

**Allianz Zagreb d.d.**

**Annual report for 2016**

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## Management Report

Growth of real economic activities accompanied with minor positive movements in the labour market and real income growth are the key factors that have marked the year 2016 that had a moderately positive effect on the development of the insurance business.

In 2016 Croatian GDP grew positively, but it's still far from an economic environment that represents a basis for growing a business. With that, the Company's focus and expectations weren't set on achieving the growth rate it had in the past, but more focused profitability and the stability of its portfolio as well as maintaining a high capital adequacy ratio in order to secure a safe continuance of its business.

In 2016 we finished with the transformation of entire organization where we created the preconditions for achieving a high degree of flexibility and customization options to adapt easier in the short term to the requirements of the insurance market.

The Company's organization and behaviour were focused on principle based goals, rather than the ones based on strict rules which represent safety of policyholders, quality management of all risks and maintaining financial stability.

With that, I would like to point out that we will continue to work on keeping the Company's profitability, minimizing risks, maximizing life insurer's profit and gratifying our customer's needs as well as securing an active, constructive and fair participation of the Company in the insurance and financial market in Croatia.

Further on, with great attention and in accordance with rules and regulations of our profession we intend to take care of the whole business so that at any point the profitability and capital adequacy wouldn't come into question.

Our previous results are proof that we are on the right way to achieve our mid-term goals and strengthen Allianz's position in the Croatian insurance market in accordance with our global position.

When looking to the future, it is our desire to accomplish great business results, always focus on our clients, build and maintain mutual trust and assure that our employees make a difference. Through professional, moral and ethical behaviour and business conduct, we want to be a financial institution that clients trust the most.

### *Probable future development*

The Company recorded total gross premium of HRK 1,116.1 million and retained 2nd position on the market with a share of 12.7%. In the life insurance market, the Company maintained its leader position with a market share of 18.5% (2015: 18.3%). In non-life insurance market, the Company's market share decreased from 11.3% to 9.9% and retained the 3rd position. However, the Group realized profit before tax amounting to HRK 101.1 million (Company: HRK 100.5 million), firstly as a result of stable claims ratio, prudent cost control and good investment result.

In 2016 the Company finalized the process of transforming its sales network and had also continued with the optimization of business processes, focused on cost control and continued with conservative investment policy. Also, Company started the reorganisation of Company's structure and to confirm business optimization and the adequacy of the process, Company has engaged McKinsey to review the whole process and support us in achieving proper organisational alignment. The process and collaboration with external expert is supported and approved by relevant person of Allianz SE.

When we compare the Croatian market with the remaining market of Europe, we can freely say that Croatian insurance industry is still underdeveloped. This fact is even more evident at the life insurance segment (at the end of 2016 the share of insurance premium in GDP amounted only 0.9%). Furthermore, the average insurance premium per citizen amounts only 100\$ in Life and 199\$ in Non-life segment.

Based on the above mentioned facts, Croatian insurance market has significant potential which the Company plans to take advantage of in Life insurance segment, due to a lifetime growth and the need for greater care for pensions, presents one of the most important strategic products of the Company. The product is complement with the savings in voluntary pension funds and this is where the Company sees the biggest growth potential in long term period.

## 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 2016 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, AZ Servisni centar d.o.o. claim evaluation and IT services company,

Autoelektro tehnički pregledi d.o.o. car evaluation services company, Allianz Cash, open-ended investment fund, Allianz Portfolio, open-ended investment fund and Allianz Equity, open-ended investment fund.

Total investments in subsidiaries in 2016 amounted to HRK 132.7 million representing an increase of HRK 219 thousand compared to 2015 as a result of increase of investments in investment fund Allianz Portfolio and Allianz Equity which together with Allianz Cash are controlled by Allianz Invest d.o.o. Other investments in subsidiaries remained unchanged: AZ Servisni Centar d.o.o. with investment of HRK 200 thousand and Autoelektro tehnički pregledi d.o.o. with investment of HRK 488 thousand. 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)*

If there is need for derivatives in portfolio, the Company purchased the corresponding derivative financial instruments to protect against currency risk with the approval of the Board and informs the Regulator.

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.

## Management Report (continued)

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

The fundamental risk of the company is the pricing risk of assets main classes to which the company invests (bonds, shares). Credit risk of the company is mainly developed from the local credit risk in which the business is carried out (risk for Republic of Croatia is BB as per the S&P).

### *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.

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*  
Kristijan Buk

**Allianz**   
Allianz Zagreb d.d.

*Member of the Management Board*  
Slaven Dobrić

*Member of the Management Board*  
Hrvoje Smiljanić

## Corporate Governance

### *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 Meeting*

The General Meeting 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. If all Shareholders participate or are represented at the General Meeting session, the General Meeting may adopt valid decisions even if its convention was not compliant with the provisions of the Act and this Statute, but under condition that no Shareholder objects to the decisions adopted.

The General Meeting 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 Meeting 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 meeting 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 (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 of 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 of the insurance company are jointly and severally liable to the insurance company for the damage caused by the neglect of their obligations, unless they can prove that they are fairly and conscientiously fulfilling their duties.

Members of the Supervisory Board for business year 2016 were as follows:

- Mr Petros Papanikolaou, President of the Supervisory Board
- Mr Ivo Jelinović, Vice President of the Supervisory Board, with the beginning of the mandate on March 25, 2016
- Mr Jochen Alexander Haug, Supervisory Board Member
- Mr Damir Krcivoj, with the expiry of the mandate on March 24, 2016

### *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 (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 2016 were the following: Boris Galić, President of the Management Board and Kristijan Buk, Slaven Dobrić and Hrvoje Smiljanić 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 (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 Galic

*Member of the Management Board*  
Kristijan Buk

**Allianz**   
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*Member of the Management Board*  
Slaven Dobrić

*Member of the Management Board*  
Ervoje Smiljanić

## **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 14 to 126 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 127 to 143, and the reconciliation, presented on pages 144 to 154, of the Schedules with the financial statements were authorised by the Management Board on 11 April 2017 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 Management Report as required by the Croatian Accounting Act. The Management Report set out on pages 1 to 4 and Corporate Governance set on pages 5 to 8 were authorised by the Management Board on 11 April 2017 and signed accordingly.

*President of the Management Board*  
Boris Galčić

**Allianz**   
Allianz Zagreb d.d.

*Member of the Management Board*  
Kristijan Buk

*Member of the Management Board*  
Slaven Dobrić

*Member of the Management Board*  
Hrvoje Smiljanić



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

## **Report on the Audit of the Separate and Consolidated Financial Statements**

### ***Opinion***

We have audited the separate financial statements of Allianz Zagreb d.d. ("the Company") and consolidated financial statements of Allianz Zagreb Group ("the Group"), which comprise, respectively, the separate and consolidated statement of financial position as at 31 December 2016, the separate and consolidated income statement, separate and consolidated statement of comprehensive income, separate and consolidated statement of cash flows and separate and consolidated statement of changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2016 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.

### ***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 Separate and Consolidated 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 separate and consolidated 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.

### ***Other Information***

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated in this report.

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.



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

### **Report on the Audit of the Separate and Consolidated Financial Statements (continued)**

#### ***Other Information (continued)***

With respect to the Management Report, we have also performed the procedures required by the Article 20 of the Croatian Accounting Act. These procedures include considering whether the Management Report includes the disclosures required by Articles 21 and 24 of the Croatian Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, we have not identified any material misstatements and 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 applicable legal requirements of the Croatian Accounting Act.

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

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

#### ***Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated financial statements.



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

### **Report on the Audit of the Separate and Consolidated Financial Statements (continued)**

#### ***Auditors' Responsibilities for the Audit of the Separate and Consolidated Financial Statements (continued)***

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

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



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

### 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 set out on pages 127 to 143 ("the Schedules"), which comprise an alternative presentation of the separate statement of financial position as of 31 December 2016, 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 144 to 154, of the Schedules with the separate financial statements as presented on pages 14 to 126. 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 14 to 126 on which we have expressed an unmodified opinion as set out above.

**KPMG Croatia d.o.o. za reviziju**  
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10000 Zagreb  
Croatia

Zagreb, 11 April 2017

For and on behalf of KPMG Croatia d.o.o. za reviziju:

  
Goran Horvat  
Director, Croatian Certified Auditor

**K P M G Croatia**  
d.o.o. za reviziju  
Eurotower, 17. kat  
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# Statement of financial position

As at 31 December

	Note	Group 2016 HRK'000	Group 2015 HRK'000	Company 2016 HRK'000	Company 2015 HRK'000
<b>Assets</b>					
Property and equipment	1.11	44,542	44,390	40,487	40,806
Investment property	1.12	29,103	30,352	29,103	30,352
Intangible assets					
- Deferred acquisition costs	1.13	45,796	44,452	45,796	44,452
- Other intangible assets	1.14	18,418	17,470	16,959	16,020
Investments in subsidiaries	1.15	-	-	132,742	132,523
Held-to-maturity investments	1.16	675,387	675,483	666,025	670,247
Available-for-sale financial assets	1.16	3,006,212	2,776,366	2,865,025	2,670,496
Financial assets at fair value through profit or loss	1.16	616,694	429,887	565,161	404,048
Loans and receivables	1.16	114,301	120,679	61,642	65,297
Reinsurers' share of insurance contract provisions	1.17	147,397	160,016	147,397	160,016
Current income tax prepayment		377	-	377	-
Insurance receivables and other assets	1.19	296,063	267,477	295,830	267,236
Cash and cash equivalents	1.20	91,848	177,581	62,010	135,756
<b>Total assets</b>		<b>5,086,138</b>	<b>4,744,153</b>	<b>4,928,554</b>	<b>4,637,249</b>
<b>Liabilities</b>					
Insurance contract provisions	1.21	3,703,736	3,532,788	3,703,736	3,532,788
Insurance and other payables and deferred income	1.22	411,717	337,580	253,323	229,425
Deferred tax liability	1.18	40,710	29,234	40,710	29,234
Current income tax liability		-	2,351	-	2,208
<b>Total liabilities</b>		<b>4,156,163</b>	<b>3,901,953</b>	<b>3,997,769</b>	<b>3,793,655</b>
<b>Equity attributable to owners of the Company</b>					
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)	213,655	144,475	213,601	144,451
Legal reserve	1.23 (d)	25,053	25,053	25,053	25,053
Retained earnings		477,222	458,598	478,408	460,367
		929,653	841,849	930,785	843,594
<b>Non-controlling interests</b>		<b>322</b>	<b>351</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>929,975</b>	<b>842,200</b>	<b>930,785</b>	<b>843,594</b>
<b>Total liabilities and equity</b>		<b>5,086,138</b>	<b>4,744,153</b>	<b>4,928,554</b>	<b>4,637,249</b>

The accounting policies and other explanatory notes on pages 20 to 126 form an integral part of these financial statements.



