

Allianz Zagreb d.d.

Annual report for 2017

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Management Report

A positive economic growth and significant improvement of the main macroeconomic indicators accomplished owing to excellent tourism season create a positive atmosphere in the domestic economy, still exerting a moderately positive effect on the development of the insurance sector.

The previous year 2017 was a successful year for the Croatian economy, with the forecasted positive GDP growing trend, as well as the additionally improved public finances as a result of which the budget surplus was achieved for the first time in history and further progress was made in the process of reducing the debt compared to the forecasts thereof. In this regard, we expect that future positive progress in the economy will also make positive effects on the development of the insurance sector compared to that in the previous year, when the Company's main focus was placed on achieving the profitability and portfolio stability as well as maintaining a high level of capital adequacy to ensure a safe and stable continuation of the business operations.

Following the completion of the transformation of the sales network and the adjustment of the entire organization of the Company, we fulfilled the prerequisites for achieving a high level of flexibility for all emerging market demands and new legal regulations as well.

The new challenges arising from further market changes impose an increasing need for digitization of business through new digitally integrated solutions, simplified products and processes and timely and adequate response to consumer demands. Therefore, Company recognized the digitalization as one of the major strategic objectives that was promoted during the year 2017, which will be in focus in the upcoming period as well.

In addition to the market challenges, the new market regulations strongly affect the insurance industry. Applying the Solvency II Directive, insurance companies are simultaneously adapting to new regulations such as GDPR, IDD, PRIIPS, whereas they continue to raise the level of transparency towards customers and strengthen the protection of their personal data.

In this sense, we would like to emphasize that, besides our adaptation to the new market and regulatory requirements, we shall continue to work on retaining the Company's profitability, minimizing risks, maximizing profits for life insurers and meeting the needs of our clients, thereby ensuring the active, constructive and fair role of the Company on the insurance market and the financial market in the Republic of Croatia.

In accordance with the rules and regulations that apply to our profession, we still plan to attend to careful running of the entire business of the company by achieving the forecasted profitability and maintaining the adequate capital position in order to prevent the impairment of the financial stability of the Company at any time.

The business results accomplished during the year 2017 and during the previous years prove that we are on a good way to achieve our medium-term business plans and strengthen the position of Company both in the Croatian insurance market and new markets as well, all in line with the position of the Company brand in the global market.

In addition to achieving good business results, our main objective in the future will be to be recognized by our clients as the leading and digitally modernized insurance company that provides safety and support in the future, while maintaining mutual confidence as well as the assurance that our employees make a difference. In this way we shall continue to increase the market competitiveness, satisfaction and number of customers.

We shall remain and continue to be the financial institution that clients trust the most owing to our professional, moral and ethical behavior and business management.

2017 financial performance

Company continued its successful operations in the year 2017 which was, marked by structural changes in management, product offer and customer relations. In 2017, the Company achieved a total gross premium in the amount of HRK 1,150 million, which is 2.7 % more than in the previous year.

In the life insurance market, the Company is ranked second with a market share of 18.1%, which fell slightly by 0.4% compared to that in the previous year (2016: 18.5%). In non-life insurance segment, the Company's market share increased by 0.2% to 10.1% (2016: 9.9%) and the Company retained its third position in this market segment.

In non-life insurance segment, Company generated the gross premium income in the amount of HRK 618,7 million, recording thus a growth in the premium income by 6.7 %, thereby achieving better results in the market in almost all segments of non-life insurance, whereby a significant increase was recorded in health insurance, proving thus that this segment still has a great potential.

Management Report (continued)

2017 financial performance (continued)

In life insurance, gross premium income fell by 1.6% and gross premium remained as high as HRK 531.3 million. A slight decline in life insurance is an expected result of a change in the life insurance portfolio and a shift from traditional insurance to unit linked products.

The Group's gross profit in 2017 reached HRK 138.9 million (Company: HRK 138.2 million), which is the highest gross profit in the history of Company. The Company's gross profit also increased both in life and non-life insurance primarily as a result of a stable claim quota, significant cost control and good investment result due to the conservative investment policy conducted.

At the same time, the solvency limit, which is an important business quality indicator, was 258% and the combined quota was 90.42 % which is in line with our expectations.

Probable future development

When comparing the Croatian market with markets in the rest of Europe, we can freely say that the Croatian insurance industry is still underdeveloped, which is particularly pronounced in the segment of life insurance (the share in the insurance premium in GDP by the end of 2017 was only 0.9%). Taking these facts into account, the Croatian insurance market is characterized by a significant growth potential that the Company intends to take advantage of. Life insurance is one of the most important strategic products as a result of ageing population and the greater need of provision of pensions.

A supplement to the life insurance product is the savings in the third pension pillar, and we see the growth potential in this segment over the next decade.

Regarding the life insurance, the growth is still expected to be achieved through the bank insurance channel, the development of new products and as part of other activities, thereby raising the level of services in distribution through its own sales network and other channels.

Regarding the life insurance, the focus will be still placed on changing the portfolio structure into "unit linked" and "risk" products in the future period, which will include the development of new products and the further development of the sales channels in this segment.

In non-life insurance, the goal is to maintain the profitability of motor vehicles and to encourage further profitable growth by developing other non-motor products and supplemental and additional health insurance products.

One of initiatives of strategic growth of Allianz in regions of Central and Eastern Europe is expansion of insurance business in Slovenia, which is currently the fourth largest non-life insurance market in the region with high penetration rates.

The Company plans to enter the Republic of Slovenia market by establishing branch office and submit a request for obtaining a permission to the local regulator HANFA.

By entering the new market, the Company intends to acquire a higher market share and to strengthen the presence of Allianz brand currently operating through the branch office of Allianz Hungária Zrt. from Hungary. Unlike Allianz Hungária Zrt. whose market share is less than 1% due to focus on the corporate segment, Company plans to increase its market share in the following manner:

- Entry into retail segment and offering increased product portfolio;
- Using of geographic interconnection of two countries, acquired knowledge in the local market and immediate operational support and
- Advantages of linguistic and cultural similarities, as well as existing commercial connections between Slovenia and Croatia.

Through its branch office in Slovenia, Company also plans to use the existing corporate partnership for the development of the corporate segment, spread to "growing partnerships" (for instance banks) and strengthen existing partnerships with large distributors in the retail market.

For entering the Slovenian market and realization of business plan, the Company has strong prerequisites by using the existing potentials through the experience of the Croatian team, current partnerships as well as the strong Allianz brand.

Management Report (continued)

Research and development activities

The Company regularly develops innovative products designed for the insurance market. Company is also regularly developing his own core software which supports growing demands on the insurance products.

Shares of the Company

The share capital is divided into 254,306 ordinary shares with a nominal value of HRK 400 each. At the reporting date, the majority shareholder is Allianz New Europe Holding GmbH, Austria with the share of 83.2% and Zagrebačka Banka d.d. with 16.8% share. Shares of companies are not listed on the capital market. The ultimate owner of the Company is Allianz SE, a joint stock company domiciled in Germany.

Information on the purchase of own shares

Till the end of 2017 the Company did not acquire and release any treasury shares.

The Company subsidiaries

The Company has 3 subsidiaries and 3 open-ended investment fund which are fully consolidated in the group financial statements as follows:

Allianz Invest d.o.o. Investment Company, managing Allianz Cash, open-ended investment fund, Allianz Portfolio, open-ended investment fund and Allianz Equity, open-ended investment fund, AZ Servisni centar d.o.o. claim evaluation and IT services company, and Autoelektro tehnički pregledi d.o.o. car evaluation services company.

Total investment in subsidiaries at the end of 2017 amounted to HRK 132.8 million. There were no new acquisitions in 2017. Details about structure of the ownership are shown under note 1.15.

Post balance sheet events

There were no significant post balance sheet events.

The objectives and policies related to the management of financial risks

Market risk for the Company consists of the following types of risk: the risk of lower equity prices, real estate risk, interest rate risk, currency risk and volatility risks including the volatility of equity, real estate and interest rates. Each of these risks can lead to negative developments in the valuation of assets and liabilities. Due to the amount of assets under investment and the amount of mathematical provisions and guarantees given to policyholders of life, the Company is exposed to movements in financial markets.

The Company is exposed to currency risk through transactions in foreign currencies related to credit, deposit and other investment activities, as well as from premium income, primarily by life insurance, calculation of related technical provisions, settlement of claims on insurance policies linked to foreign currency and the payment of reinsurance premiums. Currency to which the Company is exposed is mainly Euro.

The Company monitors the exposure to currency risk and seeks to align currency assets and liabilities denominated in foreign currencies or with currency clause.

On the assets side, it is important to emphasize that the decision on the allocation of the investment portfolio take into account the currency exposure of the product and thus determines the currency exposure of the investment portfolio of currencies.

Management Report (continued)

The objectives and policies related to the management of financial risks (continued)

The exposure of the Company to the market risk of interest rate changes is primarily concentrated in the investment portfolio.

Interest rate risk is linked to financial instruments with a fixed interest rate and with variable interest rates, in another words assets and liabilities with variable interest rates expose the Company to changes in future cash flows, while assets and liabilities with fixed rates expose the Company to fair value interest rate risk. The risk of future cash flows is limited since most investments are invested at a fixed rate.

The Company compares the portfolio of assets by investing with the liabilities of their inherent interest rate and with conditions in the market in order to manage interest rate risk. Insurance liabilities that primarily expose the Company to interest rate risk are mathematical reserves under long-term contracts of life insurance.

The interest rate used in the calculation of mathematical reserves is lower than the technical rate of interest included in the price of premiums and rates prescribed by the legislation. It should be noted that the life insurance portfolio fully complies with the legislation.

The Company regularly performs modelling and estimation of cash flows, as well as the impact of interest rate fluctuations relating to investment portfolio and technical provisions of the models prepared by the parent company. The goal is to limit the net changes in the value of assets and liabilities arising from changes in interest rates and assess the compliance of future income and liabilities under the contract of insurance.

The effect of interest rate change risk is reduced by determining duration of the portfolio of securities with fixed income. Decision on duration of portfolio investments is made in the framework of the strategic allocation decisions, based on the analysis of the impact of changes in interest rates on the portfolio companies and the maturity of the company's liabilities.

Competent management constantly monitors the investment portfolio and market conditions due to the movement of interest rates in order to control interest rate risk in making investment decisions.

For the purposes of risk management in equity prices and investment funds company invests in a diversified portfolio of high-quality, liquid securities.

The portfolio's holdings are diversified across industries and the concentration of any single firm or company and the overall size of the portfolio is limited by parameters passed by the Finance Committee or legislation.

The portfolio is monitored daily and analysed.

The Company has other measures for reducing market risk, such as diversification of investment portfolios and thus reducing the share of financial assets in the Croatian government bonds. Before the decision on the change of allocation Company estimates the impact on the capital position of the Company (Solvency II). Also the Company has been active on the obligation of reducing the guarantee in the portfolio of life insurance as well as planned activities changes gradually changing the structure of the portfolio.

Market risks are identified and measured through an established process for top risks assessment, also through calculation of capital requirements for market risk within the calculation of a Solvency II according to a Standard formula. Most significant market risks identified for Company are equity risk and interest rate risks, monitored on quarterly basis.

The Company invests its available resources matching of investments with liabilities maturity structure, foreign exchange structure and liquidity. The main financial instruments to which resources are invested are government and corporative bonds, treasury bills, shares, investment funds, bank deposits as well as loans to insurer and companies.

The Company has adopted investment policies and procedures in order to manage risks. They contain the protection measures from lager losses (stop loss scenario); such protection measures have defined strategic allocation of recourses which have a function of minimizing the risk having the satisfactory yield.

The most significant risk is credit risk with regard to portfolio composition in which more than 50% represent government bonds with low credit rating (risk for Republic of Croatia is BB as per the S&P).

Management Report (continued)

Exposure to the price risk, credit risk, liquidity risk and the risk of the cash flow

Liquidity of the Company is more than satisfying and cash inflow is higher than cash outflow and therefore the company generates liquidity surplus conducive for investments.

Transactions with financial instruments result in the Group assuming financial risks. These include market risk, credit risk (including reinsurance credit risk) and liquidity risk.

The Company has a portfolio of liquid assets as part of the strategy of liquidity risk management, to insure business continuity and satisfy regulatory conditions. Given the significant investment in government securities that are available for sale (bonds and treasury bills) and investment funds, including investments in bank deposits with the clause of early termination are highly liquid financial instruments that make up a large part of the investment portfolio with daily inflows to cash accounts, it can be concluded that liquidity position and good that the company is not exposed to liquidity risk and to comply with legal requirements in terms of liquidity.

A key area in which the Company is exposed to credit risk are investments in financial assets, primarily in fixed income securities, mortgage loans, deposits, and other short-term and long-term investments. The Company applies a low-risk investment policy by investing its assets mainly in investments with good credit rating with the majority of the portfolio relates to the securities of the Republic of Croatia and EU member states. Term deposits are invested in leading Croatian banks owned by international banking groups. Investments in investment funds make investments in funds owned by big banks and own funds and thus achieving reduction of credit risk by diversifying the portfolio.

The Company continuously monitors the credit risk exposure. The portfolio manager actively manages the portfolio on a daily basis in a way that performs daily monitoring of the portfolio and in line with market trends makes transactions on purchase / sale. Transactions of purchase / sales are limited to internal and legal regulations and decisions of the Finance Committee. At the regular meetings of the Finance Committee, the crucial decisions for the management of credit risk to be implemented at the operational level in the daily operations.

The Company carried out a careful investment policy in the area of granting loans for which it issued separate policy that defines the development of customer credit worthiness and collecting collateral before payment loan origination or prolongation thereof.

To reduce the risk of re-insurers not paying on time and in accordance with the contractual obligations, the company in accordance with the regulations of the Allianz Group cooperates only with high-quality global reinsurers. Credit risks are identified and measured through an established process for top risks, also through the calculation of capital requirements for security risks within capital calculation of a solvency according to a standard formula. One of the identified top risks is default of Croatia, tracked on quarterly basis.


President of the Management Board
Boris Galić


Member of the Management Board
Zrinka Galić Jakovljević


Member of the Management Board
Slaven Dobrić


Member of the Management Board
Hrvoje Smiljanić

Corporate Governance Information

Statement on the corporate governance Code

Effective corporate governance is a necessary precondition for the success of the Company. The same is realized through setting strategic goals, providing infrastructure that allows their implementation, establishing clear lines of responsibility, personal integrity of the Board and employees. The Company applies the external and internal regulations and monitors the compatibility of the organizational structure.

General Assembly

The General Assembly is convened by the Management Board after the Supervisory Board approves the Decisions that are to be adopted by the Meeting on the basis of the Statute and law.

The General Assembly may only adopt valid decisions if Shareholders representing at least 51% of the Company share capital attend the session in person or via proxies.

Decisions at the General Meeting shall be adopted by a simple majority of the cast votes, unless a qualified majority is required for the adoption of certain decisions pursuant to the Act, this Statute or fulfilment of additional conditions. Each share in the nominal amount of 400.00 HRK entitles to one vote.

The General Assembly decides on the appointment and dismissal of the Supervisory Board members, profit distribution, the listing the Company's shares on the regulated market for trading and withdrawal of shares from the market, gives an approval of conduct to members of Supervisory Board and members of Management Board, appointing of the company's auditor, changes the statute, increase and decrease of the share capital of the company, the appointment of auditors to examine the actions performed in the establishment of the company or management of the Company, membership in the insurance Associations, on the termination of the company and on all other matters as are prescribed by law and the Statute.

The Supervisory Board

The Supervisory Board consists of three members. The Supervisory Board members are elected by the General Assembly for a period up to four years. Supervisory Board members may be re-elected after their mandates expire.

The Supervisory Board may pass valid decisions if at least the majority of elected Supervisory Board members are participating in the decision. Supervisory Board's decisions shall be adopted by the majority of given votes.

Each member of the Supervisory Board shall have one vote. The Supervisory Board members vote by a simple majority, among other decisions, about the adoption of the Decision on approval of other companies' shares acquisition, Decision on purchase of shares or other securities (regardless of whether the Company has issued them or not) in possession of any Shareholder or any of its branches, or registered in such Shareholder's name, or which may be converted into or replaced for such shares or securities and Decision of proposal for amendments to the Company Statute. Members are appointed by the Assembly for a term of four years.

In addition to the competence of the Supervisory Board in accordance with the Companies Act, the Supervisory Board of the insurance company has the responsibilities to give approval to the Management Board on the business policy of the insurance company and strategic goals of the insurance company, to determine the financial plan of the insurance company, to determine strategies and policy of underwriting and risk management, to give approval on own risk and solvency assessment, to give approval on the internal control system, to give approval on the framework of the annual program of internal audit and to decide on other matters specified by this Act.

Corporate Governance Information (continued)

The Supervisory Board (continued)

The Supervisory Board members are obliged to monitor the adequacy of the procedures and the effectiveness of internal audit, fulfil their obligations taking into account the facts found by the Regulatory Agency, the tax authorities and other supervisory bodies during the supervision of the insurance company, monitor the implementation and effectiveness of the management system, monitor the enforcement the business policy of the insurance company, strategic goals and strategies and policy of underwriting and risk management, monitor procedure of publishing information, examine the financial statements of insurance companies and submit a written report to the general assembly on their findings, to explain to the General Meeting their opinion on annual internal audit report and annual Management Board report.

The Supervisory Board member is obliged to inform the Regulatory Agency on appointment or revocation of his or her function on the insurance company and on membership in Supervisory Board and Board of Management of other legal entities, to inform the Regulatory Agency of the legal affairs on the basis of which, directly or indirectly, a member of the Supervisory Board, or members of his immediate family acquired stocks and shares in a legal entity on the basis of which member of the Supervisory Board together with members of their family in that legal person reaches or exceed the qualifying holding, or if their share falls below the qualifying holding.

The Supervisory Board members are obliged, without delay, to notify in writing the Regulatory Agency of any information which may affect the revocation of the approval for the Management Board Member to carry out its function and on the termination and the reasons for termination of mandate of Member of the Management Board.

Members of the Supervisory Board for business year 2017 and up to the date of issuing of these financial statements were as follows:

- Mr Petros Papanikolaou, President of the Supervisory Board,
- Mr Ivo Jelinović, Vice President of the Supervisory Board,
- Mr Jochen Alexander Haug, Supervisory Board Member, with the expiry of the mandate on December 31, 2017.

On 1 January 2018, Mr Mario Ferrero was appointed as a Supervisory Board Member.

Management Board of the Company

The Management Board consists of four members from which one is appointed as President of the Management Board. Management Board Members must be full time employed in the Company. Supervisory Board shall appoint Management Board Members for a period up to five years. Reappointment is permitted. Appointment/ reappointment of Management Board Members will be possible after the Agency gives its approval for appointment/ reappointment of the candidates as insurance company' Management Board Members.

Management Board's decisions shall be adopted by majority of given votes unless it is differently stipulated by Act, other applicable laws and bylaws or this Statute.

In addition to its authority and obligations specified in Companies Act, members of the Management Board shall ensure the Company's compliance with the provisions of the Insurance Act and regulations adopted pursuant to the Insurance Act, or pursuant to other laws regulating the business of insurance companies and regulations adopted pursuant these laws.

Corporate Governance Information (continued)

Management Board of the Company (continued)

Management Board is responsible to inform the Supervisory Board in writing and without delay, of threat to liquidity of an insurance company, if there is reason for expiry of the authorization to carry on insurance business or if there is a reason to revoke the authorization to carry on insurance business or to prohibit the carrying out of operations under all or individual lines of insurance, if the financial situation of insurance company changes to the extent that the insurance company is no longer aligned with the necessary Solvency Capital Requirement or it is not aligned with the Minimum Capital Requirement or when there is a risk that this incompatibility appears in next three months and of all measures of the Regulatory Agency and other supervisory authorities issued in the procedure of monitoring of the insurance company.

Members of the Management Board shall inform the Supervisory Board, in writing and without delay, on his or her appointment or revocation in the supervisory board or management board of other legal entities, on legal affairs on the basis of which Management Board member or a member of his immediate family, directly or indirectly acquired stocks or business shares of legal persons on the basis of which member of the board along with members of his immediate family reaches or exceeds a qualifying holding in that legal person, or if their share falls below the qualifying holding, on termination of Management Board function, on termination of conditions for performing the function of Management Board Member and on the conflict of interest he or she is involved in, and of all others events and facts in accordance with the Insurance Act and other laws regulating the business of insurance companies and regulations adopted pursuant these laws.

Members of the Management Board for business year 2017 and up to the date of issuing of these financial statements were the following: Boris Galić, President of the Management Board and Zrinka Galić Jakovljević (appointed on May 25, 2017), Slaven Dobrić, Hrvoje Smiljanić and Kristijan Buk (resigned on April 26, 2017) as Board members.

The Audit Committee

According to the Audit Law, the Company has an Audit Committee consisting of three members who are elected and recalled by the Supervisory Board. At least one member of the Supervisory Board shall be a member of the Audit Committee.

The Committee has the following obligations, to monitors the way of financial reporting and financial statements of the Company, to monitor the effectiveness of internal control systems, internal audit and risk management systems, to supervise the execution of the annual audit of financial statements conducted by an external auditor, to monitor the independence of independent auditors or companies that provide audit services with particular emphasis on contracts for additional services and consulting services, to make recommendations to the General Meeting and the Supervisory Board to appoint external independent auditors or companies that provide audit, to discuss plans and annual reporting on the activities of the internal audit and all items that could be related to the above.

Financial Committee

Financial Committee considers relevant questions about the investment strategy of the Company, accompanied by investment process and provides guidance and recommendations related to the investment company's assets.

Corporate Governance Information (continued)

Conflict of interest

Rules, internal acts of the organization and operations as well as the individual contracts of employment have clearly specified duties and responsibilities of each employee.

In addition, in accordance with the Companies Act, member of the Management Board may not, without the consent of the Supervisory Board participate in the decision or the conclusion of a legal transaction if he or she is:

- (1) A representative under law, legal representative, proxy or attorney of the counterparty,
- (2) If the counterparty or its representative under law, legal representative, proxy or attorney counterparty is blood relative of the Member of the Management board in a direct line to any degree, in the collateral line to the second degree or his spouse, common-law spouse or in-laws to the second degree, regardless of whether the marriage is ended or not, or the adoptive parent or adopted child of the other contracting party, its representative under law, legal representative, proxy or attorney,
- (3) Associated with the legal transaction to be decided upon or concluded which makes a conflict of interest between the members of the Management Board and Company. No matter how member of Management Board participates in the decision or conclusion of a legal transaction, a Management Board member shall immediately inform about the those circumstances other members of the Management Board and Supervisory Board and in the notification he or she shall state all relevant facts about the nature of his relationship with a counterparty and his or hers assessment of conflict of interest.

President of the Management Board
Boris Galić

Member of the Management Board
Zrinka Galić Jakovljević

Member of the Management Board
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Member of the Management Board
Hrvoje Smiljanić

Allianz 
Allianz Zagreb d.d.

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements, Management Report and HANFA schedules

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

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

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

The consolidated and separate financial statements set out on pages 20 to 133 together with the schedules prepared in accordance with the Regulation of the Croatian Financial Services Supervisory Agency on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies (Official Gazette 37/16) ("the Schedules"), presented on pages 134 to 150, and the reconciliation, presented on pages 151 to 161, of the Schedules with the financial statements were authorised by the Management Board on 10 April 2018 for issue to the Supervisory Board and are signed below to signify this.

The Management Board is also responsible for the preparation and content of the other information (Management Report as required by the Croatian Accounting Act and Corporate Governance Information). The Management Report set out on pages 1 to 5 and Corporate Governance Information set on pages 6 to 9 were authorised by the Management Board on 10 April 2018 and signed accordingly.


President of the Management Board
Boris Galić


Member of the Management Board
Zrinka Galić Jakovljević


Member of the Management Board
Slaven Dobrić


Member of the Management Board
Hrvoje Smiljanić

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Independent Auditors' report to the shareholders of Allianz Zagreb d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Allianz Zagreb d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the statements of financial position of the Company and the Group as at 31 December 2017 and the statements of comprehensive income, cash flows and changes in equity of the Company and the Group for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditors' report to the shareholders of Allianz Zagreb d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

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

Measurement of life-assurance mathematical provision

As at 31 December 2017, in the consolidated financial statements life-assurance mathematical provision amounted to HRK 2,631 million, representing 61% of the Group's total liabilities (31 December 2016: HRK 2,575 million, 62%); life assurance claims and benefits incurred, for the year ended 31 December 2017 amounted to HRK 463 million (2016: HRK 475 million).

As at 31 December 2017, in the separate financial statements life-assurance mathematical provision amounted to HRK 2,631 million, representing 64% of the Company's total liabilities (31 December 2016: HRK 2,575 million, 64%); claims and benefits incurred, for the year ended 31 December 2017 amounted to HRK 463 million (2016: HRK 475 million).

Please refer to pages 41 – 45 (Significant accounting policies), page 47 (Accounting estimates and judgements), Note 1.5 Insurance risk management, Note 1.6 Principal assumptions that have the greatest effect on recognised insurance assets, liabilities, income and expenses, Note 1.7 Liability adequacy test, Note 1.8 Sensitivity of best-estimate liabilities to change in significant variables, Note 1.21 Insurance contract provisions and Note 1.30 Net policyholder claims and benefits incurred.

Key audit matter	How our audit addressed the matter
<p>Life assurance mathematical provision represent the Company's single largest liability in its statement of financial position. Measurement thereof is associated with significant estimation uncertainty as it requires the Management Board to exercise judgment and develop complex and subjective assumptions which are used as inputs into a valuation model that uses standard actuarial methodologies.</p> <p>At each reporting date, the Company is required to perform a liability adequacy test (hereinafter, 'LAT') with an aim to determine whether its recognized life-assurance mathematical provisions is adequate. The test is based on the comparison of the Management Board's current estimates of the present value of the future cash flows arising from the in-force insurance contracts, calculated using Best Estimate of Liability method, with the stated amounts of related life-assurance mathematical provision. In case the LAT test shows that the amounts of insurance provisions are insufficient, the deficiency is recognized in profit or loss.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> ▪ Evaluating the methodology applied by the Company in measuring life assurance provisions against the relevant regulatory and financial reporting requirements. Also, assessing the consistency of valuation methods applied with those used in the prior periods and whether any adjustments made to actuarial models are in line with our understanding of business and market developments; ▪ Testing the design, implementation and operating effectiveness of selected key controls over the process for setting and updating actuarial assumptions and also, assisted by our own IT specialists, testing general IT controls associated with data collection, extraction and validation; ▪ Comparing the claims data underlying the actuarial projections to source systems and, on a sample basis, tracing the data used to the underlying policy and claims documentation.

Independent Auditors' report to the shareholders of Allianz Zagreb d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the matter
<p>The key assumptions used in the estimation of expected future cash flows include those in respect of expected expenses per policy, surrenders, lapses, mortality and morbidity rates, interest rate guarantees, profit sharing, investment returns and discount rates. Relatively minor changes in management's assumptions can, especially those related to discount rate and expense per policy, have a significant effect on the recognised amounts of insurance provisions.</p> <p>The complexity of the models used may also give rise to errors as a result of inaccurate/incomplete data inputs thus the completeness and accuracy of the data underlying the actuarial projections is also an area of our audit focus.</p> <p>In view of the above-mentioned factors, we considered measurement of life assurance provisions to be a key audit matter.</p>	<p>Supported by our own actuarial specialists:</p> <ul style="list-style-type: none"> ▪ Evaluating the changes in the life assurance mathematical provision during the year, starting from the opening balance and considering inflows and outflows which significantly affect the amounts of the liability for major life-assurance products; ▪ Developing our own independent estimates of the life assurance mathematical provision for selected lines of business, on a sample basis, by, among other things: <ul style="list-style-type: none"> ○ Assessing the results of the Company's analysis of the reasonableness of the key assumptions used in the LAT tests by: <ul style="list-style-type: none"> • Tracing surrenders, lapses and expected expenses, to the Company's historical experience studies; • Tracing the mortality assumptions to the applicable mortality tables prescribed by the regulator; • Recalculating LAT by using discount rates prescribed by the relevant EU regulators and comparing the recalculated amounts to those reported by the Company; ○ Performing a retrospective assessment of the Company's LAT test model by comparing the predictions of the previous year's model with actual outcomes; ○ Critically assessing the appropriateness of the result of the LAT model by considering the sensitivity of the model to changes in key assumptions, such as mortality, discount rate and expenses; ▪ For a sample of active policies as at 31 December 2017, independently recalculating the life assurance provision and comparing the recalculated amounts to those recognised by the Company and evaluating appropriateness of the Company's explanations for any significant differences;



Independent Auditors' report to the shareholders of Allianz Zagreb d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the matter
	<ul style="list-style-type: none">▪ Inspecting manual journal entries posted to life-assurance mathematical provisions accounts focusing on unusual and irregular items;▪ Assessing the accuracy and completeness of the Company's disclosures in respect of life-assurance mathematical provisions against the requirements of the relevant financial reporting standards.

Independent Auditors' report to the shareholders of Allianz Zagreb d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Measurement of non-life insurance technical provisions

As at 31 December 2017, in the consolidated financial statements non-life insurance technical provisions amounted to HRK 818 million, representing 19% of the Group's total liabilities (31 December 2016: HRK 797 million, 19%); non-life claims incurred, for the year ended 31 December 2017 amounted to HRK 287 million (2016: HRK 261 million).

As at 31 December 2017, in the separate financial statements non-life insurance technical provisions amounted to HRK 818 million, representing 20% of the Company's total liabilities (31 December 2016: HRK 797 million, 20%); claims incurred, for the year ended 31 December 2017 amounted to HRK 287 million (2016: HRK 261 million).

Please refer to pages 41 – 45 (Significant accounting policies), page 47 (Accounting estimates and judgements), Note 1.5 Insurance risk management, Note 1.6 Principal assumptions that have the greatest effect on recognised insurance assets, liabilities, income and expenses, Note 1.7 Liability adequacy test, Note 1.8 Sensitivity of best-estimate liabilities to change in significant variables, Note 1.21 Insurance contract provisions and Note 1.30 Net policyholder claims and benefits incurred.

Key audit matter	How our audit addressed the matter
<p>Non-life technical provisions represent the Company's second largest liability in its statement of financial position. Measurement thereof is associated with significant estimation uncertainty as it requires management to exercise judgment and develop complex and subjective assumptions. These assumptions are used as inputs into a valuation model that uses standard actuarial methodologies.</p> <p>At each reporting date, the Company is required to perform a liability adequacy test (hereinafter, 'LAT') with an aim to determine whether its recognized insurance provisions are adequate. The test is based on the comparison of the current estimates of the present value of the future cash flows arising from the in-force insurance contracts with the stated amounts of related non-life technical provisions. In case the LAT test shows that the amounts of technical provisions are insufficient, the deficiency is recognized in profit or loss.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> ▪ Evaluating the methodology applied by the Company in measuring technical provisions against relevant regulatory and financial reporting requirements. Also, assessing the consistency of valuation methods applied with those used in the prior periods and whether any adjustments made to actuarial models are in line with our understanding of business and market developments; ▪ Testing the design, implementation and operating effectiveness of selected key controls over the process for setting and updating actuarial assumptions and also, assisted by our own IT specialists, testing general IT controls associated with data collection, extraction and validation; ▪ Comparing the claims data underlying the actuarial projections to source systems and, on a sample basis, tracing the data used to the underlying policy and claims documentation;

Independent Auditors' report to the shareholders of Allianz Zagreb d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the matter
<p>In measuring non-life technical provisions particular complexity is associated with the Management Board's assessment of the amount of the expected ultimate cost of claims incurred but not yet reported as at the reporting date ('IBNR'), and, to the lesser extent, those reported but not yet settled ('RBNS'). A range of methods may be used and in many cases standard actuarial methods need adjustments specific to the circumstances and such adjustments also require the application of judgment. The Management Board estimates the IBNR amounts using a mix of complex models (chain ladder, Bornheuter – Ferguson and expected loss ratio), with key assumptions including those in respect of the applicability of historical trends to project the pattern of future reporting of incurred claims and their settlement. The Company uses the number and amounts of incurred and already reported losses, average cost per claim, claim frequency data, discount factor for annuity claims, tail factor, expected claim ratio and claims handling costs, to develop its estimate of these claim provisions.</p> <p>Relatively minor changes in management's assumptions (and in particular those related to tail factor, development of court claims, discount rate for annuities and expected claim ratio) can have a significant effect on the recognized amounts of non-life technical provisions. The completeness and accuracy of the data underlying the actuarial projections is also an area of our audit focus. In view of the above-mentioned factors, we consider measurement of non-life technical provisions to be a key risk in our audit.</p>	<p>Supported by our own actuarial specialists:</p> <ul style="list-style-type: none"> ▪ Developing our own independent estimates of claims provisions for selected lines of business, on a sample basis, by, among other things: <ul style="list-style-type: none"> ○ Assessing whether the key assumptions such as claims frequency and severity and costs used by management in the LAT tests were properly extracted from the Company's experience studies; ○ Performing a retrospective assessment of the Company's LAT test model by comparing the predictions of the previous year's model with actual outcomes; ○ Independently recalculating the IBNR claim reserve, and comparing the re-calculated amounts to those recorded by the Company with explanations sought for any significant differences; ▪ Evaluating the reasonableness of the IBNR and RBNS claim provisions by performing the comparison of the actual experience to previously expected results; ▪ Independently recalculating LAT, using differing assumptions (claims ratio, administration ratio) and comparing the re-calculated amounts to those recorded by the Company and evaluating appropriateness of the Company's explanations for any significant differences; ▪ Inspecting manual journal entries posted to non-life technical provisions accounts focusing on unusual and irregular items; ▪ Assessing the accuracy and completeness of the Company's disclosures in respect of insurance provisions against the requirements of the relevant financial reporting standards.



Independent Auditors' report to the shareholders of Allianz Zagreb d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the Management Report and Corporate Governance Information included in the Annual Report of the Company and the Group, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether the Management Report has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements; and
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Articles 21 and 24 of the Accounting Act, respectively.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report and Corporate Governance Information. We have nothing to report in this respect.

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

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

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

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



Independent Auditors' report to the shareholders of Allianz Zagreb d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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



Independent Auditors' report to the shareholders of Allianz Zagreb d.d. (continued)

Report on the Audit of the Financial Statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

Pursuant to the Regulation of the Croatian Financial Services Supervisory Agency on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies (Official Gazette 37/16), the Management Board of the Company has prepared the separate schedules of the Company as of and for the year ended 31 December 2017, set out on pages 134 to 150 ("the Schedules"), which comprise an alternative presentation of the separate statement of financial position as of 31 December 2017, and of the separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a reconciliation ("the Reconciliation"), as presented on pages 151 to 161, of the Schedules with the separate financial statements as presented on pages 20 to 133. The Management Board of the Company is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the separate financial statements of the Company set out on pages 20 to 133 on which we have expressed an unmodified opinion as set out above.

We were appointed by those charged with governance on 17 May 2017 to audit the financial statements of the Company and the Group for the year ended 31 December 2017. Our total uninterrupted period of engagement is 7 years, covering the periods ending 31 December 2011 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 6 April 2018;
- we have not provided any prohibited non-audit services (NASs) referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit;
- for the period to which our statutory audit relates, in addition to the audit, we have provided the following services to the Company and the Group which are not disclosed in the Management Report or in the financial statements of the Company and the Group:
 - compilation of general requirements for opening of an insurance company branch office in an EU member state.

