cash equivalents	454,658	-	-	454,658	313,882			313,882
	<u>532,404</u>	<u>3,248,870</u>	<u>-</u>	<u>3,781,274</u>	<u>391,628</u>	<u>2,032,197</u>	<u>883,516</u>	<u>3,307,341</u>
<b>Financial liabilities</b>								
Short term financial liabilities	-	-	-	-	-	-	1,473	1,473
Liabilities for settlement of claims and other contractual amounts	-		335,406	335,406	-		230,834	230,834
Liabilities for premiums, commissions and other liabilities	-		676,022	676,022	-		548,893	548,893
	<u>-</u>	<u>-</u>	<u>1,011,428</u>	<u>1,011,428</u>	<u>-</u>	<u>-</u>	<u>781,200</u>	<u>781,200</u>

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***30. RISK MANAGEMENT (Continued)****30.9 Legal and Reputation Risks**

Legal risks arises from the non-compliance of the operations and enactments of the Company with the prevailing regulations, from contracts that cannot be performed in entirety or in part (e.g. void and null contracts) and potential litigation losses.

The Company monitors all legislative regulations and enactments governing the reinsurance business and harmonizes all its bylaws and acts with amendments and supplements to those regulations.

Reputational risk arises from the reduced trust the public places into the Company's business operations. Relying on its 40-year long experience of involvement with the reinsurance business, the Company has developed its reputation of a reliable partner in the territory of the Balkans, always ready and willing to respond to the client's requests with all its expertise and efficacy.

**31. EVENTS AFTER THE REPORTING PERIOD**

The rapid development of the Covid-19 virus and its social and economic impact in Republic of Serbia and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. In particular management expects the assumptions and estimates used in determining the values of assets, liabilities and financial instruments, and all items of reserves. Although the analyses of the Covid-19 spread up to the approval date of these financial statements suggest that there have been no significant effects thereof on the Company's operations, at this stage management is not able to reliably estimate the impact as events are unfolding day-by-day.

The longer term impact may also affect the overall business volumes, cash flows and profitability. Nevertheless, at the date of these financial statements, the Company continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

Other than the foregoing, there have been no significant events after the reporting date (December 31, 2019).

**32. TAXATION RISKS**

In the course of ordinary business operations, the Company enters into business relationships with its related parties. However, upon preparation of the accompanying financial statements, the Company did not present the effects of transfer prices on the calculated income tax, as it believes that the related party transactions were performed under arm's length terms. In addition, in accordance with the tax regulations of the Republic of Serbia, the Company is under obligation to submit to the Tax Administration of the Republic of Serbia the tax return for FY 2019 and other supporting documentation, including the report on transfer prices, until June 30, 2020.

Moreover, the Republic of Serbia's tax regulations are subject to frequent changes and varying interpretations. The interpretations of tax legislation by tax and other authorities as applied to the transactions and activities of the Company may differ from those of the management. It is uncertain whether the interpretation of the Company's management and supporting documentation will be sufficient, i.e. whether they will meet the requirements and match the interpretations of the tax and other authorities. Management believes that potential varying interpretations will have no material effects on the Company's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2019***All amounts expressed in thousands of RSD, unless otherwise stated.***33. EXCHANGE RATES**

The official middle exchange rates for major currencies as determined at the interbank foreign exchange market and used in the translation of balance sheet components into RSD were as follows:

	<b>December 31, 2019</b>	<b>RSD December 31, 2018</b>
USD	104.9186	103.3893
EUR	117.5928	118.1946
GBP	137.5998	131.1816
CHF	108.4004	104.9779

Belgrade, February 2020

Signed on behalf of the Company by:

Zorana Pejčić, Executive Board Chairperson

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Vesna Katić, Executive Board Member

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