# Statement of comprehensive income

For the year ended 31 December

	Note	Group 2016 HRK'000	Group 2015 HRK'000	Company 2016 HRK'000	Company 2015 HRK'000
Gross premiums written	1.26	<b>1,116,065</b>	1,186,782	<b>1,116,065</b>	1,186,782
Written premiums ceded to reinsurers	1.26	<b>(131,766)</b>	(166,049)	<b>(131,766)</b>	(166,049)
Net premiums written	1.26	<b>984,299</b>	1,020,733	<b>984,299</b>	1,020,733
Change in the gross provision for unearned premiums	1.26	<b>(2,560)</b>	(10,064)	<b>(2,560)</b>	(10,064)
Reinsurers' share of change in the provision for unearned premiums	1.26	<b>4,169</b>	38,410	<b>4,169</b>	38,410
Net earned premiums	1.26	<b>985,908</b>	1,049,079	<b>985,908</b>	1,049,079
Fee and commission income	1.27	<b>21,284</b>	23,872	<b>21,714</b>	23,872
Financial income	1.28	<b>153,356</b>	186,578	<b>143,682</b>	181,158
Other operating income	1.29	<b>8,213</b>	11,255	<b>5,318</b>	7,968
Operating income		<b>1,168,761</b>	1,270,784	<b>1,156,622</b>	1,262,077
Claims and benefits incurred	1.30	<b>(736,467)</b>	(769,081)	<b>(736,467)</b>	(769,081)
Reinsurers' share of claims and benefits incurred	1.30	<b>49,219</b>	31,076	<b>49,219</b>	31,076
Net policyholder claims and benefits incurred	1.30	<b>(687,248)</b>	(738,005)	<b>(687,248)</b>	(738,005)
Acquisition costs	1.31	<b>(175,277)</b>	(198,487)	<b>(174,936)</b>	(198,361)
Administrative expenses	1.32	<b>(189,009)</b>	(192,666)	<b>(180,654)</b>	(184,773)
Other operating expenses	1.33	<b>(6,699)</b>	(6,691)	<b>(7,929)</b>	(8,263)
Financial expenses	1.34	<b>(9,391)</b>	(8,374)	<b>(5,398)</b>	(7,044)
Profit before income tax		<b>101,137</b>	126,561	<b>100,457</b>	125,631
Income tax expense	1.35	<b>(21,941)</b>	(22,449)	<b>(21,815)</b>	(22,177)
Profit for the year		<b>79,196</b>	104,112	<b>78,642</b>	103,454
Profit attributable to:					
- Owners of the Company		<b>79,225</b>	104,208	<b>78,642</b>	103,454
- Non-controlling interests		<b>(29)</b>	(96)	-	-
		<b>79,196</b>	104,112	<b>78,642</b>	103,454
Earnings per share attributable to the owners of the Company		<b>HRK</b>	HRK	<b>HRK</b>	HRK
Basic and diluted earnings per share	1.24	<b>311.54</b>	409.77	<b>309.24</b>	406.81

The accounting policies and other explanatory notes on pages 20 to 126 form an integral part of these financial statements.

## Statement of comprehensive income (continued)

For the year ended 31 December

	<b>Group 2016 HRK'000</b>	Group 2015 HRK'000	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
<b>Profit for the year</b>	<b>79,196</b>	104,112	<b>78,642</b>	103,454
<b>Other comprehensive income for the year</b>				
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax (Note 1.23c)	<b>69,180</b>	(25,677)	<b>69,150</b>	(25,677)
<b>Total comprehensive income for the year</b>	<b>148,376</b>	78,435	<b>147,792</b>	77,777
<b>Attributable to:</b>				
- Owners of the Company	148,405	78,531	<b>147,792</b>	77,777
- Non-controlling interests	(29)	(96)	-	-
	<b>148,376</b>	78,435	<b>147,792</b>	77,777

The accounting policies and other explanatory notes on pages 20 to 126 form an integral part of these financial statements.

# Statement of changes in equity

## Group

	Attributable to owners of the Company						Non controlling interests HRK'000	Total equity HRK'000
	Issued share capital	Share premium	Fair value reserve	Legal reserve	Retained earnings	Total		
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000		
<b>At 1 January 2015</b>	<b>101,722</b>	<b>112,001</b>	<b>170,152</b>	<b>25,053</b>	<b>406,390</b>	<b>815,318</b>	<b>447</b>	<b>815,765</b>
<b>Total comprehensive income for the year</b>								
Change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.23c)	-	-	(32,097)	-	-	(32,097)	-	(32,097)
Deferred tax on change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.18; 1.23c)	-	-	6,420	-	-	6,420	-	6,420
<i>Other comprehensive income</i>	-	-	(25,677)	-	-	(25,677)	-	(25,677)
<i>Profit for the year</i>	-	-	-	-	104,208	104,208	(96)	104,112
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(25,677)</b>	<b>-</b>	<b>104,208</b>	<b>78,531</b>	<b>(96)</b>	<b>78,435</b>
<b>Transactions with owners recognised directly in equity</b>								
Dividend for 2014 paid (Note 1.25)	-	-	-	-	(52,000)	(52,000)	-	(52,000)
<b>At 31 December 2015</b>	<b>101,722</b>	<b>112,001</b>	<b>144,475</b>	<b>25,053</b>	<b>458,598</b>	<b>841,849</b>	<b>351</b>	<b>842,200</b>
<b>At 1 January 2016</b>	<b>101,722</b>	<b>112,001</b>	<b>144,475</b>	<b>25,053</b>	<b>458,598</b>	<b>841,849</b>	<b>351</b>	<b>842,200</b>
<b>Total comprehensive income for the year</b>								
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
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>69,180</b>	<b>-</b>	<b>79,225</b>	<b>148,405</b>	<b>(29)</b>	<b>148,376</b>
<b>Transactions with owners recognised directly in equity</b>								
Dividend for 2015 paid (Note 1.25)	-	-	-	-	(60,601)	(60,601)	-	(60,601)
<b>At 31 December 2016</b>	<b>101,722</b>	<b>112,001</b>	<b>213,655</b>	<b>25,053</b>	<b>477,222</b>	<b>929,653</b>	<b>322</b>	<b>929,975</b>

The accounting policies and other explanatory notes on pages 20 to 126 form an integral part of these financial statements.

# Statement of changes in equity

## Company

	Issued share capital	Share premium	Fair value reserve	Legal reserve	Retained earnings	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>At 1 January 2015</b>	<b>101,722</b>	<b>112,001</b>	<b>170,128</b>	<b>25,053</b>	<b>408,913</b>	<b>817,817</b>
<b>Total comprehensive income for the year</b>						
Change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.23c)	-	-	(32,097)	-	-	(32,097)
Deferred tax on change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.18; 1.23c)	-	-	6,420	-	-	6,420
<i>Total other comprehensive income</i>	-	-	(25,677)	-	-	(25,677)
<i>Profit for the year</i>	-	-	-	-	103,454	103,454
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(25,677)</b>	<b>-</b>	<b>103,454</b>	<b>77,777</b>
<b>Transactions with owners recognised directly in equity</b>						
Dividends for 2014 paid (Note 1.25)	-	-	-	-	(52,000)	(52,000)
	<b>101,722</b>	<b>112,001</b>	<b>144,451</b>	<b>25,053</b>	<b>460,367</b>	<b>843,594</b>
<b>At 31 December 2015</b>						
<b>At 1 January 2016</b>	<b>101,722</b>	<b>112,001</b>	<b>144,451</b>	<b>25,053</b>	<b>460,367</b>	<b>843,594</b>
<b>Total comprehensive income for the year</b>						
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
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>69,150</b>	<b>-</b>	<b>78,642</b>	<b>147,792</b>
<b>Transactions with owners recognised directly in equity</b>						
Dividend for 2015 paid (Note 1.25)	-	-	-	-	(60,601)	(60,601)
	<b>101,722</b>	<b>112,001</b>	<b>213,601</b>	<b>25,053</b>	<b>478,408</b>	<b>930,785</b>
<b>At 31 December 2016</b>						

The accounting policies and other explanatory notes on pages 20 to 126 form an integral part of these financial statements.