KPMG Croatia d.o.o. za reviziju

Croatian Certified Auditors

Eurotower, 17th floor

Ivana Lučića 2a

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Croatia

KPMG Croatia

d.o.o. za reviziju

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Ivana Lučića 2a, 10000 Zagreb

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10 April 2018


Goran Horvat
Director, Croatian Certified Auditor

Director, Croatian Certified Auditor

Statement of financial position

As at 31 December

	Note	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Assets					
Property and equipment	1.11	40,475	44,542	35,959	40,487
Investment property	1.12	27,854	29,103	27,854	29,103
Intangible assets					
- Deferred acquisition costs	1.13	50,176	45,796	50,176	45,796
- Other intangible assets	1.14	18,366	18,418	16,556	16,959
Investments in subsidiaries	1.15	-	-	132,785	132,742
Held-to-maturity investments	1.16	594,092	684,995	584,788	675,633
Available-for-sale financial assets	1.16	3,445,878	3,049,725	3,255,939	2,908,538
Financial assets at fair value through profit or loss	1.16	618,567	616,694	548,552	565,161
Loans and receivables	1.16	50,436	115,268	38,480	62,609
Reinsurers' share of insurance contract provisions	1.17	148,609	147,397	148,609	147,397
Current income tax prepayment		-	377	-	377
Deferred tax asset	1.18	38	-	-	-
Insurance receivables and other assets	1.19	188,138	241,975	187,768	241,742
Cash and cash equivalents	1.20	138,441	91,848	90,047	62,010
Total assets		5,321,070	5,086,138	5,117,513	4,928,554
Liabilities					
Insurance contract provisions	1.21	3,890,241	3,703,736	3,890,241	3,703,736
Insurance and other payables and deferred income	1.22	378,119	411,717	174,534	253,323
Deferred tax liability	1.18	44,895	40,710	44,895	40,710
Current income tax liability		7,395	-	7,395	-
Total liabilities		4,320,650	4,156,163	4,117,065	3,997,769
Equity attributable to owners of the Company					
Issued share capital	1.23 (a)	101,722	101,722	101,722	101,722
Share premium	1.23 (b)	112,001	112,001	112,001	112,001
Fair value reserve	1.23 (c)	232,417	213,655	232,346	213,601
Legal reserve	1.23 (d)	25,053	25,053	25,053	25,053
Retained earnings		528,925	477,222	529,326	478,408
		1,000,118	929,653	1,000,448	930,785
Non-controlling interests		302	322	-	-
Total equity		1,000,420	929,975	1,000,448	930,785
Total liabilities and equity		5,321,070	5,086,138	5,117,513	4,928,554

The accounting policies and other explanatory notes on pages 26 to 133 form an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

	Note	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Gross premiums written	1.26	1,149,959	1,116,065	1,149,959	1,116,065
Written premiums ceded to reinsurers	1.26	(89,038)	(131,766)	(89,038)	(131,766)
Net premiums written	1.26	1,060,921	984,299	1,060,921	984,299
Change in the gross provision for unearned premiums	1.26	(27,529)	(2,560)	(27,529)	(2,560)
Reinsurers' share of change in the provision for unearned premiums	1.26	(7,574)	4,169	(7,574)	4,169
Net earned premiums	1.26	1,025,818	985,908	1,025,818	985,908
Fee and commission income	1.27	10,636	21,284	11,415	21,714
Financial income	1.28	146,503	153,356	145,047	143,682
Other operating income	1.29	10,713	8,213	7,939	5,318
Operating income		1,193,670	1,168,761	1,190,219	1,156,622
Claims and benefits incurred	1.30	(750,411)	(736,467)	(750,411)	(736,467)
Reinsurers' share of claims and benefits incurred	1.30	46,657	49,219	46,657	49,219
Net policyholder claims and benefits incurred	1.30	(703,754)	(687,248)	(703,754)	(687,248)
Acquisition costs	1.31	(163,778)	(175,277)	(163,538)	(174,936)
Administrative expenses	1.32	(169,099)	(189,009)	(160,092)	(180,654)
Other operating expenses	1.33	(10,024)	(6,699)	(10,967)	(7,929)
Financial expenses	1.34	(8,101)	(9,391)	(13,681)	(5,398)
Profit before income tax		138,914	101,137	138,187	100,457
Income tax expense	1.35	(25,228)	(21,941)	(25,266)	(21,815)
Profit for the year		113,686	79,196	112,921	78,642
Profit attributable to:					
- Owners of the Company		113,706	79,225	112,921	78,642
- Non-controlling interests		(20)	(29)	-	-
		113,686	79,196	112,921	78,642
Earnings per share attributable to the owners of the Company		HRK	HRK	HRK	HRK
Basic and diluted earnings per share	1.24	447,12	311,54	444,04	309,24

The accounting policies and other explanatory notes on pages 26 to 133 form an integral part of these financial statements.

Statement of comprehensive income (continued)

For the year ended 31 December

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Profit for the year	113,686	79,196	112,921	78,642
Other comprehensive income for the year				
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax (Note 1.23c)	18,762	69,180	18,745	69,150
Total comprehensive income for the year	132,448	148,376	131,666	147,792
Attributable to:				
- Owners of the Company	132,468	148,405	131,666	147,792
- Non-controlling interests	(20)	(29)	-	-
	132,448	148,376	131,666	147,792

The accounting policies and other explanatory notes on pages 26 to 133 form an integral part of these financial statements.

Statement of changes in equity

Group

	Attributable to owners of the Company					Total	Non controlling interests	Total equity
	Issued share capital	Share premium	Fair value reserve	Legal reserve	Retained earnings			
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 1 January 2016	101,722	112,001	144,475	25,053	458,598	841,849	351	842,200
Total comprehensive income for the year								
Change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.23c)	-	-	79,957	-	-	79,957	-	79,957
Deferred tax on change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.18; 1.23c)	-	-	(14,387)	-	-	(14,387)	-	(14,387)
Effect of tax rate change (Note 1.18; 1.23c)	-	-	3,610	-	-	3,610	-	3,610
<i>Other comprehensive income</i>	-	-	69,180	-	-	69,180	-	69,180
<i>Profit for the year</i>	-	-	-	-	79,225	79,225	(29)	79,196
Total comprehensive income for the year	-	-	69,180	-	79,225	148,405	(29)	148,376
Transactions with owners recognised directly in equity								
Dividend for 2015 paid (Note 1.25)	-	-	-	-	(60,601)	(60,601)	-	(60,601)
At 31 December 2016	101,722	112,001	213,655	25,053	477,222	929,653	322	929,975
At 1 January 2017	101,722	112,001	213,655	25,053	477,222	929,653	322	929,975
Total comprehensive income for the year								
Change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.23c)	-	-	22,876	-	-	22,876	-	22,876
Deferred tax on change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.18; 1.23c)	-	-	(4,114)	-	-	(4,114)	-	(4,114)
<i>Other comprehensive income</i>	-	-	18,762	-	-	18,762	-	18,762
<i>Profit for the year</i>	-	-	-	-	113,706	113,706	(20)	113,686
Total comprehensive income for the year	-	-	18,762	-	113,706	132,468	(20)	132,448
Transactions with owners recognised directly in equity								
Dividend for 2016 paid (Note 1.25)	-	-	-	-	(62,003)	(62,003)	-	(62,003)
At 31 December 2017	101,722	112,001	232,417	25,053	528,925	1,000,118	302	1,000,420

The accounting policies and other explanatory notes on pages 26 to 133 form an integral part of these financial statements.

Statement of changes in equity

Company

	Issued share capital HRK'000	Share premium HRK'000	Fair value reserve HRK'000	Legal reserve HRK'000	Retained earnings HRK'000	Total HRK'000
At 1 January 2016	101,722	112,001	144,451	25,053	460,367	843,594
Total comprehensive income for the year						
Change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.23c)	-	-	79,927	-	-	79,927
Deferred tax on change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.18; 1.23c)	-	-	(14,387)	-	-	(14,387)
Effect of tax rate change (Note 1.18; 1.23c)	-	-	3,610	-	-	3,610
<i>Total other comprehensive income</i>	-	-	69,150	-	-	69,150
<i>Profit for the year</i>	-	-	-	-	78,642	78,642
Total comprehensive income for the year	-	-	69,150	-	78,642	147,792
Transactions with owners recognised						
Dividend for 2015 paid (Note 1.25)	-	-	-	-	(60,601)	(60,601)
At 31 December 2016	101,722	112,001	213,601	25,053	478,408	930,785
At 1 January 2017	101,722	112,001	213,601	25,053	478,408	930,785
Total comprehensive income for the year						
Change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.23c)	-	-	22,859	-	-	22,859
Deferred tax on change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.18; 1.23c)	-	-	(4,114)	-	-	(4,114)
<i>Total other comprehensive income</i>	-	-	18,745	-	-	18,745
<i>Profit for the year</i>	-	-	-	-	112,921	112,921
Total comprehensive income for the year	-	-	18,745	-	112,921	131,666
Transactions with owners recognised directly in equity						
Dividend for 2016 paid (Note 1.25)	-	-	-	-	(62,003)	(62,003)
At 31 December 2017	101,722	112,001	232,346	25,053	529,326	1,000,448

The accounting policies and other explanatory notes on pages 26 to 133 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December

		Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
	Notes				
Cash flow from operating activities					
Profit after tax		113,686	79,196	112,921	78,642
Adjustments for:					
- Tax	1.35	25,228	21,941	25,266	21,815
- Depreciation of property and equipment	1.32	5,031	6,500	4,896	6,293
- Depreciation of investment property	1.34	1,249	1,249	1,249	1,249
- Change in deferred acquisition costs	1.31	(4,380)	(1,344)	(4,380)	(1,344)
- Amortisation of other intangible assets	1.32	6,922	5,621	6,151	5,111
- Net foreign exchange losses on financial assets	1.28	14,812	21,045	12,980	21,541
- Loss on disposal of property and equipment	1.11	278	890	278	890
- Loss on disposal of other intangible assets	1.14	-	121	-	-
- Unrealised losses/(gains) from financial assets at fair value through profit or loss	1.28	2,296	(16,397)	458	(10,171)
- Impairment losses on financial assets	1.34	8,832	591	8,787	544
- (Reversal of)/impairment losses on insurance receivables and other assets	1.19	(3,867)	(1)	(3,867)	(1)
- Interest income	1.28	(131,327)	(135,493)	(128,652)	(132,474)
- Interest received		139,003	145,791	136,685	141,994
		<u>177,763</u>	<u>129,710</u>	<u>172,772</u>	<u>134,089</u>
Changes in operating assets and liabilities					
Net decrease/(increase) in held-to-maturity investments		85,906	(5,166)	85,906	(402)
Net increase in available-for-sale financial assets		(390,766)	(165,812)	(340,782)	(141,551)
Net (increase)/decrease in financial assets at fair value through profit or loss		(4,180)	(181,152)	16,097	(153,452)
Net decrease in loans and receivables		56,670	5,725	16,101	3,002
Net (increase)/decrease in reinsurance share in technical provisions		(1,212)	12,619	(1,212)	12,619
Net decrease/(increase) in insurance receivables and other assets		57,043	(27,939)	57,259	(27,936)
Net increase in insurance contract provisions		186,505	170,948	186,505	170,948
Net (decrease)/increase in insurance and other payables		(33,598)	74,137	(78,789)	23,898
		<u>134,131</u>	<u>13,070</u>	<u>113,857</u>	<u>21,215</u>
Net cash from operating activities before income tax paid		(17,423)	(23,970)	(17,423)	(23,701)
Income tax paid					
Net cash from operating activities		<u>116,708</u>	<u>(10,900)</u>	<u>96,434</u>	<u>(2,486)</u>
Cash flows from investing activities					
Purchase of property and equipment	1.11	(1,242)	(7,542)	(646)	(6,864)
Purchase of other intangible assets	1.14	(6,870)	(6,690)	(5,748)	(6,050)
Decrease in investment in subsidiaries carried at fair value		-	-	-	2,255
		<u>(8,112)</u>	<u>(14,232)</u>	<u>(6,394)</u>	<u>(10,659)</u>
Cash flows from investing activities		<u>(8,112)</u>	<u>(14,232)</u>	<u>(6,394)</u>	<u>(10,659)</u>
Cash flows from financing activities					
Dividend paid	1.25	(62,003)	(60,601)	(62,003)	(60,601)
		<u>(62,003)</u>	<u>(60,601)</u>	<u>(62,003)</u>	<u>(60,601)</u>
Net cash from financing activities		<u>(62,003)</u>	<u>(60,601)</u>	<u>(62,003)</u>	<u>(60,601)</u>
Net increase/(decrease) in cash and cash equivalents		46,593	(85,733)	28,037	(73,746)
Cash and cash equivalents at 1 January		91,848	177,581	62,010	135,756
		<u>138,441</u>	<u>91,848</u>	<u>90,047</u>	<u>62,010</u>
Cash and cash equivalents at 31 December	1.20	<u>138,441</u>	<u>91,848</u>	<u>90,047</u>	<u>62,010</u>

The accounting policies and other explanatory notes on pages 26 to 133 form an integral part of these financial statements.

1. Notes to the financial statements

1.1 Reporting entity

Allianz Zagreb d.d. (the “Company”) whose registered address is at Heinzelova 70, Zagreb is a joint stock company incorporated and domiciled in Croatia. The Company is the parent of Allianz Zagreb Group (“the Group”).

The Company is a composite insurer offering life and non-life insurance products in Croatia, regulated by the Croatian Financial Services Supervision Agency (“HANFA” or “Agency”).

The Company’s major shareholder (83.2% of voting rights) is Allianz New Europe Holding GmbH, Wien, Austria and ultimate parent company is Allianz SE, which is a joint stock company, incorporated and domiciled in Germany.

1.2 Basis of preparation

(a) Statement of compliance

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

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS as adopted by EU” or “EU IFRS”).

The financial statements were authorised for issue by the Management Board on 10 April 2018 for approval by the Supervisory Board. These EU IFRS financial statements are prepared in the English language. A Croatian language version of the EU IFRS financial statements is separately prepared and represents the Company’s statutory financial statements.

(b) Basis of measurement

These financial statements are prepared on a historical or amortised cost basis, except for the following assets which are measured at their fair value: financial assets held for trading, financial assets designated upon initial recognition as valued at fair value through profit or loss, available-for-sale financial assets and some investments in subsidiaries measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in the currency of the primary economic environment in which the Group operates (“the functional currency”), Croatian kuna (“HRK”), rounded to the nearest thousand, unless stated otherwise.

(d) Use of estimates and judgements

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

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

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

1.2 Basis of preparation (continued)

(e) Consolidation

The consolidated financial statements comprise the Company and its subsidiaries (together “the Group”).

Business combinations

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

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree’s employees (acquiree’s awards), then all or a portion of the amount of the acquirer’s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree’s awards and the extent to which the replacement awards relate to pre-combination service.

Subsidiaries

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

The Company has investments in investment funds managed by the Company’s subsidiary Allianz Invest d.o.o. The Company reassessed its previous conclusion to consolidate funds managed by the daughter company Allianz Invest. Based on the fact that the Company in terms of IFRS 10 has control over these funds through ownership of Allianz Invest and either holding majority of investment stakes or being largest individual investment stake holder, the Company continues to consolidate these funds.

In its separate financial statements, the Company accounts for its investments in investment funds at fair value and classifies them as financial assets designated by management as at fair value through profit or loss at inception or as available-for-sale investments. The accounting policies applicable to subsidiaries measured at fair value are disclosed in Note 1.3 d). Other subsidiaries are carried at cost less any impairment in the separate financial statements of the Company.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interests in subsidiaries are included in the total equity of the Group except for those non-controlling interests which represent the share of the net assets of investment funds attributable to unitholders in those funds, which are classified as a financial liability.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.2 Basis of preparation (continued)

(f) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction and are not retranslated. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available for sale equity instruments, which are recognised in other comprehensive income (refer below).

Changes in the fair value of monetary (debt) securities denominated in or linked to foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences are recognised in income as a part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within financial income or financial expense in the profit or loss. Other changes in the carrying amounts are recognised in other comprehensive income. The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency classified as available for sale are recognised in other comprehensive income, along with other changes in their fair value.

The most significant currency in which the Group holds assets and liabilities is Euro. The exchange rates used for translation at 31 December 2017 was EUR 1 = HRK 7,513648 (31 December 2016 was EUR 1 = HRK 7.557787), and USD 1 = HRK 6,269733 (31 December 2016: USD 1 = HRK 7.168536). - HNB

(g) Comparatives

In 2017, the Group and the Company changed the classification of accrued interest from "Insurance and other receivables" to respective position within "Held-to-maturity investments", "Available-for-sale financial assets" and "Loans and receivables" to which the underlying interest accrual relates to. Comparative financial information was changed accordingly. The effects of these changes on comparative figures of statement of financial position as at 31 December 2016 are stated in a table below. The reclassification does not affect total profit or loss, other comprehensive income and equity of the Group and the Company as at and for the year ended 31 December 2016. The related reclassification is done in accordance with best EU IFRS practice.

The Group and the Company	As originally reported		Reclassification		As reclassified	
	Group	Company	Group	Company	Group	Company
	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Held-to-maturity investments	675,387	666,025	9,608	9,608	684,995	675,633
Available-for-sale financial assets	3,006,212	2,865,025	43,513	43,513	3,049,725	2,908,538
Loans and receivables	114,301	61,642	967	967	115,268	62,609
Insurance receivables and other assets	296,063	295,830	(54,088)	(54,088)	241,975	241,742
	<u>4,091,963</u>	<u>3,888,522</u>	<u>-</u>	<u>-</u>	<u>4,091,963</u>	<u>3,888,522</u>

(h) Macroeconomics impact

Croatian economy outlook

Croatia continued with recovery and economic expansion in 2017. Estimated GDP growth is around 3.0% (+3.2% yoy in 3Q 17'), fuelled by another record tourist season (arrivals +13% yoy, nights spent +11% yoy). Large improvement was recorded in public finances, as debt/ GDP ratio has fallen below 80%, and MoF announced that in 2017 Croatia achieved budget surplus (for the first time in history). Domestic consumption, as a major GDP component, was encouraged with tax reform at the beginning of the year, as well as with declining unemployment rate. Exports benefited from global growth as well as from growth in EA. While increasing

demand surged imports, Croatia has still managed to improve export-import coverage ratio which stood at 63.7% in Jan-Nov 2017 (+1.5 p.p. yoy).

1.2 Basis of preparation (continued)

(h) Macroeconomics impact (continued)

Inflation is still subdued, even lower than in EA (1.2% yoy in December), and significant pressure on HRK yields is present due to abundant liquidity. Unemployment rate was 10% at the end of the year (according to Eurostat), 2.5 p.p. lower than year before. According to the data from national statistics, the unemployment rate was 12.2% in December (also -2.5 p.p. yoy) and is expected to decline in further in following months due to intensive tourist season preparation. In early 2018, Fitch improved Croatia credit rating (from BB to BB+) and the market expects another improvement in credit rating by the end of the year. The biggest economic and political risk is Agrokor, crisis of the biggest private Croatian company which started in spring 2017. Croatia GDP growth is expected to slow down a little bit in 2018, as analyst forecasts indicate a 2.8% growth in the whole year. In long-term the biggest risk for potential GDP growth is shrinking labor force and net negative immigration.

The Group continues to duly monitor the changes and potential risks from the capital market, and is ready to react in order to minimize market effects on business activities. Although the market brings a lot of challenges, especially in low interest rate environment, and uncertainties relating to Agrokor restructuring, the Group continues with activities for keeping the adequate liquidity position through all available money market instruments and maximizing life insurer's profit in order to protect shareholders' and policyholders' assets and gratifying our customer's

Group started to build up more internationally diversified portfolio in order to reduce concentration risk to Croatian Government that was present due to historical regulatory reasons. International investments are made in countries with investment grade ratings, taking into account macroeconomic and all other specific risks that are related to each investment, with the aim of improving the risk and return profile of the portfolio. In periods of prolonged low interest rates, increasing the duration seems more reasonable than creating additional exposure to high-yield investments.

Impact on customers

Furthermore, the Group has recognised that a increase in the client's purchasing power may impact prospective premium income and cash flow.

Measures are taken towards keeping the existing clients of the Group and attracting new ones.

1.3 Significant accounting policies

(a) Property and equipment

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

Recognition and measurement

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

Historical cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property.

Subsequent costs

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

Depreciation

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

The estimated useful lives are as follows:

	2017	2016
• Buildings	40 years	40 years
• Motor vehicles	5 years	5 years
• Equipment and furniture	4 years	4 years
• Fixtures and fittings	5 years	5 years

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

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

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

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

1.3 Significant accounting policies (continued)

(b) Intangible assets

Deferred acquisition costs – insurance contracts

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

Deferred acquisition costs for non-life business comprise commissions paid to the external sales force and salaries of the internal sales force incurred in concluding insurance policies during a financial year but which relate to a subsequent financial year, and other variable underwriting and policy issue costs. General selling expenses are not deferred.

For non-life insurance business the deferred acquisition cost asset at the reporting date has been calculated by comparing the provision for unearned premiums at the reporting date with gross premiums written during the year and deferring a comparable proportion of deferrable acquisition costs, subject to their recoverability.

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

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

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete the development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred. The Group capitalises only development expenditure related to software. Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses, if any, same as for the purchased software.

Goodwill

Goodwill arising on acquisitions represents the excess of the costs of acquisition over the fair value of the Group's share or the underlying net identifiable assets including intangible assets, at the date of acquisition. Goodwill on acquisition of subsidiary is included in intangible assets. Goodwill is tested for impairment at least annually. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

	2017	2016
• Internally developed software	5 years	5 years
• Computer software	5 years	5 years

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

1.3 Significant accounting policies (continued)

(c) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation.

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

Depreciation is provided on all investment property, except for investment property not yet brought into use and land forming part of the investment property, on a straight-line basis over the estimated useful life of the asset as follows:

	2017	2016
• Investment property	40 years	40 years

(d) Financial instruments

Classification

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

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

Financial assets and financial liabilities at fair value through profit or loss are financial assets which are classified as held for trading or on initial recognition designated by the Group as at fair value through profit or loss. Derivatives are classified as held for trading. The Group does not apply hedge accounting.

As stated above this category have two sub-categories: financial instruments held for trading, and those designated by management as at fair value through profit or loss at inception. Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as a part of a portfolio that is managed together for short-term profit or position taking.

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

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

Financial instruments at fair value through profit or loss include investments in investment fund units, debt securities and equity linked securities, both for the Group's own and for the account of policyholders.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- those that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those that the management upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

Loans and receivables arise when the Group provides money to a debtor with no intention of trading with the receivable and include deposits with banks, mortgage loans and advances to policyholders from the life assurance provision.

Receivables for non-life arising from insurance contracts are accounted for under IFRS 4 *Insurance Contracts*, however having due regard to the requirements of IAS 39 related to impairment.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Held-to-maturity investments

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

Available-for-sale financial assets

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

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. The Group does not have financial liabilities designated at fair value through profit or loss except those related to the index-linked products described in accounting policy 1.3 (x). Payables arising from insurance contracts are accounted for under IFRS 4 *Insurance Contracts*. Other financial liabilities are disclosed in the statement of financial position under line item "Insurance and other payables and deferred income".

Reclassification

During 2017, there was no reclassification of debt securities from available for sale to held to maturity. In previous years the Group reclassified part of its available-for-sale financial assets, for which it has the intent and ability to hold to maturity, in the category of held-to-maturity investments. On reclassification of the available-for-sale financial assets to held-to-maturity category, the fair value of financial asset available for sale immediately prior to the reclassification becomes the new amortised cost. Following reclassification of a financial asset with a fixed maturity, any gain or loss previously recognised in other comprehensive income, and the difference between the newly established cost and the maturity amount are both amortised over the remaining term of the financial asset using the effective interest method. For a financial asset with no stated maturity, any gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss only when the financial asset is disposed of or impaired. The impact of this reclassification is shown in Note 1.16 (b).

Recognition and derecognition

Regular way purchases and sales of financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised on the trade date which is the date when the Group commits to purchase or sell the instrument. Loans and receivables and financial liabilities carried at amortised cost are recognised when advanced to borrowers or received from lenders.

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

The Group derecognises financial liabilities only when the financial liability ceases to exist, ie when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Initial and subsequent measurement

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

After initial recognition, the Group measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reasons, the fair value cannot be reliably measured by market price, the Group establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

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

Gains and losses

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

Gains and losses from a change in the fair value of available-for-sale monetary assets are recognised directly in other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method, on available-for-sale monetary assets are recognised in the profit or loss.

For non-monetary financial assets available for sale all changes in fair value, including those related to translation difference, are recognised in other comprehensive income. Upon sale or other de-recognition of available-for-sale financial assets, all cumulative gains or losses are transferred from other comprehensive income to profit or loss.

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

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

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

In accordance with the Agency valuation rules and as permitted under IFRS 13 the following prices are used:

- average weighted mid prices for domestic debt and equity securities,
- closing bid prices for securities of foreign issuers,
- prices quoted per unit by investment management companies for units in investment funds.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Fair value measurement (continued)

The best evidence of the fair value of a financial instrument (except for derivative financial instruments) at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. At the reporting date the Company did not have such financial instruments (2016: -).

Impairment of financial assets

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

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

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

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

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its original cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equity securities, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity securities available for sale are not subsequently reversed through profit or loss, but all value increases until the final sale are recognised in other comprehensive income.

Specific instruments

Embedded derivatives within insurance contracts

Sometimes, a derivative may be a component of a hybrid (combined) financial instrument or insurance contract that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Such derivatives are sometimes known as 'embedded derivatives'.

Embedded derivatives are separated from their host contract, measured at fair value and changes in their fair value included in the profit or loss if they meet the following conditions:

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Specific instruments (continued)

Embedded derivatives within insurance contracts (continued)

- the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and,
- the hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss.

Embedded derivatives, which satisfy the definition of an insurance contract, do not need to be separated from their host contract, and the Group took advantage of the exemptions available within IFRS 4:

- not to separate and measure at fair value a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate) even if the exercise price differs from the carrying amount of the host insurance liability,
- not to separate and measure at fair value options to surrender contracts with discretionary participation features.

Debt securities

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

Deposits with banks

Deposits with banks (with original maturity over 3 months) are classified as loans and receivables and are carried at amortised cost less any impairment.

Loans to customers

Loans to customers are classified as loans and receivables and are carried at amortised cost less impairment allowances to reflect the estimated recoverable amounts.

Loans and receivables from policyholders

Loans to and receivables from policyholders are classified as loans and receivables and are presented net of impairment allowances to reflect the estimated recoverable amounts.

Equity securities

Equity securities classified as available-for-sale financial assets and financial assets at fair value through profit or loss and carried at fair value, unless if for available-for-sale equity securities there is no reliable measure of the fair value, in which case they are stated at cost, less impairment.

Investments in funds

Investments in open and close ended funds (other than investments funds which represent subsidiaries of the Company) are classified as financial assets at fair value through profit or loss or available-for-sale financial assets and are carried at current fair value.

Investments held for the account and at risk of life assurance policyholders

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

1.3 Significant accounting policies (continued)

(d) Financial instruments (continued)

Specific instruments (continued)

Trade and other receivables

Trade and other receivables are stated at their amortised cost less any impairment.

Investments in subsidiaries

Investment in subsidiaries that relate to investment funds are classified at fair value through profit or loss or as available for sale, while all other subsidiaries are stated at their cost less any impairment in the separate financial statements.

All investments in subsidiaries are fully consolidated in the consolidated financial statements.

Trade and other payables

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

Offsetting of financial instruments

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

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

(e) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The Group does not have such leases at the reporting date.

Other leases are operating leases where leased assets are not recognised on the Group's statement of financial position. The accounting policy for recognising leasing costs is described in accounting policy 1.3 (n) under *Operating lease payments*.

(f) Cash and cash equivalents

For the purpose of the statement of financial position and cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits with banks, and other short-term highly liquid investments with original maturities of three months or less.

(g) Employee benefits

Pension obligations

For defined contribution plans, the Group pays contributions to State-owned management companies, in accordance with legal requirements or individual choice. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense in profit or loss as they accrue.

Share-based payment transactions

Restricted stock units ("RSU") and share appreciation rights ("SAR") of the parent company Allianz SE are granted to the Management Board. The fair value of the amount payable to employees in respect of these cash-settled share based transactions is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date to its fair value, with all changes recognised immediately in the profit or loss as Administrative expenses (cash settled share-based payment related personnel expenses).

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.3 Significant accounting policies (continued)

(g) Employee benefits (continued)

Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the balance sheet date. The projected credit unit method is used for the calculation of the present value of the liability.

(h) Income tax

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

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

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on rates that have been enacted or substantively enacted by the reporting date.

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

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or non-current liabilities.

(i) Provisions

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

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract. Accounting policy for insurance contracts is disclosed under accounting policy Note 1.3 (r) *Unexpired risk reserve*.

(j) Equity

Issued share capital

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

Share premium

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

1.3 Significant accounting policies (continued)

(j) Equity (continued)

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

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

Legal reserve

The legal reserve represents accumulated appropriations from retained earnings in compliance with the Insurance Law, which was effective until 31 December 2005, and required at least one third of the net profit for the year to be transferred to non-distributable legal reserves, until they reach half of the average gross written premium in the preceding two years. Those requirements no longer exist in the subsequent versions of the Insurance Law, effective post 1 January 2006. However, as required by the Companies Act, a company is required to appropriate 5% of its annual net profit into legal reserves until they, together with capital reserves, reach 5% of issued share capital. Legal and capital reserves formed under the Companies Act can be used for covering prior period losses up to 5% of issued capital, if they are not covered by profit in the current period or if other reserves are not available.

Fair value reserve

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

Retained earnings

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

(k) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred acquisition costs (see accounting policy 1.3 (b)), financial assets (see accounting policy 1.3 (d)) and deferred tax assets (see accounting policy 1.3 (h)), are tested for impairment at each reporting date.

If any indication exists, the asset's recoverable amount is estimated. For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date. At the reporting date the Group did not have such assets, other than goodwill.

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

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

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

1.3 Significant accounting policies (continued)

(l) Segment reporting

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

Allocation of income and expense between the life assurance and non-life insurance segments

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

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

Investment income, realised and unrealised gains and losses, expenses and charges arising on investments from equity are allocated to the life and non-life insurance segments depending on the allocation of the underlying assets.

During the year, direct administration costs are directly charged to the life or non-life segments. For administrative expenses that cannot be directly allocated, a key (based on gross written premium) is used to allocate the expense between life and non-life insurance.

Advertising and marketing costs are directly allocated to the life and non-life segments based on the insurance product being advertised or marketed.

Commissions are recorded separately in the life and non-life accounts. A significant part of personnel expenses is directly allocated to the life and non-life segments. Where personnel expenses cannot be directly allocated, an allocation is made based on the percentage of hours spent directly on life and non-life insurance business. Other acquisition costs are allocated directly to the non-life and life segments or based on gross written premium.

Allocation of equity and assets

All property and equipment as well as intangible assets of the Company are allocated to non-life segment. Financial investments are allocated according to the source of funding. Equity is allocated according to minimal regulatory capital requirements for issued share capital, while any excess is allocated to the non-life segment. Fair value reserve is allocated according to the source of the related financial assets, while the legal reserves were allocated to each segment according to the results of the related segment up to 2006 (see accounting policy Note 1.3 (j) under *Legal reserve*). Other receivables and payables are allocated to segments which they were originated. Share premium is allocated according to the original payments.

(m) Revenue

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

Financial income

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

Financial income also includes net positive foreign exchange differences resulting from the translation of monetary assets and liabilities using the exchange rate applicable at the reporting date; dividends; net gains on the change in the fair value of financial assets at fair value through profit or loss; and realised net gains from derecognition financial assets available for sale.

Dividend income is recognised in the profit or loss on the date when the dividend is declared. The accounting policy in relation to financial income recognition is disclosed in Note 1.3 (d) under "*Gains and losses*".

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

1.3 Significant accounting policies (continued)

(m) Revenue (continued)

Fee and commission income

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

(n) Expenses

Operating expenses

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

Acquisition costs

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

Non-life commission expenses are recognised on an accruals basis, while life commission expenses are recognised on a cash basis consistent with the related income recognition criteria as described in accounting policy 1.3 (p).

The Group's accounting policy for deferred acquisition costs is disclosed in to accounting policy 1.3 (b).

Administrative expenses

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

Operating lease payments

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease.

Financial expenses

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

Financial expenses also include net losses from changes in the fair value of financial assets at fair value through profit or loss and net realised losses on derecognition of financial assets available for sale. The accounting policy in relation to financial expense recognition is disclosed in accounting policy Note 1.3 (d) under "Gains and losses".

(o) Classification of contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

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

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

1.3 Significant accounting policies (continued)

(o) Classification of contracts (continued)

Contracts with discretionary participation features

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

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

The discretionary element of those contracts is accounted for as a liability within the life assurance provision. The provision for discretionary bonus within the life assurance provision may comprise amounts arising in relation to participating policies, for which the allocation of funds has not been determined at the reporting date. When the allocation of funds is determined, appropriate transfers are made out of this fund.

At the reporting date the Group accounted for HRK 82.0 million of provision for discretionary profit participation bonuses (2016: HRK 84.6 million) which is included within the life assurance provision. From this amount HRK 35.0 million (2016: HRK 35.2 million) is not allocated to individual policyholders. From this amount the Group did not make allocations to policyholders in 2017 and recognised only negative FX differences of HRK 0.2 million. In 2016 the Group also did not make allocations to policyholder and increased unallocated provision for discretionary profit participation bonus by HRK 7.2 million, net of FX differences, against profit for the year.

(p) Premiums

Non-life business written premiums are recognised as premium from the inception of the insurance coverage except for prolonged warranty insurance (other liability) which is recognised as premium from inception of the insurance contract. Receipts for other insurance products before that date are treated as a liability for an advance payment. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums.

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

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

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

(q) Unearned premium reserve

Unearned premium reserve comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method ("pro rata temporis"), adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract. Unearned premium reserve in respect of life assurance is included within the life assurance provision.

Unearned premium reserve for individual insurance contract is formed in the amount of the part of written premium which relates to insurance coverage for the insurance period after the accounting period for which the provision is calculated. For the calculation of gross unearned premium for non-life insurance with equal risk dispersion, the method of individual calculation in time is used.

The reinsurance share in unearned premium reserve is calculated according to reinsurance contracts.

1.3 Significant accounting policies (continued)

(r) Unexpired risk reserve

Provision is made for unexpired risks arising from non-life business where the expected value of claims and expenses (including deferred acquisitions costs and administrative expenses likely to arise after the end of the financial year) attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, before taking into account relevant investment returns. Liability adequacy testing for both life and non-life and related assets is disclosed in more details in accounting policy Note 1.3 (w) and in Note 1.7.

(s) Claims provisions

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

Other non-life insurance provisions include provisions for bonuses and discounts. The provision for bonuses and discounts is formed in the amount to which the insurers are entitled based on their participation in profit as a result of their insurance contract or as a future partial reduction of the premium based on the insurance contract.

(t) Life assurance provisions

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

The Group uses Zillmer factor range from 0% to 3.5% of sum insured or annual amount of annuities dependent upon the product and distribution channel. The applied Zillmer rate is within the limits prescribed by HANFA.

The life assurance provision for unit-linked products is stated at the fair value of the related investment.

The provision is initially measured using the assumptions used for calculating the corresponding premiums and remain unchanged except where liability inadequacy occurs, or if otherwise prescribed by HANFA.

A liability adequacy test ("LAT") is performed at each reporting date by the Group's actuaries using current estimates of future cash flows under its insurance contracts (refer to accounting policy 1.3 (w) and Notes 1.7 and 1.8). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in the profit or loss with a corresponding increase to the life assurance provision.

The amount of bonus to be allocated to policyholders has been irrevocably fixed at the reporting date and is presented within the life assurance provision. The Group does not have a policy to decrease the provision for discretionary bonuses, in favour of the Group, once the provision has been formed. The amount of bonus to be allocated to policyholders is determined at the reporting date and is presented within the life assurance provision.

(u) Claims

Claims arising from non-life business

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

Claims settled are recorded in the moment of processing the claim and are recognised (determined) as the amount to be paid to settle the claim. Claims settled are increased by claims handling costs. Collected claims recoverable from third parties and claims recoverable from third parties that are anticipated to be collected are deducted from claims settled.

1.3 Significant accounting policies (continued)

(u) Claims (continued)

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

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

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

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

Claims and benefits arising from life assurance business

Life assurance business claims reflect the cost of all claims and benefits arising during the year, including policyholder bonuses allocated in anticipation of a bonus declaration.

(v) Reinsurance

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

Premiums ceded and benefits reimbursed are presented in the profit and loss and statement of financial position on a gross basis. Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance), are recorded using the deposit method of accounting. During 2017 and 2016 the Group had no such contracts. The cost of reinsurance related to life assurance contracts is accounted for over the life of the underlying insurance policies using assumptions consistent with those used to account for the underlying policies.

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

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date applying the same methodology as applied for loans and receivables as described in accounting policy 1.3 (d). The Group records an allowance for estimated irrecoverable reinsurance assets, if any. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Reinsurance commissions and profit participations

Reinsurance commissions and profit participations include commissions received or receivable from reinsurers and profit participations based on reinsurance contracts. Non-life reinsurance commissions are deferred in a manner consistent with the deferral of acquisition costs in non-life insurance.

1.3 Significant accounting policies (continued)

(w) Liabilities and related assets under the liability adequacy test

Insurance contracts are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in the profit or loss.

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

(x) Measurement of liabilities in respect of unit-linked and index-linked insurance contracts

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

(y) Insurance receivables and payables

Insurance receivables and payables are accounted for in accordance with IFRS 4. Insurance receivables and payables include receivables and payables arising from insurance and reinsurance contracts entered by the Group. An impairment allowance in the full amount is established for premium receivables that are overdue more than 120 days.