## Cash flow statement

For the year ended 31 December

	Notes	Group 2016 HRK'000	Group 2015 HRK'000	Company 2016 HRK'000	Company 2015 HRK'000
<b>Cash flow from operating activities</b>					
Profit after tax		79,196	104,112	78,642	103,454
<i>Adjustments for:</i>					
- Tax	1.35	21,941	22,449	21,815	22,177
- Depreciation of property and equipment	1.32	6,500	6,951	6,293	6,785
- Depreciation of investment property	1.34	1,249	1,250	1,249	1,250
- Change in deferred acquisition costs	1.31	(1,344)	6,064	(1,344)	6,064
- Amortisation of other intangible assets	1.32	5,621	7,419	5,111	6,812
- Net foreign exchange losses on financial assets	1.28	21,045	1,783	21,541	2,385
- Loss on disposal of property and equipment	1.11	890	1,072	890	1,073
- Loss on disposal of other intangible assets	1.14	121	-	-	-
- Unrealised gains from financial assets at fair value through profit or loss		(16,397)	(16,105)	(10,171)	(8,743)
- Impairment losses on financial assets	1.34	591	2,722	544	2,722
- (Reversal of)/impairment losses on insurance receivables and other assets	1.19	(1)	4,097	(1)	4,097
- Interest income	1.28	(135,493)	(141,589)	(132,474)	(138,203)
- Interest received		145,791	140,307	141,994	138,115
		<u>129,710</u>	<u>140,532</u>	<u>134,089</u>	<u>147,988</u>
<b>Changes in operating assets and liabilities</b>					
Net (increase)/decrease in held-to-maturity investments		(5,166)	123	(402)	193
Net increase in available-for-sale financial assets		(165,812)	(322,704)	(141,551)	(285,392)
Net increase in financial assets at fair value through profit or loss		(181,152)	(4,599)	(153,452)	(7,102)
Net decrease in loans and receivables		5,725	116,834	3,002	117,743
Net decrease/(increase) in reinsurance share in technical provisions		12,619	(13,282)	12,619	(13,282)
Net increase in insurance receivables and other assets		(27,939)	(6,467)	(27,936)	(6,380)
Net increase in insurance contract provisions		170,948	164,294	170,948	164,294
Net increase in insurance and other payables		74,137	76,177	23,898	56,951
		<u>13,070</u>	<u>150,908</u>	<u>21,215</u>	<u>175,013</u>
<b>Net cash from operating activities before income tax paid</b>		<b>13,070</b>	150,908	21,215	175,013
Income tax paid		(23,970)	(16,791)	(23,701)	(16,662)
		<u>(10,900)</u>	<u>134,117</u>	<u>(2,486)</u>	<u>158,351</u>
<b>Net cash from operating activities</b>					
<b>Cash flows from investing activities</b>					
Purchase of property and equipment	1.11	(7,542)	(3,534)	(6,864)	(3,221)
Purchase of other intangible assets	1.14	(6,690)	(7,121)	(6,050)	(6,380)
Decrease in investment in subsidiaries carried at fair value		-	-	2,255	7,800
		<u>(14,232)</u>	<u>(10,655)</u>	<u>(10,659)</u>	<u>(1,801)</u>
<b>Cash flows from investing activities</b>					
<b>Cash flows from financing activities</b>					
Dividend paid	1.25	(60,601)	(52,000)	(60,601)	(52,000)
		<u>(60,601)</u>	<u>(52,000)</u>	<u>(60,601)</u>	<u>(52,000)</u>
<b>Net cash from financing activities</b>					
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(85,733)</b>	71,462	<b>(73,746)</b>	104,550
Cash and cash equivalents at 1 January		177,581	106,119	135,756	31,206
		<u>91,848</u>	<u>177,581</u>	<u>62,010</u>	<u>135,756</u>
<b>Cash and cash equivalents at 31 December</b>					

The accounting policies and other explanatory notes on pages 20 to 126 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”).

The financial statements were authorised for issue by the Management Board on 11 April 2017 for approval by the Supervisory Board. These financial statements are a translation based on consolidated and separate statutory financial statements issued separately in Croatian.

### (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., where the Company holds substantive percentage of the units and majority of benefits. Additionally, given that the Company controls relevant activities of Allianz Invest, the Company consolidates these funds as subsidiaries. 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.

#### *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 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.

#### *Investment in investment funds managed by 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.

## 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 2016 was EUR 1 = HRK 7.557787 (31 December 2015 was EUR 1 = HRK 7.635047), and USD 1 = HRK 7.168536 (31 December 2015: USD 1 = HRK 6.991801).

### (g) Makroeconomics impact

#### Croatian economy outlook

After long lasting period of recession, Croatia finally emerged from a drop in economic activity. Namely, preliminary data shows that the GDP grew at a rate of 2.9% year-over-year in 2016 backed by a significant rise in net exports, investments in fixed assets and personal consumption. Domestic consumption was likewise supported by employment gains, frontloading purchases ahead of personal income tax cuts and minimum wage hikes, as well as resurgent consumer credit dynamics. Tailwinds include economic recovery in Eurozone, Croatia's largest trading partner, backed by expansionary monetary policy as well as domestic recovery. To add record tourist season positively contribute spilling over to economy as a whole. After government recall in July, new parliamentary elections were held in September and new government was formed in the meantime. Goals of the new government include sustainable long-term growth rate, structural reforms and reduction of public debt to sustainable levels. Average unemployment rate in 2016 was 15%, 2 percentage points lower than the prior year and followed a declining trend started in 2014. Local government credit rating remains at non-investment grade, with the outlook turning from negative to stable. Inflation was subdued by lower food and energy prices and averaged -1,1% in 2016. Interest rates are at historical low levels due to abundant liquidity in banking sector and expansionary monetary policy.

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, 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 expectations.

As the low interest rate environment is likely to remain, mitigating actions go in direction of divestments from traditional asset classes and increasing investments to new products with no traditional guarantees.

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.



## 1.2 Basis of preparation (continued)

### (h) Makroeconomics impact (continued)

#### Impact on customers

Furthermore, the Group has recognised that a decrease in the client's purchasing power may adversely impact prospective premium income and cash flow. Consequently the Group took measures in order to prevent potential future impacts, which could occur during the following periods.

These measures are directed towards keeping the existing clients of the Group and improving the collection of receivables.

## 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:

	<b>2016</b>	2015
• 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:

	<b>2016</b>	2015
• 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:

	<b>2016</b>	<b>2015</b>
• 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 2016, 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 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 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.

#### 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 and 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. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### *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 revised Insurance Law, effective from 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 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.

### (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 84.55 million of provision for discretionary profit participation bonuses (2015: HRK 82.88 million) which is included within the life assurance provision. From this amount HRK 35.16 million (2015: HRK 27.95 million) is not allocated to individual policyholders. During 2016, the Group allocated HRK 8.03 million to policyholders (2015: HRK 18.46 million), and appropriated further HRK 7.23 million (2015: HRK 15.99 million decrease) 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 2016 and 2015 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 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 2015 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 9 *Financial Instruments* which will have significant impact on the classification and measurement of the Group's financial assets and financial liabilities as well as measurement of expected credit losses was completed and issued in full by IASB in 2014, with mandatory application date 1 January 2018.

IASB also made further progress in 2016 regarding the development of the new standard for insurance contracts, which also propose the possibility to apply different mandatory application dates of IFRS 9 for insurance companies.



## 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 2016, the Group was involved in 1,349 (2015: 1,319) court cases for which HRK 136,829 thousand (2015: HRK 134,003 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 4,332 thousand (2015: HRK 3,587 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 for 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.

## **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 stated at its recoverable value 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 stated at its recoverable value 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 2016, the Group concluded that there are no debtors which should be consolidated, which is consistent with 2015.

## 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 0.8 million. For the accumulation of net property losses arising out of one occurrence, a reinsurance catastrophe treaty provides cover for EUR 85.5 million (2015: *EUR 85.5 million*) of losses exceeding the first EUR 1.5 million (2015: *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 is 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:

	2016 Group and Company			2015 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
<i>Non-life insurance business</i>						
Motor (third party)	(57,434)	2,959	(54,475)	(82,740)	1,197	(81,543)
Motor (other classes)	(51,545)	-	(51,545)	(71,598)	-	(71,598)
Property	(118,038)	42,917	(75,121)	(87,428)	15,109	(72,319)
Personal lines	(16,013)	1,133	(14,880)	(16,784)	743	(16,041)
Other	(18,377)	1,456	(16,921)	(28,165)	12,907	(15,258)
<b>Total non-life</b>	<b>(261,407)</b>	<b>48,465</b>	<b>(212,942)</b>	<b>(286,715)</b>	<b>29,956</b>	<b>(256,759)</b>
<i>Life assurance business</i>						
Periodic premiums	(265,046)	754	(264,292)	(355,783)	1,120	(354,663)
Single premiums	(210,014)	-	(210,014)	(126,583)	-	(126,583)
<b>Total life</b>	<b>(475,060)</b>	<b>754</b>	<b>(474,306)</b>	<b>(482,366)</b>	<b>1,120</b>	<b>(481,246)</b>
<i>Thereof unit linked and index linked</i>	(145,605)	-	(145,605)	(14,519)	-	(14,519)
<b>Grand total</b>	<b>(736,467)</b>	<b>49,219</b>	<b>(687,248)</b>	<b>(769,081)</b>	<b>31,076</b>	<b>(738,005)</b>

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 2016 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 2.22 million (2015: HRK 1.95 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 2016, the Company paid out HRK 23 thousand (2015: 1,492 thousand) in respect to these claims either per court rulings or through out-of-court settlement.

In 2016, 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	Interest rates for calculation of reserve at 31 December 2016	Mortality tables used in 2016	Interest rates for calculation of reserve at 31 December 2015	Mortality tables used in 2015
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, MZ1-J	3.30%	MT RH 2000-02	3.30%	MT RH 2000-02
Term	S1, S1-J, S2, S2-J	3.30%	MT RH 2000-02	3.30%	MT RH 2000-02
Term (begining in 2010)	S1, S1-J, S2, S2-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 (issue date from 01.07.2016)	S3,S3-J,SDJ03	1,75%	MT RH 2000-02	2.50%	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	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	Interest rates for calculation of reserve at 31 December 2016	Mortality tables used in 2016	Interest rates for calculation of reserve at 31 December 2015	Mortality tables used in 2015
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 2000-02	3.30%	MT RH 2000-02
Pure endowment (beginning in 2010)	D1	3.00%	MT RH 2000-02	3.00%	MT RH 2000-02
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
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 – joint life	TBZ5, TBZ5-U	2,75%	MT RH 2010-12, incidence rates from GenRe, unisex	2.75%	MT RH 2010-12, incidence rates from GenRe, unisex
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

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

### Life assurance (continued)

Description	Product	Interest rates for calculation of reserve at 31 December 2016	Mortality tables used in 2016	Interest rates for calculation of reserve at 31 December 2015	Mortality tables used in 2015
Critical Illness (issue date from 01.07.2016)	DJTB02, DJTB02-J	1,75%	MT RH 2010-12, incidence rates from Republic of Slovakia	2,50%	MT RH 2010-12, incidence rates from Republic of Slovakia
Critical Illness (unisex)	TB5U, TB5U-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	1,75%	MT RH 2010-12, incidence rates from GenRe, unisex	2.50%	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	TB6U-U, IL, CP1-J, CP2-J, SPI-01	0,00%	MT RH 2010-12, incidence rates from GenRe, unisex	0.00%	MT RH 2010-12, incidence rates from GenRe, unisex
Unit linked	ULNZ, ULR	2,75%	MT RH 2000-02, MT RH 2010-12, unisex	2.75%	MT RH 2000-02, MT RH 2010-12, unisex
Unit linked	ULR	0,00%	MT RH 2000-02, incidence rates derived from data given by Croatian Institute of Public Health	0.00%	MT RH 2000-02, incidence rates derived from data given by Croatian Institute of Public Health
Hospital days due to illness	BD1	2,75%	MT RH 2000-02, incidence rates derived from data given by Croatian Institute of Public Health, unisex	2.75%	MT RH 2000-02, incidence rates derived from data given by Croatian Institute of Public Health, unisex
Hospital days due to illness	BD1U	2.50%	MT RH 2000-02, incidence rates derived from data given by Croatian Institute of Public Health, unisex	2.50%	MT RH 2000-02, incidence rates derived from data given by Croatian 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. In the previous years, the Group used the present value of future profits (“PVFP”) calculation from the cash flow model.

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.

### *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.

There was no unexpired risk reserve recognized as a result of liability adequacy test at the year end (2015: HRK 2,480 thousand).

## 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 2016 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*

	<b>2016</b>	<b>2015</b>
	<b>BEL</b>	<b>BEL</b>
	<b>HRK'000</b>	<b>HRK'000</b>
Base run	2,315,582	1,937,284
Risk free rate +100bp	2,109,953	1,832,648
Risk free rate –100bp	2,555,432	2,158,540
Mortality (for products with death risk) +15%	2,323,909	1,945,758
Policy maintenance expenses +10%	2,348,158	1,973,393
Expense inflation +1%	2,338,429	1,962,557

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 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 85,6% (2015: 87,6%) 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 2016

	Non-life HRK'000	Life HRK'000	Other HRK'000	Total HRK'000
<b>Assets</b>				
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	158,490	507,535	9,362	675,387
Available-for-sale financial assets	656,695	2,208,330	141,187	3,006,212
Financial assets at fair value through profit or loss	40,673	524,488	51,533	616,694
Loans and receivables	31,096	30,546	52,659	114,301
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	250,142	45,688	233	296,063
Cash and cash equivalents	14,021	47,989	29,838	91,848
<b>Total assets</b>	<b>1,436,453</b>	<b>3,366,816</b>	<b>282,869</b>	<b>5,086,138</b>
<b>Liabilities</b>				
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)	-
<b>Total liabilities</b>	<b>999,740</b>	<b>3,005,486</b>	<b>150,937</b>	<b>4,156,163</b>
<b>Equity</b>				
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
<b>Total equity attributable to equity holders of the Company</b>	<b>461,586</b>	<b>469,199</b>	<b>(1,132)</b>	<b>929,653</b>
<b>Non-controlling interests</b>	<b>-</b>	<b>-</b>	<b>322</b>	<b>322</b>
<b>Total equity</b>	<b>461,586</b>	<b>469,199</b>	<b>(810)</b>	<b>929,975</b>
<b>Total liabilities and equity</b>	<b>1,461,326</b>	<b>3,474,685</b>	<b>150,127</b>	<b>5,086,138</b>

## 1.10 Segment reporting (continued)

### Consolidated statement of financial position by business segment as at 31 December 2015

	Non-life HRK'000	Life HRK'000	Other HRK'000	Total HRK'000
<b>Assets</b>				
Property and equipment	40,806	-	3,584	44,390
Investment property	30,352	-	-	30,352
Intangible assets				
- Deferred acquisition costs	43,307	1,145	-	44,452
- Other intangible assets	16,020	-	1,450	17,470
Held-to-maturity investments	157,611	512,636	5,236	675,483
Available-for-sale financial assets	686,688	1,983,808	105,870	2,776,366
Financial assets at fair value through profit or loss	5,218	398,830	25,839	429,887
Loans and receivables	30,442	34,855	55,382	120,679
Reinsurers' share of insurance contract provisions	158,993	1,023	-	160,016
Current income tax prepayment	3,744	-	(3,744)	-
Insurance receivables and other assets	223,963	43,273	241	267,477
Cash and cash equivalents	7,123	128,633	41,825	177,581
<b>Total assets</b>	<b>1,404,267</b>	<b>3,104,203</b>	<b>235,683</b>	<b>4,744,153</b>
<b>Liabilities</b>				
Insurance contract provisions	810,876	2,721,912	-	3,532,788
Insurance and other payables and deferred income	175,204	54,221	108,155	337,580
Deferred tax liabilities	3,692	25,542	-	29,234
Current income tax liability	-	5,952	(3,601)	2,351
<b>Total liabilities</b>	<b>989,772</b>	<b>2,807,627</b>	<b>104,554</b>	<b>3,901,953</b>
<b>Equity</b>				
Issued share capital	71,722	30,000	-	101,722
Share premium	31,501	80,500	-	112,001
Fair value reserve	30,722	113,729	24	144,475
Legal reserve	22,655	2,398	-	25,053
Retained earnings	299,930	160,437	(1,769)	458,598
<b>Total equity attributable to equity holders of the Company</b>	<b>456,530</b>	<b>387,064</b>	<b>(1,745)</b>	<b>841,849</b>
<b>Non controlling interests</b>	<b>-</b>	<b>-</b>	<b>351</b>	<b>351</b>
<b>Total equity</b>	<b>456,530</b>	<b>387,064</b>	<b>(1,394)</b>	<b>842,200</b>
<b>Total liabilities and equity</b>	<b>1,446,302</b>	<b>3,194,691</b>	<b>103,160</b>	<b>4,744,153</b>

## 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)
<b>Net premiums written</b>	<b>448,332</b>	<b>535,967</b>	<b>-</b>	<b>-</b>	<b>984,299</b>
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
<b>Net earned premiums</b>	<b>451,195</b>	<b>534,713</b>	<b>-</b>	<b>-</b>	<b>985,908</b>
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
<b>Operating income</b>	<b>520,226</b>	<b>636,396</b>	<b>20,981</b>	<b>(8,842)</b>	<b>1,168,761</b>
Claims and benefits incurred	(261,407)	(475,060)	-	-	(736,467)
Reinsurers' share of claims and benefits incurred	48,465	754	-	-	49,219
<b>Net policyholder claims and benefits incurred</b>	<b>(212,942)</b>	<b>(474,306)</b>	<b>-</b>	<b>-</b>	<b>(687,248)</b>
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)
<b>Profit before income tax</b>	<b>44,681</b>	<b>55,776</b>	<b>1,708</b>	<b>(1,028)</b>	<b>101,137</b>
Income tax expense	(10,131)	(11,684)	(126)	-	(21,941)
<b>Profit for the year</b>	<b>34,550</b>	<b>44,092</b>	<b>1,582</b>	<b>(1,028)</b>	<b>79,196</b>
<b>Profit attributable to</b>					
-Equity holders of the Company	34,550	44,092	1,611	(1,028)	79,225
-Non-controlling interests	-	-	(29)	-	(29)
<b>Other comprehensive income</b>					
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
<b>Total comprehensive income for the</b>	<b>40,056</b>	<b>107,736</b>	<b>1,612</b>	<b>(1,028)</b>	<b>148,376</b>
<b>Attributable to</b>					
-Equity holders of the Company	40,056	107,736	1,641	(1,028)	148,405
-Non-controlling interests	-	-	(29)	-	(29)
	<b>40,056</b>	<b>107,736</b>	<b>1,612</b>	<b>(1,028)</b>	<b>148,376</b>