(z) New standards, amendments and interpretations

Several new and altered Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, have been authorised for issue but are not yet mandatory to entities reporting under IFRS for period ended 31 December 2017 and/or have not been adopted by the European Union, and have not been applied in preparation of these financial statements. Most new and altered Standards and Interpretations adopted by the European Union are not relevant to the Group and will not have a significant effect on the financial statements of the Group.

IFRS 17, Insurance contracts and IFRS 9, Financial Instruments

IFRS 17, Insurance Contracts was issued by the IASB in May 2017 with the effective date of 1st January 2021 (retrospective application). IFRS 17 provides comprehensive guidance on accounting for reinsurance contracts and investment contracts discretionary participation features. For non-life insurance contracts IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk. Further IFRS 17 will change the presentation of insurance contract revenue, a gross written premium will no longer be presented in the statement of comprehensive income. For long-duration life insurance contracts, IFRS 17 is expected to have significant impact on actuarial modelling as more granular cash flow projections and regular updates of all assumptions will be required, either resulting in profit or loss or impacting the “contractual service margin”, a separate component of the insurance liability representing unearned profits from in-force contracts. Further, IFRS 17 introduces different measurement approaches for the insurance contract liabilities, reflecting a different extent of policyholder participation in investment or insurance entity performance. Due to strong interaction between underlying assets held and the measurement of direct participating insurance contracts, the Allianz Group decided to use the option to defer the full implementation of IFRS 9 until IFRS 17 becomes effective on 1 January 2021. The amendment to IFRS 4, which allows this deferral, has been endorsed by the EU in November 2017.

1.3 Significant accounting policies (continued)

(z) New standards, amendments and interpretations (continued)

IFRS 17, Insurance contracts and IFRS 9, Financial Instruments (continued)

IFRS 9, issued by IASB in July 2014, will fully replace IAS 39 and provides a new approach on how to classify financial instruments based on their cash flow characteristics and the business model under which they are managed. Furthermore, the standard introduces a new forward looking impairment model for debt instruments and provides new rules for hedge accounting. It can be assumed that the main impact from IFRS 9 will arise from the new classification rules leading to more financial instruments being measured at fair value through profit and loss as well as from new impairment model. In this context, interdependencies with IFRS 17 have to be considered to come to a final conclusion on the combined impact on both standards. The Group is currently assessing the impact of the application of both IFRS 17 and IFRS 9. As of the date of the publication of these consolidated financial statements it is not practicable to quantify the effect on the Group consolidated financial statements.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, Leases which supersedes IAS 17. IFRS 16 introduces a single on-balance sheet lease accounting model for leases. An lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance and operating leases.

The Group has not yet completed the detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate at 1 January 2019, the composition of the lease portfolio at that date, the latest assessment of whether the Group will exercise any lease renewal options, and the extent to which the Allianz Group chooses to use practical expedients and recognition exemptions. The Group currently plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach.

1.4 Accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (Note 1.39) and insurance risk management (Note 1.5).

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

1.4.1 Key sources of estimation uncertainty

Losses from impairment of loans and receivables

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

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

Estimation of uncertainty in relation to reserving

The most significant estimates in relation to the Group's financial statements relate to insurance contracts reserving. The Group takes a reasonably prudent approach to reserving and applies HANFA regulations. The Group employs certified actuaries.

The Group's policy is to make provision for unexpired risks arising from non-life insurance business where the claims, deferred acquisition costs and administrative expenses likely to arise after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums available under those contracts. The management believes that at the reporting date such provisions have been adequately valued and accounted for.

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

Determining fair values

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in accounting policy 1.3(d). For financial assets that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Estimation of uncertainty in relation to court claims

A significant source of estimation uncertainty stems from court claims. At 31 December 2017, the Group was involved in 1,214 (2016: 1,349) court cases for which HRK 130,046 thousand (2016: HRK 136,829 thousand) was provided as part of the claims reserve for reported but not yet settled claims, excluding Dunav claims which are discussed in Note 1.6. The Management Board believes that the related provisions are sufficient.

Estimation of uncertainty in relation to court cases against the Company (non-claims related)

The Group and the Company recognised a provision of HRK 1,651 thousand (2016: HRK 4,332 thousand) in respect of other court cases against the Group and the Company. The Management Board believes that the provision for court cases has been set up at an adequate level.

Tax

The Group provides tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns of individual Group members are subject to approval of the tax authorities which are entitled to carry out subsequent inspections of taxpayer's records.

The management believes that the Company's and the Group's tax position have been stated in accordance with the estimate of ultimate inflows and outflows in accordance with Croatian tax regulations. Also the management believes that the Company's and the Group's deferred tax assets are fully recoverable.

1.4 Accounting estimates and judgements (continued)

1.4.1 Key sources of estimation uncertainty (continued)

Regulatory requirements

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

Joint liability

The Company has a liability towards the Croatian Insurance Bureau in respect of the Company's share in motor third party liability ("MTPL") claims arising from unknown or uninsured vehicles. Additionally, the Company, as well as other participants in MTPL business on the Croatian market, is liable for a share of unsettled MTPL claims in the event of the liquidation of any insurance company on the market, in accordance with the Insurance Law.

The Company also has a joint liability in relation to green card claims for damages from unknown vehicles. These claims are paid through Croatia insurance office and all Croatian insurance companies finance this institution according to the market share in MTPL insurance segment. The Croatian Insurance Bureau provides the Group with the amount of reported claims provision and with the lower limit for IBNR calculation. In addition, the Group's authorised actuary assesses an additional amount for IBNR, which relates to a certain liability which will be settled from the Guarantee fund and which was not initially included in the recommended minimum IBNR amount.

Useful economic life of equipment and intangible assets

The Group continues to use certain equipment and intangible assets which have been fully depreciated. Amortisation/depreciation rates were initially determined in accordance with the best estimate of the useful lives of these equipment and intangible assets.

Valuation of investment in subsidiaries carried at cost

Valuation of investments in subsidiaries carried at cost less impairment in the separate financial statements is based on the management's best estimate of the recoverable amount of subsidiaries. Recoverable amount is the higher of fair value less cost to sell and the value in use. The Management Board believes that investment in subsidiaries carried at cost is fully recoverable at the reporting date.

Valuation of investment property

Valuation of investment property carried at cost is based on management's best estimate of the recoverable amount of investment property. Recoverable amount is the higher of fair value less cost to sell and the value in use and is periodically reassessed by chartered surveyors. The Management Board believes that investment property carried at cost less impairment is fully recoverable at the reporting date.

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

Financial asset and liability classification

The Group's accounting policies provide the scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances. In classifying financial assets or liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 1.3 (d).

In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policy 1.3 (d).

Reclassification of financial assets and liabilities at fair value through profit or loss is allowed in certain rare circumstances and is explained in accounting policy 1.3 (d) under paragraph "Reclassification".

Held-to-maturity investments can be classified as such only if the Group has the positive intention and ability to hold these investments to maturity.

1.4 Accounting estimates and judgements (continued)

1.4.2 Critical accounting judgements in applying the Group's accounting policies (continued)

Valuation of financial instruments

The Company's accounting policy on fair value measurements is discussed in accounting policy 1.3 (d). The Company measures fair values using the fair value hierarchy as discussed in Note 1.39 on financial risk management.

In accordance with the Agency regulations and as allowed by IFRS 13 *Fair Values*, the Group uses mid market prices as a measure of fair value on active markets for domestic debt and equity securities, in accordance with the measurement conventions prescribed by the Agency.

Classification of products

For the Group's accounting policy on classification of contracts as insurance or investment contracts please refer to accounting policy 1.3 (o). At the reporting date, the Company had no insurance products which should be classified as investment contracts.

Classification of property between investment property and owner-occupied property

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

Dual-use property

The Group has property that has dual purpose (part of the property is used for own activities and part of the property is used as investment property).

A portion of a dual-used property is classified as investment property only if the portion could be sold or leased out separately under finance lease contract.

When a portion of the property could not be sold or leased out under a finance lease separately, the entire property is classified as investment property only if the portion of the property held for own use is insignificant.

As the "insignificant" is not defined by the IFRS, it is assessed on a property-by-property basis by reference to value and/or usable floor space.

The Group believes that the own use portion of 9% of usable floor space is insignificant therefore continues to account for all property as investment property.

Allocation of indirect expenses between life and non-life segment

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

Control over debtors in financial difficulties

In accordance with requirements of IFRS 10 Consolidated Financial Statements, the Group regularly reassess whether they have control over significant activities of debtors in financial difficulties. For 2017, the Group concluded that there are no debtors which should be consolidated, which is consistent with 2016.

Control over Allianz Invest managed, open ended investment funds

The Group's stakes in Allianz Portfolio at 31 December 2017 was 11.1% (along with unit linked investments 54.1%) (2016: 17.8% and 52.8%) and in Allianz Equity 18.2% (2016: 25.8%).

Classification of open-ended investment fund subsidiaries is initially performed in accordance with the Company's investment strategy. Despite having less than 50% ownership stakes in two open-ended funds at 31 December 2017, the management believes it is appropriate to conclude these two funds are subsidiaries as the Company controls the asset manager and is by far the biggest single investor. Further, the Company had additional investment in Allianz Portfolio of 43% (2016: 35%), through its unit linked investments (which have been disclosed as such in accordance with the best practice, rather than as investments in subsidiaries).

1.5 Insurance risk management

The Group is exposed to actuarial and underwriting risk arising from a wide range of life and non-life products offered to customers: participating traditional life products, annuities, unit-linked, index linked and all lines of non-life products (property, accident and health, motor vehicle- MTPL and motor hull, third party liability, marine, aviation and transport).

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

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

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

Risk management

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

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. Non-life contracts are annual in nature and the underwriter have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Group contracts a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure for an individual risk or event, depending on line of business, but with a maximum net exposure of EUR 0.6 million. For the accumulation of net property losses arising out of one occurrence, a reinsurance catastrophe treaty provides cover for EUR 113.5 million (*2016: EUR 85.5 million*) of losses exceeding the first EUR 1.5 million (*2016: EUR 1.5 million*).

Ceded reinsurance contains credit risk and such reinsurance recoverable are reported after deductions for known uncollectible items. The Group monitors the financial condition of reinsurers and enters into reinsurance agreements with minimum A- rated reinsurers by Standard & Poor's.

The adequacy of liabilities is assessed taking into consideration the supporting assets (fair and book value, currency and interest sensitivity), changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses as well as general market conditions. Specific attention is paid to the adequacy of provisions for the life business. For a detailed description of the liability adequacy test refer to accounting policy 1.3 (w) and Note 1.7.

1.5 Insurance risk management (continued)

Concentration of insurance risk

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

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

The risks underwritten by Group are primarily located in the Republic of Croatia.

The concentration of insurance risk before and after reinsurance in relation to the type of insurance risk accepted is summarised below, with reference to the carrying amount of the claims and benefits incurred (gross and net of reinsurance) arising from insurance contracts:

	2017 Group and Company			2016 Group and Company		
	Gross claims incurred HRK'000	Reinsurers' share of claims and benefits incurred HRK'000	Net claims incurred HRK'000	Gross claims incurred HRK'000	Reinsurers' share of claims and benefits incurred HRK'000	Net claims incurred HRK'000
Non-life insurance business						
Motor (third party)	(45,948)	3,142	(42,806)	(57,434)	2,959	(54,475)
Motor (other classes)	(54,617)	-	(54,617)	(51,545)	-	(51,545)
Property	(155,620)	47,445	(108,175)	(118,038)	42,917	(75,121)
Personal lines	(16,781)	1,266	(15,515)	(16,013)	1,133	(14,880)
Other	(14,288)	(5,498)	(19,786)	(18,377)	1,456	(16,921)
Total non-life	(287,254)	46,355	(240,899)	(261,407)	48,465	(212,942)
Life assurance business						
Periodic premiums	(258,086)	302	(257,784)	(265,046)	754	(264,292)
Single premiums	(205,071)	-	(205,071)	(210,014)	-	(210,014)
Total life	(463,157)	302	(462,855)	(475,060)	754	(474,306)
<i>Thereof unit linked and index linked</i>	(151,496)	-	(151,496)	(145,605)	-	(145,605)
Grand total	(750,411)	46,657	(703,754)	(736,467)	49,219	(687,248)

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

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

- Measurement of geographical accumulations,
- Assessment of probable maximum losses,
- Excess of loss reinsurance.

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

Non-life insurance

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

The liability for reported claims (“RBNS” or “NOCR”) is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Claims reserves are reviewed regularly and are updated as and when new information arises.

The estimation of claims incurred but not reported (“IBNR”) is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are predominantly assessed by the Group’s certified actuaries.

The key methods, which remain unchanged from prior years, are:

- chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- Bornhuetter-Ferguson method, which combines the estimated ratio of losses and the projection method. It therefore improves on the crude use of a loss ratio by taking account of the information provided by the latest development pattern of the claims, whilst the addition of the loss ratio to a projection method serves to add some stability against distortions in the development pattern;
- expected loss ratio methods, which use the Group’s expectation of the loss ratio for a class of business.

The actual method or blend of methods used varies by accident year being considered, the class of business and observed historical claims development.

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

- economic, legal, political and social trends (resulting in different than expected levels of inflation);
- changes in the mix of insurance contracts incepted;
- random fluctuations, including the impact of large losses.

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

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

Expected claims ratio

The expected claims ratio represents the ratio of expected claims incurred to premiums earned. The assumptions in respect of expected claims ratios for the most recent accident year, per class of business, have a significant influence on the level of provisions.

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

Non-life insurance (continued)

Tail factors

For long-tail business, the level of provision is significantly influenced by the estimate of the development of claims from the latest development year for which historical data is available to ultimate settlement. These tail factors are estimated prudently using mathematical curves, which project observed development factors or are based on actuarial judgment.

Discounting

With the exception of annuities, non-life claims provisions are not discounted.

Annuities

Claims outstanding include provisions for MTPL claims payable as annuities, which are stated at estimated net present value based on a discount rate of 2.5% per annum. Annuities are calculated using the Republic of Croatia mortality tables from 2010-12. Annuity claims are fixed at their nominal value over the length of the period of payment.

Claims handling provisions

The provision for claims handling expenses is computed as a certain percentage (percentage is based on information on the ratio of claims handling expenses and settled claims) of the NOCR provision and the IBNR provision. For computing the provision for claims handling expenses as at 31 December 2017 a percentage of 6% was used for both provisions except for claims greater than HRK 6.50 million, which are provided for individually.

Dunav osiguranje claims

The Company, formerly known as Adriatic osiguranje, was founded in 1991, upon the secession of the Croatian Republic from the Yugoslav Federation, with the Company taking over (or continuing) the business operations of Dunav osiguranje (a Belgrade based state insurer) at its branches in Zagreb, Rijeka, Sisak and Karlovac.

The Company maintained and occupied part of the Dunav osiguranje owned business premises in Zagreb, Rijeka and Karlovac. The Company's initial headquarters were registered at the former Dunav osiguranje address at "Kneza Mislava" street in Zagreb, and after finalisation of the privatisation process, ownership of part of the Dunav osiguranje owned business premises was transferred to Adriatic osiguranje.

During the initial stages of the Company's business operations (1991-92), the Company accepted Dunav osiguranje insurance contracts, and settled claims arising out of Dunav osiguranje policies. The Company accepted premiums written on Dunav osiguranje policies, issued policies on Dunav osiguranje letterhead (stamped with the Adriatic stamp), and replaced active Dunav osiguranje policies with policies printed on Adriatic osiguranje letterhead.

On 1 November 1992, when the Government declared the first Privatisation Act for the insurance industry, the Company initiated a privatisation process that was completed in March 1993. The state-owned Privatisation Fund took control of 43% of the share capital, whilst the remaining 57% was distributed among small shareholders and employees.

From 1991 to the reporting date, Allianz accumulated 117 such claims (or court cases) that originate from the aforementioned transitional period. Since 1996, there have been a number of inconsistent court rulings as to whether or not Allianz Zagreb is the legal successor of Dunav osiguranje.

At the reporting date, however, management has provided HRK 1.89 million (2016: HRK 2.22 million) in respect of Dunav osiguranje related claims as a part of claims reserves based on court experience up to date. Exposure to cases with potential liability has been estimated taking into consideration the possible settlement value of the case and the probability of this outcome.

During 2017, the Company paid out HRK 355 thousand (2016: 23 thousand) in respect to these claims either per court rulings or through out-of-court settlement.

In 2017, there have been no major changes in assumptions used to measure non-life insurance assets and liabilities.

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

Life assurance

The life assurance provision is calculated by a prospective net premium method. In accordance with guidelines issued by HANFA, the newest mortality tables are used unless other mortality tables give higher mathematical provision.

For MZ4, MZ4-J tariffs the Group elects to use Republic of Croatia mortality tables which are used in calculation of premiums (MT RH 1989-91), not the latest official mortality tables (MT RH 2010-12). Using of older mortality tables results in a larger life assurance provision than it would be calculated if the 2010-12 mortality tables were utilised in the calculation. For the same reason in case of annuity tariffs RM1, RND-150, for mathematical reserve calculation are also used mortality tables which are used in calculation of premiums.

According to the same guidelines issued by HANFA, maximum interest rate for insurance reserve calculation is 3.3% for portfolio issued before 2010, 3% for policies issued in 2010, 2.75% for policies issued between 2010 and 30.06.2016 and 1.75% for policies issued after 30.6.2016. For tariffs in which technical rate used in determining the premium is lower than 3.3%, 3%, 2.75% and 1.75%, those lower rate is used for provision calculation.

Technical rates used in determining the premium rates vary from 0% to 5%.

The principal assumptions underlying the calculation of the significant components of the life assurance provision are presented below:

Description	Product	Rates of interest for calculating reserve at 31 December 2017	Mortality tables used in 2017	Rates of interest for calculating reserve at 31 December 2016	Mortality tables used in 2016
Endowment	M1, M2, M2-J	3.30%	MT RH 2000-02	3.30%	MT RH 2000-02
Endowment	M1-J	3.30%	MT RH 2010-12	3.30%	MT RH 2010-12
Joint Life	MZ1	3.30%	MT RH 2000-02	3.30%	MT RH 2000-02
Term	S1, S1-J	3.30%	MT RH 2000-02	3.30%	MT RH 2000-02
Term (beginning in 2010)	S1, S1-J	3.00%	MT RH 2000-02	3.00%	MT RH 2000-02
Term	S3, S3-J, SDJ03	2.50%	MT RH 2000-02	2.50%	MT RH 2000-02
Term	S3U, S3U-J, SDJU03	2.50%	MT RH 2000-02	2.50%	MT RH 2000-02
Term (issue date from 01.07.2016)	S3U, S3U-J, SDJU03	1.75%	MT RH 2000-02	1.75%	MT RH 2000-02
Endowment	M3, M3-J	3.30%	MT RH 2000-02	3.30%	MT RH 2000-02
Joint Life	MZ2	3.30%	MT RH 2000-02	3.30%	MT RH 2000-02
Joint Life	MZ2-J	3.30%	MT RH 2010-12	3.30%	MT RH 2010-12
Endowment	M4, M4-J, M6J, M6DJ	2.75%	MT RH 2000-02	2.75%	MT RH 2000-02
Joint Life	MZ4, MZ4-J	2.75%	MT RH 1989-91 (less 30% smoothed)	2.75%	MT RH 1989-91 (less 30% smoothed)
Endowment	M5	2.75%	MT RH 2000-02	2.75%	MT RH 2000-02
Endowment	M5-50	2.75%	MT RH 2010-12	2.75%	MT RH 2010-12
Joint Life	MZ5	2.75%	MT RH 2000-02	2.75%	MT RH 2000-02
Joint Life	MZ5-50	2.75%	MT RH 2010-12	2.75%	MT RH 2010-12
Endowment	MB1-J	2.50%	MT RH 2000-02	2.50%	MT RH 2000-02
Endowment (unisex)	M5U, M4U-J	2.50%	MT RH 2000-02, unisex	2.50%	MT RH 2000-02, unisex

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

Life assurance (continued)

Description	Product	Rates of interest for calculating reserve at 31 December 2017	Mortality tables used in 2017	Rates of interest for calculating reserve at 31 December 2016	Mortality tables used in 2016
Endowment	M5U-50	2.50%	MT RH 2010-12, unisex	2.50%	MT RH 2010-12, unisex
Joint Life (unisex)	MZ5U, MZ4U-J	2.50%	MT RH 2000-02, unisex	2.50%	MT RH 2000-02, unisex
Joint Life (unisex)	MZ5U-50	2.50%	MT RH 2010-12, unisex	2.50%	MT RH 2010-12, unisex
Endowment (unisex)	M7U-J	2.50%	MT RH 2000-02, unisex	2.50%	MT RH 2000-02, unisex
Endowment (unisex)	M6U, M8U-J	0.00%	MT RH 2010-12, unisex	0.00%	MT RH 2010-12, unisex
Joint Life (unisex)	MZ6U, MZ8U-J	0.00%	MT RH 2010-12, unisex	0.00%	MT RH 2010-12, unisex
Endowment (unisex)	MB1U-J	2.50%	MT RH 2000-02, unisex	2.50%	MT RH 2000-02, unisex
Endowment (unisex)	MB2U-J	0.00%	MT RH 2010-12, unisex	0.00%	MT RH 2010-12, unisex
Endowment (unisex)	M5U-J, MZ5U-J, M6UJ, M6DUJ	2.75%	MT RH 2000-02, unisex	2.75%	MT RH 2000-02, unisex
Pure endowment (old policy)	D1	3.30%	MT RH 2010-12	3.30%	MT RH 2010-12
Pure endowment (beginning in 2010)	D1	3.00%	MT RH 2010-12	3.00%	MT RH 2010-12
Pure endowment	DJ01, DJ01-J	2.75%	MT RH 2010-12	2.75%	MT RH 2010-12
Pure endowment	DJ02, DJ02-J	2.50%	MT RH 2010-12, unisex	2.50%	MT RH 2010-12, unisex
Pure endowment	DJ03, DJ03-J	0.00%	MT RH 2010-12, unisex	0.00%	MT RH 2010-12, unisex
Annuity	RM1	3.30%	Mix of German tables DAV1994R and MT RH 1989-91	3.30%	Mix of German tables DAV1994R and MT RH 1989-91
Annuity	RND-100, RND-150	2.50%	Mix of German tables DAV2004R and MT RH 2000-02, unisex	2.50%	Mix of German tables DAV2004R and MT RH 2000-02, unisex
Annuity	RNP-150	2.50%	MT RH 2000-02, unisex	2.50%	MT RH 2000-02, unisex
Annuity	RND1-100, RND1-150	0.00%	Mix of German tables DAV2004R and MT RH 2000-02, unisex	0.00%	Mix of German tables DAV2004R and MT RH 2000-02, unisex
Annuity	RNP1-150	0.00%	MT RH 2000-02, unisex	0.00%	MT RH 2000-02, unisex
Critical Illness	TB1, DJTB01, DJTB01-J	2.75%	MT RH 2010-12, incidence rates from Republic of Slovakia	2.75%	MT RH 2010-12, incidence rates from Republic of Slovakia
Critical Illness – joint life	TBZ1	2.75%	MT RH 2010-12, incidence rates from Republic of Slovakia	2.75%	MT RH 2010-12, incidence rates from Republic of Slovakia

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

Life assurance (continued)

Description	Product	Rates of interest for calculating reserve at 31 December 2017	Mortality tables used in 2017	Rates of interest for calculating reserve at 31 December 2016	Mortality tables used in 2016
Critical Illness – joint life	TBZ5, TBZ5-U	2.75%	MT RH 2010-12, incidence rates from GenRe	2.75%	MT RH 2010-12, incidence rates from GenRe
Critical Illness	TB5, TB5-U	2.75%	MT RH 2010-12, incidence rates from GenRe	2.75%	MT RH 2010-12, incidence rates from GenRe
Critical Illness	DJTB02, DJTB02-J	2.50%	MT RH 2010-12, incidence rates from Republic of Slovakia	2.50%	MT RH 2010-12, incidence rates from Republic of Slovakia
Critical Illness (issue date from 01.07.2016)	DJTB02, DJTB02-J	1.75%	MT RH 2010-12, incidence rates from Republic of Slovakia	1.75%	MT RH 2010-12, incidence rates from Republic of Slovakia
Critical Illness	DJTB03	1.75%	MT RH 2010-12, incidence rates from Republic of Slovakia		
Critical Illness (unisex)	TB5U, TB5U-U, TBZ5U, TBZ5U-U	2.50%	MT RH 2010-12, incidence rates from GenRe, unisex	2.50%	MT RH 2010-12, incidence rates from GenRe, unisex
Critical Illness (unisex) (issue date from 01.07.2016)	TB5U, TB5U-U, TBZ5U, TBZ5U-U	1.75%	MT RH 2010-12, incidence rates from GenRe, unisex	1.75%	MT RH 2010-12, incidence rates from GenRe, unisex
Critical Illness – joint life	TBZ5, TBZ5-U	2.50%	MT RH 2010-12, incidence rates from GenRe, unisex	2.50%	MT RH 2010-12, incidence rates from GenRe, unisex
Critical Illness	TB6UJ-U	0.00%	MT RH 2010-12, incidence rates from GenRe, unisex	0.00%	MT RH 2010-12, incidence rates from GenRe, unisex
Unit linked	IL, CP1-J, CP2-J, SPI-01	2.75%	MT RH 2000-02	2.75%	MT RH 2000-02
Unit linked	ULNZ, ULR	0.00%	MT RH 2010-12, unisex	0.00%	MT RH 2010-12, unisex
Hospital days due to illness	BD1	2.75%	MT RH 2010-12, incidence rates derived from data given by Croatian national institute of public health	2.75%	MT RH 2010-12, incidence rates derived from data given by Croatian national institute of public health
Hospital days due to illness	BD1U	2.50%	MT RH 2010-12, incidence rates derived from data given by Croatian national institute of public health, unisex	2.50%	MT RH 2010-12, incidence rates derived from data given by Croatian national institute of public health, unisex
Hospital days due to illness (issue date from 01.07.2016)	BD1U	1.75%	MT RH 2010-12, incidence rates derived from data given by Croatian national institute of public health, unisex		

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

Policyholder bonuses

Discretionary bonuses

Policyholders or beneficiaries of endowment policies (M1, M1-J, M2, M2-J, M3, M3-J, M4, M4-J, MZ1, MZ1-J, MZ2, MZ2-J, MZ4, MZ4-J, M5-50, M5-100, M5-200, M5-300, MZ5-50, MZ5-100, MZ5-200, MZ5-300, M6J-100, M6J-150, M6DJ-100, M6DJ-150, M5U-50, M5U-100, M5U-200, M5U-300, MZ5U-50, MZ5U-100, MZ5U-200, MZ5U-300, M6U-50, M6U-100, M6U-200, M6U-300, MZ6U-50, MZ6U-100, MZ6U-200, MZ6U-300, M6UJ-100, M6UJ-150, M6DUJ-100, M6DUJ-150, M4U-J, MZ4U-J, M5U-J, MZ5U-J, M7U-J, M8U-J), pure endowment policies (D1, DJ01, DJ01-J, DJ02, DJ02-J, DJ03, DJ03-J) and annuity policies (RM1, RND-100, RND-150, RNP-150, RND1-100, RND1-150, RNP1-150) are entitled to a share in the profits of the Group reported in the management of life assurance funds. The entitlement is calculated on 31 December each year following the expiry of the second year of insurance, and may not exceed 90% or 80% (depending on the contract) of reported profits (in the management of life assurance funds). In the event of maturity, the share in profits is paid along with the sum insured. In the case of death, the Group pays the sum insured and the share in the profits accounted for by that time. The Group provides for bonuses allocated to policyholders within the life assurance provision.

Guaranteed bonus

The Group is liable to pay a guaranteed profit to each policyholder or beneficiary of endowment policies under old tariffs (M1, M1-J, M2, M2-J, M3, M3-J, MZ2, MZ2-J, M4-J and MZ4-J in Sve 5 Paket, M5U-J, MZ5U-J, M6J-100, M6J-150, M6DJ-100, M6DJ-150, M6UJ-100, M6UJ-150, M6DUJ-100, M6DUJ-150). The guaranteed profit at policy maturity is determined to be equal to a certain percentage of the sum assured dependent upon the tariff and the policy duration. In case of M6J-100, M6J-150, M6DJ-100, M6DJ-150, M6UJ-100, M6UJ-150, M6DUJ-100, M6DUJ-150 tariffs total amount of guaranteed profit will be paid also in case of death. All guaranteed benefits are included within the calculation of the life assurance provision.

1.7 Liability adequacy test

Life assurance

Life assurance provision is tested at each reporting date against a calculation of future cash flows using explicit and consistent assumptions of relevant factors: future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, policyholder bonuses, expenses and exercise of policyholder options. The Group made certain changes in the methodology, aligned with the parent company instructions and guidelines, and from 2015 uses the Best Estimate Liabilities (“BEL”) calculation from the cash flow model, which is signed off and approved by the parent company.

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

Assumptions which cannot be reliably derived from market values are based on current estimations calculated by reference to the Group’s own internal models and publicly available resources (e.g. demographic information published by the Croatian Statistical Bureau).

Due to the levels of uncertainty in the future development of insurance markets and the Group’s portfolio, the Group uses conservative margins for risk and uncertainty within the liability adequacy test.

Input assumptions are revised and updated annually based on recent experience.

The methodology of testing considers current estimates of all future contractual cash flows including cash flows from embedded options and guarantees. This methodology enables quantification of the correlation between all risks factors.

The principal assumptions used are:

Segmentation

The Group segments the products into several homogenous groups according to the characteristics of individual products (type of product and guaranteed interest rates). Each group is tested separately for liability adequacy. Liability inadequacies of individual groups are not offset against surpluses arising on other groups in determining the additional liability to be established.

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

Mortality and morbidity

Mortality and morbidity are usually based on data supplied by the Croatian Statistical Bureau and adjusted by the Group based on a statistical analysis of the Group’s own mortality experience.

Assumptions for mortality and morbidity are adjusted by a margin for risk and uncertainty.

Persistency

Future contractual premiums are included without any allowance for premium indexation. Lapses and surrenders are estimated based on the Group’s past experience (split by type of product and policy durations). The Group regularly analyses its actual persistency rates by product type and duration and adjusts its assumptions accordingly.

The assumptions as derived above are adjusted by a margin for risk and uncertainty.

Expenses

Estimations of future renewal and maintenance expenses included in the liability adequacy test are derived from the Group’s current experience. For future periods cash flows for expenses have been increased by a factor equal to the Group’s estimate of annual inflation (2.5%).

Expected investment return and discount rate

Future investment returns are determined using the yield curve derived from return on Croatian government bonds denominated in EUR.

The same curve is used for discounting using Market Consistent Embedded Value (“MCEV”) methodology.

1.7 Liability adequacy test (continued)

Life assurance (continued)

Interest rate guarantee

The Group makes an additional allowance for the potential volatility of actual investment returns compared to the guaranteed technical interest rate and the risk free rate. The interest rate guarantee is mainly influenced by the volatility of investment returns.

Profit sharing

Whilst, for most life assurance policies, the amount and timing of the bonus to policyholders is at the discretion of the Group, the assessment of liability adequacy takes into account future discretionary bonuses, calculated as a fixed percentage of the excess of the credited rate over the guaranteed technical interest rate on individual policies. According to past experience credited rate is difference of risk-free rate and fixed margin (2.16%) and cannot be higher than 4.50%.

The percentage applied is consistent with the Group's current business practice for bonus allocation.

LAT result

At year end the Company recognised HRK 1,097 thousand (2016: HRK 1,173 thousand) as a result of liability adequacy test for life assurance.

Non-life insurance

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

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

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

For annuities, the assumptions used to establish the provision include all future cash flows with changes being recognised immediately in the profit or loss. As such no separate liability adequacy test is required to be performed.

At year end reserves in the amount of HRK 1,632 thousand (2016: -) have been recognized as a result of liability adequacy testing and are presented as a reserve for unexpired risk (Note 1.21).

1.8 The sensitivity of best estimate liabilities to change in significant variables

Profit or loss and insurance liabilities are mainly sensitive to changes in mortality, lapse rate, expense rate and discount rates used in the liability adequacy testing.

In 2017 the Group has estimated the impact on the Best Estimate Liabilities (“BEL”) at the end of the year of changes in key variables that may have a material effect, aligned with the parent company instructions and guidelines. For each time in projection period cash flows are calculated and BEL were calculated as best estimate liabilities.

Life assurance

	2017	2016
	HRK'000	HRK'000
Base run	2,612,210	2,315,582
Risk free rate +100bp	2,403,778	2,109,953
Risk free rate –100bp	2,852,828	2,555,432
Mortality (for products with death risk) +15%	2,620,405	2,323,909
Policy maintenance expenses +10%	2,649,812	2,348,158
Expense inflation +1%	2,637,758	2,338,429

The Group uses BEL calculation to manage sensitivity of insurance risk to market conditions.

Base run means calculation with best estimate assumptions. Base run represents BEL calculated using the assumptions described under Note 1.7 during liability adequacy testing. For each policy income is calculated from premium while expenses are calculated from both administration expenses and claims.

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

The analysis has been prepared for a change in a single variable with all other assumptions remaining unchanged and excludes changes in values of the related assets.

Sensitivity to changes in mortality was calculated by estimating the effect on BEL of an increase in mortality for products with death risk, while sensitivity to changes in expense rate was calculated by estimating the effect on BEL of a 10% increase in policy maintenance expenses.

The profit or loss and insurance liabilities (as evidenced by BEL above) are highly influenced by a change in the risk free rate in both directions. Hence, changes in risk free rate are stated in 100 basis points for both directions.

Non-life insurance

In non-life the insurance variables which would have the greatest impact on insurance liabilities relate to expense changes as per the policy and MTPL court claims. Court claims related liabilities are sensitive to legal, judicial, political, economic and social trends. Management believes it is not practicable to quantify the sensitivity of non-life reserves to changes in these variables.

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

Non-life insurance contracts

The Group offers many types of non-life insurances, including motor, property, liability, marine, aviation, transport, health and accident insurance. Non-life insurance contracts may be concluded for a fixed term of one year or on a long-term basis for a term of several years or up to cancellation. Regardless of the agreed insurance term, either party has the option to cancel the contract at 3 months notice. Given the stated conditions, the Group retains the option of analysis and reassessment of all conditions under which an insurance contract is concluded, including the evaluation of the adequacy of risk prices in intervals not longer than one year. In addition to potential adjustments of the insurance price, there is a possibility of introducing franchises as well as introducing other restrictive measures, if such approach is required by the nature of the risk.

The main source of uncertainty affecting the amount and the timing of future cash flows arises from the uncertainty of future claims and the uncertainty related to their amounts.

Other significant sources of uncertainty connected with non-life insurance arise from legislative regulations which entitle the policyholders to report a claim before the statute of limitation, which is effective 3 years from the date when the policyholder becomes aware of the claim but not later than 5 years from the beginning of the year following the year of occurrence. This provision is particularly significant with respect to claims with a longer time period from the moment of occurrence of the claim, through the moment of claim report up to the moment of exactly establishing the intensity of claim (this feature is particularly significant in case of permanent disability arising from accident insurance or in case of serious physical injuries arising from liability insurance etc.).

The portfolio of non-life insurance does not include products, which guarantee unlimited coverage and the maximum amount for which the insurer can be liable under an individual insurance policy arising from a claim is always limited by the contractual insurance amount. An exception to this rule is the motor third party liability insurance ("MTPL") in member countries of the Green Card system, which have unlimited coverage. Based on legal regulations, which prescribe the usage of sum insured of the country in which the claim occurred (with respect to MTPL), this risk cannot be avoided altogether, but it can be transferred through adequate reinsurance contracts.

The characteristics of particular insurance types, if they are significantly different from the above mentioned features, are described below.

Motor insurance

The Group motor portfolio comprises both MTPL and motor hull (casco) insurance. MTPL covers the liability of the owner, i.e. the user of the motor vehicle for claims caused to third parties in case the use of a motor vehicle resulted in bodily injury claims and property claims. MTPL is valid in the European Union and countries within the Green Card system.

Property damage under MTPL and casco claims are generally reported and settled within a short period of the accident occurring. Reporting and payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity. The amount of claims relating to bodily injury and related losses of earnings are influenced by directives set by the Supreme Court which influences court practice. With respect to MTPL, there is an additional impact on the uncertainty of future liabilities of the insurer in case of a potential change in the existing court practice.