## 1.10 Segment reporting (continued)

### Consolidated statement of comprehensive income by business segment for the year ended 31 December 2015

	Non-life HRK'000	Life HRK'000	Other HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	651,043	535,739	-	-	1,186,782
Written premiums ceded to reinsurers	(162,226)	(3,823)	-	-	(166,049)
<b>Net premiums written</b>	<b>488,817</b>	<b>531,916</b>	<b>-</b>	<b>-</b>	<b>1,020,733</b>
Change in the gross provision for unearned premiums	(10,540)	476	-	-	(10,064)
Reinsurers' share of change in the provision for unearned premiums	38,418	(8)	-	-	38,410
<b>Net earned premiums</b>	<b>516,695</b>	<b>532,384</b>	<b>-</b>	<b>-</b>	<b>1,049,079</b>
Fees and commission income	21,084	2,788	4,086	(4,086)	23,872
Financial income	51,288	129,870	6,792	(1,372)	186,578
Other operating income	7,643	325	5,987	(2,700)	11,255
<b>Operating income</b>	<b>596,710</b>	<b>665,367</b>	<b>16,865</b>	<b>(8,158)</b>	<b>1,270,784</b>
Claims and benefits incurred	(286,715)	(482,366)	-	-	(769,081)
Reinsurers' share of claims and benefits incurred	29,956	1,120	-	-	31,076
<b>Net policyholder claims and benefits incurred</b>	<b>(256,759)</b>	<b>(481,246)</b>	<b>-</b>	<b>-</b>	<b>(738,005)</b>
Acquisition costs	(134,064)	(64,297)	(2,943)	2,817	(198,487)
Administrative expenses	(128,964)	(55,809)	(9,021)	1,128	(192,666)
Other operating expenses	(7,117)	(1,146)	-	1,572	(6,691)
Financial expenses	(3,343)	(3,701)	(2,764)	1,434	(8,374)
<b>Profit before income tax</b>	<b>66,463</b>	<b>59,168</b>	<b>2,137</b>	<b>(1,207)</b>	<b>126,561</b>
Income tax expense	(12,317)	(9,860)	(272)	-	(22,449)
<b>Profit for the year</b>	<b>54,146</b>	<b>49,308</b>	<b>1,865</b>	<b>(1,207)</b>	<b>104,112</b>
<b>Profit attributable to</b>					
-Equity holders of the Company	54,146	49,308	1,961	(1,207)	104,208
-Non-controlling interests	-	-	(96)	-	(96)
<b>Other comprehensive income</b>					
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax	(5,713)	(19,964)	-	-	(25,677)
<b>Total comprehensive income for the year</b>	<b>48,433</b>	<b>29,344</b>	<b>1,865</b>	<b>(1,207)</b>	<b>78,435</b>
<b>Attributable to</b>					
- Equity holders of the Company	48,433	29,344	1,961	(1,207)	78,531
-Non-controlling interests	-	-	(96)	-	(96)
	<b>48,433</b>	<b>29,344</b>	<b>1,865</b>	<b>(1,207)</b>	<b>78,435</b>

## 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
<b>Cost</b>					
At 1 January 2015	32,328	8,738	52,382	5,019	98,467
Additions	422	180	2,990	(64)	3,528
Transfer into use	4,815	-	137	(4,952)	-
Transfer from intangible asset	-	-	6	-	6
Disposals	-	(2,734)	(2,492)	-	(5,226)
<b>At 31 December 2015</b>	<b>37,565</b>	<b>6,184</b>	<b>53,023</b>	<b>3</b>	<b>96,775</b>
At 1 January 2016	37,565	6,184	53,023	3	96,775
Additions	3,568	-	3,720	254	7,542
Transfer into use	-	-	-	-	-
Transfer from intangible asset	-	-	-	-	-
Disposals	-	-	(11,533)	-	(11,533)
<b>At 31 December 2016</b>	<b>41,133</b>	<b>6,184</b>	<b>45,210</b>	<b>257</b>	<b>92,784</b>
<b>Depreciation and impairment losses</b>					
At 1 January 2015	4,515	4,407	40,666	-	49,588
Depreciation charge for the year (Note 1.32)	803	1,380	4,768	-	6,951
Disposals	-	(2,264)	(1,890)	-	(4,154)
<b>At 31 December 2015</b>	<b>5,318</b>	<b>3,523</b>	<b>43,544</b>	<b>-</b>	<b>52,385</b>
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)
<b>At 31 December 2016</b>	<b>6,183</b>	<b>4,759</b>	<b>37,300</b>	<b>-</b>	<b>48,242</b>
<b>Carrying amounts</b>					
At 1 January 2015	27,813	4,331	11,716	5,019	48,879
At 31 December 2015	32,247	2,661	9,479	3	44,390
At 1 January 2016	32,247	2,661	9,479	3	44,390
<b>At 31 December 2016</b>	<b>34,950</b>	<b>1,425</b>	<b>7,910</b>	<b>257</b>	<b>44,542</b>

Included within land and buildings is non-depreciable land with a carrying value of HRK 4,874 thousand (2015: HRK 4,386 thousand). Management believes that the fair value of land and buildings is not significantly different from their carrying value.

During 2016 and 2015 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
<b>Cost</b>					
At 1 January 2015	28,571	8,515	51,708	5,019	93,813
Additions	422	-	2,857	(64)	3,215
Transfer into use	4,815	-	137	(4,952)	-
Transfer from intangible assets	-	-	6	-	6
Disposals	-	(2,514)	(2,492)	-	(5,006)
<b>At 31 December 2015</b>	<b>33,808</b>	<b>6,001</b>	<b>52,216</b>	<b>3</b>	<b>92,028</b>
At 1 January 2016	33,808	6,001	52,216	3	92,028
Additions	3,568	-	3,296	-	6,864
Transfer into use	-	-	-	-	-
Transfer from intangible assets	-	-	-	-	-
Disposals	-	-	(11,533)	-	(11,533)
<b>At 31 December 2016</b>	<b>37,376</b>	<b>6,001</b>	<b>43,979</b>	<b>3</b>	<b>87,359</b>
<b>Depreciation and impairment losses</b>					
At 1 January 2015	4,066	4,194	40,110	-	48,370
Depreciation charge for the year (Note 1.32)	723	1,354	4,708	-	6,785
Disposals	-	(2,043)	(1,890)	-	(3,933)
<b>At 31 December 2015</b>	<b>4,789</b>	<b>3,505</b>	<b>42,928</b>	<b>-</b>	<b>51,222</b>
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)
<b>At 31 December 2016</b>	<b>5,572</b>	<b>4,705</b>	<b>36,595</b>	<b>-</b>	<b>46,872</b>
<b>Carrying amounts</b>					
At 1 January 2015	24,505	4,321	11,598	5,019	45,443
At 31 December 2015	<b>29,019</b>	<b>2,496</b>	<b>9,288</b>	<b>3</b>	<b>40,806</b>
At 1 January 2016	29,019	2,496	9,288	3	40,806
<b>At 31 December 2016</b>	<b>31,804</b>	<b>1,296</b>	<b>7,384</b>	<b>3</b>	<b>40,487</b>

Included within land and buildings is non-depreciable land with a carrying value of HRK 4,288 thousand (2015: HRK 3,800 thousand). Management believes that the fair value of land and buildings is not materially different from their carrying value.

During 2016 and 2015 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

	<b>Group and Company HRK'000</b>
<b>Cost</b>	
At 1 January 2015	52,229
<b>At 31 December 2015</b>	<b>52,229</b>
At 1 January 2016	52,229
<b>At 31 December 2016</b>	<b>52,229</b>
<b>Depreciation</b>	
At 1 January 2015	20,627
Depreciation charge for the year (Note 1.34)	1,250
<b>At 31 December 2015</b>	<b>21,877</b>
At 1 January 2016	21,877
Depreciation charge for the year (Note 1.34)	1,249
<b>At 31 December 2016</b>	<b>23,126</b>
<b>Carrying amounts</b>	
At 1 January 2015	31,602
At 31 December 2015	30,352
At 1 January 2016	<b>30,352</b>
<b>At 31 December 2016</b>	<b>29,103</b>

The rental income arising during the year amounted to HRK 2,112 thousand (2015: HRK 1,396 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 2016 amounted to HRK 664 thousand (2015: 486 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	
	2016 HRK'000	2015 HRK'000	2016 HRK'000	2015 HRK'000	2016 HRK'000	2015 HRK'000
At 1 January	<b>43,307</b>	49,285	<b>1,145</b>	1,231	<b>44,452</b>	50,516
Net change recognised in profit or loss (Note 1.31)	<b>1,247</b>	(5,978)	<b>97</b>	(86)	<b>1,344</b>	(6,064)
<b>At 31 December</b>	<b>44,554</b>	43,307	<b>1,242</b>	1,145	<b>45,796</b>	44,452

## 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
<b>Cost</b>					
At 1 January 2015	24	40,114	36,423	330	76,891
Additions	-	3,640	1,849	1,638	7,127
Transfer into use	-	125	-	(125)	-
Transfer to equipment and furniture	-	-	-	(6)	(6)
Write off	-	-	-	-	-
	<b>24</b>	<b>43,879</b>	<b>38,272</b>	<b>1,837</b>	<b>84,012</b>
At 31 December 2015					
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	-	-
Transfer to equipment and furniture	-	-	-	-	-
Write off	-	-	(1,986)	-	(1,986)
	<b>24</b>	<b>47,554</b>	<b>39,271</b>	<b>1,867</b>	<b>88,716</b>
<b>At 31 December 2016</b>					
<b>Amortisation and impairment losses</b>					
At 1 January 2015	-	30,652	28,471	-	59,123
Amortisation charge for the year (Note 1.32)	-	4,188	3,231	-	7,419
Write off	-	-	-	-	-
	-	34,840	31,702	-	66,542
At 31 December 2015					
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)
	-	<b>37,825</b>	<b>32,473</b>	-	<b>70,298</b>
<b>At 31 December 2016</b>					
<b>Carrying amounts</b>					
At 1 January 2015	24	9,462	7,952	330	17,768
At 31 December 2015	24	9,039	6,570	1,837	17,470
At 1 January 2016	24	9,039	6,570	1,837	17,470
<b>At 31 December 2016</b>	<b>24</b>	<b>9,729</b>	<b>6,798</b>	<b>1,867</b>	<b>18,418</b>

During 2016 and 2015 there were no capitalised borrowing costs related to the acquisition of software.

As at 31 December 2016 Computer software included HRK 9,729 thousand of capitalised development costs (2015: HRK 9,039 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
<b>Cost</b>				
At 1 January 2015	40,114	31,944	330	72,388
Additions	3,640	1,108	1,638	6,386
Transfer into use	125	-	(125)	-
Transfer to equipment and furniture	-	-	(6)	(6)
Write off	-	-	-	-
<b>At 31 December 2015</b>	<b>43,879</b>	<b>33,052</b>	<b>1,837</b>	<b>78,768</b>
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	-	-
Transfer to equipment and furniture	-	-	-	-
Write off	-	(1,846)	-	(1,846)
<b>At 31 December 2016</b>	<b>47,554</b>	<b>33,551</b>	<b>1,867</b>	<b>82,972</b>
<b>Amortisation and impairment losses</b>				
At 1 January 2015	30,652	25,284	-	55,936
Amortisation charge for the year (Note 1.32)	4,188	2,624	-	6,812
Write off	-	-	-	-
At 31 December 2015	34,840	27,908	-	62,748
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)
<b>At 31 December 2016</b>	<b>37,825</b>	<b>28,188</b>	<b>-</b>	<b>66,013</b>
<b>Carrying amounts</b>				
At 1 January 2015	9,462	6,660	330	16,452
At 31 December 2015	9,039	5,144	1,837	16,020
At 1 January 2016	9,039	5,144	1,837	16,020
<b>At 31 December 2016</b>	<b>9,729</b>	<b>5,363</b>	<b>1,867</b>	<b>16,959</b>

During 2016 and 2015 there were no capitalised borrowing costs related to the acquisition of software.

As at 31 December 2016 Computer software included HRK 9,729 thousand of capitalised development costs (2015: HRK 9,039 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 2016	Group ownership at 31 December 2015
<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	56.7%	60.4%
Allianz Portfolio, open-ended investment fund	Investment	Croatia	17,8%	27.6%
<i>Investments in subsidiaries – available for sale</i>				
Allianz Equity, open-ended investment fund	Investment	Croatia	25.8%	45.6%

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 2016, 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 35% (2015: 9%), 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 2016 HRK'000	Company 2015 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
<b>Total subsidiaries at cost</b>	<b>5,688</b>	<b>5,688</b>
<i>Investments in subsidiaries - held at fair value through profit or loss</i>		
Allianz Cash, open-ended investment fund	107,134	109,114
Allianz Portfolio, open-ended investment fund	10,035	9,188
<b>Total subsidiaries at fair value through profit or loss</b>	<b>117,169</b>	<b>118,302</b>
<i>Investments in subsidiaries - available for sale</i>		
Allianz Equity, open-ended investment fund	9,885	8,533
<b>Total subsidiaries available for sale</b>	<b>9,885</b>	<b>8,533</b>
	<b>132,742</b>	<b>132,523</b>

## 1.15 Investments in subsidiaries (continued)

### c) Movements in investments in subsidiaries was as follows:

	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
<b>At 1 January</b>	132,523	138,518
Acquisition of units in Allianz Cash, open-ended investment fund	41,000	5,200
Disposal of units in Allianz Cash, open-ended investment fund	(43,225)	(13,000)
Fair value gains on investment in Allianz Cash, open-ended investment fund	244	724
Fair value gains on investment in Allianz Portfolio, open-ended investment fund	847	562
Fair value gains on investment in Allianz Equity, open-ended investment fund	1,353	519
<b>At 31 December</b>	<b><u>132,742</u></b>	<b><u>132,523</u></b>

### 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:

	<b>2016 HRK'000</b>	2015 HRK'000
Revenue	348	491
Profit / (loss)	58	196
<b>Profit attributable to NCI</b>	<b><u>29</u></b>	<b><u>96</u></b>
Current assets	114	88
Non-current assets	3,154	3,236
Current liabilities	(7)	(100)
Non-current liabilities	(2,922)	(2,943)
<b>Net assets</b>	<b><u>339</u></b>	<b><u>281</u></b>
<b>Net assets attributable to NCI</b>	<b><u>173</u></b>	<b><u>143</u></b>

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

## 1.16 Financial investments

	<b>Group 2016</b>	Group 2015	<b>Company 2016</b>	Company 2015
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Held-to-maturity investments (Note 1.16c)	<b>675,387</b>	675,483	<b>666,025</b>	670,247
Available-for-sale financial assets (Note 1.16c)	<b>3,006,212</b>	2,776,366	<b>2,865,025</b>	2,670,496
Financial assets held for trading	<b>261,549</b>	199,300	<b>261,549</b>	199,300
Financial assets designated at fair value through profit or loss	<b>355,145</b>	230,587	<b>303,612</b>	204,748
Financial assets at fair value through profit or loss (Note 1.16c)	<b>616,694</b>	429,887	<b>565,161</b>	404,048
Loans and receivables (Note 1.16a; 1.16c)	<b>114,301</b>	120,679	<b>61,642</b>	65,297
	<b>4,412,594</b>	4,002,415	<b>4,157,853</b>	3,810,088

Table below analyses financial investments exposed to credit risk:

	Group 2016				Group 2015			
	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	675,387	-	-	675,387	675,483	-	-	675,483
Available-for-sale debt securities	2,551,451	-	-	2,551,451	2,366,620	-	-	2,366,620
Debt securities at fair value through profit or loss	76,948	-	-	76,948	106,337	-	-	106,337
Loans and receivables	83,166	30,749	386	114,301	118,845	779	1,055	120,679
	<b>3,386,952</b>	<b>30,749</b>	<b>386</b>	<b>3,418,087</b>	<b>3,267,285</b>	<b>779</b>	<b>1,055</b>	<b>3,269,119</b>
Interest income generated from impaired financial assets	n/a	n/a	-	-	n/a	n/a	-	-
	Company 2016				Company 2015			
	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	666,025	-	-	666,025	670,247	-	-	670,247
Available-for-sale debt securities	2,410,264	-	-	2,410,264	2,260,750	-	-	2,260,750
Debt securities at fair value through profit or loss	76,948	-	-	76,948	106,337	-	-	106,337
Loans and receivables	30,343	30,749	550	61,642	63,299	779	1,219	65,297
	<b>3,183,580</b>	<b>30,749</b>	<b>550</b>	<b>3,214,879</b>	<b>3,100,633</b>	<b>779</b>	<b>1,219</b>	<b>3,102,631</b>
Interest income generated from impaired financial assets	n/a	n/a	-	-	n/a	n/a	-	-

From HRK 30,749 thousand in the category past due but not impaired, at the reporting date HRK 29,772 thousand relates to a single debtor, who paid half of the loan in January and after which the Company rescheduled the remaining half. The value of the related real estate collateral exceeds the remaining exposure by more than three 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:

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Deposits with banks	<b>63,266</b>	64,927	<b>6,339</b>	6,541
Loans to customers	<b>51,421</b>	56,807	<b>55,115</b>	59,487
Subordinated loan to subsidiary	-	-	<b>738</b>	488
Impairment allowance on loans to customers	<b>(386)</b>	(1,055)	<b>(550)</b>	(1,219)
	<b>114,301</b>	120,679	<b>61,642</b>	65,297

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:

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<b>At 1 January</b>	<b>1,055</b>	927	<b>1,219</b>	1,091
Impairment losses on loans	<b>23</b>	877	<b>23</b>	877
Collection of amounts previously provided	<b>(21)</b>	(581)	<b>(21)</b>	(581)
<b>Net impairment losses/(reversal of impairment losses) recognised in profit or loss (Notes 1.34 and 1.28)</b>	<b>2</b>	296	<b>2</b>	296
Amounts written off	<b>(671)</b>	(168)	<b>(671)</b>	(168)
<b>At 31 December</b>	<b>386</b>	1,055	<b>550</b>	1,219

### 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:

<b>Reclassification date</b>	<b>Net book value at the reclassification date</b>	<b>Effective interest rate at the reclassification date</b>	<b>Other comprehensive income up to the reclassification date</b>
	<b>HRK'000</b>	<b>%</b>	<b>HRK'000</b>
21 August 2008	127,607	5.66	(9,173)
6 October 2008	177,632	5.72	(4,763)
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)
<b>Total</b>	<b>597,243</b>	<b>5.87</b>	<b>(1,727)</b>