MTPL is regulated by the Act on Compulsory Insurance within the Transport Sector. Until the 1st of January 2008 MTPL Tariff was regulated by the law and all insurance companies on the market had been obliged to apply unique Tariff for MTPL business. Liberalization of MTPL started from the 1st of January 2008, meaning that each and every company on the market have possibility to introduce their own Tariff after approval of the Croatian Financial Services Supervisory Agency. Despite this possibility, in the previous years all companies on the market, including Allianz Zagreb, were using the same (old) Tariff. After the 1st of July 2013 when Croatia entered EU, the law was changed allowing companies to apply new tariffs with no previous approval of Croatian Financial Services Supervisory Agency any more. This change of legal framework practically initiate liberalization in MTPL and introduction of new tariffs on the market starting from in the second half of 2013. MTPL liberalization process led to a decrease of average MTPL premium until the reporting date compared to pre-liberalisation values in the next year(s). Minimum sums insured (for domestic cover) are prescribed by law.

Casco insurance represents standard insurance against damage; claim payment is limited by the sum insured.

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

Non-life insurance contracts (continued)

Property insurance

This is broadly split into industrial, commercial and personal lines. For industrial lines and large commercial risks the Group uses risk management techniques to identify risks and analyse losses and hazards and also cooperates with reinsurers. Personal property insurance consists of standard buildings and contents insurance.

Claims are normally notified promptly and can be settled without delay.

Liability insurance

These covers all types of liability and include public liability, liability towards employees, liability for the use of products and a number of professional liabilities, which are mostly required by law. Claims with respect to all types of liability insurance are paid on a claims-occurrence basis, i.e. the Group is responsible for all claims arising during the term of the insurance contract, regardless of whether they are reported after the expiry of the contract. The Group undertakes all adequate measures for securing all necessary information relating to claim exposure. However, there is still an uncertainty with respect to the assessment of the final claim amount, particularly with respect to court claims.

Accident insurance

Accident insurance is traditionally sold as an add-on to life products or to MTPL products offered by the Company, but are also sold as a standalone product.

Life assurance contracts

Bonuses

About 82,72% (2016: 85,6%) of the Group's life assurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Group and are recognised when proposed and approved by the Board of Directors in accordance with the relevant legal requirements. Once allocated to policyholders bonuses are guaranteed.

Premiums

Premiums for all life products are linked to EUR or to USD and may be payable in regular instalments or as a single premium at inception of the policy. Some endowment and pure endowment - type insurance contracts contain a premium indexation option which may be exercised at the discretion of the policyholder annually. Where the option is not exercised, premiums and sum assured are not increased with inflation.

Term life insurance products

Traditional term life insurance products comprise risks of death, accident rider and critical illness rider. Premium is paid regularly or as single premium. Policies offer a fixed sum assured for death, and the riders offer short to long-term protection. Death benefits are paid only if the policyholder dies during the term of insurance.

Endowment products

These are also traditional life insurance products providing life-long financial protection. Many long-term policies give to the insured the option to finance their needs in retirement. Capital life insurance products for regular or single premium offer cover for risks of death, endowment and the waiver of premium in case of permanent disability. Accident or critical illness insurance can be added as a rider to the main endowment coverage. Insurance benefits are usually paid as a lump-sum.

Pure endowments

These are also traditional life insurance products providing life-long financial protection at maturity. These products give to insured person possibility to finance their needs in retirement or some life events (in the case of child insurance). The premium under this product is paid as single or as regular and it covers risk of endowment.

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

Life assurance contracts (continued)

Unit-linked and index-linked life assurance

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

Equity index linked life assurance is linked to the average performance of Euro Stoxx 50, S&P 500 and the Nikkei 225 index with maturity benefit guarantee and minimum death benefit guarantee.

Annuity insurance

The Group has active annuity products, immediate temporary risk annuity and immediate lifelong annuity. Policies are paid by single premium. After payment monthly annuity should be paid.

The Group also have not active lifelong annuity products. Policyholders can pay premiums regularly under the existing contracts.

1.10 Segment reporting

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

The main business segments of the Group are Non-life insurance, Life assurance and Other. Segment Other consists of investment fund management, car evaluation and IT services. Note 1.9 of these financial statements provides further information about significant terms and conditions of insurance products.

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

The main products offered by the reported business segments include:

Non-life:

- Property and liability
- Motor third part liability
- Motor casco
- Accident and health
- Marine, aviation and cargo

Life:

- Traditional life
- Endowment
- Pure risk
- Pure endowment
- Unit linked

Other:

- Investment fund management
- IT services
- Car evaluation services

In the remaining consolidated notes in the financial statements, amounts related to segment other are divided between life and non-life.

Geographical segment

The Group operates mostly in the Republic of Croatia. Almost the entire income from insurance contracts comes from clients in Republic of Croatia, therefore no geographical segment information is presented.

1.10 Segment reporting (continued)

Consolidated statement of financial position by business segment as at 31 December 2017

	Non-life HRK'000	Life HRK'000	Other HRK'000	Total HRK'000
Assets				
Property and equipment	35,959	-	4,516	40,475
Investment property	27,854	-	-	27,854
Intangible assets				
- Deferred acquisition costs	48,861	1,315	-	50,176
- Other intangible assets	16,556	-	1,810	18,366
Held-to-maturity investments	73,780	511,008	9,304	594,092
Available-for-sale financial assets	790,015	2,465,924	189,939	3,445,878
Financial assets at fair value through profit or loss	38,299	510,253	70,015	618,567
Loans and receivables	18,308	20,172	11,956	50,436
Reinsurers' share of insurance contract provisions	147,650	959	-	148,609
Current income tax prepayment	5,373	-	(5,373)	-
Deferred tax asset	-	-	38	38
Insurance receivables and other assets	183,550	4,218	370	188,138
Cash and cash equivalents	30,230	59,817	48,394	138,441
Total assets	1,416,435	3,573,666	330,969	5,321,070
Liabilities				
Insurance contract provisions	817,676	3,072,565	-	3,890,241
Insurance and other payables and deferred income	139,716	34,818	203,585	378,119
Deferred tax liabilities	4,870	40,025	-	44,895
Current income tax liability	-	12,768	(5,373)	7,395
Total liabilities	962,262	3,160,176	198,212	4,320,650
Equity				
Issued share capital	71,722	30,000	-	101,722
Share premium	31,501	80,500	-	112,001
Fair value reserve	38,886	193,460	71	232,417
Legal reserve	22,655	2,398	-	25,053
Retained earnings	314,324	215,002	(401)	528,925
Total equity attributable to equity holders of the Company	479,088	521,360	(330)	1,000,118
Non-controlling interests	-	-	302	302
Total equity	479,088	521,360	(28)	1,000,420
Total liabilities and equity	1,435,977	3,681,536	203,557	5,321,070

1.10 Segment reporting (continued)

Consolidated statement of financial position by business segment as at 31 December 2016

	Non-life HRK'000	Life HRK'000	Other HRK'000	Total HRK'000
Assets				
Property and equipment	40,487	-	4,055	44,542
Investment property	29,103	-	-	29,103
Intangible assets				
- Deferred acquisition costs	44,554	1,242	-	45,796
- Other intangible assets	16,959	-	1,459	18,418
Held-to-maturity investments	161,661	513,972	9,362	684,995
Available-for-sale financial assets	665,388	2,243,150	141,187	3,049,725
Financial assets at fair value through profit or loss	40,673	524,488	51,533	616,694
Loans and receivables	31,543	31,066	52,659	115,268
Reinsurers' share of insurance contract provisions	146,399	998	-	147,397
Current income tax prepayment	7,834	-	(7,457)	377
Insurance receivables and other assets	237,831	3,911	233	241,975
Cash and cash equivalents	14,021	47,989	29,838	91,848
Total assets	1,436,453	3,366,816	282,869	5,086,138
Liabilities				
Insurance contract provisions	797,264	2,906,472	-	3,703,736
Insurance and other payables and deferred income	198,116	55,207	158,394	411,717
Deferred tax liabilities	4,360	36,350	-	40,710
Current income tax liability	-	7,457	(7,457)	-
Total liabilities	999,740	3,005,486	150,937	4,156,163
Equity				
Issued share capital	71,722	30,000	-	101,722
Share premium	31,501	80,500	-	112,001
Fair value reserve	36,228	177,373	54	213,655
Legal reserve	22,655	2,398	-	25,053
Retained earnings	299,480	178,928	(1,186)	477,222
Total equity attributable to equity holders of the Company	461,586	469,199	(1,132)	929,653
Non controlling interests	-	-	322	322
Total equity	461,586	469,199	(810)	929,975
Total liabilities and equity	1,461,326	3,474,685	150,127	5,086,138

1.10 Segment reporting (continued)

Consolidated statement of comprehensive income by business segment for the year ended 31 December 2017

	Non-life HRK'000	Life HRK'000	Other HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	618,681	531,278	-	-	1,149,959
Written premiums ceded to reinsurers	(85,651)	(3,387)	-	-	(89,038)
Net premiums written	533,030	527,891	-	-	1,060,921
Change in the gross provision for unearned premiums	(26,540)	(989)	-	-	(27,529)
Reinsurers' share of change in the provision for unearned premiums	(7,559)	(15)	-	-	(7,574)
Net earned premiums	498,931	526,887	-	-	1,025,818
Fees and commission income	9,326	2,089	5,922	(6,701)	10,636
Financial income	41,081	103,966	1,824	(368)	146,503
Other operating income	7,328	611	4,732	(1,958)	10,713
Operating income	556,666	633,553	12,478	(9,027)	1,193,670
Claims and benefits incurred	(287,254)	(463,157)	-	-	(750,411)
Reinsurers' share of claims and benefits incurred	46,355	302	-	-	46,657
Net policyholder claims and benefits incurred	(240,899)	(462,855)	-	-	(703,754)
Acquisition costs	(130,674)	(32,864)	(4,792)	4,552	(163,778)
Administrative expenses	(113,736)	(46,356)	(10,022)	1,015	(169,099)
Other operating expenses	(8,684)	(2,283)	-	943	(10,024)
Financial expenses	(2,410)	(11,271)	3,214	2,366	(8,101)
Profit before income tax	60,263	77,924	878	(151)	138,914
Income tax expense	(10,867)	(14,399)	38	-	(25,228)
Profit for the year	49,396	63,525	916	(151)	113,686
Profit attributable to					
-Equity holders of the Company	49,396	63,525	936	(151)	113,706
-Non-controlling interests	-	-	(20)	-	(20)
Other comprehensive income					
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax	2,661	16,085	16	-	18,762
Total comprehensive income for the year	52,057	79,610	932	(151)	132,448
Attributable to					
-Equity holders of the Company	52,057	79,610	952	(151)	132,468
-Non-controlling interests	-	-	(20)	-	(20)
	52,057	79,610	932	(151)	132,448

1.10 Segment reporting (continued)

Consolidated statement of comprehensive income by business segment for the year ended 31 December 2016

	Non-life HRK'000	Life HRK'000	Other HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	576,359	539,706	-	-	1,116,065
Written premiums ceded to reinsurers	(128,027)	(3,739)	-	-	(131,766)
Net premiums written	448,332	535,967	-	-	984,299
Change in the gross provision for unearned premiums	(1,314)	(1,246)	-	-	(2,560)
Reinsurers' share of change in the provision for unearned premiums	4,177	(8)	-	-	4,169
Net earned premiums	451,195	534,713	-	-	985,908
Fees and commission income	19,761	1,953	4,882	(5,312)	21,284
Financial income	44,979	98,703	10,906	(1,232)	153,356
Other operating income	4,291	1,027	5,193	(2,298)	8,213
Operating income	520,226	636,396	20,981	(8,842)	1,168,761
Claims and benefits incurred	(261,407)	(475,060)	-	-	(736,467)
Reinsurers' share of claims and benefits incurred	48,465	754	-	-	49,219
Net policyholder claims and benefits incurred	(212,942)	(474,306)	-	-	(687,248)
Acquisition costs	(127,732)	(47,204)	(3,503)	3,162	(175,277)
Administrative expenses	(125,409)	(55,245)	(9,423)	1,068	(189,009)
Other operating expenses	(7,474)	(455)	-	1,230	(6,699)
Financial expenses	(1,988)	(3,410)	(6,347)	2,354	(9,391)
Profit before income tax	44,681	55,776	1,708	(1,028)	101,137
Income tax expense	(10,131)	(11,684)	(126)	-	(21,941)
Profit for the year	34,550	44,092	1,582	(1,028)	79,196
Profit attributable to					
-Equity holders of the Company	34,550	44,092	1,611	(1,028)	79,225
-Non-controlling interests	-	-	(29)	-	(29)
Other comprehensive income					
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax	5,506	63,644	30	-	69,180
Total comprehensive income for the year	40,056	107,736	1,612	(1,028)	148,376
Attributable to					
- Equity holders of the Company	40,056	107,736	1,641	(1,028)	148,405
-Non-controlling interests	-	-	(29)	-	(29)
	40,056	107,736	1,612	(1,028)	148,376

1.11 Property and equipment

Group

	Land and buildings HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Acquired but not brought into use HRK'000	Total HRK'000
Cost					
At 1 January 2016	37,565	6,184	53,023	3	96,775
Additions	3,568	-	3,720	254	7,542
Disposals	-	-	(11,533)	-	(11,533)
At 31 December 2016	41,133	6,184	45,210	257	92,784
At 1 January 2017	41,133	6,184	45,210	257	92,784
Additions	-	76	563	603	1,242
Transfer into use	-	-	55	(55)	-
Disposals	-	(2,048)	(3,470)	-	(5,518)
At 31 December 2017	41,133	4,212	42,358	805	88,508
Depreciation and impairment losses					
At 1 January 2016	5,318	3,523	43,544	-	52,385
Depreciation charge for the year (Note 1.32)	865	1,236	4,399	-	6,500
Disposals	-	-	(10,643)	-	(10,643)
At 31 December 2016	6,183	4,759	37,300	-	48,242
At 1 January 2017	6,183	4,759	37,300	-	48,242
Depreciation charge for the year (Note 1.32)	909	972	3,150	-	5,031
Disposals	-	(1,915)	(3,325)	-	(5,240)
At 31 December 2017	7,092	3,816	37,125	-	48,033
Carrying amounts					
At 1 January 2016	32,247	2,661	9,479	3	44,390
At 31 December 2016	34,950	1,425	7,910	257	44,542
At 1 January 2017	34,950	1,425	7,910	257	44,542
At 31 December 2017	34,041	396	5,233	805	40,475

Included within land and buildings is non-depreciable land with a carrying value of HRK 4,874 thousand (2016: HRK 4,874 thousand). Management believes that the fair value of land and buildings is not significantly different from their carrying value.

During 2017 and 2016 there were no capitalised borrowing costs related to the acquisition of property and equipment.

Property and equipment of the Group are not pledged as collateral for any purpose.

The depreciation charge is recognised in profit or loss under "Administrative expenses" (Note 1.32).

1.11 Property and equipment (continued)

Company

	Land and buildings HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Acquired but not brought into use HRK'000	Total HRK'000
Cost					
At 1 January 2016	33,808	6,001	52,216	3	92,028
Additions	3,568	-	3,296	-	6,864
Disposals	-	-	(11,533)	-	(11,533)
At 31 December 2016	37,376	6,001	43,979	3	87,359
At 1 January 2017	37,376	6,001	43,979	3	87,359
Additions	-	76	518	52	646
Transfer into use	-	-	55	(55)	-
Disposals	-	(2,048)	(3,470)	-	(5,518)
At 31 December 2017	37,376	4,029	41,082	-	82,487
Depreciation and impairment losses					
At 1 January 2016	4,789	3,505	42,928	-	51,222
Depreciation charge for the year (Note 1.32)	783	1,200	4,310	-	6,293
Disposals	-	-	(10,643)	-	(10,643)
At 31 December 2016	5,572	4,705	36,595	-	46,872
At 1 January 2017	5,572	4,705	36,595	-	46,872
Depreciation charge for the year (Note 1.32)	827	936	3,133	-	4,896
Disposals	-	(1,915)	(3,325)	-	(5,240)
At 31 December 2017	6,399	3,726	36,403	-	46,528
Carrying amounts					
At 1 January 2016	29,019	2,496	9,288	3	40,806
At 31 December 2016	31,804	1,296	7,384	3	40,487
At 1 January 2017	31,804	1,296	7,384	3	40,487
At 31 December 2017	30,977	303	4,679	-	35,959

Included within land and buildings is non-depreciable land with a carrying value of HRK 4,288 thousand (2016: HRK 4,288 thousand). Management believes that the fair value of land and buildings is not materially different from their carrying value.

During 2017 and 2016 there were no capitalised borrowing costs related to the acquisition of property and equipment.

Property and equipment of the Company are not pledged as collateral for any purpose.

The depreciation charge is recognised in profit or loss under "Administrative expenses" (Note 1.32).

1.12 Investment property

	Group and Company HRK'000
Cost	
At 1 January 2016	52,229
At 31 December 2016	52,229
At 1 January 2017	52,229
At 31 December 2017	52,229
Depreciation	
At 1 January 2016	21,877
Depreciation charge for the year (Note 1.34)	1,249
At 31 December 2016	23,126
At 1 January 2017	23,126
Depreciation charge for the year (Note 1.34)	1,249
At 31 December 2017	24,375
Carrying amounts	
At 1 January 2016	30,352
At 31 December 2016	29,103
At 1 January 2017	29,103
At 31 December 2017	27,854

The rental income arising during the year amounted to HRK 2,040 thousand (2016: HRK 2,112 thousand), which is recognised in “Financial income” (Note 1.28). Direct operating expenses (including repairs and maintenance) arising from investment property during the year are invoiced to lessee. Total maintenance cost of investment property in 2017 amounted to HRK 681 thousand (2016: 664 thousand) and is recognised in other costs under „Administrative expenses“ (Note 1.32). Management believes that the fair value is not significantly different from their carrying value.

The depreciation charge is recognised in profit or loss under “Financial expenses” (Note 1.34).

1.13 Deferred acquisition costs

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

An analysis of these deferred costs is set out below:

Group and Company

	Non-life		Life rider		Total	
	2017 HRK'000	2016 HRK'000	2017 HRK'000	2016 HRK'000	2017 HRK'000	2016 HRK'000
At 1 January	44,554	43,307	1,242	1,145	45,796	44,452
Net change recognised in profit or loss (Note 1.31)	4,307	1,247	73	97	4,380	1,344
At 31 December	48,861	44,554	1,315	1,242	50,176	45,796

1.14 Other intangible assets

Group

	Goodwill HRK'000	Internally developed software HRK'000	Purchased computer software HRK'000	Computer software under development HRK'000	Total HRK'000
Cost					
At 1 January 2016	24	43,879	38,272	1,837	84,012
Additions	-	5,487	1,173	30	6,690
Transfer into use	-	(1,812)	1,812	-	-
Write off	-	-	(1,986)	-	(1,986)
	24	47,554	39,271	1,867	88,716
At 31 December 2016					
At 1 January 2017	24	47,554	39,271	1,867	88,716
Additions	-	3,757	2,137	771	6,665
Transfer into use	-	-	24	(24)	-
Transfer to equipment and furniture	-	-	-	-	-
Write off	-	-	(299)	-	(299)
	24	51,311	41,133	2,614	95,082
At 31 December 2017					
Amortisation and impairment losses					
At 1 January 2016	-	34,840	31,702	-	66,542
Amortisation charge for the year (Note 1.32)	-	2,985	2,636	-	5,621
Write off	-	-	(1,865)	-	(1,865)
	-	37,825	32,473	-	70,298
At 31 December 2016					
At 1 January 2017	-	37,825	32,473	-	70,298
Amortisation charge for the year (Note 1.32)	-	(391)	7,313	-	6,922
Write off	-	-	(504)	-	(504)
	-	37,434	39,282	-	76,716
At 31 December 2017					
Carrying amounts					
At 1 January 2016	24	9,039	6,570	1,837	17,470
At 31 December 2016	24	9,729	6,798	1,867	18,418
At 1 January 2017	24	9,729	6,798	1,867	18,418
At 31 December 2017	24	13,877	1,851	2,614	18,366

During 2017 and 2016 there were no capitalised borrowing costs related to the acquisition of software.

As at 31 December 2017 Computer software included HRK 13,878 thousand of capitalised development costs (2016: HRK 9,729 thousand).

The amortisation charge is recognised in profit or loss under “Administrative expenses” (Note 1.32).

1.14 Other intangible assets (continued)

Company

	Internally developed software HRK'000	Purchased computer software HRK'000	Computer software under development HRK'000	Total HRK'000
Cost				
At 1 January 2016	43,879	33,052	1,837	78,768
Additions	5,487	533	30	6,050
Transfer into use	(1,812)	1,812	-	-
Write off	-	(1,846)	-	(1,846)
At 31 December 2016	47,554	33,551	1,867	82,972
At 1 January 2017	47,554	33,551	1,867	82,972
Additions	3,757	1,220	771	5,748
Transfer into use	-	24	(24)	-
Write off	-	(299)	-	(299)
At 31 December 2017	51,311	34,496	2,614	88,421
Amortisation and impairment losses				
At 1 January 2016	34,840	27,908	-	62,748
Amortisation charge for the year (Note 1.32)	2,985	2,126	-	5,111
Write off	-	(1,846)	-	(1,846)
At 31 December 2016	37,825	28,188	-	66,013
At 1 January 2017	37,825	28,188	-	66,013
Amortisation charge for the year (Note 1.32)	(391)	6,542	-	6,151
Write off	-	(299)	-	(299)
At 31 December 2017	37,434	34,431	-	71,865
Carrying amounts				
At 1 January 2016	9,039	5,144	1,837	16,020
At 31 December 2016	9,729	5,363	1,867	16,959
At 1 January 2017	9,729	5,363	1,867	16,959
At 31 December 2017	13,877	65	2,614	16,556

During 2017 and 2016 there were no capitalised borrowing costs related to the acquisition of software.

As at 31 December 2017 Computer software included HRK 13,878 thousand of capitalised development costs (2016: HRK 9,729 thousand).

The amortisation charge is recognised in profit or loss under “Administrative expenses” (Note 1.32).

1.15 Investments in subsidiaries

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Group ownership at 31 December 2017	Group ownership at 31 December 2016
<i>Investments in subsidiaries - held at cost</i>				
Allianz Invest d.o.o.	Investment	Croatia	100%	100%
AZ Servisni centar d.o.o.	Claim evaluation and IT services	Croatia	100%	100%
Autoelektro tehnički pregledi d.o.o.	Car evaluation services	Croatia	49%	49%
<i>Investments in subsidiaries - held at fair value through profit or loss</i>				
Allianz Cash, open-ended investment fund	Investment	Croatia	61.0%	56.7%
Allianz Portfolio, open-ended investment fund	Investment	Croatia	11.1%	17.8%
<i>Investments in subsidiaries – available for sale</i>				
Allianz Equity, open-ended investment fund	Investment	Croatia	18.2%	25.8%

The subsidiaries are fully consolidated in the Group financial statements. The Company has a control over Autoelektro tehnički pregledi d.o.o. through voting rights and recognises this investment as subsidiary and not as associate despite ownership stake below 50%.

Classification of open-ended investment fund subsidiaries is initially performed in accordance with the Company's investment strategy. Despite having less than 50% ownership stakes in two open-ended funds at 31 December 2017, the management believes it is appropriate to conclude these two funds are subsidiaries as the Company controls the asset manager and is by far the biggest single investor. Further, the Company had additional investment in Allianz Portfolio of 43% (2016: 35%), through its unit linked investments (which have been disclosed as such in accordance with the best practice, rather than as investments in subsidiaries).

b) Investments in subsidiaries are as follows:

	Company 2017 HRK'000	Company 2016 HRK'000
<i>Investments in subsidiaries - held at cost</i>		
Allianz Invest d.o.o.	5,000	5,000
AZ Servisni centar d.o.o.	200	200
Autoelektro tehnički pregledi d.o.o.	488	488
Total subsidiaries at cost	5,688	5,688
<i>Investments in subsidiaries - designated at fair value through profit or loss</i>		
Allianz Cash, open-ended investment fund	107,372	107,134
Allianz Portfolio, open-ended investment fund	9,947	10,035
Total subsidiaries at fair value through profit or loss	117,319	117,169
<i>Investments in subsidiaries - available for sale</i>		
Allianz Equity, open-ended investment fund	9,778	9,885
Total subsidiaries available for sale	9,778	9,885
	132,785	132,742

1.15 Investments in subsidiaries (continued)

c) Movements in investments in subsidiaries was as follows:

	Company 2017 HRK'000	Company 2016 HRK'000
At 1 January	132,742	132,523
Acquisition of units in Allianz Cash, open-ended investment fund	-	41,000
Disposal of units in Allianz Cash, open-ended investment fund	-	(43,225)
Fair value gains on investment in Allianz Cash, open-ended investment fund	237	244
Fair value gains on investment in Allianz Portfolio, open-ended investment fund	(87)	847
Fair value gains on investment in Allianz Equity, open-ended investment fund	(107)	1,353
At 31 December	132,785	132,742

d) Non-controlling interest

The following is summarised financial information for the Autoelektro tehnički pregledi d.o.o. The information is before inter-company eliminations with other companies in the Group:

	2017 HRK'000	2016 HRK'000
Revenue	378	348
Profit / (loss)	41	58
Profit attributable to NCI	20	29
Current assets	151	114
Non-current assets	3,076	3,154
Current liabilities	(15)	(7)
Non-current liabilities	(2,833)	(2,922)
Net assets	379	339
Net assets attributable to NCI	193	173

The rest of non-controlling interest is related to open-ended investment funds managed by Allianz Invest.

1.16 Financial investments

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Held-to-maturity investments (Note 1.16c)	594,092	684,995	584,788	675,633
Available-for-sale financial assets (Note 1.16c)	3,445,878	3,049,725	3,255,939	2,908,538
Financial assets held for trading	146,305	261,549	146,305	261,549
Financial assets designated at fair value through profit or loss	472,262	355,145	402,247	303,612
Financial assets at fair value through profit or loss (Note 1.16c)	618,567	616,694	548,552	565,161
Loans and receivables (Note 1.16a; 1.16c)	50,436	115,268	38,480	62,609
	4,708,973	4,466,682	4,427,759	4,211,941

Comparative information in Note 1.16 has been changed to reflect adding accrued interest to principal balances in order to ensure consistency with current period.

Table below analyses financial investments exposed to credit risk:

	Group 2017				Group 2016			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Held-to-maturity investments	594,092	-	-	594,092	684,995	-	-	684,995
Available-for-sale debt securities	2,945,002	-	-	2,945,002	2,594,964	-	-	2,594,964
Debt securities at fair value through profit or loss	41,988	-	-	41,988	76,948	-	-	76,948
Loans and receivables	41,548	732	8,156	50,436	83,928	30,749	591	115,268
	3,622,630	732	8,156	3,631,518	3,440,835	30,749	591	3,472,175
Interest income generated from impaired financial assets	n/a	n/a	-	-	n/a	n/a	-	-
	Company 2017				Company 2016			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Held-to-maturity investments	584,788	-	-	584,788	675,633	-	-	675,633
Available-for-sale debt securities	2,755,063	-	-	2,755,063	2,453,777	-	-	2,453,777
Debt securities at fair value through profit or loss	41,988	-	-	41,988	76,948	-	-	76,948
Loans and receivables	29,592	732	8,156	38,480	31,269	30,749	591	62,609
	3,411,431	732	8,156	3,420,319	3,237,627	30,749	591	3,268,967
Interest income generated from impaired financial assets	n/a	n/a	-	-	n/a	n/a	-	-

From HRK 8,102 thousand in the category past due but not impaired, at the reporting date HRK 7,370 thousand relates to a single debtor. The value of the related real estate collateral exceeds the remaining exposure by more than six times.

1.16 Financial investments (continued)

a) Loans and receivables

Loans and receivables consist of deposits with banks and loans to customers net of impairment allowance for loans to customers as follows:

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Deposits with banks	22,340	63,321	6,305	6,394
Loans to customers	36,252	52,538	39,593	56,068
Subordinated loan to subsidiary	-	-	738	738
Impairment allowance on loans to customers	(8,156)	(591)	(8,156)	(591)
	<u>50,436</u>	<u>115,268</u>	<u>38,480</u>	<u>62,609</u>

Loans to customers are predominantly collateralised by the redemption value of life assurance policies or by real estate.

Subordinated loans to subsidiary have been granted to Allianz Invest in amount of HRK 488 thousand with maturity dates on 30 September 2021 and an amount of HRK 250 thousand with maturity date on 31 December 2022 and fixed interest rate of 6%. The repayment of this loans is subordinated to all other liabilities of Allianz Invest.

Movement in impairment allowance for loans and receivables during the year was as follows:

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
At 1 January	591	1,260	591	1,260
Impairment losses on loans	7,576	23	7,576	23
Collection of amounts previously provided	(5)	(21)	(5)	(21)
Net impairment losses/(reversal of impairment losses) recognised in profit or loss (Note 1.34)	7,571	2	7,571	2
Amounts written off	(6)	(671)	(6)	(671)
At 31 December	<u>8,156</u>	<u>591</u>	<u>8,156</u>	<u>591</u>

b) Reclassifications

From 2008 to 2013 upon decision of the Company's Management Board, the Company reclassified available-for-sale financial assets to held-to-maturity investments. The Company has the intent and ability to hold the reclassified assets to maturity. The following table shows the amount of the remaining balance of reclassified assets (that have not yet matured) in the Company's portfolio:

Reclassification date	Net book value at the reclassification date HRK'000	Effective interest rate at the reclassification date %	Other comprehensive income up to the reclassification date HRK'000
21 August 2008	127,607	5,66	(9,173)
6 October 2008	99,367	5,66	(1,306)
26 March 2010	156,691	6,06	8,518
4 July 2011	77,387	6,06	4,047
10 October 2011	57,926	6,96	(356)
Total	<u>518,978</u>	<u>5,99</u>	<u>(1,730)</u>

1.16 Financial investments (continued)

b) Reclassification (continued)

	At the reclassification date		31 December 2017		31 December 2016	
	Net book value	Fair value	Net book value	Fair value	Net book value	Fair value
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Assets reclassified in 2008:						
Debt securities	226,974	226,974	241,356	264,262	328,356	358,834
Assets reclassified in 2010:						
Debt securities	156,691	156,691	155,969	174,761	157,393	180,553
Assets reclassified in 2011:						
Debt securities	135,313	135,313	135,067	159,911	135,886	161,777
	<u>518,978</u>	<u>518,978</u>	<u>532,392</u>	<u>598,934</u>	<u>621,635</u>	<u>701,164</u>

The following table shows the amounts recognised in profit or loss and other comprehensive income from reclassified assets:

	2017		2016	
	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
	HRK'000	HRK'000	HRK'000	HRK'000
Available-for-sale financial assets reclassified to held-to-maturity investments 2008 to 2017				
Interest income	32,251	-	36,189	-
Amortisation of premium	(437)	-	673	-
Amortisation of fair value reserve to profit or loss	(157)	-	(327)	-
Fair value reserve balance, net of income tax	-	(129)	-	(268)
	<u>31,657</u>	<u>(129)</u>	<u>36,535</u>	<u>(268)</u>

The following table shows the amounts that would have been recognised in profit or loss and other comprehensive income from reclassified assets in 2017 and 2016 if there had been no reclassification:

	2017		2016	
	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
	HRK'000	HRK'000	HRK'000	HRK'000
Available-for-sale financial assets reclassified to held-to-maturity investments 2008 to 2017				
Interest income	32,251	-	36,189	-
Amortisation of premium	(437)	-	673	-
Change in fair value reserve, net of income tax	-	(10,760)	-	(1,556)
	<u>31,814</u>	<u>(10,760)</u>	<u>36,862</u>	<u>(1,556)</u>

1.16 Financial investments (continued)

c) Breakdown

Group

	Held-to-maturity investments HRK '000	Available-for-sale financial assets HRK '000	Fair value through profit or loss HRK'000	Loans and receivables HRK '000	Total HRK '000
31 December 2017					
Shares	-	56,854	60,537	-	117,391
Shares relating to share-based payments	-	-	5,235	-	5,235
Bonds – fixed interest rate - listed					
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	594,092	2,315,897	-	-	2,909,989
Bonds – Governments of EU member states – listed	-	626,343	-	-	626,343
Foreign and domestic corporate bonds – listed	-	2,762	-	-	2,762
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	41,988	-	41,988
	594,092	2,945,002	41,988	-	3,581,082
Investment funds - quoted					
Open – ended investment funds	-	422,801	155,783	-	578,584
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	355,024	-	355,024
Close – ended investment funds – quoted	-	21,221	-	-	21,221
	-	444,022	510,807	-	954,829
Loans and receivables					
Deposits with credit institutions	-	-	-	22,340	22,340
Loans to policyholders	-	-	-	12,801	12,801
Mortgage loans	-	-	-	10,431	10,431
Other loans	-	-	-	4,864	4,864
	-	-	-	50,436	50,436
	594,092	3,445,878	618,567	50,436	4,708,973
31 December 2016					
Shares	-	60,397	43,835	-	104,232
Shares relating to share-based payments	-	-	4,629	-	4,629
Bonds – fixed interest rate - listed					
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	684,995	1,835,185	-	-	2,520,180
Bonds – Governments of EU member states – listed	-	753,693	-	-	753,693
Foreign and domestic corporate bonds – listed	-	6,086	-	-	6,086
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	76,948	-	76,948
	684,995	2,594,964	76,948	-	3,356,907
Investment funds - quoted					
Open – ended investment funds	-	379,308	268,554	-	647,862
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	222,035	-	222,035
Close – ended investment funds – quoted	-	15,056	693	-	15,749
	-	394,364	491,282	-	885,646
Loans and receivables					
Deposits with credit institutions	-	-	-	63,321	63,321
Loans to policyholders	-	-	-	12,069	12,069
Mortgage loans	-	-	-	33,664	33,664
Other loans	-	-	-	6,214	6,214
	-	-	-	115,268	115,268
	684,995	3,049,725	616,694	115,268	4,466,682

1.16 Financial investments (continued)

c) Breakdown (continued)

Company	Investments in subsidiaries HRK '000	Held-to- maturity investments HRK '000	Available-for- sale financial assets HRK '000	Financial assets at fair value through profit or loss HRK '000	Loans and receivables HRK '000	Total HRK '000
31 December 2017						
Shares	-	-	56,854	-	-	56,854
Shares relating to share-based payments	-	-	-	5,235	-	5,235
Investments in subsidiaries	132,785	-	-	-	-	132,785
Bonds – fixed interest rate - listed						
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	-	584,788	2,126,001	-	-	2,710,789
Bonds – Governments of EU member states – listed	-	-	626,343	-	-	626,343
Foreign and domestic corporate bonds – listed	-	-	2,719	-	-	2,719
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	-	41,988	-	41,988
	-	584,788	2,755,063	41,988	-	3,381,839
Investment funds - quoted						
Open – ended investment funds	-	-	422,801	146,305	-	569,106
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	-	355,024	-	355,024
Close – ended investment funds – quoted	-	-	21,221	-	-	21,221
	-	-	444,022	501,329	-	945,351
Loans and receivables						
Deposits with credit institutions	-	-	-	-	6,305	6,305
Loans to policyholders	-	-	-	-	12,801	12,801
Mortgage loans	-	-	-	-	13,264	13,264
Subordinated loan to subsidiary	-	-	-	-	738	738
Other loans	-	-	-	-	5,372	5,372
	-	-	-	-	38,480	38,480
	132,785	584,788	3,255,939	548,552	38,480	4,560,544
31 December 2016						
Shares	-	-	60,397	-	-	60,397
Shares relating to share-based payments	-	-	-	4,629	-	4,629
Investments in subsidiaries	132,742	-	-	-	-	132,742
Bonds – fixed interest rate - listed						
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	-	675,633	1,694,043	-	-	2,369,676
Bonds – Governments of EU member states – listed	-	-	753,693	-	-	753,693
Foreign and domestic corporate bonds – listed	-	-	6,041	-	-	6,041
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	-	76,948	-	76,948
	-	675,633	2,453,777	76,948	-	3,206,358
Investment funds - quoted						
Open – ended investment funds	-	-	379,308	261,549	-	640,857
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	-	222,035	-	222,035
Close – ended investment funds - quoted	-	-	15,056	-	-	15,056
	-	-	394,364	483,584	-	877,948
Loans and receivables						
Deposits with credit institutions	-	-	-	-	6,394	6,394
Loans to policyholders	-	-	-	-	12,069	12,069
Mortgage loans	-	-	-	-	36,589	36,589
Subordinated loan to subsidiary	-	-	-	-	738	738
Other loans	-	-	-	-	6,819	6,819
	-	-	-	-	62,609	62,609
	132,742	675,633	2,908,538	565,161	62,609	4,344,683

Bonds issued by governments of EU member states include bonds of the Republic of Germany of HRK 333,494 thousand (2016: HRK 472,511 thousand), Republic of Poland of HRK 42,103 thousand (2016: 73,071 thousand), Slovak Republic of HRK 105,427 thousand (2016: 104,942 thousand) and the Kingdom of Spain of 145,319 thousand (2016: 90,370 thousand).