## 1.16 Financial investments (continued)

### b) Reclassification (continued)

	At the reclassification date		31 December 2016		31 December 2015	
	Net book value HRK'000	Fair value HRK'000	Net book value HRK'000	Fair value HRK'000	Net book value HRK'000	Fair value HRK'000
<b>Assets reclassified in 2008:</b>						
Debt securities	<u>305,239</u>	<u>305,239</u>	<u>328,356</u>	<u>358,834</u>	<u>329,276</u>	<u>361,657</u>
<b>Assets reclassified in 2010:</b>						
Debt securities	<u>156,691</u>	<u>156,691</u>	<u>157,393</u>	<u>180,553</u>	<u>159,282</u>	<u>180,097</u>
<b>Assets reclassified in 2011:</b>						
Debt securities	<u>135,313</u>	<u>135,313</u>	<u>135,886</u>	<u>161,777</u>	<u>137,142</u>	<u>158,680</u>
	<u><u>597,243</u></u>	<u><u>597,243</u></u>	<u><u>621,635</u></u>	<u><u>701,164</u></u>	<u><u>625,700</u></u>	<u><u>700,434</u></u>

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

	2016		2015	
	Profit or loss HRK'000	Other comprehensive income HRK'000	Profit or loss HRK'000	Other comprehensive income HRK'000
<b>Available-for-sale financial assets reclassified to held-to-maturity investments 2008 to 2016</b>				
Interest income	36,189	-	36,410	-
Amortisation of premium	673	-	594	-
Amortisation of fair value reserve to profit or loss	(327)	-	(64)	-
Fair value reserve balance, net of income tax	-	(268)	-	(51)
	<u>36,535</u>	<u>(268)</u>	<u>36,940</u>	<u>(51)</u>

The following table shows the amounts that would have been recognised in profit or loss and other comprehensive income from reclassified assets in 2016 and 2015 if there had been no reclassification:

	2016		2015	
	Profit or loss HRK'000	Other comprehensive income HRK'000	Profit or loss HRK'000	Other comprehensive income HRK'000
<b>Available-for-sale financial assets reclassified to held-to-maturity investments 2008 to 2016</b>				
Interest income	36,189	-	36,410	-
Amortisation of premium	673	-	594	-
Change in fair value reserve, net of income tax	-	730	-	2,662
	<u>36,862</u>	<u>730</u>	<u>37,004</u>	<u>2,662</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
<b>31 December 2016</b>					
<b>Shares</b>	-	60,397	43,835	-	104,232
<b>Shares relating to share-based payments</b>	-	-	4,629	-	4,629
<b>Bonds – fixed interest rate - listed</b>					
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	675,387	1,804,550	-	-	2,479,937
Bonds – Governments of EU member states – listed	-	740,894	-	-	740,894
Foreign and domestic corporate bonds – listed	-	6,007	-	-	6,007
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	76,948	-	76,948
	<b>675,387</b>	<b>2,551,451</b>	<b>76,948</b>	-	<b>3,303,786</b>
<b>Investment funds - quoted</b>					
Open – ended investment funds	-	332,606	268,554	-	601,160
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	222,035	-	222,035
Close – ended investment funds – quoted	-	61,758	693	-	62,451
	-	<b>394,364</b>	<b>491,282</b>	-	<b>885,646</b>
<b>Loans and receivables</b>					
Deposits with credit institutions	-	-	-	63,266	63,266
Loans to policyholders	-	-	-	11,774	11,774
Mortgage loans	-	-	-	33,293	33,293
Other loans	-	-	-	5,968	5,968
	-	-	-	<b>114,301</b>	<b>114,301</b>
	<b>675,387</b>	<b>3,006,212</b>	<b>616,694</b>	<b>114,301</b>	<b>4,412,594</b>
<b>31 December 2015</b>					
<b>Shares</b>	-	50,109	21,762	-	71,871
<b>Shares relating to share-based payments</b>	-	-	5,219	-	5,219
<b>Bonds – fixed interest rate - listed</b>					
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	675,483	1,624,834	-	-	2,300,317
Bonds – Governments of EU member states – listed	-	735,770	-	-	735,770
Foreign and domestic corporate bonds – listed	-	6,016	-	-	6,016
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	106,337	-	106,337
	<b>675,483</b>	<b>2,366,620</b>	<b>106,337</b>	-	<b>3,148,440</b>
<b>Investment funds - quoted</b>					
Open – ended investment funds	-	280,975	201,201	-	482,176
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	93,192	-	93,192
Close – ended investment funds – quoted	-	78,662	2,176	-	80,838
	-	<b>359,637</b>	<b>296,569</b>	-	<b>656,206</b>
<b>Loans and receivables</b>					
Deposits with credit institutions	-	-	-	64,927	64,927
Loans to policyholders	-	-	-	15,890	15,890
Mortgage loans	-	-	-	33,998	33,998
Other loans	-	-	-	5,864	5,864
	-	-	-	<b>120,679</b>	<b>120,679</b>
	<b>675,483</b>	<b>2,776,366</b>	<b>429,887</b>	<b>120,679</b>	<b>4,002,415</b>

## 1.16 Financial investments (continued)

### c) Breakdown (continued)

Company	Investments in subsidiaries	Held-to- maturity investments	Available-for- sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>31 December 2016</b>						
Shares	-	-	60,397	-	-	60,397
Shares relating to share-based payments	-	-	-	4,629	-	4,629
Investments in subsidiaries	132,742	-	-	-	-	132,742
<b>Bonds – fixed interest rate - listed</b>						
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	-	666,025	1,663,409	-	-	2,329,434
Bonds – Governments of EU member states – listed	-	-	740,894	-	-	740,894
Foreign and domestic corporate bonds – listed	-	-	5,961	-	-	5,961
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	-	76,948	-	76,948
	-	<b>666,025</b>	<b>2,410,264</b>	<b>76,948</b>	-	<b>3,153,237</b>
<b>Investment funds - quoted</b>						
Open – ended investment funds	-	-	332,606	261,549	-	594,155
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	-	222,035	-	222,035
Close – ended investment funds – quoted	-	-	61,758	-	-	61,758
	-	-	<b>394,364</b>	<b>483,584</b>	-	<b>877,948</b>
<b>Loans and receivables</b>						
Deposits with credit institutions	-	-	-	-	6,339	6,339
Loans to policyholders	-	-	-	-	11,774	11,774
Mortgage loans	-	-	-	-	36,215	36,215
Subordinated loan to subsidiary	-	-	-	-	738	738
Other loans	-	-	-	-	6,576	6,576
	-	-	-	-	<b>61,642</b>	<b>61,642</b>
	<b>132,742</b>	<b>666,025</b>	<b>2,865,025</b>	<b>565,161</b>	<b>61,642</b>	<b>4,290,595</b>
<b>31 December 2015</b>						
Shares	-	-	50,109	-	-	50,109
Shares relating to share-based payments	-	-	-	5,219	-	5,219
Investments in subsidiaries	132,523	-	-	-	-	132,523
<b>Bonds – fixed interest rate - listed</b>						
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	-	670,247	1,519,004	-	-	2,189,251
Bonds – Governments of EU member states – listed	-	-	735,770	-	-	735,770
Foreign and domestic corporate bonds – listed	-	-	5,976	-	-	5,976
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	-	106,337	-	106,337
	-	<b>670,247</b>	<b>2,260,750</b>	<b>106,337</b>	-	<b>3,037,334</b>
<b>Investment funds - quoted</b>						
Open – ended investment funds	-	-	280,975	199,300	-	480,275
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	-	93,192	-	93,192
Close – ended investment funds - quoted	-	-	78,662	-	-	78,662
	-	-	<b>359,637</b>	<b>292,492</b>	-	<b>652,129</b>
<b>Loans and receivables</b>						
Deposits with credit institutions	-	-	-	-	6,541	6,541
Loans to policyholders	-	-	-	-	15,890	15,890
Mortgage loans	-	-	-	-	37,026	37,026
Subordinated loan to subsidiary	-	-	-	-	488	488
Other loans	-	-	-	-	5,352	5,352
	-	-	-	-	<b>65,297</b>	<b>65,297</b>
	<b>132,523</b>	<b>670,247</b>	<b>2,670,496</b>	<b>404,048</b>	<b>65,297</b>	<b>3,942,611</b>

Bonds issued by governments of EU member states include bonds of the Republic of Germany of HRK 472,511 thousand (2015: HRK 467,599 thousand), Republic of Poland of HRK 73,071 thousand (2015: 76,005 thousand), Slovak Republic of HRK 104,942 thousand (2015: 105,879 thousand) and the Kingdom of Spain of 90,370 thousand (2015: 86,287 thousand).