1.17 Reinsurers' share of insurance contract provisions

Group and Company

	<i>Note</i>	2017 HRK'000	2016 HRK'000
Non-life			
Reinsurance share in unearned premium reserve	1.21 a)	61,642	69,201
Reinsurance share in notified outstanding claims reserve	1.21 b)	82,628	71,786
Reinsurance share in incurred but not reported claims reserve	1.21 c)	3,380	5,359
Reinsurance share in other reserves		-	53
Total non-life		147,650	146,399
Life			
Reinsurance share in unearned premium reserve	1.21 a)	133	148
Reinsurance share incurred but not reported claims reserve	1.21 c)	506	489
Reinsurance share in life assurance provision	1.21 d)	320	361
Total life		959	998
Total reinsurance share of insurance		148,609	147,397

1. 18 Deferred tax liability

Group

	Temporary differences						Deferred tax asset on tax losses HRK'000
	Total deferred tax liability on temporary differences HRK'000	Financial assets at fair value through profit or loss HRK'000	Impairment losses on financial assets AFS HRK'000	AFS financial assets in fair value reserve HRK'000	Impairment losses on investment property HRK'000	Impairment losses on receivables for overdue securities HRK'000	
Balance as at 1 January 2016	(29,234)	60	1,780	(36,112)	2,985	2,053	-
Recognised in profit or loss (Note 1.35)	(24)		(24)	-	-	-	-
Profit or loss effect of income tax rate change (Note 1.35)	(675)	(6)	(166)	-	(298)	(205)	-
<i>Total recognised in other comprehensive income</i>	<i>(699)</i>	<i>(6)</i>	<i>(190)</i>	<i>-</i>	<i>(298)</i>	<i>(205)</i>	<i>-</i>
Deferred tax on net gains from change in fair value, net of amounts realised, recognised in other comprehensive income (Note 1.23c)	(14,387)	-	-	(14,387)	-	-	-
Statement of financial position effect of income tax rate change (Note 1.23c)	3,610	-	-	3,610	-	-	-
<i>Total recognised in other comprehensive income</i>	<i>(10,777)</i>	<i>-</i>	<i>-</i>	<i>(10,777)</i>	<i>-</i>	<i>-</i>	<i>-</i>
Balance as at 31 December 2016	(40,710)	54	1,590	(46,889)	2,687	1,848	-
Balance as at 1 January 2017	(40,710)	54	1,590	(46,889)	2,687	1,848	-
Recognised in profit or loss (Note 1.35)	(71)	-	(71)	-	-	-	38
Profit or loss effect of income tax rate change (Note 1.35)	-	-	-	-	-	-	-
Deferred tax on net gains from change in fair value, net of amounts realised (Note 1.23c)	(4,114)	-	-	(4,114)	-	-	-
<i>Total recognised in other comprehensive income</i>	<i>(4,114)</i>	<i>-</i>	<i>-</i>	<i>(4,114)</i>	<i>-</i>	<i>-</i>	<i>38</i>
Balance as at 31 December 2017	(44,895)	54	1,519	(51,003)	2,687	1,848	38

Company

	Total deferred tax liability on temporary differences HRK'000	Financial assets at fair value through profit or loss HRK'000	Impairment losses on financial assets AFS HRK'000	AFS financial assets in fair value reserve HRK'000	Impairment losses on investment property HRK'000	Impairment losses on receivables for overdue securities HRK'000
Balance as at 1 January 2016	(29,234)	60	1,780	(36,112)	2,985	2,053
Recognised in profit or loss (Note 1.35)	(24)		(24)	-	-	-
Profit or loss effect of income tax rate change (Note 1.35)	(675)	(6)	(166)	-	(298)	(205)
<i>Total recognised in other comprehensive income</i>	<i>(699)</i>	<i>(6)</i>	<i>(190)</i>	<i>-</i>	<i>(298)</i>	<i>(205)</i>
Deferred tax on net gains from change in fair value, net of amounts realised, recognised in other comprehensive income (Note 1.23c)	(14,387)	-	-	(14,387)	-	-
Statement of financial position effect of income tax rate change (Note 1.23c)	3,610	-	-	3,610	-	-
<i>Total recognised in other comprehensive income</i>	<i>(10,777)</i>	<i>-</i>	<i>-</i>	<i>(10,777)</i>	<i>-</i>	<i>-</i>
Balance as at 31 December 2016	(40,710)	54	1,590	(46,889)	2,687	1,848
Balance as at 1 January 2017	(40,710)	54	1,590	(46,889)	2,687	1,848
Recognised in profit or loss (Note 1.35)	(71)	-	(71)	-	-	-
Deferred tax on net gains from change in fair value, net of amounts realised (Note 1.23c)	(4,114)	-	-	(4,114)	-	-
Balance as at 31 December 2017	(44,895)	54	1,519	(51,003)	2,687	1,848

1. 19 Insurance receivables and other assets

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Receivables arising from insurance contracts				
- From contract holders (from policyholders)	138,498	192,749	138,498	192,749
Receivables from reinsurance				
- for claims recoveries	14,463	27,957	14,463	27,957
- for reinsurance commission	2,533	5,277	2,533	5,277
- for reinsurance premium paid in advance	42,470	35,749	42,470	35,749
Undue interest receivable				
Other receivables and prepayments	53,801	51,258	53,431	51,025
Impairment allowance				
- for insurance receivables	(50,555)	(58,199)	(50,555)	(58,199)
- for reinsurance receivables	(352)	(111)	(352)	(111)
- for other receivables	(12,720)	(12,705)	(12,720)	(12,705)
	<u>188,138</u>	<u>241,975</u>	<u>187,768</u>	<u>241,742</u>

The analysis of insurance receivables and other receivables is given below

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Neither past due nor impaired	122,388	182,383	122,388	182,383
Past due (up to 120 days) but not impaired	65,750	59,592	65,380	59,359
Past due and impaired	63,627	71,015	63,627	71,015
Impairment allowance	(63,627)	(71,015)	(63,627)	(71,015)
	<u>188,138</u>	<u>241,975</u>	<u>187,768</u>	<u>241,742</u>

1.19 Insurance receivables and other assets (continued)

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

	Group and Company 2017 HRK'000	Group and Company 2016 HRK'000
At 1 January	58,199	64,813
Increase in impairment losses	6,715	12,698
Collection of amounts previously provided	(10,582)	(12,699)
Reversal of impairment losses recognised in profit or loss (Note 1.26)	(3,867)	(1)
Amounts written off	(3,777)	(6,613)
At 31 December	50,555	58,199

Impairment losses for insurance receivables are netted against gross premiums written presented in Note 1.26.

Movement in impairment allowance for other receivables and prepayments during the year was as follows:

	Group and Company 2017 HRK'000	Group and Company 2016 HRK'000
At 1 January	12,705	12,542
Transfer from financial investments on maturity	-	-
Transfer to financial investments	-	-
Increase in provisions for other receivables	593	602
Collection of amounts previously provided	(283)	(92)
Transfer to loans and receivables	-	-
Impairment losses recognised in profit or loss (Note 1.33)	310	510
Amounts written off	(295)	(347)
At 31 December	12,720	12,705

1.20 Cash and cash equivalents

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Cash at bank	133,181	83,316	90,047	62,010
Deposits in banks with original maturity up to three months	5,260	8,532	-	-
	138,441	91,848	90,047	62,010

1.21 Insurance contract provisions

Group and Company

	2017 HRK'000	2016 HRK'000
Non-life insurance		
Provision for unearned premiums (Note 1.21a)	311,964	285,424
Notified outstanding claims reserve (Note 1.21b)	303,901	294,686
Incurred but not reported claims reserve (Note 1.21c)	197,337	214,908
Other provisions	4,474	2,246
Total non-life	817,676	797,264
Life assurance		
Provision for unearned premiums (Note 1.21a)	10,756	9,767
Life assurance provision (Note 1.21d)	2,630,536	2,575,203
Provision arising from liability adequacy test (Note 1.21d)	1,097	1,173
	2,631,633	2,576,376
Life assurance provision for unit-linked and index-linked products (Note 1.21e)	387,749	283,716
Notified outstanding claims reserve (Note 1.21b)	39,285	33,424
Incurred but not reported claims reserve (Note 1.21c)	2,931	2,960
Other provisions	211	229
Total life	3,072,565	2,906,472
Total insurance contract provision	3,890,241	3,703,736

Other provisions relate to provisions for bonuses and rebates and unexpired risk reserve. As at 31 December 2017 unexpired risk reserve amounts to HRK 1,632 thousand (2016: -).

a) Analysis of movement on provision for unearned premium

Group and Company	2017 Gross HRK'000	2017 Reinsurance HRK'000	2017 Net HRK'000	2016 Gross HRK'000	2016 Reinsurance HRK'000	2016 Net HRK'000
<i>Non-life business</i>						
At 1 January	285,424	69,201	216,223	284,110	65,024	219,086
Premiums written during the year	618,681	85,651	533,030	576,358	128,027	448,331
Premiums earned during the year	(592,141)	(93,210)	(498,931)	(575,044)	(123,850)	(451,194)
At 31 December	311,964	61,642	250,322	285,424	69,201	216,223
<i>Life assurance business</i>						
At 1 January	9,767	148	9,619	8,521	156	8,365
Premiums written during the year	32,272	2,122	30,150	33,381	2,364	31,017
Premiums earned during the year	(31,283)	(2,137)	(29,146)	(32,135)	(2,372)	(29,763)
At 31 December	10,756	133	10,623	9,767	148	9,619

Allocations of premium for non-life insurance in the above table are presented before impairment losses.

1.21 Insurance contract provisions (continued)

b) Analysis of movements in notified outstanding claims reserve

	Group and Company			Group and Company		
	2017 Gross HRK'000	2017 Reinsurance HRK'000	2017 Net HRK'000	2016 Gross HRK'000	2016 Reinsurance HRK'000	2016 Net HRK'000
<i>Non-life business</i>						
At 1 January	294,686	71,786	222,900	289,535	89,216	200,319
Current year claims	309,210	38,604	270,606	287,924	50,371	237,553
Change in previous year claims	(6,613)	9,783	(16,396)	(6,440)	(2,565)	(3,875)
Claims paid	(293,382)	(37,545)	(255,837)	(276,333)	(65,236)	(211,097)
At 31 December	303,901	82,628	221,273	294,686	71,786	222,900
<i>Life assurance business</i>						
At 1 January	33,424	-	33,424	27,172	-	27,172
Current year claims	319,612	-	319,612	312,911	-	312,911
Change in previous year claims	(15,698)	-	(15,698)	(14,913)	-	(14,913)
Claims paid	(298,053)	-	(298,053)	(291,746)	-	(291,746)
At 31 December	39,285	-	39,285	33,424	-	33,424

c) Analysis of movement in incurred but not reported claims reserve

	Group and Company			Group and Company		
	2017 Gross HRK'000	2017 Reinsurance HRK'000	2017 Net HRK'000	2016 Gross HRK'000	2016 Reinsurance HRK'000	2016 Net HRK'000
<i>Non-life business</i>						
At 1 January	214,908	5,359	209,549	232,995	4,738	228,257
Increase	30,101	115	29,986	36,772	4,096	32,676
Transfer to NOCR	(47,672)	(2,094)	(45,578)	(54,859)	(3,475)	(51,384)
At 31 December	197,337	3,380	193,957	214,908	5,359	209,549
<i>Life assurance business</i>						
At 1 January	2,960	489	2,471	2,899	503	2,396
Increase	900	57	845	1,163	135	1,028
Transfer to NOCR	(929)	(40)	(889)	(1,102)	(149)	(953)
At 31 December	2,931	506	2,427	2,960	489	2,471

1.21 Insurance contract provisions (continued)

d) Analysis of movement in life assurance provision and provision arising from liability adequacy test

Group and Company	2017	2017	2017	2016	2016	2016
	Gross HRK'000	Reinsurance HRK'000	Net HRK'000	Gross HRK'000	Reinsurance HRK'000	Net HRK'000
At 1 January	2,576,376	361	2,576,015	2,500,034	364	2,499,670
Premium allocation	236,072	1,264	234,808	248,928	1,372	247,556
Release of liabilities due to benefits paid, surrenders and other terminations	(249,931)	(1,305)	(248,626)	(249,328)	(1,375)	(247,953)
Unwinding of discount/accretion of interest	66,119	-	66,119	65,930	-	65,930
Change in liability arising from liability adequacy test	(76)	-	(76)	(118)	-	(118)
Change in Zillmer adjustment	12,793	-	12,793	14,168	-	14,168
Allocation of discretionary and guaranteed bonuses	(6,915)	-	(6,915)	(1,890)	-	(1,890)
Change in unearned premium reserve	(2,805)	-	(2,805)	(1,348)	-	(1,348)
At 31 December	2,631,633	320	2,631,313	2,576,376	361	2,576,015

Life assurance provision amounted to HRK 2,630,536 thousand (2016: HRK 2,575,203 thousand). Provision arising from liability adequacy test amounted to HRK 1,097 thousand (2016: HRK 1,173 thousand).

e) Analysis of movement in life assurance provisions for unit-linked and index-linked products

Group and Company	2017	2016
	Gross and Net HRK'000	Gross and Net HRK'000
At 1 January	283,716	183,016
Premium allocation	153,164	137,366
Release of liabilities due to benefits paid, surrenders and other terminations	(47,480)	(45,146)
Net gains from change in fair value of assets backing life assurance provision for unit-linked and index-linked products	(1,651)	8,480
At 31 December	387,749	283,716

1.21 Insurance contract provisions (continued)

f) Development of claims (NOCR and IBNR)

For the year ended 31 December 2017

Group and Company	Prior 2011	2011	2012	2013	2014	2015	2016	2017	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Estimate of cumulative claims at the end of accident year	-	351,723	396,946	411,966	473,753	388,045	324,124	349,595	-
One year later	-	319,592	353,776	388,814	388,425	360,853	314,515	-	-
Two years later	-	302,481	332,759	374,301	376,364	340,217	-	-	-
Three years later	-	294,530	322,438	367,177	366,330	-	-	-	-
Four years later	-	295,439	318,889	362,832	-	-	-	-	-
Five years later	-	294,210	316,732	-	-	-	-	-	-
Six years later	-	293,181	-	-	-	-	-	-	-
Estimate of cumulative claims	-	293,181	316,732	362,832	366,330	340,217	314,515	349,595	2,343,402
Cumulative payments	-	263,270	292,422	327,339	335,061	287,756	239,014	187,748	1,932,610
Provisions for prior years	103,064	-	-	-	-	-	-	-	103,064
Claims handling costs	6,220	1,755	1,415	2,127	1,826	3,133	3,889	9,232	29,597
Value recognised in the statement of financial position	109,284	31,666	25,725	37,619	33,095	55,594	79,390	171,080	543,453

1.21 Insurance contract provisions (continued)

g) Remaining maturities of insurance liabilities

Group and Company 2017

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
UPR	260,670	61,321	536	148	44	1	322,720
NOCR & IBNR	233,877	180,096	77,154	27,133	10,932	14,262	543,454
Life assurance provisions, provision for unit linked products and provision arising from LAT	199,670	973,165	829,273	444,155	386,776	186,343	3,019,382
Other insurance provisions	4,474	211	-	-	-	-	4,685
Insurance liabilities	698,691	1,214,793	906,963	471,436	397,752	200,606	3,890,241

Group and Company 2016

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Between 10 and 15 years	Between 15 and 20 years	More than 20 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
UPR	243,219	51,294	478	135	61	4	295,191
NOCR & IBNR	217,646	222,166	50,553	17,088	26,051	12,474	545,978
Life assurance provisions, provision for unit linked products and provision arising from LAT	185,739	1,038,702	640,921	398,542	376,201	219,987	2,860,092
Other insurance provisions	2,246	229	-	-	-	-	2,475
Insurance liabilities	648,850	1,312,391	691,952	415,765	402,313	232,465	3,703,736

UPR stands for unearned premium reserve.

NOCR stands for notified outstanding claims reserve, also known as reported but not settled (RBNS) claims reserve.

IBNR stands for incurred but not reported claims reserve.

LAT stands for liability adequacy test.

1.21 Insurance contract provisions (continued)

h) Analysis of claims ratio, gross and net

The table below presents claims ratio by line of business calculated in accordance with HANFA's Regulation on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance Companies:

Non-life insurance business	Claims ratio gross 2017	Costs ratio gross 2017	Combined ratio gross 2017	Claims ratio gross 2016	Costs ratio gross 2016	Combined ratio gross 2016
Motor vehicle liability insurance	36.32%	40.44%	76.76%	40.38%	44.89%	85.27%
Other motor insurance	58.90%	39.10%	98.00%	59.80%	40.41%	100.21%
Fire and other damage to property insurance	64.02%	47.90%	111.92%	43.57%	48.86%	92.43%
General liability insurance	53.63%	34.75%	88.38%	60.67%	37.26%	97.93%
Marine, aviation and transport	56.34%	44.00%	100.34%	77.16%	46.02%	123.18%
Credit and suretyship insurance	29.67%	23.90%	53.57%	58.15%	27.32%	85.47%
Personal accident insurance	16.83%	44.96%	61.79%	24.39%	48.54%	72.93%
Health insurance	32.52%	37.48%	70.00%	15.32%	44.62%	59.94%
Miscellaneous financial loss	22.90%	36.33%	59.23%	27.50%	39.84%	67.34%
Assistance	24.98%	37.32%	62.30%	19.82%	42.92%	62.74%
TOTAL - NON LIFE	48.42%	42.00%	90.42%	45.36%	44.75%	90.11%

The above ratios are calculated using the formulas prescribed by the Instruction of the Regulation of the Croatian Financial Services Supervisory Agency on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies (Official Gazette 37/16) as follows:

Claims ratio = (claims paid, gross + change in claims reserves, gross + change in other technical reserves, gross) / (gross written premiums + premium impairment + change in gross unearned premium) * (-100)

Costs ratio = (operating expenses + other insurance-technical income, net of reinsurance + other technical insurance expenses, net of reinsurance) / (gross written premiums + premium impairment + change in gross unearned premium) * (-100)

Combined ratio = claims ratio + costs ratio

1.22 Insurance and other payables and deferred income

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Direct insurance contract payables				
- to policyholders	10,440	27,174	10,440	27,174
- to agents, brokers and intermediaries	17,725	18,101	17,725	18,101
Reinsurance contract payables	58,806	60,318	58,806	60,318
Reinsurance commission deferral	3,252	6,762	3,252	6,762
Commission expenses accrual	2,532	1,895	2,532	1,895
Provision for bonuses to employees	8,879	10,016	8,334	9,368
Liabilities for salaries	7,038	7,535	6,674	7,360
Liabilities for premium paid in advance	7,536	67,477	7,536	67,477
Liabilities for share based payments (Note 1.36)	4,559	3,918	4,559	3,918
Liabilities to investment funds non-controlling unitholders	191,986	156,453	-	-
Other payables and accrued expenses	65,366	52,068	54,676	50,950
	<u>378,119</u>	<u>411,717</u>	<u>174,534</u>	<u>253,323</u>

1.23 Equity

a) Issued share capital

	2017 HRK'000	2016 HRK'000
Authorised, issued and fully paid		
254,306 (2016: 254,306) ordinary shares of HRK 400	<u>101,722</u>	<u>101,722</u>

The share capital of the Company is denominated in Croatian kuna. The nominal value of each share issued by the Company is HRK 400.

At the reporting date, the shareholders of the Company are as follows:

	2017 % ownership	2016 % ownership
Allianz New Europe Holding GmbH, Austria	83.2	83.2
Zagrebačka banka d.d., Croatia	<u>16.8</u>	<u>16.8</u>
	<u>100.0</u>	<u>100.0</u>

The ultimate owner of the Company is Allianz SE, a joint stock company domiciled in Germany.

b) Share premium

As a result of the shares issues in period from 1999 to 2008, the Company recognised total share premium in the amount of HRK 112,001 thousand (2016: HRK 112,001 thousand) representing the excess of the paid-in amount over the nominal value of the issued shares. In 2013 the Company increased its issued share capital by converting share premium amounting to HRK 7,500 thousand into share capital (bonus share issue) by issuing 18,750 new ordinary shares each with the nominal amount of HRK 400. New shares were awarded to the existing shareholders in proportion to their current shareholdings. There were no subsequent changes.

1.23 Equity (continued)

c) Fair value reserve

The fair value reserve represents the cumulative unrealised net change in the fair value of available-for-sale investments, net of associated deferred tax. All movements are shown in other comprehensive income in the Statement of comprehensive income, net of tax. Movements in the fair value reserve were as follows:

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
At 1 January				
Gross fair value reserve	260,544	180,587	260,490	180,563
Deferred tax (Note 1.18)	(46,889)	(36,112)	(46,889)	(36,112)
Net	213,655	144,475	213,601	144,451
 Net gains from change in fair value of available-for-sale financial assets	 37,103	 83,071	 36,277	 84,201
Net gains on disposal of available-for-sale financial assets - transfer to profit or loss (Note 1.28)	(15,488)	(3,703)	(14,634)	(4,816)
Impairment loss on financial assets available for sale (Note 1.34)	1,261	589	1,216	542
	22,876	79,957	22,859	79,927
 Deferred tax on net gains from change in fair value of available-for-sale financial assets, net of amounts realised and impairment losses (Note 1.18)	 (4,114)	 (14,387)	 (4,114)	 (14,387)
Effect of tax rate change (Note 1.18)	-	3,610	-	3,610
 <i>Net deferred tax expense/credit recognised in other comprehensive income</i>	 (4,114)	 (10,777)	 (4,114)	 (10,777)
 At 31 December				
Gross fair value reserve	283,420	260,544	283,349	260,490
Deferred tax (Note 1.18)	(51,003)	(46,889)	(51,003)	(46,889)
Net	232,417	213,655	232,346	213,601

d) Legal reserve

The legal reserve (HRK 25,053 thousand at 31 December 2017 and 2016) represents accumulated appropriations from retained earnings in accordance with Insurance Law effective until 31 December 2005, which required a minimum of one third of the Company's net profit to be transferred to a non-distributable statutory reserve until the reserve reaches half of the average of earned premium of the preceding two years.

In 2006, a new Insurance Law become effective which does not require the creation of the above reserve, However, in accordance with the Companies Law, 5% of profit for the year needs to be allocated to a legal reserve until legal reserve and non-distributable reserves, such as share premium reach 5% of the issued share capital.

The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

e) Retained earnings

The Company pays due care to the requirements of the Croatian Accounting Act for covering of net carrying amount of any development costs in advance of determining distributable amount of retained earnings.

1.24 Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the Company (the Company has no preference shares). The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares (no treasury shares in either 2017 or 2016). The weighted average number of ordinary shares used for basic earnings per share was 254,306 (2016: 254,306). Given that there is no effect of options, convertible bonds or similar effect, the weighted average number of ordinary shares used for diluted earnings per share was the same as used to calculate basic earnings per share: 254,306 (2016: 254,306)

	Group 2017	Group 2016	Company 2017	Company 2016
Profit attributable to ordinary shareholders of the Company for earnings per share in HRK '000	113,706	79,225	112,921	78,642
Weighted average number of ordinary shares at 31 December	254,306	254,306	254,306	254,306
Basic and diluted earnings per share attributable to equity holders of the Company in HRK	447,12	311,54	444,04	309,24

1.25 Dividends per share

During 2017, the Company paid dividend for 2016 in the amount of HRK 62,003 thousand which gives dividend per share of HRK 243.81 (during 2016 for 2015 HRK 60,601 thousand or HRK 238.30 per share) based on the number of shares outstanding at the time of payment.

The Management Board will propose dividend for 2017 in the amount of HRK 352.89 per share or HRK 89,743 thousand in total that will be paid after approved by the General Assembly.

1.26 Premiums

	Group and Company 2017 HRK'000	Group and Company 2016 HRK'000
<i>Non-life insurance</i>		
Gross premium written	618,681	576,359
Written premiums ceded to reinsurers	(85,651)	(128,027)
Net premiums written from non-life insurance	533,030	448,332
Change in unearned premiums, gross	(26,540)	(1,314)
Change in unearned premiums, reinsurance share	(7,559)	4,177
Total premium income net, (earned) from non-life insurance	498,931	451,195
<i>Life assurance</i>		
Gross premium written	531,278	539,706
Written premiums ceded to reinsurers	(3,387)	(3,739)
Net premiums written from life assurance	527,891	535,967
Change in unearned premiums, gross	(989)	(1,246)
Change in unearned premiums, reinsurance share	(15)	(8)
Total premium income net, (earned) from life assurance	526,887	534,713
Total gross premiums written	1,149,959	1,116,065
Total premiums ceded to reinsurers	(89,038)	(131,766)
Total net premiums written	1,060,921	984,299
Total change in the gross provision for unearned premiums	(27,529)	(2,560)
Total reinsurers' share of change in the provision for unearned premiums	(7,574)	4,169
Net earned premiums non-life and life	1,025,818	985,908

Gross premiums written for the Group and the Company have been presented after net impairment of HRK 3,867 thousand (2016: net impairment reversal of HRK 1 thousand), as presented in Note 1.19.

1.26 Premiums (continued)

Analysis by class of business

Group and Company

2017	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition costs (Note 1.31) HRK'000	Administrative expenses (Note 1.32) HRK'000	Reinsurance balance HRK'000
<i>Non-life insurance business</i>						
Personal accident insurance	52,926	51,283	8,619	13,304	9,736	(396)
Health insurance	12,386	7,395	2,471	1,325	1,445	(1,129)
Insurance of motor vehicles - full comprehensive motor (casco)	95,741	92,089	54,536	18,747	17,432	(1,067)
Full comprehensive motor insurance (casco) of track vehicles	1,266	258	142	8	52	-
Hull insurance of aircrafts	139	130	133	15	25	29
Marine and inland marine hull insurance	13,035	12,432	9,568	2,798	2,397	(9,818)
Insurance of goods in transport	5,976	5,776	2,138	1,060	1,114	(686)
Insurance of property against fire and allied perils	131,499	129,494	73,389	34,667	24,606	(3,153)
Other property insurances	51,198	50,107	41,697	16,552	9,729	9,456
Motor third-party liability insurance	123,655	126,377	45,949	23,319	24,574	(115)
Aviation third-party liability insurance	239	246	(34)	20	45	(217)
Shipowners' liability insurance	5,265	4,843	1,448	1,198	955	(705)
Other liability insurances	81,534	68,094	36,537	10,238	13,356	(11,399)
Credit insurance	3,512	3,280	972	231	609	(1,060)
Suretyship insurance	192	209	2	25	43	-
Insurance of financial losses	17,381	17,415	3,996	3,021	3,300	(8,692)
Travel insurance	22,737	22,713	5,691	4,146	4,318	(8,576)
Total non life	618,681	592,141	287,254	130,674	113,736	(37,528)
<i>Life assurance business</i>						
Traditional life	321,852	321,852	294,936	20,437	30,411	(934)
Annuity contracts	12,792	12,792	13,744	1,570	8,392	-
Supplementary insurance	32,272	31,283	2,981	3,478	2,734	(1,969)
Unit linked and index-linked	164,362	164,034	151,496	7,379	4,819	4
Total life	531,278	530,289	463,157	32,864	46,356	(2,899)
Grand total	1,149,959	1,122,430	750,411	163,538	160,092	(40,427)

Acquisition costs and administrative expenses for the Group and the Company are different for simplicity reasons, the above table is presented only once, with acquisition costs and administrative expense figures for the Company, as only those relate to insurance business.

1.26 Premiums (continued)

Analysis by class of business (continued)

Group and Company

2016	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred (Note 1.30) HRK'000	Acquisition costs (Note 1.31) HRK'000	Administrative expenses (Note 1.32) HRK'000	Reinsurance balance HRK'000
<i>Non-life insurance business</i>						
Personal accident insurance	51,844	52,016	(12,602)	(13,964)	(11,224)	(534)
Health insurance	3,324	2,431	(419)	(559)	(526)	(1,181)
Insurance of motor vehicles - full comprehensive motor (casco)	89,220	85,640	(51,546)	(16,523)	(18,787)	(1,040)
Full comprehensive motor insurance (casco) of track	-	-	-	-	-	-
Hull insurance of aircrafts	100	238	(127)	(18)	(51)	(194)
Marine and inland marine hull insurance	12,322	12,002	(10,680)	(2,793)	(2,669)	(3,275)
Insurance of goods in transport	4,910	4,993	(3,018)	(941)	(1,061)	(602)
Insurance of property against fire and allied perils	127,450	126,658	(41,048)	(29,360)	(27,259)	(28,307)
Other property insurances	51,988	51,302	(36,471)	(17,741)	(10,981)	5,293
Motor third-party liability insurance	127,766	142,070	(57,433)	(29,437)	(31,499)	(573)
Aviation third-party liability insurance	232	391	(167)	(32)	(91)	(113)
Shipowners' liability insurance	4,189	3,900	(2,617)	(855)	(874)	550
Other liability insurances	68,624	59,146	(36,065)	(9,045)	(12,968)	(6,877)
Credit insurance	2,756	2,815	(1,785)	(186)	(612)	(1,678)
Suretyship insurance	244	226	17	(31)	(46)	-
Insurance of financial losses	16,039	16,128	(4,453)	(3,040)	(3,481)	(9,042)
Travel insurance	15,351	15,089	(2,993)	(3,207)	(3,280)	(8,050)
Total non life	576,359	575,045	(261,407)	(127,732)	(125,409)	(55,623)
<i>Life assurance business</i>						
Traditional life	337,587	337,587	(299,790)	(32,608)	(36,462)	(638)
Annuity contracts	26,408	26,408	(25,522)	(2,708)	(10,450)	-
Supplementary insurance	33,381	32,568	(4,143)	(4,080)	(2,682)	(2,009)
Unit linked and index-linked	142,330	141,897	(145,605)	(7,808)	(5,651)	4
Total life	539,706	538,460	(475,060)	(47,204)	(55,245)	(2,643)
Grand total	1,116,065	1,113,505	(736,467)	(174,936)	(180,654)	(58,266)

1.27 Fee and commission income

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Fee income				
Fund management based fees	1,108	1,175	1,887	1,605
Commission income				
Reinsurance commission	9,528	20,109	9,528	20,109
Total fee and commission income	10,636	21,284	11,415	21,714

1.28 Financial income

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
<i>Interest income:</i>				
- Available for sale	94,489	91,456	92,515	89,807
- Held-to-maturity	34,784	40,026	34,366	39,257
- Loans and receivables	2,054	4,011	1,771	3,410
	131,327	135,493	128,652	132,474
Dividend income	14,756	16,478	13,159	15,784
Rental income from investment property	2,040	2,112	2,040	2,112
<i>Net foreign exchange translation gains/(losses) on financial assets:</i>				
- Held-to-maturity	(2,999)	(5,262)	(2,999)	(5,262)
- Available for sale	(11,133)	(15,742)	(9,381)	(16,249)
- Fair value through profit or loss	(11)	(36)	(11)	(36)
- Loans and receivables	(8)	(651)	(8)	(651)
- Current accounts	(661)	646	(581)	657
	(14,812)	(21,045)	(12,980)	(21,541)
Net realised gains from available-for-sale financial assets (Note 1.23c)	15,488	3,703	14,634	4,816
Net gains on financial assets at fair value through profit or loss	(2,296)	16,601	(458)	10,023
Reversal of impairment losses on loans	-	14	-	14
	146,503	153,356	145,047	143,682

Company

	Non-life 2017 HRK'000	Life 2017 HRK'000	Total 2017 HRK'000	Non-life 2016 HRK'000	Life 2016 HRK'000	Total 2016 HRK'000
Net financial income						
Income from assets backing equity	4,432	(268)	4,164	3,850	1,848	5,698
Income from assets backing life assurance provision	-	102,031	102,031	-	84,169	84,169
Income from assets backing other technical provisions	36,649	3,960	40,609	41,129	4,340	45,469
Income from assets backing index-linked products	-	(1,757)	(1,757)	-	8,346	8,346
	41,081	103,966	145,047	44,979	98,703	143,682

1.29 Other operating income

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Service claims	2,612	2,085	2,587	2,081
Foreign exchange translation gains arising on insurance contract receivables and payables	92	86	92	86
IT Services	2,368	2,544	-	-
Other	5,641	3,498	5,260	3,151
	10,713	8,213	7,939	5,318

1.30 Net policyholder claims and benefits incurred

	Group and Company 2017 HRK'000	Group and Company 2016 HRK'000
<i>Non-life insurance</i>		
Claims paid		
Gross amount	293,382	276,333
Reinsurers' share	(37,545)	(65,236)
Change in notified outstanding claims reserve		
Gross amount	9,215	5,151
Reinsurers' share	(10,842)	17,430
Change in incurred but not reported claims reserve		
Gross amount	(17,571)	(18,087)
Reinsurers' share	1,979	(621)
Change in other technical provisions		
Gross amount	2,228	(1,990)
Reinsurers' share	53	(38)
	<hr/>	<hr/>
Total gross claims incurred from non-life insurance	287,254	261,407
Total reinsurance share in claims incurred from non-life insurance	(46,355)	(48,465)
	<hr/>	<hr/>
Total net claims incurred from non-life insurance	240,899	212,942
	<hr/>	<hr/>
<i>Life assurance</i>		
Claims paid (benefits and surrenders)		
Gross amount	250,835	246,943
Reinsurers' share	(326)	(771)
Claims paid for unit linked products, gross and net	47,218	44,803
Change in life assurance provision and provision arising from LAT	-	-
Gross amount	55,257	76,342
Reinsurers' share	41	3
Change in life assurance provision for unit linked products, gross and net	104,033	100,700
Change in notified outstanding claims reserve, gross and net	5,861	6,252
Change in incurred but not reported claims reserve	-	-
Gross amount	(29)	61
Reinsurers' share	(17)	14
Change in other provisions, gross and net	(18)	(41)
	<hr/>	<hr/>
Total gross claims and benefits incurred from life assurance	463,157	475,060
Total reinsurance share in claims and benefits incurred from life assurance	(302)	(754)
	<hr/>	<hr/>
Total net claims and benefits incurred from life assurance	462,855	474,306
	<hr/>	<hr/>
Total gross claims and benefits incurred	750,411	736,467
Total reinsurers' share in claims and benefits incurred	(46,657)	(49,219)
	<hr/>	<hr/>
Total non-life and life	703,754	687,248
	<hr/>	<hr/>

1.31 Acquisition costs

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
<i>Non-life</i>				
Commission expenses paid	122,930	112,352	122,697	112,058
Other acquisition costs paid	12,291	16,968	12,284	16,921
Changes in deferred acquisition costs (Note 1.13)	(4,307)	(1,247)	(4,307)	(1,247)
Total acquisition costs, non-life	130,914	128,073	130,674	127,732
<i>Life</i>				
Commission expenses paid	26,673	38,714	26,673	38,714
Other acquisition costs paid	6,264	8,587	6,264	8,587
Changes in deferred acquisition costs (Note 1.13)	(73)	(97)	(73)	(97)
Total acquisition costs, life	32,864	47,204	32,864	47,204
	163,778	175,277	163,538	174,936

Included within acquisition costs for the Group and the Company are internal sales staff costs amounting to HRK 27 million (2016: HRK 40,5million). Breakdown of total acquisition cost per line of business of the Company is also analysed in Note 1.26.

a) Breakdown of acquisition costs of the Company per lines of business

<i>For 2017</i>	Commission HRK'000	Other acquisition costs HRK'000	Change in deferred acquisition costs (+/-) HRK'000	Total acquisition costs HRK'000
Non-life insurance business				
Personal accident insurance	(13,540)	(742)	(978)	(13,304)
Health insurance	(1,656)	(277)	(608)	(1,325)
Motor hull	(17,478)	(1,376)	(107)	(18,747)
Track vehicles hull	(19)	(4)	(15)	(8)
Hull insurance of aircrafts	(13)	(2)	-	(15)
Marine and inland marine hull	(2,621)	(177)	-	(2,798)
Insurance of goods in transport	(1,059)	(86)	(85)	(1,060)
Insurance of property against fire and allied perils	(31,523)	(4,219)	(1,075)	(34,667)
Other property insurances	(15,994)	(935)	(377)	(16,552)
Motor third-party liability	(20,830)	(2,017)	472	(23,319)
Aviation third-party liability	(17)	(3)	-	(20)
Shipowners' liability insurance	(1,129)	(71)	(2)	(1,198)
Other liability insurances	(9,832)	(1,743)	(1,337)	(10,238)
Credit insurance	(185)	(46)	-	(231)
Suretyship insurance	(22)	(3)	-	(25)
Insurance of financial losses	(2,797)	(238)	(14)	(3,021)
Assistance (Travel insurance)	(3,982)	(345)	(181)	(4,146)
Total Non-life insurance business	(122,697)	(12,284)	(4,307)	(130,674)
Life insurance business				
Traditional life	(16,322)	(4,115)	-	(20,437)
Annuity contracts	(523)	(1,047)	-	(1,570)
Supplementary insurance	(3,150)	(401)	(73)	(3,478)
Unit linked	(6,678)	(701)	-	(7,379)
Total life insurance business	(26,673)	(6,264)	(73)	(32,864)
Grand total	(149,370)	(18,548)	(4,380)	(163,538)

Acquisition costs incurred by the Group members do not relate to insurance business, hence the above breakdown is presented only for the Company.

1.31 Acquisition costs (continued)

a) Breakdown of acquisition costs of the Company per lines of business (continued)

For 2016

	Commission	Other acquisition costs	Change in deferred acquisition costs (+/-)	Total acquisition costs
	HRK'000	HRK'000	HRK'000	HRK'000
Non-life insurance business				
Personal accident insurance	(13,528)	(1,195)	(759)	(13,964)
Health insurance	(562)	(172)	(175)	(559)
Motor hull	(16,697)	(3,125)	(3,299)	(16,523)
Track vehicles hull	-	-	-	-
Hull insurance of aircrafts	(13)	(5)	-	(18)
Marine and inland marine hull	(2,222)	(271)	300	(2,793)
Insurance of goods in transport	(824)	(101)	16	(941)
Insurance of property against fire and allied perils	(26,574)	(4,320)	(1,534)	(29,360)
Other property insurances	(16,619)	(1,485)	(363)	(17,741)
Motor third-party liability	(20,576)	(3,683)	5,178	(29,437)
Aviation third-party liability	(24)	(8)	-	(32)
Shipowners' liability insurance	(891)	127	91	(855)
Other liability insurances	(7,901)	(1,946)	(802)	(9,045)
Credit insurance	(130)	(56)	-	(186)
Suretyship insurance	(26)	(5)	-	(31)
Insurance of financial losses	(2,530)	(325)	185	(3,040)
Travel insurance	(2,941)	(351)	(85)	(3,207)
Total Non-life insurance business	(112,058)	(16,921)	(1,247)	(127,732)
Life insurance business				
Traditional life	(26,850)	(5,758)	-	(32,608)
Annuity contracts	(1,291)	(1,417)	-	(2,708)
Supplementary insurance	(3,686)	(491)	(97)	(4,080)
Unit linked	(6,887)	(921)	-	(7,808)
Total life insurance business	(38,714)	(8,587)	(97)	(47,204)
Grand total	(150,772)	(25,508)	(1,344)	(174,936)

1.32 Administrative expenses

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Depreciation of property and equipment (Note 1.11)	5,031	6,500	4,896	6,293
Amortisation (Note 1.14)	6,922	5,621	6,151	5,111
Staff costs	68,054	75,080	62,509	69,661
Cash-settled-share-based staff costs (Note 1.36)	2,337	1,046	2,337	1,046
Goods and services	46,853	56,606	45,777	55,561
Software maintenance costs	10,578	10,068	9,111	8,625
Other costs	29,324	34,088	29,311	34,357
	169,099	189,009	160,092	180,654

In 2017, the average number of employees of the Group was 382 (2016: 569).

In 2017, the Group paid HRK 14,5 million (2016: HRK 18,2 million) of pension contributions into obligatory pension funds.

Included within administrative expenses is audit fee for the Group HRK 0,86 million (2016: HRK 1 million) and for the Company HRK 0,73 million (2016: HRK 0,84 million).

Breakdown of total administrative expenses of the Company per lines of business is also disclosed within Note 1.26.

a) Breakdown of administration costs of the Company per lines of business

For 2017	Depreciation of property and equipment and amortisation of intangible assets HRK'000	Personnel expenses and cash settled share based payments HRK'000	Other administration costs HRK'000	Total administration costs HRK'000
Non-life insurance business				
Personal accident insurance	(908)	(4,068)	(4,760)	(9,736)
Health insurance	(137)	(602)	(706)	(1,445)
Motor hull	(1,622)	(7,287)	(8,523)	(17,432)
Track vehicles hull	(6)	(21)	(25)	(52)
Hull insurance of aircrafts	(2)	(11)	(12)	(25)
Marine and inland marine hull	(239)	(972)	(1,186)	(2,397)
Insurance of goods in transport	(102)	(467)	(545)	(1,114)
Insurance of property against fire and allied perils	(2,273)	(10,298)	(12,035)	(24,606)
Other property insurances	(914)	(4,019)	(4,796)	(9,729)
Motor third-party liability	(2,613)	(10,024)	(11,937)	(24,574)
Aviation third-party liability	(5)	(18)	(22)	(45)
Shipowners' liability insurance	(104)	(387)	(464)	(955)
Other liability insurances	(1,377)	(5,481)	(6,498)	(13,356)
Credit insurance	(59)	(253)	(297)	(609)
Suretyship insurance	(4)	(18)	(21)	(43)
Insurance of financial losses	(295)	(1,388)	(1,617)	(3,300)
Travel insurance	(387)	(1,816)	(2,115)	(4,318)
Total Non-life insurance business	(11,047)	(47,130)	(55,559)	(113,736)
Life insurance business				
Traditional life	-	(11,622)	(18,789)	(30,411)
Annuity contracts	-	(3,207)	(5,185)	(8,392)
Supplementary insurance	-	(1,045)	(1,689)	(2,734)
Unit linked	-	(1,842)	(2,977)	(4,819)
Total life insurance business	-	(17,716)	(28,640)	(46,356)
Grand total	(11,047)	(64,846)	(84,199)	(160,092)

Administrative costs incurred by the Group members do not relate to insurance business, hence the above breakdown is presented only for the Company.

1.32 Administrative expenses (continued)

a) Breakdown of administration costs of the Company per lines of business

<i>For 2016</i>	Depreciation of property and equipment and amortisation of intangible assets HRK'000	Personnel expenses and cash settled share based payments HRK'000	Other administration costs HRK'000	Total administration costs HRK'000
Non-life insurance business				
Personal accident insurance	(975)	(4,649)	(5,600)	(11,224)
Health insurance	(47)	(217)	(262)	(526)
Motor hull	(1,634)	(7,779)	(9,374)	(18,787)
Track vehicles hull	-	-	-	-
Hull insurance of aircrafts	(4)	(22)	(25)	(51)
Marine and inland marine hull	(259)	(1,074)	(1,336)	(2,669)
Insurance of goods in transport	(91)	(440)	(530)	(1,061)
Insurance of property against fire and allied perils	(2,315)	(11,327)	(13,617)	(27,259)
Other property insurances	(943)	(4,524)	(5,514)	(10,981)
Motor third-party liability	(3,148)	(12,754)	(15,597)	(31,499)
Aviation third-party liability	(9)	(37)	(45)	(91)
Shipowners' liability insurance	(94)	(349)	(431)	(874)
Other liability insurances	(1,266)	(5,273)	(6,429)	(12,968)
Credit insurance	(55)	(252)	(305)	(612)
Suretyship insurance	(4)	(19)	(23)	(46)
Insurance of financial losses	(289)	(1,451)	(1,741)	(3,481)
Travel insurance	(271)	(1,368)	(1,641)	(3,280)
Total Non-life insurance business	(11,404)	(51,535)	(62,470)	(125,409)
Life insurance business	-	(12,654)	(23,808)	(36,462)
Traditional life	-	(3,627)	(6,823)	(10,450)
Annuity contracts	-	(931)	(1,751)	(2,682)
Supplementary insurance	-	(1,961)	(3,690)	(5,651)
Unit linked	-	-	-	-
Total life insurance business	-	(19,173)	(36,072)	(55,245)
Grand total	(11,404)	(70,708)	(98,542)	(180,654)

1.33 Other operating expenses

	Group	Group	Company	Company
	2017	2016	2017	2016
	HRK'000	HRK'000	HRK'000	HRK'000
Health care charges from functional premiums	2,855	2,997	2,855	2,997
Charges for guarantee fund	936	186	936	186
Fire brigade contributions	(199)	851	(199)	851
Impairment losses/(reversal) of other receivables (Note 1.19)	310	510	310	510
Other charges	6,122	2,155	7,065	3,385
	10,024	6,699	10,967	7,929

1.34 Financial expenses

	Group	Group	Company	Company
	2017	2016	2017	2016
	HRK'000	HRK'000	HRK'000	HRK'000
Depreciation of investment property (Note 1.12)	1,249	1,249	1,249	1,249
Impairment losses on financial assets available for sale (1.23c)	1,261	589	1,216	542
Impairment losses on loans to customers (Note 1.16a)	7,571	2	7,571	2
Other expenses	1,448	1,452	3,645	3,605
Allocation (from)/to investment fund non-controlling unitholders	(3,428)	6,099	-	-
	8,101	9,391	13,681	5,398

Company

	Non-life	Life	Total	Non-life	Life	Total
	2017	2017	2017	2016	2016	2016
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial expenses						
Expenses from assets backing equity	1,738	8,333	10,071	1,312	347	1,659
Expenses from assets backing life assurance provision	-	2,854	2,854	-	2,971	2,971
Expenses from assets backing other technical provisions	672	84	756	676	92	768
	2,410	11,271	13,681	1,988	3,410	5,398

1.35 Income taxes

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Current tax expense	25,195	21,242	25,195	21,116
Deferred tax expense/(credit) (Note 1.18)	33	24	71	24
Tax rate change (Note 1.18)	-	675	-	675
Total income tax expense	25,228	21,941	25,266	21,815

Reconciliation of accounting profit for the period to income tax expense

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Accounting profit for the period before income taxes	138,914	101,137	138,187	100,457
Income tax at 18% (2016: 20%)	(25,005)	(20,227)	(24,874)	(20,091)
Non-deductible expenses	(1,800)	(2,816)	(1,702)	(2,680)
Non-taxable income	1,431	1,715	1,310	1,631
Tax rate change	-	(675)	-	(675)
Utilization of income tax losses previously not recognised as deferred tax asset	146	62	-	-
Total income tax expense	(25,228)	(21,941)	(25,266)	(21,815)
Effective income tax rate	18.2%	21.7%	18.3%	21.7%

Income tax recognised in other comprehensive income

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
On available-for-sale financial assets				
Deferred tax on net gains from change in fair value of available-for-sale financial assets, net of amounts realised and impairment losses (Note 1.23c; 1.18)	(4,114)	(14,387)	(4,114)	(14,387)

Tax losses, carried forward to future periods, not recognized as deferred tax assets

	Group 2017 HRK'000	Group 2016 HRK'000
31 December 2017	-	77
31 December 2018	-	4
31 December 2019	-	68
31 December 2020	57	61
	57	210

1.36 Share based payments

Restricted stock units

Restricted stock units (“RSU”) of the ultimate parent company Allianz SE, are granted to the Management Board, Employee services received in exchange for cash-settled share based payments are recognised at the fair value of the amount payable to the employee, The liability is re-measured at each reporting date and the settlement date to its fair value, with all changes recognised immediately in the profit or loss as staff costs,

RSUs expire at the end of a five year period after the grant date, The amount of the cash payment depends on the share price of the Allianz SE at the time of the exercise,

	Number of items	Fair value at grant date EUR per option	Fair value at 31 December 2017 EUR per option	Fair value at 31 December 2017 HRK '000	End of vesting period
AEI 2014/RSU	1,088	98,71	191,50	1,565	08.03.2018
AEI 2015/RSU	866	126,30	183,41	1,193	06.03.2019
AEI 2016/RSU	1,041	110,67	174,99	1,370	28.02.2020
AEI 2017/RSU	886	135,40	166,27	1,107	05.03.2021

Share appreciation rights

Share appreciation rights (“SAR”) of the ultimate parent company Allianz SE, are granted to the Management Board, Employee services received in exchange for cash-settled share based payments are recognised at the fair value of the amount payable to the employee, The liability is re-measured at each reporting date and the settlement date to its fair value, with all changes recognised immediately in the profit or loss as staff costs.

SARs expire at the end of a three to five year period after the grant date, The amount of the cash payment is determined based on the increase in the share price of the Allianz SE between grant date and the time of the exercise,

Liabilities for share based remuneration (RSU and SAR) to management amounted to HRK 4,559 thousand at 31 December 2017 (2016: HRK 3,918 thousand) (Note 1.22), while expense recognised in 2017 amounted to HRK 2,337 thousand (2016: HRK 1,046 thousand) (Note 1.32).

1.37 Operating leases

The Group and the Company lease office space and motor vehicles under operating leases. All leases are cancellable and typically run for an initial period of one to ten years. None of the leases include contingent rentals.

During the year ended 31 December 2017, HRK 18,1 million was recognised as an expense in the Group's and the Company's profit or loss in respect of operating leases (2016: *HRK 18,9 million*).

1.38 Related parties

The Company is the parent of the Allianz Zagreb Group. The key shareholder of the Company and of the Group is Allianz New Europe Holding GmbH, Austria with holdings of 83.2% (2016: 83.2%) of the Company's shares at year end. Ultimate parent of the Company is Allianz SE, Germany. The Company considers that it has an immediate related party relationship with its shareholders the ultimate parent of its key shareholder, and its subsidiaries; the Supervisory Board members, Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

(a) Relationship with Zagrebačka banka d.d.

The Group holds deposits and current accounts in the amount of HRK 86.2 million (2016: *HRK 57.2 million*) with Zagrebačka banka d.d. Deposits attract standard commercial rates of interest, and are subject to standard commercial transaction and service fees and charges.

During 2017, gross written premium acquired through the Zagrebačka banka Group distribution channels amounted HRK 344.4 million (2016: *HRK 340 million*). Commission paid to Zagrebačka banka Group relating to bank assurance sales amounted to HRK 26.9 million (2016: *HRK 27.5 million*).

Zagrebačka banka Group has property, motor, life and personal lines insurance policies with the Company. Policies written for Zagrebačka banka Group during 2017 amounted to HRK 27.1 million (2016: *HRK 26.8 million*) of gross written premiums.

(b) Relationship with key management personnel

Gross emoluments paid or payable by the Group to the members of the Management Board for the year ended 31 December 2017, amounted to HRK 13.9 million (2016: *HRK 15.4 million*), including fixed salary, accrued bonuses for 2017 and life assurance premiums paid by the Group. Out of this amount HRK 815 thousand (2016: *HRK 1,116 thousand*) relate to pension contributions. Value of units in the Group investment funds owned by Management Board at 31 December 2017 amounted to HRK 3,293 thousand (31 December 2016: *HRK 2,739 thousand*).

Liabilities for share based remuneration to management as at 31 December 2017 amounted to HRK 4,559 thousand (31 December 2016: *HRK 3,918 thousand*), while expense recognised in 2017 amounted to HRK 2,337 thousand (2016: *HRK 1,046 thousand*) (please refer to Note 1.36).

1.38 Related parties (continued)

(c) Relationship with fellow subsidiaries of Allianz SE Group

The majority of the Group's reinsurance is ceded to Allianz SE Group companies. These transactions gave rise to reinsurance premiums and recoveries during the year and debtors and creditors at the end of the year as set out below:

	Company 2017 HRK'000	Company 2016 HRK'000
Premium ceded:		
Reinsurance premiums payable at beginning of year	58,661	47,914
Reinsurance premiums ceded during the year	78,831	122,218
Reinsurance premiums paid during the year	(81,010)	(111,471)
	<hr/>	<hr/>
Reinsurance premiums payable at the year end	56,482	58,661
	<hr/>	<hr/>
Reinsurance recoveries:		
At the beginning of the year	25,961	8,223
Invoiced during the year	33,276	64,816
Received during the year	(46,952)	(47,078)
	<hr/>	<hr/>
Outstanding at the year end	12,285	25,961
	<hr/>	<hr/>
Reinsurance commission:		
At the beginning of the year	5,344	3,243
Invoiced during the year	4,905	20,408
Received during the year	(7,780)	(18,307)
	<hr/>	<hr/>
Outstanding at the year end	2,469	5,344
	<hr/>	<hr/>

1.38 Related parties (continued)

Group 2017	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel (including remuneration)</i>	2,804	9,132	-	6,383
<i>Ultimate parent company</i>				
Allianz SE. Munich	-	166,481	-	3,317
<i>Owners</i>				
Zagrebačka banka d.d.	96,796	56	27,140	27,521
<i>Subsidiaries</i>				
AZ Servisni Centar d.o.o.	541	633	204	1,003
Alianz Cash, open-ended investment fund	107,372	91	238	1,091
Alianz Portfolio, open-ended investment fund	9,947	191	-	2,066
Allianz Equity, open-ended investment fund	9,778	115	-	1,336
Autoelektro tehnički pregledi d.o.o.	2,833	-	172	-
Allianz Invest d.o.o.	738	576	773	6,643
<i>Related companies</i>				
Other subsidiaries of Allianz SE Group - Reinsurers	57,224	56,482	37,716	72,868
<i>Other related companies</i>	268	2,925	1,237	11,891
	288,301	236,682	67,480	134,119

Company 2017	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel (including remuneration)</i>	2,804	5,100	-	5,861
<i>Ultimate parent company</i>				
Allianz SE. Munich	-	852	-	3,317
<i>Owners</i>				
Zagrebačka banka d.d.	86,209	56	27,140	27,512
<i>Subsidiaries</i>				
AZ Servisni Centar d.o.o.	541	633	204	1,003
Alianz Cash, open-ended investment fund	107,372	-	238	-
Alianz Portfolio, open-ended investment fund	9,947	-	-	-
Allianz Equity, open-ended investment fund	9,778	-	-	-
Autoelektro tehnički pregledi d.o.o.	2,833	-	172	-
Allianz Invest d.o.o.	738	179	255	2,150
<i>Related companies</i>				
Other subsidiaries of Allianz SE Group - Reinsurers	57,224	56,482	37,716	72,868
<i>Other related companies</i>	268	2,925	1,237	11,891
	277,714	66,227	66,962	124,602

1.38 Related parties (continued)

Group 2016	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key management personnel (including remuneration)	2,357	8,146	-	15,437
Ultimate parent company				
Allianz SE, Munich	-	4	-	3,803
Owners				
Zagrebačka banka d.d.	84,881	1	26,765	28,578
Subsidiaries				
AZ Servisni Centar d.o.o.	646	633	211	1,290
Alianz Cash, open-ended investment fund	107,275	-	1,914	-
Alianz Portfolio, open-ended investment fund	29,845	-	1,933	-
Allianz Equity, open-ended investment fund	9,961	-	569	-
Autoelektro tehnički pregledi d.o.o.	2,922	-	178	-
Allianz Invest d.o.o.	-	511	810	5,495
Related companies				
Other subsidiaries of Allianz SE Group - Reinsurers	67,055	58,661	84,859	122,118
Other related companies	37	674	905	9,366
	304,979	68,630	118,144	186,087

Company 2016	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key management personnel (including remuneration)	2,357	6,914	-	13,363
Ultimate parent company				
Allianz SE, Munich	-	4	-	3,803
Owners				
Zagrebačka banka d.d.	57,231	1	26,765	28,570
Subsidiaries				
AZ Servisni Centar d.o.o.	646	633	211	1,290
Alianz Cash, open-ended investment fund	107,134	-	225	-
Alianz Portfolio, open-ended investment fund	29,730	-	846	-
Allianz Equity, open-ended investment fund	9,885	-	-	-
Autoelektro tehnički pregledi d.o.o.	2,922	-	178	-
Allianz Invest d.o.o.	-	179	253	2,150
Related companies				
Other subsidiaries of Allianz SE Group - Reinsurers	67,055	58,661	84,859	122,118
Other related companies	37	674	905	9,366
	276,997	67,066	114,242	180,660

1.39 Financial Risk Management

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

Market risk

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

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

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

Asset and liability matching

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

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

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

Interest rate risk

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

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

The Group does not have any debt obligations and interest rate changes also do not influence the level of non-life provisions, other than for motor third party annuities, which are not significant at the reporting date. The life assurance provision is discounted using the lower of the technical interest rate or maximum rate prescribed by HANFA, which cannot be higher than the weighted average annual return for the last three years on assets backing life assurance provision.

1.39 Financial Risk Management (continued)

Interest rate risk (continued)

The Group monitors this exposure through periodic reviews of its asset and liability positions. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to investment portfolio and insurance reserves, are modelled and reviewed regularly. The overall objective of these strategies is to limit the net changes in the value of assets and liabilities arising from interest rate movements.

The Group attempts to match the future receipts from these assets with its insurance liabilities by purchasing Government bonds. However, due to the relatively short duration of such bonds, and the longer duration of life assurance liabilities, and the inability of the Group to purchase interest rate swaps in Croatia, the Group is exposed to interest rate risk.

An increase in 100 basis points in interest yields would be recognised as loss directly in other comprehensive income of the Company in the amount of HRK 217,900 thousand (2016: loss of HRK 137,969 thousand). A decrease in 100 basis points in interest yields would be recognised as gain directly in other comprehensive income of the Company in the amount HRK 258,247 thousand (2016: gain of HRK 163,010 thousand).

An increase in 100 basis points in interest yields would be recognised as a loss directly in profit or loss of the Group in the amount of HRK 39,604 thousand (2016: loss of HRK 37,166 thousand). A decrease in 100 basis points in interest yields would be recognised as a gain directly in profit or loss of the Group in the amount HRK 39,604 thousand (2016: gain of HRK 37,166 thousand).

An increase in 100 basis points in interest yields would be recognised as a loss directly in profit or loss of the Company in the amount of HRK 36,937 thousand (2016: loss of HRK 34,593 thousand). A decrease in 100 basis points in interest yields would be recognised as a gain directly in profit or loss of the Company in the amount HRK 36,937 thousand (2016: gain of HRK 34,593 thousand).

Note 1.41 discloses the effective interest rates and re-pricing analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group's portfolio of marketable equity securities carried in the statement of financial position at fair value gives exposure to price risk. The Group's objective is to earn competitive returns by investing in a diverse portfolio of high quality, liquid securities. Portfolio characteristics are analysed regularly. The Group's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by senior management, as well as by statutory requirements.

The analysis below is performed for reasonably possible movements in key variable with all other variables held constant, showing the impact on profit and other comprehensive income resulting from financial investments.

Group	Impact on profit or	Impact on other	Impact on profit or	Impact on other
	loss after tax	comprehensive	loss after tax	comprehensive
	2017	income after tax	2016	income after tax
	HRK'000	HRK'000	HRK'000	HRK'000
Change in price by \pm 3%	14,055/(14,055)	3,438/(3,438)	12,843/(12,843)	3,202/(3,202)
Change in price by \pm 5%	23,854/(23,425)	5,730/(5,730)	21,405/(21,405)	5,336/(5,336)

Company	Impact on profit or	Impact on other	Impact on profit or	Impact on other
	loss after tax	comprehensive	loss after tax	comprehensive
	2017	income after tax	2016	income after tax
	HRK'000	HRK'000	HRK'000	HRK'000
Change in price by \pm 3%	12,333/(12,333)	3,198/(3,198)	11,606/(11,606)	3,202/(3,202)
Change in price by \pm 5%	20,554/(20,554)	5,330/(5,330)	19,343/(19,343)	5,336/(5,336)

1.39 Financial Risk Management (continued)

Foreign exchange risk

The Group is exposed to currency risk through transactions in foreign currencies. This is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign currency exposure arises from credit, deposit and investment activities as well as from premium income, reinsurance transactions calculation of related technical provisions and settlement of claims on insurance policies linked to foreign currency. The currency giving rise to this risk is mostly Euro.

The Group manages foreign currency risk by trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency. Investments backing life assurance provision are mostly denominated in Euro, as most of the life assurance provision is denominated in Euro.

Note 1.42 discloses the currency analysis at the statement of financial position for Group's and the Company's financial assets and financial liabilities.

The analysis below is performed for reasonably possible movements in key variable with all other variables held constant, showing the impact on profit and other comprehensive income resulting from financial investments.

Majority of the Group's assets and liabilities are denominated either in HRK or EUR.

Group	Impact on profit or loss after tax 2017 HRK'000	Impact on other comprehensive income after tax 2017 HRK'000	Impact on profit or loss after tax 2016 HRK'000	Impact on other comprehensive income after tax 2016 HRK'000
EUR / HRK rate				
Change in fx rate by $\pm 1\%$	(1,621)/1,621	3,692/(3,692)	(492)/492	3,207/(3,207)
Change in fx rate by $\pm 2\%$	(3,241)/3,241	7,383/(7,383)	(984)/984	6,414/(6,414)

Company	Impact on profit or loss after tax 2017 HRK'000	Impact on other comprehensive income after tax 2017 HRK'000	Impact on profit or loss after tax 2016 HRK'000	Impact on other comprehensive income after tax 2016 HRK'000
EUR / HRK rate				
Change in fx rate by $\pm 1\%$	(1,808)/1,808	3,641/(3,641)	(626)/626	3,156/(3,156)
Change in fx rate by $\pm 2\%$	(3,616)/3,616	7,282/(7,282)	(1,251)/1,251	6,312/(6,312)

These movements would be offset by the opposite movements in the liabilities to a certain extent.

Credit risk

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

The Group's portfolios of fixed income securities, mortgage loans and to a lesser extent short-term and other investments are subject to credit risk. The Group manages this risk by up-front, stringent underwriting analysis, reviews by the Investment Committee and regular meetings to review credit developments.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all policyholders and collateral is secured prior to the disbursement or extension of approved policyholder loans. Collateral is as prescribed by the Insurance Law.

The Group has adopted a conservative investment policy.

1.39 Financial Risk Management (continued)

Credit risk (continued)

Accordingly at the reporting date the Group and the Company had significant concentration of amounts due from the Republic of Croatia and local authorities as follows:

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Government bonds and bonds issued by local authorities	2,745,847	2,369,278	2,668,486	2,329,433
Treasury bills	121,839	110,659	-	-
Accrued interest on Government bonds and bonds issued by local authorities	42,303	40,243	42,303	40,243
	2,909,989	2,520,180	2,710,789	2,369,676

The total exposure to Croatian state risk represents 55% of the total assets of the Group (2016: 50%) and 53% of the Company (2016: 48%).

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

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Debt securities				
Available for sale (Note 1.16c)	2,945,002	2,594,964	2,755,063	2,453,777
Held to maturity (Note 1.16c)	594,092	684,995	584,788	675,633
Loans and receivables				
Deposits with credit institutions (Note 1.16c)	22,340	63,321	6,305	6,394
Loans (Note 1.16c)	28,096	51,947	32,175	56,215
Foreign corporate bonds backing index linked products (Note 1.16c)	41,988	76,948	41,988	76,948
Cash and cash equivalents (Note 1.20)	138,441	91,848	90,047	62,010
Insurance receivables and other assets (Note 1.19)	188,138	241,975	187,768	241,742
Reinsurers' share of insurance contract provisions (Note 1.17)	148,609	147,397	148,609	147,397
Total assets bearing credit risk	4,106,706	3,953,395	3,846,743	3,720,116

1.39 Financial Risk Management (continued)

Credit risk (continued)

The financial assets are analysed by classes in the table below using Standard & Poors (S&P) rating. The concentration of credit risk is substantially unchanged compared to the prior year

	Group 2017 HRK'000	Group 2016 HRK'000	Company 2017 HRK'000	Company 2016 HRK'000
Debt securities				
AAA	333,497	478,766	333,497	478,766
A	105,427	107,170	105,427	107,170
BBB	187,422	167,757	187,422	167,757
Below BBB or not rated	2,912,748	2,526,266	2,713,505	2,375,717
Total debt securities	3,539,094	3,279,959	3,339,851	3,129,410
Loans and receivables				
Below BBB or not rated	50,436	115,268	38,480	62,609
Total loans and receivables	50,436	115,268	38,480	62,609
Foreign corporate bonds backing index linked products (Note 1.16c)				
A	41,988	76,948	41,988	76,948
Foreign corporate bonds backing index linked products	41,988	76,948	41,988	76,948
Cash and cash equivalents				
Below BBB or not rated	138,441	91,848	90,047	62,010
Total cash and cash equivalents	138,441	91,848	90,047	62,010
Insurance receivables and other assets				
AA	52,564	64,951	52,564	64,951
Below BBB or not rated	135,574	177,024	135,204	176,791
Total Insurance receivables and other assets	188,138	241,975	187,768	241,742
Reinsurers' share of insurance contract provisions				
AA+	-	3,949	-	3,949
AA	127,643	65,390	127,643	65,390
AA-	15,318	2,110	15,318	2,110
A+	4,562	13,581	4,562	13,581
A	-	46,622	-	46,622
A-	15	13,415	15	13,415
Below BBB or not rated	1,071	2,330	1,071	2,330
Total reinsurance share of insurance contract provisions	148,609	147,397	148,609	147,397
Total financial asset bearing credit risk	4,106,706	3,953,395	3,846,743	3,720,116

1.39 Financial Risk Management (continued)

Credit risk (continued)

To mitigate the risk of reinsurance counterparties not paying amounts due, business and financial standards for reinsurer and broker approval are established, incorporating ratings by major rating agencies and considering current market information.

The following is an analysis of credit quality of reinsurance receivables as at 31 December 2017:

	Company 2017 HRK'000	Company 2016 HRK'000	Financial Strength Rating
Allianz Global Automotive Division	45,908	39,071	AA
Allianz SE	3,618	24,265	AA
Allianz Global Corporate & Specialty SE	3,038	1,346	AA
Jardine Lloyd Thompson Limited	1,457	1,615	NR
Other	5,445	3,714	
	59,466	68,983	

Reinsurance receivables as at 31 December 2017 and 31 December 2016 are all neither past due nor impaired.

Liquidity risk

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

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

The Group's liquidity position is good and all statutory requirements for claims settlement were met in time during the year.

Note 1.40 discloses the maturity analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities within scope of IAS 39.

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

1.39 Financial Risk Management (continued)

Fair values

The main methods and assumptions for fair value estimation of financial risks are described in Note 1.3 (d).

The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the valuation of asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table analyses within the fair value hierarchy the Group's financial assets measured at fair value at 31 December 2017:

Group

For the year ended 31 December 2017

	Level 1	Level 2	Level 3	Total
Assets	HRK'000	HRK'000	HRK'000	HRK'000
<i>Available-for-sale financial assets</i>				
-Equity securities	56,838	16	-	56,854
-Debt securities	2,705,388	239,572	42	2,945,002
-Investment funds	444,022	-	-	444,022
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	41,988	-	-	41,988
-Equity securities	60,537	-	-	60,537
-Financial assets relating to share-based payments	-	-	5,235	5,235
-Investment funds	510,807	-	-	510,807
Total Assets	3,819,580	239,588	5,277	4,064,445

Fair value of loans and receivables is determined by the inputs other than quoted prices that are observable for the assets therefore these would be classified as level 2 within fair value hierarchy. For held-to-maturity investment fair value is determined by using quoted prices therefore these would be classified as level 1 within fair value hierarchy.

Group

For the year ended 31 December 2016

	Level 1	Level 2	Level 3	Total
Assets	HRK'000	HRK'000	HRK'000	HRK'000
<i>Available-for-sale financial assets</i>				
-Equity securities	59,611	786	-	60,397
-Debt securities	2,398,614	196,304	46	2,594,964
-Investment funds	394,364	-	-	394,364
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	76,948	-	-	76,948
-Equity securities	41,497	-	2,338	43,835
-Financial assets relating to share-based payments	-	-	4,629	4,629
-Investment funds	491,282	-	-	491,282
Total Assets	3,462,316	197,090	7,013	3,666,419

1.39 Financial Risk Management (continued)

Fair values (continued)

Group (continued)

Group determines the fair value of financial instruments that are not traded on active market with at least one of the methods listed below, depending on asset characteristics and data available for valuation:

- Multiple (Peer group)
- Discounted Cash Flow Method

The fair value of above mentioned financial instruments is measured using different methods depending on available data. Estimated final value is calculated using the weighted average of the methods used.

The table below shows investments for which fair values are recognized in full or partially by valuation techniques that are based on assumptions that are not supported with prices or other disclosed inputs visible from market transactions of the same security and impact of the change of one or more such assumptions in the background of the valuation technique that are based on reasonable possible alternatives of assumptions,

Investment	Fair value HRK'000	Valuation techniques used	Significant unobservable inputs	Fair value change
DLKV-O-302A	42	Discounted Cash Flow	Discounted rate (9.5%)	The estimated fair value would increase if: <ul style="list-style-type: none"> • the discounted rate was lower.

Table below presents reconciliation the between initial and final state for measurement of fair value in level 3, within fair value hierarchy:

	HRK'000
As at 1 January 2016	5,881
Net gains recognised in profit and loss	225
Purchase/Sale/Expiration	(783)
Transfers to/from level 3	1,690
	<hr/>
As at 31 December 2016	7,013
	<hr/>
Net gains recognised in profit and loss	767
Purchase/Sale/Expiration	(532)
Transfers to/from level 3	(1,971)
	<hr/>
As at 31 December 2017	5,277
	<hr/>

1.39 Financial Risk Management (continued)

Fair values (continued)

Company

For the year ended 31 December 2017

	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Assets				
<i>Investments in subsidiaries at fair value</i>	127,097	-	-	127,097
<i>Available-for-sale financial assets</i>				
-Equity securities	56,838	16	-	56,854
-Debt securities	2,645,065	109,998	-	2,755,063
-Investment funds	444,022	-	-	444,022
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	41,988	-	-	41,988
-Financial assets relating to share-based payments	-	-	5,235	5,235
-Investment funds	501,329	-	-	501,329
Total Assets	3,816,339	110,014	5,235	3,931,588

Company

For the year ended 31 December 2016

	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Assets				
<i>Investments in subsidiaries at fair value</i>	127,054	-	-	127,054
<i>Available-for-sale financial assets</i>				
-Equity securities	59,611	786	-	60,397
-Debt securities	2,368,558	85,219	-	2,453,777
-Investment funds	394,364	-	-	394,364
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	76,948	-	-	76,948
-Financial assets relating to share-based payments	-	-	4,629	4,629
-Investment funds	483,584	-	-	483,584
Total Assets	3,510,119	86,005	4,629	3,600,753

At 31 December 2017, investments classified as Level 2 comprise approximately 5.9% (2016: 5.4%) of Group's financial assets measured as fair value on recurring basis. At 31 December 2017, investments classified as Level 2 comprise approximately 2.8% (2016: 2.4%) of the Company's financial assets measured as fair value on recurring basis. Financial asset classified as Level 2 include treasury bills and debt securities with no active market prices for period longer than 30 days and equity securities with no active market prices for period longer than 180 days. Observable inputs generally used to measure the fair value of treasury bills include weighted average bid price of last treasury bills auction. Measurement of fair value of debt securities has been done using the last market price amortised by effective interest rate method till the reporting date. Financial assets classified as Level 3 include shares relating to share-based payments for the Company and the Group and to domestic shares for the Group in 2016.

1.39 Financial Risk Management (continued)

Fair values (continued)

Transfers between fair-value hierarchy levels are presented at the end of the reporting period.

None of available for sale debt securities in level 1 at year end during the year were included in level 2 (2016: HRK 422 thousand). None of available for sale equity securities in level 1 at the year end (2016: 0) were included in level 2 during the year. There were no available for sale equity securities in level 2 at the year end (2016: HRK 0) that were included in level 1 during the year. Available for sale debt securities in level 2 at year end in the amount of HRK 109,688 thousand (2016: HRK 78,650 thousand) were included in level 1 during the year.

There were no available for sale debt securities at year end (2016: -) and available for sale equity securities at year end (2016: 0) that were during the year directly included in level 2.

Group	2017		2016	
	Book value HRK '000	Fair value HRK '000	Book value HRK '000	Fair value HRK '000
Held-to-maturity investments	594,092	665,003	684,995	759,030
Available for sale financial assets	3,445,878	3,445,878	3,049,725	3,049,725
Financial assets at fair value through profit or loss	618,567	618,567	616,694	616,694
Loans and receivables	50,436	50,436	115,268	115,268
	4,708,973	4,780,884	4,466,682	4,540,717
Investment property	27,854	27,854	29,103	29,103
	4,736,827	4,808,738	4,495,785	4,569,820
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	(186,328)	(186,328)	(202,412)	(202,412)
Company				
Held-to-maturity investments	584,788	656,090	675,633	749,238
Available for sale financial assets	3,255,939	3,255,939	2,908,538	2,908,538
Financial assets at fair value through profit or loss	548,552	548,552	565,161	565,161
Loans and receivables	38,480	38,480	62,609	62,609
	4,427,759	4,499,061	4,211,941	4,285,546
Investments in subsidiaries at cost	5,688	5,688	5,688	5,688
Investments in subsidiaries at fair value	127,097	127,097	127,054	127,054
Investment property	27,854	27,854	29,103	29,103
	4,588,398	4,659,700	4,373,786	4,447,391
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	(174,533)	(174,533)	(200,336)	(200,336)

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

1.39 Financial Risk Management (continued)

Capital management

In 2016 new Solvency II regulatory came into force.

The Group's main objectives in capital management are as follows:

- compliance with positive legislation and by-laws, as well as regulations and instructions determined by the Regulator with respect to capital management,
- securing the Group's ability to continue as a going concern,
- providing the possibility to realise profit with the intention of further investment in the Group's development.

The Group is in compliance with legislation and by-laws which regulate capital, regulatory capital, capital adequacy and solvency margin.

In addition to the stated, for the purpose of securing the quality of the capital base, the Group performs a ALM tests on a regular basis, as well as an stress testing with respect to capital and its adequacy in order to prevent possible capital deficiency.

At 31st of December 2017 and 2016, guarantee capital of the Company was higher than minimum core capital required by Act 19 of Insurance law, and as far from solvency margin calculated based on Act 98 Insurance law, as follows. At the reporting date, Solvency II figures as at 31 December 2017 are not yet audited.

	Unaudited 31.12.2017. HRK'000 Company	31.12.2016. HRK'000 Company
Basic own funds	1,265,705	1,279,031
Ordinary share capital	101,722	101,722
Share premium account related to ordinary share capital	112,001	112,001
Reconciliation reserve	1,003,725	1,065,308
Excess of assets over liabilities	1,355,448	1,401,631
Total assets	5,002,808	4,770,911
Total liabilities	3,647,360	3,369,280
Own shares (held directly and indirectly)	-	-
Foreseeable dividends, distributions and charges	89,743	122,600
Other basic own fund items	213,723	213,723
Ancillary own funds	-	-
Total available own funds to meet the SCR	1,265,705	1,279,031
Total available own funds to meet the MCR	1,265,705	1,279,031
SCR	491,236	538,513
MCR	191,351	175,927
Ratio of Eligible own funds to SCR	258%	238%
Ratio of Eligible own funds to MCR	661%	727%

1.40 Maturity analysis

The tables below analyse the financial assets within scope of IAS 39 of the Group and the Company at 31 December 2017 and 31 December 2016 into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. Highly liquid investments without contractual maturity are classified as up to 6 months. Investments in subsidiaries are classified as over 5 years. Estimated remaining contractual maturities of insurance provisions are analysed in Note 1.22 h). The amounts of financial liabilities disclosed in the table (all non-interest bearing) are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected discounted cash inflows.

Group – 2017

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
<i>Held-to-maturity investments</i>						
Debt securities	-	4,155	287,156	297,632	5,149	594,092
<i>Available-for-sale financial assets</i>						
Debt securities	134,079	143,471	48,589	782,741	1,836,122	2,945,002
Equity securities	-	-	56,854	-	-	56,854
Investment funds	-	444,022	-	-	-	444,022
<i>Financial assets at fair value through profit or loss</i>						
Equity securities	60,537	-	-	-	-	60,537
Foreign corporate bonds backing index linked products	-	33,264	-	8,724	-	41,988
Shares relating to share-based payments	-	1,566	1,193	2,476	-	5,235
Investment funds	9,478	501,329	-	-	-	510,807
<i>Loans and receivables</i>						
Deposits with banks	6,020	16,035	-	285	-	22,340
Loans to customers	12,979	4,704	2,359	1,628	6,426	28,096
Reinsurers' share of insurance contract provisions	33,165	38,261	24,710	35,529	16,944	148,609
Receivables	179,180	6,678	2,280	-	-	188,138
Cash and cash equivalents	138,441	-	-	-	-	138,441
Total financial assets	573,879	1,193,485	423,141	1,129,015	1,864,641	5,184,161
Financial liabilities						
Payables	151,862	-	1,546	-	-	153,408
Other liabilities	32,920	-	-	-	-	32,920
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	184,782	-	1,546	-	-	186,328
Maturity gap	389,097	1,193,485	421,595	1,129,015	1,864,641	4,997,833

Liabilities to investment funds non-controlling unitholders are not included in the above table as they do not have a contractual maturity.

1.40 Maturity analysis (continued)

Group – 2016

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
<i>Held-to-maturity investments</i>						
Debt securities	87,575	-	5,194	531,280	60,946	684,995
<i>Available-for-sale financial assets</i>						
Debt securities	184,167	143,592	174,311	622,726	1,470,168	2,594,964
Equity securities	-	-	60,397	-	-	60,397
Investment funds	-	-	73,002	321,362	-	394,364
<i>Financial assets at fair value through profit or loss</i>						
Equity securities	43,835	-	-	-	-	43,835
Foreign corporate bonds backing index linked products	28,146	6,570	33,427	8,805	-	76,948
Shares relating to share-based payments	1,419	-	1,230	1,980	-	4,629
Investment funds	491,282	-	-	-	-	491,282
<i>Loans and receivables</i>						
Deposits with banks	39,205	23,777	-	339	-	63,321
Loans to customers	36,473	4,234	2,284	1,465	7,491	51,947
Reinsurers' share of insurance contract provisions	34,473	19,652	30,886	44,628	17,758	147,397
Receivables	229,633	10,739	1,598	5	-	241,975
Cash and cash equivalents	91,848	-	-	-	-	91,848
Total financial assets	1,268,056	208,564	382,329	1,532,590	1,556,363	4,947,902
Financial liabilities						
Payables	136,256	8,433	24,501	12,720	-	181,910
Other liabilities	20,502	-	-	-	-	20,502
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	156,758	8,433	24,501	12,720	-	202,412
Maturity gap	1,111,298	200,131	357,828	1,519,870	1,556,363	4,745,490

Liabilities to investment funds non-controlling unitholders are not included in the above table as they do not have a contractual maturity.

1.40 Maturity analysis (continued)

Company – 2017

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
<i>Investments in subsidiaries</i>						
At cost	-	-	-	-	5,688	5,688
At fair value through P&L	-	-	-	-	117,319	117,319
AFS	-	-	-	-	9,778	9,778
<i>Held-to-maturity investments</i>						
Debt securities	-	-	287,156	297,632	-	584,788
<i>Available-for-sale financial assets</i>						
Debt securities	-	141,825	48,589	735,012	1,829,637	2,755,063
Equity securities	-	-	56,854	-	-	56,854
Investment funds	-	444,022	-	-	-	444,022
<i>Financial assets at fair value through profit or loss</i>						
Foreign corporate bonds backing index linked products	-	33,264	-	8,724	-	41,988
Shares relating to share-based payments	-	1,566	1,193	2,476	-	5,235
Investment funds	-	501,329	-	-	-	501,329
<i>Loans and receivables</i>						
Deposits with banks	6,020	-	-	285	-	6,305
Loans to customers	12,979	4,704	2,359	2,649	9,484	32,175
Reinsurers' share of insurance contract provisions	33,165	38,261	24,710	35,529	16,944	148,609
Receivables	178,810	6,678	2,280	-	-	187,768
Cash and cash equivalents	90,047	-	-	-	-	90,047
Total financial assets	321,021	1,171,649	423,141	1,082,307	1,988,850	4,986,968
Financial liabilities						
Payables	151,862	-	1,546	-	-	153,408
Other liabilities	21,125	-	-	-	-	21,125
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	172,987	-	1,546	-	-	174,533
Maturity gap	148,034	1,171,649	421,595	1,082,307	1,988,850	4,812,435

1.40 Maturity analysis (continued)

Company – 2016

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
<i>Investments in subsidiaries</i>						
At cost	-	-	-	-	5,688	5,688
At fair value through P&L	-	-	-	-	117,169	117,169
AFS	-	-	-	-	9,885	9,885
<i>Held-to-maturity investments</i>						
Debt securities	87,575			527,112	60,946	675,633
<i>Available-for-sale financial assets</i>						
Debt securities	80,979	134,650	170,941	610,842	1,456,365	2,453,777
Equity securities	-	-	60,397	-	-	60,397
Investment funds	-	-	73,002	321,362	-	394,364
<i>Financial assets at fair value through profit or loss</i>						
Foreign corporate bonds						
backing index linked products	28,146	6,570	33,427	8,805	-	76,948
Shares relating to share-based payments	1,419	-	1,230	1,980	-	4,629
Investment funds	483,584	-	-	-	-	483,584
<i>Loans and receivables</i>						
Deposits with banks	6,055	-	-	339	-	6,394
Loans to customers	36,473	4,234	2,284	2,586	10,638	56,215
Reinsurers' share of insurance contract provisions	34,473	19,652	30,886	44,628	17,758	147,397
Receivables	229,400	10,739	1,598	5	-	241,742
Cash and cash equivalents	62,010	-	-	-	-	62,010
Total financial assets	1,050,114	175,845	373,765	1,517,659	1,678,449	4,795,832
Financial liabilities						
Payables	136,256	8,433	24,501	12,720	-	181,910
Other liabilities	18,426	-	-	-	-	18,426
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	154,682	8,433	24,501	12,720	-	200,336
Maturity gap	895,432	167,412	349,264	1,504,939	1,678,449	4,595,496

1.41 Interest rate repricing analysis

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

The tables are management's estimate of the interest rate risk for the Group and the Company as at 31 December 2017 and 31 December 2016 and are not necessarily indicative of the positions at other times but, taking into account the interest rate assumptions on which the calculation of mathematical reserve is based (Note 1.22 (f)), provide some indication of the sensitivities of the Group's and the Company's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity. The Group and the Company have a significant proportion of interest-earning assets and interest-bearing liabilities in foreign currency.

Group – 2017

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non- interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
<i>Held-to-maturity investments</i>									
Debt securities	6,00	-	4,155	287,156	297,632	5,149	-	594,092	594,092
<i>Available-for-sale financial assets</i>									
Debt securities	4,00	134,079	143,471	48,589	782,741	1,836,122	-	2,945,002	2,945,002
Equity securities	n/a	-	-	-	-	-	56,854	56,854	
Investment funds	n/a	-	-	-	-	-	444,022	444,022	
<i>Financial assets at fair value through profit or loss</i>									
Debt securities	-	-	-	-	-	-	-	-	-
Equity securities	n/a	-	-	-	-	-	60,537	60,537	
Foreign corporate bonds backing index linked products	-	-	-	-	-	-	41,988	41,988	41,988
Shares relating to share- based payments	n/a	-	-	-	-	-	5,235	5,235	
Investment funds		-	-	-	-	-	510,807	510,807	
<i>Loans and receivables</i>									
Deposits with banks	0,67	6,020	16,035	-	285	-	-	22,340	22,340
Loans to customers	4,06	12,979	4,704	2,359	1,628	6,426	-	28,096	28,096
Reinsurers' share of insurance contract provisions	n/a	-	-	-	-	-	148,609	148,609	
Receivables	n/a	-	-	-	-	-	188,138	188,138	-
Cash and cash equivalents	n/a	138,441	-	-	-	-	-	138,441	138,441
Total financial assets		291,519	168,365	338,104	1,082,286	1,847,697	1,456,190	5,184,161	3,769,959
Financial liabilities									
Payables	n/a	-	-	-	-	-	153,408	153,408	
Other liabilities	n/a	-	-	-	-	-	32,920	32,920	-
Total financial liabilities (excluding liabilities to investment funds non- controlling unitholders)		-	-	-	-	-	186,328	186,328	-
Repricing gap		291,519	168,365	338,104	1,082,286	1,847,697	1,269,862	4,997,833	3,769,959

1.41 Interest rate repricing analysis (continued)

Group – 2016

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non- interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
<i>Held-to-maturity investments</i>									
Debt securities	5,90	87,575	-	5,194	531,280	60,946	-	684,995	684,995
<i>Available-for-sale financial assets</i>									
Debt securities	4,35	127,815	200,370	174,310	622,730	1,469,739	-	2,594,964	2,594,964
Equity securities	n/a	-	-	-	-	-	60,397	60,397	-
Investment funds	n/a	-	-	-	-	-	394,364	394,364	-
<i>Financial assets at fair value through profit or loss</i>									
Debt securities	-	-	-	-	-	-	-	-	-
Equity securities	n/a	-	-	-	-	-	43,835	43,835	-
Foreign corporate bonds backing index linked products	-	-	-	-	-	-	76,948	76,948	76,948
Shares relating to share- based payments	n/a	-	-	-	-	-	4,629	4,629	-
Investment funds		-	-	-	-	-	491,282	491,282	-
<i>Loans and receivables</i>									
Deposits with banks	0,58	26,068	36,914	-	339	-	-	63,321	63,321
Loans to customers	5,89	36,473	4,234	2,284	1,465	7,491	-	51,947	51,947
Reinsurers' share of insurance contract provisions	n/a	-	-	-	-	-	147,397	147,397	-
Receivables	n/a	-	-	-	-	-	241,975	241,975	-
Cash and cash equivalents	n/a	91,848	-	-	-	-	-	91,848	91,848
Total financial assets		369,779	241,518	181,788	1,155,814	1,538,176	1,460,827	4,947,902	3,564,023
Financial liabilities									
Payables	n/a	-	-	-	-	-	181,910	181,910	-
Other liabilities	n/a	897	-	-	-	-	19,605	20,502	897
Total financial liabilities (excluding liabilities to investment funds non-controlling unitholders)		897	-	-	-	-	201,515	202,412	897
Repricing gap		368,882	241,518	181,788	1,155,814	1,538,176	1,259,312	4,745,490	3,563,126

1.41 Interest rate repricing analysis (continued)

Company – 2017

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non- interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
<i>Investments in subsidiaries</i>									
At cost	n/a	-	-	-	-	-	5,688	5,688	-
At fair value through P&L	n/a	-	-	-	-	-	117,319	117,319	-
AFS	n/a	-	-	-	-	-	9,778	9,778	-
<i>Held-to-maturity investments</i>									
Debt securities	6,00	-	-	287,156	297,632	-	-	584,788	584,788
<i>Available-for-sale financial assets</i>									
Debt securities	4,00	-	141,825	48,589	735,012	1,829,637	-	2,755,063	2,755,063
Equity securities	n/a	-	-	-	-	-	56,854	56,854	-
Investment funds	n/a	-	-	-	-	-	444,022	444,022	-
<i>Financial assets at fair value through profit or loss</i>									
Foreign corporate bonds backing index linked products	n/a	-	33,264	-	8,724	-	-	41,988	-
Shares relating to share- based payments	n/a	-	-	-	-	-	5,235	5,235	-
Investment funds	n/a	-	-	-	-	-	501,329	501,329	-
<i>Loans and receivables</i>									
Deposits with banks	0,67	6,020	-	-	285	-	-	6,305	6,305
Loans to customers	4,06	12,979	4,704	2,359	2,649	9,484	-	32,175	32,175
Reinsurance share in technical provisions	n/a	-	-	-	-	-	148,609	148,609	-
Receivables	n/a	-	-	-	-	-	187,768	187,768	-
Cash and cash equivalents	n/a	90,047	-	-	-	-	-	90,047	-
Total financial assets		109,046	179,793	338,104	1,044,302	1,839,121	1,476,602	4,986,968	3,378,331
Financial liabilities									
Payables		-	-	-	-	-	153,408	153,408	-
Other liabilities		-	-	-	-	-	21,125	21,125	-
Total financial liabilities (excluding liabilities to investment funds non- controlling unitholders)		-	-	-	-	-	174,533	174,533	-
Repricing gap		109,046	179,793	338,104	1,044,302	1,839,121	1,302,069	4,812,435	3,378,331

1.41 Interest rate repricing analysis (continued)

Company – 2016

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non- interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
<i>Investments in subsidiaries</i>									
At cost	n/a	-	-	-	-	-	5,688	5,688	-
At fair value through P&L	n/a	-	-	-	-	-	117,169	117,169	-
AFS	n/a	-	-	-	-	-	9,885	9,885	-
<i>Held-to-maturity investments</i>									
Debt securities	5,90	87,576	-	-	527,112	60,945	-	675,633	675,634
<i>Available-for-sale financial assets</i>									
Debt securities	4,35	80,979	134,650	170,941	610,842	1,456,365	-	2,453,777	2,453,777
Equity securities	-	-	-	-	-	-	60,397	60,397	-
Investment funds	-	-	-	-	-	-	394,364	394,364	-
<i>Financial assets at fair value through profit or loss</i>									
Foreign corporate bonds backing index linked products	-	-	-	-	-	-	76,948	76,948	-
Shares relating to share-based payments	-	-	-	-	-	-	4,629	4,629	-
Investment funds	-	-	-	-	-	-	483,584	483,584	-
<i>Loans and receivables</i>									
Deposits with banks	0,58	6,055	-	-	339	-	-	6,394	6,394
Loans to customers	5,89	36,473	4,234	2,284	2,586	10,638	-	56,215	56,215
Reinsurance share in technical provisions	n/a	-	-	-	-	-	147,397	147,397	-
Receivables	n/a	-	-	-	-	-	241,742	241,742	-
Cash and cash equivalents	n/a	62,010	-	-	-	-	-	62,010	62,010
Total financial assets		273,093	138,884	173,225	1,140,879	1,527,948	1,541,803	4,795,832	3,254,030
Financial liabilities									
Payables	n/a	-	-	-	-	-	181,910	181,910	-
Other liabilities	n/a	-	-	-	-	-	18,426	18,426	-
Total financial liabilities (excluding liabilities to investment funds non-controlling unitholders)		-	-	-	-	-	200,336	200,336	-
Repricing gap		273,093	138,884	173,225	1,140,879	1,527,948	1,341,467	4,595,496	3,254,030

1.42 Currency risk analysis

The Group's and the Company's financial assets and financial liabilities within scope of IAS 39 were denominated as follows as at 31 December 2017 and 31 December 2016.

Group – 2017

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	Other foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Financial assets						
<i>Held-to-maturity investments</i>						
Debt securities	-	511,007	511,007	-	83,085	594,092
<i>Available-for-sale financial assets</i>						
Debt securities	848,129	733,460	1,581,589	-	1,363,413	2,945,002
Equity securities	-	-	-	-	56,854	56,854
Investment funds	444,022	-	444,022	-	-	444,022
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	-	-	-	-	-	-
Equity securities	6,180	-	6,180	2,706	51,651	60,537
Foreign corporate bonds backing index linked products	41,988	-	41,988	-	-	41,988
Shares relating to share-based payments	5,235	-	5,235	-	-	5,235
Investment funds	265,657	-	265,657	10,390	234,760	510,807
<i>Loans and receivables</i>						
Deposits with banks	-	285	285	-	22,055	22,340
Loans to customers	-	23,080	23,080	0	5,016	28,096
Reinsurance share in technical provisions	10,352	1,908	12,260	3,865	132,484	148,609
Receivables	45,268	-	45,268	1,951	140,919	188,138
Cash and cash equivalents	18,035	-	18,035	1,247	119,159	138,441
Total financial assets	1,684,866	1,269,740	2,954,606	20,159	2,209,396	5,184,161
Financial liabilities						
Payables	58,145	-	58,145	660	94,603	153,408
Other liabilities	-	-	-	-	32,920	32,920
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	58,145	-	58,145	660	127,523	186,328
Currency gap on financial assets and financial liabilities	1,626,721	1,269,740	2,896,461	19,499	2,081,873	4,997,833

1.42 Currency risk analysis (continued)

Group – 2016

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	Other foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Financial assets						
<i>Held-to-maturity investments</i>						
Debt securities	-	513,972	513,972	-	171,023	684,995
<i>Available-for-sale financial assets</i>						
Debt securities	975,624	728,086	1,703,710	46,152	845,102	2,594,964
Equity securities	129	-	129	-	60,268	60,397
Investment funds	394,364	-	394,364	-	-	394,364
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	-	-	-	-	-	-
Equity securities	5,645	-	5,645	30	38,160	43,835
Foreign corporate bonds backing index linked products	76,948	-	76,948	-	-	76,948
Shares relating to share-based payments	4,629	-	4,629	-	-	4,629
Investment funds	693	144,040	144,733	12,966	333,583	491,282
<i>Loans and receivables</i>						
Deposits with banks	-	339	339	-	62,982	63,321
Loans to customers	-	34,697	34,697	6	17,244	51,947
Reinsurance share in technical provisions	23,167	5,118	28,285	6,565	112,547	147,397
Receivables	105,379	21,454	126,833	4,755	110,387	241,975
Cash and cash equivalents	25,423	-	25,423	1,269	65,156	91,848
Total financial assets	1,612,001	1,447,706	3,059,707	71,743	1,816,452	4,947,902
Financial liabilities						
Payables	59,725	-	59,725	593	121,592	181,910
Other liabilities	-	-	-	-	20,502	20,502
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	59,725	-	59,725	593	142,094	202,412
Currency gap on financial assets and financial liabilities	1,552,276	1,447,706	2,999,982	71,150	1,674,358	4,745,490

1.42 Currency risk analysis (continued)

Company – 2017

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	Other foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Financial assets						
<i>Investments in subsidiaries</i>						
At cost	-	-	-	-	5,688	5,688
At fair value through P&L	-	-	-	-	117,319	117,319
AFS	-	9,778	9,778	-	-	9,778
<i>Held-to-maturity investments</i>						
Debt securities	-	511,007	511,007	-	73,781	584,788
<i>Available-for-sale financial assets</i>						
Debt securities	842,662	733,460	1,576,122	-	1,178,941	2,755,063
Equity securities	-	-	-	-	56,854	56,854
Investment funds	444,022	-	444,022	-	-	444,022
<i>Financial assets at fair value through profit or loss</i>						
Foreign corporate bonds backing index linked products	41,988	-	41,988	-	-	41,988
Shares relating to share-based payments	5,235	-	5,235	-	-	5,235
Investment funds	258,520	-	258,520	10,390	232,419	501,329
<i>Loans and receivables</i>						
Deposits with banks	-	285	285	-	6,020	6,305
Loans to customers	-	28,166	28,166	0	4,009	32,175
Reinsurers' share of insurance contract provisions	10,352	1,908	12,260	3,865	132,484	148,609
Receivables	45,268	-	45,268	1,951	140,549	187,768
Cash and cash equivalents	2,692	-	2,692	976	86,379	90,047
Total financial assets	1,650,739	1,284,604	2,935,343	17,182	2,034,443	4,986,968
Financial liabilities						
Payables	58,145	-	58,145	660	94,603	153,408
Other liabilities	-	-	-	-	21,125	21,125
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	58,145	-	58,145	660	115,728	174,533
Currency gap on financial assets and financial liabilities	1,592,594	1,284,604	2,877,198	16,522	1,918,715	4,812,435

1.42 Currency risk analysis (continued)

Company – 2016

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	Other foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Financial assets						
<i>Investments in subsidiaries</i>						
At cost	-	-	-	-	5,688	5,688
At fair value through P&L	-	-	-	-	117,169	117,169
AFS	-	9,885	9,885	-	-	9,885
<i>Held-to-maturity investments</i>						
Debt securities	-	513,972	513,972	-	161,661	675,633
<i>Available-for-sale financial assets</i>						
Debt securities	964,221	728,086	1,692,307	31,504	729,966	2,453,777
Equity securities	129	-	129	-	60,268	60,397
Investment funds	394,364	-	394,364	-	-	394,364
<i>Financial assets at fair value through profit or loss</i>						
Foreign corporate bonds backing index linked products	76,948	-	76,948	-	-	76,948
Shares relating to share-based payments	4,629	-	4,629	-	-	4,629
Investment funds	-	144,040	144,040	12,966	326,578	483,584
<i>Loans and receivables</i>						
Deposits with banks	-	339	339	-	6,055	6,394
Loans to customers	-	38,990	38,990	6	17,219	56,215
Reinsurers' share of insurance contract provisions	23,167	5,118	28,285	6,565	112,547	147,397
Receivables	105,379	21,454	126,833	4,755	110,154	241,742
Cash and cash equivalents	16,938	-	16,938	921	44,151	62,010
Total financial assets	1,585,775	1,461,884	3,047,659	56,717	1,691,456	4,795,832
Financial liabilities						
Payables	59,725	-	59,725	593	121,592	181,910
Other liabilities	-	-	-	-	18,426	18,426
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	59,725	-	59,725	593	140,018	200,336
Currency gap on financial assets and financial liabilities	1,526,050	1,461,884	2,987,934	56,124	1,551,438	4,595,496

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency

Statement of financial position (balance sheet) 31.12.2017

ASSETS

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
001	002+003	I	INTANGIBLE ASSETS		16,959,034	16,959,034		16,557,010	16,557,010
002		1	Goodwill						
003		2	Other intangible assets		16,959,034	16,959,034		16,557,010	16,557,010
004	005+006+007	II	TANGIBLE ASSETS		40,603,250	40,603,250		36,082,667	36,082,667
005		1	Land and buildings intended for company business operations		31,803,670	31,803,670		30,976,474	30,976,474
006		2	Equipment		8,683,732	8,683,732		4,982,143	4,982,143
007		3	Other tangible assets and stock		115,849	115,849		124,049	124,049
008	009+010+014+033	III	INVESTMENTS	3,136,308,302	953,087,765	4,089,396,067	3,227,222,082	973,136,127	4,200,358,209
009		A	Investments in land and buildings not intended for company business operations		29,103,483	29,103,483		27,854,937	27,854,937
010	011+012+013	B	Investments in subsidiaries, associates and joint ventures		5,688,100	5,688,100		5,688,100	5,688,100
011		1	Shares and stakes in subsidiaries		5,688,100	5,688,100		5,688,100	5,688,100
012		2	Shares and stakes in associates						
013		3	Joint venture participation						
014	015+018+023+029	C	Financial investments	3,136,308,302	918,296,182	4,054,604,484	3,227,222,082	939,593,090	4,166,815,172
015	016+017	1	Investments held-to-maturity	513,972,256	161,661,147	675,633,404	511,007,131	73,779,603	584,786,733
016		1.1	Debt securities and other securities with fixed revenue	513,972,256	161,661,147	675,633,404	511,007,131	73,779,603	584,786,733
017		1.2	Other investments held to maturity						

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of financial position (balance sheet) 31.12.2017 (continued)

ASSETS				in HRK					
Position no,	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
018	019+020+021+022	2	Investments available-for-sale	2,253,034,917	665,388,031	2,918,422,948	2,475,700,591	790,015,507	3,265,716,097
019		2.1	Shares, stakes and other securities with variable revenue	54,690,963	5,705,891	60,396,854	50,770,770	6,083,483	56,854,254
020		2.2	Debt securities and other securities with fixed revenue	1,835,915,017	617,861,862	2,453,776,880	2,015,592,541	739,468,633	2,755,061,174
021		2.3	Investment fund units	362,428,937	41,820,278	404,249,215	409,337,279	44,463,390	453,800,670
022		2.4	Other investments available for sale						
023	024+025+026+027+028	3	Investments at fair value through profit and loss account	338,755,478	59,859,170	398,614,648	220,593,920	57,526,660	278,120,580
024		3.1	Shares, stakes and other securities with variable revenue						
025		3.2	Debt securities and other securities with fixed revenue						
026		3.3	Derivative financial instruments		4,628,772	4,628,772		5,234,495	5,234,495
027		3.4	Investment fund units	323,487,522	55,230,398	378,717,920	211,331,911	52,292,165	263,624,076
028		3.5	Other investments	15,267,956		15,267,956	9,262,010		9,262,010
029	030+031+032	4	Deposits, loans and receivables	30,545,651	31,387,833	61,933,484	19,920,441	18,271,320	38,191,761
030		4.1	Deposits with credit institutions (banks)		6,394,356	6,394,356		6,305,279	6,305,279
031		4.2	Loans	30,545,651	24,993,477	55,539,128	19,920,441	11,966,041	31,886,482
032		4.3	Other loans and receivables						
033		D	Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)						
034		IV	INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS	283,715,679		283,715,679	387,748,984		387,748,984

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of financial position (balance sheet) 31.12.2017 (continued)

ASSETS

Position no,	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
035	036+037+038+039+040+041+042	V	REINSURANCE SHARE IN TECHNICAL PROVISIONS	998,458	146,397,331	147,395,789	959,397	147,648,856	148,608,253
036		1	Unearned premiums, reinsurance share	148,192	69,201,626	69,349,818	133,016	61,642,720	61,775,736
037		2	Mathematical provision, reinsurance share	361,366		361,366	320,781		320,781
038		3	Provision for claims outstanding, reinsurance share	488,900	77,143,301	77,632,201	505,600	86,006,137	86,511,737
039		4	Provisions for return of premiums depending and not depending on the result (bonuses and rebates),		52,404	52,404			
040		5	Equalisation provisions, reinsurance share						
041		6	Other insurance technical provisions, reinsurance share						
042		7	Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share						
043	044+045	VI	DEFERRED AND CURRENT TAX ASSET	-7,456,632	7,833,740	377,108			
044		1	Deferred tax asset						
045		2	Current tax asset	-7,456,632	7,833,740	377,108			
046	047+050+051	VII	RECEIVABLES	3,676,777	234,868,738	238,545,515	4,130,740	181,184,626	185,315,366
047	048+049	1	Receivables from direct insurance business	484,013	134,065,180	134,549,193	563,343	87,379,984	87,943,327
048		1.1	From policyholders	484,013	134,065,180	134,549,193	563,343	87,379,984	87,943,327
049		1.2	From insurance agents, or insurance brokers						
050		2	Receivables from co-insurance and reinsurance business	49,152	68,823,304	68,872,456	104,122	59,008,639	59,112,761

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of financial position (balance sheet) 31.12.2017 (continued)

ASSETS				in HRK					
Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
051	052+053+054	3	Other receivables	3,143,612	31,980,255	35,123,867	3,463,276	34,796,003	38,259,279
052		3.1	Receivables from other insurance business		10,260,654	10,260,654		13,176,323	13,176,323
053		3.2	Receivables for return on investments	738,147	204,371	942,518	256,111	41,795	297,906
054		3.3	Other receivables	2,405,465	21,515,229	23,920,694	3,207,165	21,577,885	24,785,050
055	056+060+061	VIII	OTHER ASSETS	48,128,133	14,550,402	62,678,535	59,958,505	30,455,901	90,414,407
056	057+058+059	1	Cash at bank and in hand	48,128,133	14,550,402	62,678,535	59,958,505	30,455,901	90,414,407
057		1.1	Funds in the business account	31,384,047	14,023,071	45,407,118	40,603,068	30,231,640	70,834,708
058		1.2	Funds in the account of assets covering mathematical provision	16,604,982		16,604,982	19,214,800		19,214,800
059		1.3	Cash in hand	139,105	527,330	666,436	140,637	224,262	364,899
060		2	Long-term assets intended for sale and business cessation						
061		3	Other						
062	063+064+065	IX	PREPAYMENTS AND ACCRUED INCOME	1,857,099	47,025,823	48,882,922	1,516,667	50,911,844	52,428,511
063		1	Deferred interest and rent	2,897	20,839	23,737	2,897	5,883	8,780
064		2	Deferred acquisition costs	1,241,542	44,554,143	45,795,685	1,315,039	48,860,584	50,175,623
065		3	Other prepayments and accrued income	612,660	2,450,840	3,063,501	198,731	2,045,378	2,244,108
066	001+004+008+034+035+043+046+055+062	X	TOTAL ASSETS (A+B+C+D+E+F+G+H+I+J)	3,467,227,817	1,461,326,082	4,928,553,899	3,681,536,376	1,435,977,032	5,117,513,408
067		XI	OFF BALANCE SHEET ITEMS						

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of financial position (balance sheet) 31.12.2017 (continued)

EQUITY AND LIABILITIES

in HRK

Position no,	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
068	069+072+073+077+081+084	XII	CAPITAL AND RESERVES	469,198,234	461,586,299	930,784,533	521,359,833	479,087,578	1,000,447,411
069	070+071	1	Subscribed capital	30,000,000	71,722,400	101,722,400	30,000,000	71,722,400	101,722,400
070		1.1	<i>Paid-up capital - ordinary shares</i>	30,000,000	71,722,400	101,722,400	30,000,000	71,722,400	101,722,400
071		1.2	<i>Paid-up capital - preference shares</i>						
072		2	Issued shares premiums (capital reserves)	80,500,000	31,500,600	112,000,600	80,500,000	31,500,600	112,000,600
073	074+075+076	3	Revaluation reserve	177,373,271	36,228,085	213,601,356	193,460,130	38,885,672	232,345,802
074		3.1	<i>Land and buildings</i>						
075		3.2	<i>Financial investments</i>	177,373,271	36,228,085	213,601,356	193,460,130	38,885,672	232,345,802
076		3.3	<i>Other revaluation reserves</i>						
077	078+079+080	4	Reserves	2,397,219	22,655,124	25,052,343	2,397,219	22,655,124	25,052,343
078		4.1	<i>Legally stipulated reserves</i>	1,300,066	7,098,754	8,398,820	1,300,066	7,098,754	8,398,820
079		4.2	<i>Statutory reserve</i>	1,097,153	15,556,369	16,653,523	1,097,153	15,556,369	16,653,523
080		4.3	<i>Other reserve</i>						
081	082+083	5	Transferred (retained) profit or loss	134,836,141	264,929,853	399,765,994	151,475,635	264,929,853	416,405,488
082		5.1	<i>Retained profit</i>	134,836,141	264,929,853	399,765,994	151,475,635	264,929,853	416,405,488
083		5.2	<i>Transferred loss (-)</i>						
084	085+086	6	Profit or loss of the current accounting period	44,091,603	34,550,237	78,641,840	63,526,850	49,393,929	112,920,779
085		6.1	<i>Profit of the current accounting period</i>	44,091,603	34,550,237	78,641,840	63,526,850	49,393,929	112,920,779
086		6.2	<i>Loss of the current accounting period (-)</i>						
087		XIII	SUBORDINATED LIABILITIES						

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of financial position (balance sheet) 31.12.2017 (continued)

EQUITY AND LIABILITIES

in HRK

Position no,	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
089	090+091+092+093+094+095	XV	TECHNICAL PROVISIONS	2,622,756,281	797,264,092	3,420,020,373	2,684,816,372	817,676,544	3,502,492,916
090		1	Unearned premiums, gross amount	9,767,467	285,424,025	295,191,492	10,756,232	311,964,258	322,720,490
091		2	Mathematical provision, gross amount	2,576,376,855		2,576,376,855	2,631,634,038		2,631,634,038
092		3	Provision for claims outstanding, gross amount	36,383,407	509,593,605	545,977,012	42,215,058	501,237,837	543,452,895
093		4	Provisions for return of premiums depending and not depending on the result (bonuses and rebates), gross amount		2,246,462	2,246,462		2,773,717	2,773,717
094		5	Equalisation provision, gross amount					68,218	68,218
095		6	Other insurance technical provisions, gross amount	228,552		228,552	211,044	1,632,515	1,843,559
096		XVI	LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount	283,715,679		283,715,679	387,748,984		387,748,984
097	098+099	XVII	OTHER RESERVES						
098		1	Provisions for pensions and similar liabilities						
099		2	Other provisions						
100	101+102	XVIII	DEFERRED AND CURRENT TAX LIABILITY	36,349,114	4,359,931	40,709,045	52,792,309	-503,043	52,289,266
101		1	Deferred tax liability	36,349,114	4,359,931	40,709,045	40,024,737	4,869,606	44,894,344
102		2	Current tax liability				12,767,572	-5,372,649	7,394,923
103		XIX	DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE						
104	105+106+107	XX	FINANCIAL LIABILITIES						
105		1	Liabilities on the basis of loans						
106		2	Liabilities on the basis of issued securities						
107		3	Other financial liabilities						

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of financial position (balance sheet) 31.12.2017 (continued)

EQUITY AND LIABILITIES

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
108	109+110+111+112	XXI	OTHER LIABILITIES	36,210,837	164,125,575	200,336,411	21,433,110	108,682,710	130,115,821
109		1	Liabilities from direct insurance business	31,567,488	90,025,027	121,592,514	16,457,826	33,727,483	50,185,310
110		2	Liabilities from co-insurance and reinsurance business	1,005,976	59,312,087	60,318,062	556,661	58,248,673	58,805,334
111		3	Liabilities for sale and ceased business						
112		4	Other liabilities	3,637,374	14,788,461	18,425,835	4,418,623	16,706,554	21,125,177
113	114+115	XXII	ACCRUED EXPENSES AND DEFERRED INCOME	18,997,672	33,990,185	52,987,857	13,385,767	31,033,242	44,419,010
114		1	Deferred reinsurance commission		6,762,353	6,762,353		3,252,331	3,252,331
115		2	Other accrued expenses and deferred income	18,997,672	27,227,832	46,225,504	13,385,767	27,780,911	41,166,679
116	068+087+088+089+096+097+100+103+104+108+113	XXIII	TOTAL LIABILITIES (A+B+C+D+E+F+G+H+I+J)	3,467,227,817	1,461,326,082	4,928,553,899	3,681,536,376	1,435,977,032	5,117,513,408
117		XXIV	OFF BALANCE SHEET ITEMS						

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of comprehensive income (income statement) 01.01.2017 – 31.12.2017

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
001	002+003+004+005+006	I	Earned premiums (recognized in revenue)	534,712,188	451,195,189	985,907,377	526,887,032	498,930,509	1,025,817,541
002		1	Written gross premiums	539,705,636	576,357,240	1,116,062,876	531,278,189	614,813,718	1,146,091,907
003		2	Value adjustment and charged adjustment of insurance/co-insurance premium value		1,743	1,743		3,866,706	3,866,706
004		3	Premiums ceded to reinsurance (-)	-3,739,347	-128,026,717	-131,766,064	-3,387,216	-85,650,775	-89,037,991
005		4	Change in gross provisions for unearned premiums (+/-)	-1,246,438	-1,313,864	-2,560,302	-988,765	-26,540,233	-27,528,999
006		5	Change in provisions for unearned premiums, reinsurance share (+/-)	-7,663	4,176,786	4,169,123	-15,176	-7,558,906	-7,574,083
007	008+009+010+011+012+013+014	II	Income from investments	131,484,523	49,226,906	180,711,429	121,252,812	42,592,965	163,845,777
008		1	Income from subsidiaries, associates and joint ventures						
009		2	Income from investment in land and buildings		2,111,911	2,111,911		2,040,027	2,040,027
010		3	Interest income	89,962,492	42,510,880	132,473,373	93,445,544	35,204,593	128,650,137
011		4	Unrealized profits from investment	9,919,212	251,344	10,170,556	87,349	1,182,112	1,269,460
012		5	Realized profits from investment	16,611,595	464,655	17,076,250	15,724,163	1,159,495	16,883,658
013		6	Net positive exchange rate differentials	880,146	2,195,040	3,075,186	475,028	1,363,545	1,838,573
014		7	Other investment profits	14,111,077	1,693,076	15,804,153	11,520,728	1,643,193	13,163,921

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of comprehensive income (income statement) 01.01.2017 – 31.12.2017 (continued)

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
015		III	Income from commissions and fees	1,953,847	19,761,184	21,715,031	2,089,413	9,326,419	11,415,831
016		IV	Other insurance-technical income, net of reinsurance	50,922	2,642,457	2,693,379	26,206	3,824,086	3,850,291
017		V	Other income	975,037	2,552,796	3,527,832	585,339	3,780,482	4,365,821
018	019+022	VI	Expenditures for insured events, net	-297,301,146	-214,968,960	-512,270,106	-303,542,313	-238,617,919	-542,160,232
019	020+021	1	Settled claims	-290,974,326	-211,095,850	-502,070,176	-297,727,362	-255,836,524	-553,563,886
020		1.1	Gross amount (-)	-291,745,870	-276,332,165	-568,078,035	-298,053,477	-293,381,411	-591,434,889
021		1.2	Reinsurer share(+)	771,544	65,236,315	66,007,859	326,115	37,544,887	37,871,003
022	023+024	2	Change in provisions for claims outstanding (+/-)	-6,326,820	-3,873,110	-10,199,930	-5,814,951	17,218,605	11,403,654
023		2.1	Gross amount (-)	-6,313,220	12,935,469	6,622,249	-5,831,651	8,355,769	2,524,118
024		2.2	Reinsurer share(+)	-13,600	-16,808,579	-16,822,179	16,700	8,862,836	8,879,536
025	026+029	VII	Change in other technical provisions, net of reinsurance	-76,303,666	2,531,395	-73,772,272	-55,280,259	-1,700,732	-56,980,992
026	027+028	1	Change in mathematical provision (+/-)	-76,345,423		-76,345,423	-55,297,767		-55,297,767
027		1.1	Gross amount (-)	-76,342,567		-76,342,567	-55,257,182		-55,257,182
028		1.2	Reinsurer share(+)	-2,855		-2,855	-40,585		-40,585
029	030+031	2	Change in other technical provisions, net of reinsurance (+/-)	41,756	2,531,395	2,573,151	17,508	-1,700,732	-1,683,224
030		2.1	Gross amount (-)	41,756	2,531,395	2,573,151	17,508	-1,700,732	-1,683,224
031		2.2	Reinsurer share(+)						

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)
Statement of comprehensive income (income statement) 01.01.2017 – 31.12.2017 (continued)

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Non life	Life	Total
032	033+034	VIII	Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)	-100,700,383		-100,700,383	-104,033,305		-104,033,305
033		1	Gross amount (-)	-100,700,383		-100,700,383	-104,033,305		-104,033,305
034		2	Reinsurer share(+)						
035	036+037	IX	Expenditures for return of premium (bonuses and rebates), net of reinsurance		-503,366	-503,366		-579,659	-579,659
036		1	Depending on the result (bonuses)						
037		2	Not depending on the result (rebates)		-503,366	-503,366		-579,659	-579,659
038	039+043	X	Business expenditures (for business operations), net	-102,449,122	-253,140,640	-355,589,762	-79,217,384	-244,412,254	-323,629,638
039	040+041+042	1	Acquisition costs	-47,203,674	-127,731,829	-174,935,502	-32,861,055	-130,676,646	-163,537,702
040		1.1	Commission	-38,714,198	-112,057,143	-150,771,341	-26,672,812	-122,698,029	-149,370,842
041		1.2	Other acquisition costs	-8,586,034	-16,921,762	-25,507,796	-6,261,740	-12,285,057	-18,546,797
042		1.3	Change in deferred acquisition costs (+/-)	96,558	1,247,076	1,343,634	73,497	4,306,440	4,379,938
043	044+045+046	2	Administration costs	-55,245,448	-125,408,811	-180,654,260	-46,356,329	-113,735,607	-160,091,936
044		2.1	Depreciation of tangible assets		-11,403,930	-11,403,930		-11,047,198	-11,047,198
045		2.2	Salaries, taxes and contributions to and from salaries	-19,173,151	-51,534,677	-70,707,828	-17,717,748	-47,130,197	-64,847,946
046		2.3	Other administration costs	-36,072,297	-62,470,204	-98,542,501	-28,638,581	-55,558,211	-84,196,792

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of comprehensive income (income statement) 01.01.2017 – 31.12.2017 (continued)

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Non life	Life	Total
047	048+049+050+051+052+053+054	XI	Investment expenses	-36,189,425	-6,252,436	-42,441,862	-28,557,944	-3,922,691	-32,480,636
048		1	Depreciation (buildings not intended for business operations of the company)		-1,248,546	-1,248,546		-1,248,546	-1,248,546
049		2	Interest						
050		3	Investment value adjustment (reduction)	-524,298	-42,591	-566,889	-8,382,312	-409,430	-8,791,742
051		4	Losses from sale (realization) of financial assets	-10,447,288	-1,958,931	-12,406,219	-2,207,253		-2,207,253
052		5	Unrealised losses from financial investment				-1,769,903		-1,769,903
053		6	Net negative exchange rate differences	-21,412,326	-498,476	-21,910,801	-12,471,023		-12,471,023
054		7	Other investment expenses	-3,805,515	-2,503,892	-6,309,407	-3,727,454	-2,264,715	-5,992,169
055	056+057	XII	Other technical expenses, net of reinsurance	-445,257	-6,843,770	-7,289,027	-2,275,243	-8,105,210	-10,380,452
056		1	Expenses for preventive operations	-147,819		-147,819	-1,927,556	-139,125	-2,066,681
057		2	Other technical expenses of insurance	-297,438	-6,843,770	-7,141,208	-347,687	-7,966,085	-8,313,771
058		XIII	Other expenses including value adjustments	-11,482	-1,519,704	-1,531,186	-8,215	-855,225	-863,441
059	001+007+015+016+017+018+025+032+035+038+047+055+058	XIV	Profit or loss of the accounting period before taxation (+/-)	55,776,034	44,681,051	100,457,085	77,926,137	60,260,771	138,186,907
060	061+062	XV	Profit or loss tax	-11,684,431	-10,130,814	-21,815,245	-14,399,287	-10,866,842	-25,266,129
061		1	Current tax expense	-11,380,691	-9,735,491	-21,116,183	-14,254,925	-10,940,539	-25,195,465
062		2	Deferred tax expense (income)	-303,739	-395,323	-699,062	-144,361	73,697	-70,664

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of comprehensive income (income statement) 01.01.2017 – 31.12.2017 (continued)

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Non life	Life	Total
063	059-060	XVI	Profit or loss of the accounting period after taxation (+/-)	44,091,603	34,550,237	78,641,840	63,526,850	49,393,929	112,920,779
064		1	Attributable to owners of the parent						
065		2	Attributable to non-controlling interests						
066	001+007+015+016+017+062	XVII	TOTAL INCOME	668,872,777	524,983,209	1,193,855,986	650,696,439	558,528,158	1,209,224,597
067	018+025+032+035+038+047+055+058+061	XVII I	TOTAL EXPENDITURE	-624,781,174	-490,432,972	-1,115,214,146	-587,169,589	-509,134,229	-1,096,303,819

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

Statement of comprehensive income (income statement) 01.01.2017 – 31.12.2017 (continued)

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Non life	Life	Total
068	069+070+071+072+073+074+075+076	XIX	Other comprehensive income	63,645,654	5,506,408	69,152,062	16,086,859	2,657,587	18,744,446
069		1	Profits/losses on translation of financial statements on foreign operating activities						
070		2	Profits/losses on revaluation of financial assets available for sale	74,149,346	5,778,495	79,927,841	19,618,120	3,240,960	22,859,080
071		3	Profits/losses on revaluation of land and buildings intended for business activities of the company						
072		4	Profits/losses on revaluation of other tangible and (except land and real estate) intangible assets						
073		5	Effects from cash flow hedging instruments						
074		6	Actuarial profits/losses on defined benefit pension plans						
075		7	Share in other comprehensive income of associated companies						
076		8	Profit tax on other comprehensive income	-10,503,692	-272,087	-10,775,779	-3,531,262	-583,373	-4,114,634
077	066+067+068	XX	Total comprehensive income	107,737,257	40,056,645	147,793,902	79,613,709	52,051,516	131,665,224
078		1	Attributable to owners of the parent						
079		2	Attributable to non-controlling interests						
080		XXI	Reclassification adjustments						

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

STATEMENT OF CASH FLOW (INDIRECT METHOD) for period 01.01.2017 – 31.12.2017

in HRK

Position no,	Elements of sum	Position code	Position description	Current business period	The same period of the previous year
001	002+013+031	I	CASH FLOW FROM OPERATING ACTIVITIES	-2,478,672	74,711,431
002	003+004	1	Cash flow before the change in assets and liabilities	282,188,987	248,524,708
003		1.1	Profit/loss before taxation	138,186,907	100,457,085
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments	144,002,080	148,067,623
005		1.2.1	Depreciation of real estate and equipment	4,622,067	6,292,927
006		1.2.2	Depreciation of intangible assets	6,425,131	5,111,003
007		1.2.3	Value impairment and profits/losses on reduction to fair value	-8,589	-575,008
008		1.2.4	Interest expense		
009		1.2.5	Interest income	128,650,137	132,473,373
010		1.2.6	Shares in profit of associated companies		
011		1.2.7	Profits/losses on sale of tangible assets (including land and buildings)		
012		1.2.8	Other adjustments	4,313,333	4,765,328
013	014+015+...+030	2	Increase/decrease in assets and liabilities	-267,244,224	-150,111,075
014		2.1	Increase/decrease in investments available-for-sale	-325,649,777	-160,012,029
015		2.2	Increase/decrease in investment valued at fair value through profit and loss account	121,751,202	-57,455,342
016		2.3	Increase/decrease in deposits, loans and receivables	23,741,723	95,076,692
017		2.4	Increase/decrease of deposits in insurance business ceded to reinsurance		
018		2.5	Increase/decrease in investments for the account and risk of life assurance policyholders	-102,275,728	-92,353,381
019		2.6	Increase/decrease in reinsurance share in technical provisions	-1,212,465	12,617,958
020		2.7	Increase/decrease in tax assets		
021		2.8	Increase/decrease in receivables	-86,012,423	-186,097,688
022		2.9	Increase/decrease in other assets		
023		2.10	Increase/decrease in prepayments and accrued income	-3,545,589	51,613,993
024		2.11	Increase/decrease in technical provisions	82,472,543	70,248,789
025		2.12	Increase decrease in life assurance technical provisions where the policyholder bears the investment risk	102,275,728	92,353,381
026		2.13	Increase/decrease in tax liabilities		
027		2.14	Increase/decrease in deposits retained from business ceded to reinsurance		
028		2.15	Increase/decrease in financial liabilities		
029		2.16	Increase/decrease in other liabilities	-70,220,591	13,723,022
030		2.17	Increase/decrease in accruals and deferred income	-8,568,848	10,173,533

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

STATEMENT OF CASH FLOW (INDIRECT METHOD) for period 01.01.2017 – 31.12.2017

in HRK

Position no,	Elements of sum	Position code	Position description	Current business period	The same period of the previous year
031		3	Paid profit tax	-17,423,434	-23,702,202
032	033+034+...+046	II	CASH FLOW FROM INVESTING ACTIVITIES	93,139,330	3,779,234
033		1	Inflows from sale of tangible assets		
034		2	Outflows for purchase of tangible assets	-101,483	-5,975,037
035		3	Inflows from sale of intangible assets		
036		4	Outflows for purchase of intangible assets	-6,023,108	-6,049,882
037		5	Inflows from sale of land and buildings not intended for business operations of the company		
038		6	Outflows for purchase of land and buildings not intended for business operations of the company		
039		7	Increase/decrease in investments in subsidiaries, associates and joint ventures		
040		8	Inflows from investments held to maturity	86,100,000	
041		9	Outflows for investments held to maturity		
042		10	Inflows from sale of securities and stakes		
043		11	Outflows for investments in securities and stakes		
044		12	Inflows from dividends and shares in profit	13,163,921	15,804,153
045		13	Inflows on the basis of payment of given short-term and long-term loans		
046		14	Outflows for given short-term and long-term loans		
047	048+049+050+051+052	III	CASH FLOW FROM FINANCING ACTIVITIES	-62,002,346	-60,601,120
048		1	Cash inflows on the basis of initial capital increase		
049		2	Cash inflows from received short-term and long-term loans		
050		3	Cash outflows for payment of received short-term and long-term loans		
051		4	Cash outflows for repurchase of own shares		
052		5	Cash outflows for payment of dividends	-62,002,346	-60,601,120
053	001+032+047		NET CASH FLOW	28,658,313	17,889,545
054		IV	EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS	-922,442	93,543
055	053+054	V	NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	27,735,871	17,983,088
056		1	Cash and cash equivalents at the beginning of the period	62,678,535	44,695,446
057	055+056	2	Cash and cash equivalents at the end of the period	90,414,406	62,678,534

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

STATEMENT OF CHANGES IN EQUITY for period 01.01.2017 – 31.12.2017

in HRK

Position code	Position description	Attributable to owners of the parent							Attributable to non-controlling interest	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year	Total capital and reserves		
I,	Balance as at 1 January of previous year	101,722,400	112,000,600	144,449,294	25,052,343	356,912,642	103,454,472	843,591,751		843,591,751
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
II,	Balance as at 1 January of previous year (corrected)	101,722,400	112,000,600	144,449,294	25,052,343	356,912,642	103,454,472	843,591,751		843,591,751
III,	Comprehensive income/loss of the previous year			69,152,062			78,641,840	147,793,902		147,793,902
1.	Profit or loss of the period						78,641,840	78,641,840		78,641,840
2.	Other comprehensive income or loss of the previous year			69,152,062				69,152,062		69,152,062
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			79,927,841				79,927,841		79,927,841
2.3.	Realised gains or losses from financial assets available for sale			-10,775,779				-10,775,779		-10,775,779
2.4.	Other non-owner changes in equity									
IV,	Transactions with owners (previous period)					42,853,353	-103,454,472	-60,601,119		-60,601,119
1.	Increase/decrease in subscribed capital									
2.	Other payments by owners									
3.	Payment of shares in profit /dividends						-60,601,119	-60,601,119		-60,601,119
4.	Other distributions to owners					42,853,353	-42,853,353			
V,	Balance as at the last day of the reporting period in previous year	101,722,400	112,000,600	213,601,356	25,052,343	399,765,995	78,641,840	930,784,534		930,784,534

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)

STATEMENT OF CHANGES IN EQUITY for period 01.01.2017 – 31.12.2017

in HRK

Position code	Position description	Attributable to owners of the parent							Attributable to non-controlling interest	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year	Total capital and reserves		
VI.	Balance as at 1 January of the current year	101,722,400	112,000,600	213,601,356	25,052,343	399,765,994	78,641,840	930,784,533		930,784,533
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
VII.	Balance as at 1 January of the current year (corrected)	101,722,400	112,000,600	213,601,356	25,052,343	399,765,994	78,641,840	930,784,533		930,784,533
VIII.	Comprehensive income/loss of the current year			18,744,446			112,920,779	131,665,224		131,665,224
1.	Profit or loss of the previous period						112,920,779	112,920,779		112,920,779
2.	Other comprehensive income or loss of the current year			18,744,446				18,744,446		18,744,446
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			22,859,080				22,859,080		22,859,080
2.3.	Realised gains or losses from financial assets available for sale			-4,114,634				-4,114,634		-4,114,634
2.4.	Other non-owner changes in equity									
IX.	Transactions with owners (current period)					16,639,494	-78,641,840	-62,002,346		-62,002,346
1.	Increase/decrease in subscribed capital									
2.	Other payments by owners									
3.	Payment of shares in profit /dividends						-62,002,346	-62,002,346		-62,002,346
4.	Other transactions with owners					16,639,494	-16,639,494			
X.	Balance as at the last day of the reporting period in the current year	101,722,400	112,000,600	232,345,802	25,052,343	416,405,488	112,920,779	1,000,447,411		1,000,447,411

Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules

Statement of financial position – Assets as at 31 December 2017

Supplementary information prescribed by Regulation of the Croatian Financial Services Supervisory Agency									Statutory financial statements	
		Transfer of inventory from tangible assets to insurance receivables and other assets	Transfer of investments for the account and risk of life assurance policyholders to financial assets at fair value through profit or loss	Transfer of prepaid expenses and other assets from prepayments to insurance receivables and other assets	Transfer of accrued interest from financial assets to insurance receivables and other assets	Transfer of cheques received from cash and cash equivalents insurance receivables and other assets	Transfer from financial assets at fair value through profit or loss and available for sale to investment in subsidiaries	Rounding difference	HRK'000	
RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	HRK'000									
Called up capital	-									
Uncalled capital	-									
INTANGIBLE ASSETS	16,557									
Goodwill	-									
Other intangible assets	16,557							(1)	16,556	Other intangible assets
TANGIBLE ASSETS	36,083	(124)							35,959	Property and equipment
Land and buildings intended for company business operations	30,976									
Equipment	4,982									
Other tangible assets and stock	124									
INVESTMENTS	4,200,358									
Investments in land and buildings not intended for company business operations	27,855							(1)	27,854	Investment property
Investments in subsidiaries, associates and joint ventures	5,688						127,097		132,785	Investment in subsidiaries
Shares and stakes in subsidiaries	5,688									
Shares and stakes in associates	-									
Joint venture participation	-									
Other financial investments	4,166,815									
Investments held-to-maturity	584,787							1	584,788	Held-to-maturity investments
Debt securities and other securities with fixed revenue	584,787									
Other investments held to maturity	-									

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

Statement of financial position – Assets as at 31 December 2017

Schedules prescribed by Regulation of the Croatian Financial Services Supervisory Agency				Statutory financial statements						
	HRK'000	Transfer of inventory from tangible assets to insurance receivables and other assets	Transfer of investments for the account and risk of life assurance policyholders to financial assets at fair value through profit or loss	Transfer of prepaid expenses and other assets from prepayments to insurance receivables and other assets	Transfer of accrued interest from financial assets to insurance receivables and other assets	Transfer of cheques received from cash and cash equivalents insurance receivables and other assets	Transfer from financial assets at fair value through profit or loss and available for sale to investment in subsidiaries	Rounding difference	HRK'000	
Investments available-for-sale	3,265,716						(9,778)	1	3,255,939	Available-for-sale financial assets
<i>Shares, stakes and other securities with variable revenue</i>	56,854									
<i>Debt securities and other securities with fixed revenue</i>	2,755,061									
<i>Investment fund units</i>	453,801									
<i>Other investments available for sale</i>	-									
Investments at fair value through profit and loss account	278,121		387,749				(117,319)	1	548,552	Financial assets at fair value through profit or loss
<i>Shares, stakes and other securities with variable revenue</i>	-									
<i>Debt securities and other securities with fixed revenue</i>	-									
<i>Derivative financial instruments</i>	5,234									
<i>Investment fund units</i>	263,624									
<i>Other investments</i>	9,262									
Deposits, loans and receivables	38,192				287			1	38,480	Loans and receivables
<i>Deposits with credit institutions (banks)</i>	6,305									
<i>Loans</i>	31,886									
<i>Other loans and receivables</i>	-									
<i>Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)</i>	-									
INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS	387,749		(387,749)							

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)**Statement of financial position – Assets as at 31 December 2017**Supplementary information prescribed by Regulation of the
Croatian Financial Services Supervisory Agency

Supplementary information prescribed by Regulation of the Croatian Financial Services Supervisory Agency		Statutory financial statements								
	HRK'000	Transfer of inventory from tangible assets to insurance receivables and other assets	Transfer of investments for the account and risk of life assurance policyholders to financial assets at fair value through profit or loss	Transfer of prepaid expenses and other assets from prepayments to insurance receivables and other assets	Transfer of accrued interest from financial assets to insurance receivables and other assets	Transfer of cheques received from cash and cash equivalents insurance receivables and other assets	Transfer from financial assets at fair value through profit or loss and available for sale to investment in subsidiaries	Rounding difference	HRK'000	Reinsurers' share of insurance contract provisions
REINSURANCE SHARE IN TECHNICAL PROVISIONS	148,608							1	148,609	
Unearned premiums, reinsurance share	61,776									
Mathematical provision, reinsurance share	321									
Provision for claims outstanding, reinsurance share	86,512									
Provisions for return of premiums depending and not depending on the result (bonuses and rebates), reinsurance share	-									
Equalisation provisions, reinsurance share	-									
Other insurance technical provisions, reinsurance share	-									
Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share	-									
DEFERRED AND CURRENT TAX ASSETS	-									
Deferred tax asset	-									
Current tax asset	-								-	Current income tax prepayment
RECEIVABLES	185,315	124		2,253	(287)	365		(2)	187,768	Insurance receivables and other assets
Receivables from direct insurance business	87,943									
<i>From policyholders</i>	87,943									
<i>From insurance agents, or insurance brokers</i>	-									
Receivables from co-insurance and reinsurance business	59,113									

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

Statement of financial position – Assets as at 31 December 2017

Supplementary information prescribed by Regulation
of the Croatian Financial Services Supervisory Agency

Statutory financial
statements

		Transfer of inventory from tangible assets to insurance receivables and other assets	Transfer of investments for the account and risk of life assurance policyholders to financial assets at fair value through profit or loss	Transfer of prepaid expenses and other assets from prepayments to insurance receivables and other assets	Transfer of accrued interest from financial assets to insurance receivables and other assets	Transfer of cheques received from cash and cash equivalents insurance receivables and other assets	Transfer from financial assets at fair value through profit or loss and available for sale to investment in subsidiaries	Rounding difference	
	HRK'000								HRK'000
Other receivables	38,259								
<i>Receivables from other insurance business</i>	<i>13,176</i>								
<i>Receivables for return on investments</i>	<i>298</i>								
<i>Other receivables</i>	<i>24,785</i>								
OTHER ASSETS	90,414								
Cash at bank and in hand	90,414					(365)			
<i>Funds in the business account</i>	<i>70,835</i>							(2)	90,047
<i>Funds in the account of assets covering mathematical provision</i>	<i>19,215</i>								Cash and cash equivalents
<i>Cash in hand</i>	<i>365</i>								
Long-term assets intended for sale and business cessation	-								
Other	-								
PREPAYMENTS AND ACCRUED INCOME	52,429								
<i>Deferred interest and rent</i>	<i>9</i>			(9)	287				
<i>Deferred acquisition costs</i>	<i>50,176</i>								50,176
<i>Other prepayments and accrued income</i>	<i>2,244</i>			(2,244)					DAC
TOTAL ASSETS	5,117,513								5,117,513
Total assets difference	-								Total assets
OFF BALANCE SHEET ITEMS	-								

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

Statement of financial position – Equity and liabilities as at 31 December 2017

Supplementary information prescribed by Regulation of the Croatian
Financial Services Supervisory Agency

Statutory financial statements

	HRK'000	Transfer of profit for the year to retained earnings	Transfer of deferred income and accrued expenses to insurance and other payables	Transfer of the assurance technical provision where the policyholder bears risk to insurance contract provision	Rounding difference	HRK'000	
CAPITAL AND RESERVES	1,000,447				1	1,000,448	Total equity
Subscribed capital	101,722					101,722	Issued share capital
<i>Paid-up capital - ordinary shares</i>	<i>101,722</i>						
<i>Paid-up capital - preference shares</i>	<i>-</i>						
<i>Called up capital</i>	<i>-</i>						
Issued shares premiums (capital reserves)	112,001					112,001	Share premium
Revaluation reserves	232,346					232,346	Fair value reserve
<i>Land and buildings</i>	<i>-</i>						
<i>Financial investments</i>	<i>232,346</i>						
<i>Other revaluation reserves</i>	<i>-</i>						
Reserves	25,052				1	25,053	Legal reserve
<i>Legally stipulated reserves</i>	<i>8,399</i>						
<i>Statutory reserves</i>	<i>16,654</i>						
<i>Other reserves</i>	<i>-</i>						
Transferred (retained) profit or loss	416,405	112,921				529,326	Retained earnings
<i>Retained profit</i>	<i>416,405</i>						
<i>Transferred loss (-)</i>	<i>-</i>						
Profit or loss of the current accounting period	112,921						
<i>Profit of the current accounting period</i>	<i>112,921</i>	(112,921)					
<i>Loss of the current accounting period (-)</i>	<i>-</i>						
SUBORDINATED LIABILITIES	-						
TECHNICAL PROVISIONS	3,502,493			387,749	(1)	3,890,241	Insurance contract provisions
Unearned premiums, gross amount	322,720						
Mathematical provision, gross amount	2,631,634						
Provision for claims outstanding, gross amount	543,453						
Provisions for return of premiums depending and not depending on the result (bonuses and rebates), gross amount	2,774						
Equalisation provision, gross amount	68						
Other insurance technical provisions, gross amount	1,844						

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)**Statement of financial position – Equity and liabilities as at 31 December 2017**

Supplementary information prescribed by a decision of the Croatian Financial Services Supervisory Agency

Statutory financial statements

	HRK'000	Transfer of profit for the year to retained earnings	Transfer of deferred income and accrued expenses to insurance and other payables	Transfer of the assurance technical provision where the policyholder bears risk to insurance contract provision	Rounding difference	HRK'000	
LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount	387,749			(387,749)			
OTHER RESERVES	-						
Provisions for pensions and similar liabilities	-						
Other provisions	-						
DEFERRED AND CURRENT TAX LIABILITY	52,289						
Deferred tax liability	44,894				1	44,895	Deferred tax liability
Current tax liability	7,395					7,395	Current income tax liability
DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE	-						
FINANCIAL LIABILITIES	-						
Liabilities on the basis of loans	-						
Liabilities on the basis of issued securities	-						
Other financial liabilities	-						
OTHER LIABILITIES	130,116		44,419		(1)	174,534	Insurance and other payables and deferred income
Liabilities from direct insurance business	50,185						
Liabilities from co-insurance and reinsurance business	58,805						
Liabilities for sale and ceased business	-						
Other liabilities	21,125						
ACCRUED EXPENSES AND DEFERRED INCOME	44,419		(44,419)				
Deferred reinsurance commission	3,252						
Other accrued expenses and deferred income	41,167						
TOTAL LIABILITIES AND EQUITY	5,117,513					5,117,513	Total liabilities and equity
Total liabilities and equity difference	-						
OFF BALANCE SHEET ITEMS	-						

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules

Statement of comprehensive income for year ended 31 December 2017

Supplementary information prescribed by a decision of the
Croatian Financial Services Supervisory Agency

	HRK'000	Transfer of other technical income to other income	Transfer of changes in claims reserves to claims and benefits incurred	Netting gross premium written with impairment losses	Transfer of other expenses to other operating expenses	Netting gains and losses on financial assets	Transfer of gain/loss from sale of property and equip, from other tech, expenses to other oper, income	Rounding difference	HRK'000				
Earned premiums (recognised in revenue)	1,025,818								1,025,818	Net earned premiums			
Written gross premiums	1,146,092			3,867					1,149,959	Gross premiums written			
Value adjustment and charged adjustment of insurance/coinsurance premium value	3,867			(3,867)									
Premiums ceded to reinsurance (-)	(89,038)								(89,038)	Written premiums ceded to reinsurers			
Change in gross provisions for unearned premiums +/-	(27,529)								(27,529)	Change in the gross provision for unearned premiums			
Change in provisions for unearned premiums, reinsurance share (+/-)	(7,574)								(7,574)	Reinsurers' share of change in the provision for unearned premiums			
Income from investments	163,846					(18,800)		1	145,047	Financial income			
Income from subsidiaries, associates and joint ventures	-												
Income from investment in land and buildings	2,040												
Interest income	128,650												
Unrealized profits from investment	1,269												
Realized profits from investment investments	16,884												
Net positive exchange rate differentials	1,839												
Other investment profits	13,164												

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

Statement of comprehensive income for year ended 31 December 2017

Supplementary information prescribed by a decision of the Croatian Financial Services Supervisory Agency

Statutory financial statements

		Transfer of other technical income to other income	Transfer of other expenses to other operating expenses	Netting gross premium written with impairment losses	Transfer of other expenses to other operating expenses	Netting gains and losses on financial assets	Transfer of gain/loss from sale of property and equip, from other tech, expenses to other oper, income	Rounding difference (1)	HRK'000	
Income from commissions and fees	11,416								11,415	Fee and commission income
Other insurance-technical income, net of reinsurance	3,850	(3,850)								
Other income	4,366	3,850					(278)	1	7,939	Other operating income
Expenditures for insured events, net	(542,160)									
Settled claims	(553,564)									
Gross amount (-)	(591,435)		591,435						(750,411)	Claims and benefits incurred
Reinsurer share(+)	37,871		(37,871)						46,657	Reinsurers' share of claims and benefits incurred
Change in provisions for claims outstanding (+/-)	11,404									
Gross amount (-)	2,524		(2,524)							
Reinsurer share(+)	8,880		(8,880)							
Change in other technical provisions, net of reinsurance	(56,981)									
Change in mathematical provision (+/-)	(55,298)									
Gross amount (-)	(55,257)		55,257							
Reinsurer share(+)	(41)		41							
Change in other technical provisions, net of reinsurance (+/-)	(1,683)									
Gross amount (-)	(1,683)		1,683							
Reinsurer share(+)	-									
Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance(+/-)	(104,033)									
Gross amount (-)	(104,033)		104,033							
Reinsurer share(+)	-									
Expenditures for return of premium (bonuses and rebate), net of reinsurance +/-	(580)		580							
Depending on the result (bonuses)	-									
Not depending on the result (rebates)	(580)									

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

Statement of comprehensive income for year ended 31 December 2017

Supplementary information prescribed by a decision of the Croatian
Financial Services Supervisory Agency

		Transfer of other technical income to other income	Transfer of changes in claims reserves to claims and benefits incurred	Netting gross premium written with impairment losses	Transfer of other expenses to other operating expenses	Netting gains and losses on financial assets	Transfer of gain/loss from sale of property and equip, from other tech, expenses to other oper, income	Rounding difference	HRK'000	
Business expenditures (for business operations), net	HRK'000									
	(323,630)									
Acquisition costs	(163,538)							-	(163,538)	Acquisition costs
<i>Commission</i>	(149,371)									
<i>Other acquisition costs</i>	(18,547)									
<i>Change in deferred acquisition costs(+/-)</i>	4,380									
Administration costs	(160,092)							-	(160,092)	Administrative expenses
<i>Depreciation of tangible assets</i>	(11,047)									
<i>Salaries, taxes and contributions to and from salaries</i>	(64,848)									
<i>Other administration costs</i>	(84,197)									
Investment expenses	(32,481)					18,800		-	(13,681)	Financial expenses
Depreciation (buildings not intended for business operations of the company)	(1,249)									
Interest	-									
Investment value adjustment (reduction)	(8,792)									
Losses from sale (realization) of financial assets	(2,207)									
Unrealised losses from financial investments	(1,770)									
Other investment expenses	(12,471)									
Other technical expenses, net of reinsurance	(5,992)									
Expenses for preventive operations	(10,380)				(863)		278	(1)	(10,967)	Other operating expenses
Other technical expenses of insurance	(2,067)									
Other expenses including value adjustments	(8,314)									
Profit or loss of the accounting period before taxation (+/-)	(863)				863					

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

Statement of comprehensive income for year ended 31 December 2017

Supplementary information prescribed by a decision of the Croatian Financial
Services Supervisory Agency

Statutory financial statements

	HRK'000	Transfer of other technical income to other income	Transfer of changes in claims reserves to claims and benefits incurred	Netting gross premium written with impairment losses	Transfer of other expenses to other operating expenses	Netting gains and losses on financial assets	Transfer of gain/loss from sale of property and equip, from other tech, expenses to other oper, income	Rounding difference	HRK'000	
Profit or loss tax	(25,266)								-	(25,266) Income tax expense
Current tax expense	(25,195)									
Deferred tax expense (income)	(71)									
Profit or loss of the accounting period after taxation (+/-)	112,921									112,921 Profit for the year
Attributable to owners of the parent	-									
Attributable to non-controlling interests	-									
TOTAL INCOME	1,209,225									
TOTAL EXPENDITURE	(1,096,304)									
										Change in fair value of available for sale financial assets, net of amounts realised and net of deferred tax
Other comprehensive income	18,745								18,745	
Profits/losses on revaluation of available for sale financial assets	22,859									
Profits/losses on revaluation of other tangible and (except land and real estate) intangible assets	-									
Effects from cash flow hedging instruments	-									
Actuarial profits/losses on defined benefit pension plans	-									
Share in other comprehensive income of associated companies	-									
Profit tax on other comprehensive income	(4,115)									
Total comprehensive income	131,666									Total comprehensive income for the year
Attributable to owners of the parent	-									
Attributable to non-controlling interests	-									
Reclassification adjustments	-									

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

Statement of the cash flow for the year ended 31 December 2017

Statement of cash flow prepared in accordance with the *Regulation on the structure and content of the annual financial statements of insurance and reinsurance companies*, the preparation of which is described in detail in the *Instructions for preparation of financial statements of insurance and reinsurance companies*, presented on pages 147 to 148 (“HANFA CF”) differ significantly in the presentation from the Statement of cash flows (“CF”) forming a part of statutory financial statements, presented on page 25.

Main differences are described below:

1. Adjustments to profit after tax in CF are different from adjustments to profit before tax under HANFA CF,
2. Differences in line items presenting increases and decreases of operating assets and liabilities between CF and HANFA CF on the specific positions are due to differences in amounts of related positions, resulting from different presentation between statutory financial statements and HANFA Schedules, which have been described in more details in the reconciliation of ASSETS and EQUITY AND LIABILITIES schedules,
3. Further, line item changes in financial assets presented in CF reflect net cash effects (sales and redemptions on maturity are reduced by acquisitions of financial assets eliminating non-cash effects), while changes in financial assets in HANFA CF also include non-cash effects (fair value and foreign exchange differences),
4. Line item changes in operating assets in CF also includes changes in held-to-maturity investments, while this effect in HANFA CF is presented within cash flows from investing activities,
5. The effect of foreign exchange differences, as already described above, within HANFA CF are not eliminated within line items of changes in related operating assets and liabilities, contrary to presentation in CF, instead they are separately presented in the line item “Effects of changes in exchange rates for foreign currencies on cash and cash equivalents”, as described in point 1 of this reconciliation,