## 1.17 Reinsurers' share of insurance contract provisions

### Group and Company

	<i>Note</i>	2016 HRK'000	2015 HRK'000
<b>Non-life</b>			
Reinsurance share in unearned premium reserve	1.21 a)	<b>69,201</b>	65,024
Reinsurance share in notified outstanding claims reserve	1.21 b)	<b>71,786</b>	89,216
Reinsurance share in incurred but not reported claims reserve	1.21 c)	<b>5,359</b>	4,738
Reinsurance share in other reserves		<b>53</b>	15
<b>Total non-life</b>		<b>146,399</b>	158,993
<b>Life</b>			
Reinsurance share in unearned premium reserve	1.21 a)	<b>148</b>	156
Reinsurance share incurred but not reported claims reserve	1.21 c)	<b>489</b>	503
Reinsurance share in life assurance provision	1.21 d)	<b>361</b>	364
<b>Total life</b>		<b>998</b>	1,023
<b>Total reinsurance share of insurance</b>		<b>147,397</b>	160,016

## 1.18 Deferred tax liability

### Group

	Temporary differences							Deferred tax asset on tax losses
	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	Impairment losses on financial assets HTM 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	Tax losses HRK'000
<b>Balance as at 1 January 2015</b>	<b>(35,731)</b>	-	<b>1,363</b>	-	<b>(42,532)</b>	<b>2,985</b>	<b>2,453</b>	-
Recognised in profit or loss (Note 1.35)	77	60	417	-	-	-	(400)	-
Deferred tax on net gains from change in fair value, net of amounts realised, recognised in other comprehensive income (Note 1.23c)	6,420	-	-	-	6,420	-	-	-
<b>Balance as at 31 December 2015</b>	<b>(29,234)</b>	<b>60</b>	<b>1,780</b>	-	<b>(36,112)</b>	<b>2,985</b>	<b>2,053</b>	-
<b>Balance as at 1 January 2016</b>	<b>(29,234)</b>	<b>60</b>	<b>1,780</b>	-	<b>(36,112)</b>	<b>2,985</b>	<b>2,053</b>	-
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 profit or loss</i>	<i>(699)</i>	<i>(6)</i>	<i>(190)</i>	-	-	<i>(298)</i>	<i>(205)</i>	-
Deferred tax on net gains from change in fair value, net of amounts realised (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>(10,777)</i>	-	-	-
<b>Balance as at 31 December 2016</b>	<b>(40,710)</b>	<b>54</b>	<b>1,590</b>	-	<b>(46,889)</b>	<b>2,687</b>	<b>1,848</b>	-

### 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	Impairment losses on financial assets HTM 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
<b>Balance as at 1 January 2015</b>	<b>(35,731)</b>	-	<b>1,363</b>	-	<b>(42,532)</b>	<b>2,985</b>	<b>2,453</b>
Recognised in profit or loss (Note 1.35)	77	60	417	-	-	-	(400)
Deferred tax on net gains from change in fair value, net of amounts realised, recognised in other comprehensive income (Note 1.23c)	6,420	-	-	-	6,420	-	-
<b>Balance as at 31 December 2015</b>	<b>(29,234)</b>	<b>60</b>	<b>1,780</b>	-	<b>(36,112)</b>	<b>2,985</b>	<b>2,053</b>
<b>Balance as at 1 January 2016</b>	<b>(29,234)</b>	<b>60</b>	<b>1,780</b>	-	<b>(36,112)</b>	<b>2,985</b>	<b>2,053</b>
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 profit or loss</i>	<i>(699)</i>	<i>(6)</i>	<i>(190)</i>	-	-	<i>(298)</i>	<i>(205)</i>
Deferred tax on net gains from change in fair value, net of amounts realised (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>(10,777)</i>	-	-
<b>Balance as at 31 December 2016</b>	<b>(40,710)</b>	<b>54</b>	<b>1,590</b>	-	<b>(46,889)</b>	<b>2,687</b>	<b>1,848</b>

**1.19 Insurance receivables and other assets**

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Receivables arising from insurance contracts				
- From contract holders (from policyholders)	<b>192,749</b>	192,445	<b>192,749</b>	192,445
Receivables from reinsurance				
- for claims recoveries	<b>27,957</b>	9,945	<b>27,957</b>	9,945
- for reinsurance commission	<b>5,277</b>	3,302	<b>5,277</b>	3,302
- for reinsurance premium paid in advance	<b>35,749</b>	32,958	<b>35,749</b>	32,958
Undue interest receivable	<b>53,414</b>	52,457	<b>53,414</b>	52,457
Other receivables and prepayments	<b>51,973</b>	53,766	<b>51,740</b>	53,525
Impairment allowance				
- for insurance receivables	<b>(58,199)</b>	(64,813)	<b>(58,199)</b>	(64,813)
- for reinsurance receivables	<b>(111)</b>	-	<b>(111)</b>	-
- for other receivables	<b>(12,746)</b>	(12,583)	<b>(12,746)</b>	(12,583)
	<b>296,063</b>	267,477	<b>295,830</b>	267,236

The analysis of insurance receivables and other receivables is given below

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Neither past due nor impaired	<b>235,796</b>	206,469	<b>235,796</b>	206,469
Past due (up to 120 days) but not impaired	<b>60,267</b>	61,008	<b>60,034</b>	60,767
Past due and impaired	<b>70,945</b>	77,396	<b>71,056</b>	77,396
Impairment allowance	<b>(70,945)</b>	(77,396)	<b>(71,056)</b>	(77,396)
	<b>296,063</b>	267,477	<b>295,830</b>	267,236

## 1.19 Insurance receivables and other assets (continued)

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

	<b>Group and Company 2016 HRK'000</b>	Group and Company 2015 HRK'000
At 1 January	<b>64,813</b>	65,206
Increase in impairment losses	<b>12,698</b>	14,855
Collection of amounts previously provided	<b>(12,699)</b>	(10,758)
<b>Impairment losses recognised in profit or loss (Note 1.26)</b>	<b>(1)</b>	4,097
Amounts written off	<b>(6,613)</b>	(4,490)
<b>At 31 December</b>	<b>58,199</b>	64,813

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:

	<b>Group and Company 2016 HRK'000</b>	Group and Company 2015 HRK'000
<b>At 1 January</b>	<b>12,583</b>	15,806
Transfer from financial investments on maturity	-	-
Transfer to financial investments	-	-
Increase in provisions for other receivables	602	1,158
Collection of amounts previously provided	(92)	(1,368)
Transfer to loans and receivables	-	-
<b>Impairment losses recognised in profit or loss (Note 1.33)</b>	<b>510</b>	(210)
Amounts written off	(347)	(3,013)
<b>At 31 December</b>	<b>12,746</b>	12,583

## 1.20 Cash and cash equivalents

	<b>Group 2016 HRK'000</b>	Group 2015 HRK'000	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
Cash at bank	<b>83,316</b>	54,810	<b>62,010</b>	44,042
Deposits in banks with original maturity up to three months	<b>8,532</b>	122,771	-	91,714
	<b>91,848</b>	177,581	<b>62,010</b>	135,756

## 1.21 Insurance contract provisions

### Group and Company

	2016 HRK'000	2015 HRK'000
<b>Non-life insurance</b>		
Provision for unearned premiums (Note 1.21a)	285,424	284,110
Notified outstanding claims reserve (Note 1.21b)	294,686	289,535
Incurred but not reported claims reserve (Note 1.21c)	214,908	232,995
Other provisions	2,246	4,236
<b>Total non-life</b>	<b>797,264</b>	<b>810,876</b>
<b>Life assurance</b>		
Provision for unearned premiums (Note 1.21a)	9,767	8,521
Life assurance provision (Note 1.21d)	2,575,203	2,498,743
Provision arising from liability adequacy test (Note 1.21d)	1,173	1,291
	<b>2,576,376</b>	<b>2,500,034</b>
Life assurance provision for unit-linked and index-linked products (Note 1.21e)	283,716	183,016
Notified outstanding claims reserve (Note 1.21b)	33,424	27,172
Incurred but not reported claims reserve (Note 1.21c)	2,960	2,899
Other provisions	229	270
<b>Total life</b>	<b>2,906,472</b>	<b>2,721,912</b>
<b>Total insurance contract provision</b>	<b>3,703,736</b>	<b>3,532,788</b>

Other provisions relate to provisions for bonuses and rebates and unexpired risk reserve.

#### a) Analysis of movement on provision for unearned premium

Group and Company	2016		2015		2015	
	Gross HRK'000	Reinsurance HRK'000	Net HRK'000	Gross HRK'000	Reinsurance HRK'000	Net HRK'000
<i>Non-life business</i>						
<b>At 1 January</b>	<b>284,110</b>	<b>65,024</b>	<b>219,086</b>	273,569	26,606	246,963
Premiums written during the year	576,358	128,027	448,331	655,141	162,226	492,915
Premiums earned during the year	(575,044)	(123,850)	(451,194)	(644,600)	(123,808)	(520,792)
<b>At 31 December</b>	<b>285,424</b>	<b>69,201</b>	<b>216,223</b>	284,110	65,024	219,086
<i>Life assurance business</i>						
<b>At 1 January</b>	<b>8,521</b>	<b>156</b>	<b>8,365</b>	8,998	164	8,834
Premiums written during the year	33,381	2,364	31,017	33,758	2,613	31,145
Premiums earned during the year	(32,135)	(2,372)	(29,763)	(34,235)	(2,621)	(31,614)
<b>At 31 December</b>	<b>9,767</b>	<b>148</b>	<b>9,619</b>	8,521	156	8,365

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		
	2016 Gross HRK'000	2016 Reinsurance HRK'000	2016 Net HRK'000	2015 Gross HRK'000	2015 Reinsurance HRK'000	2015 Net HRK'000
<i>Non-life business</i>						
<b>At 1 January</b>	289,535	89,216	200,319	316,453	111,694	204,759
Current year claims	287,924	50,371	237,553	332,693	53,763	278,930
Change in previous year claims	(6,440)	(2,565)	(3,875)	(45,496)	(21,252)	(24,244)
Claims paid	(276,333)	(65,236)	(211,097)	(314,115)	(54,989)	(259,126)
<b>At 31 December</b>	<b>294,686</b>	<b>71,786</b>	<b>222,900</b>	<b>289,535</b>	<b>89,216</b>	<b>200,319</b>
<i>Life assurance business</i>						
<b>At 1 January</b>	27,172	-	27,172	20,777	-	20,777
Current year claims	312,911	-	312,911	319,029	1,215	317,814
Change in previous year claims	(14,913)	-	(14,913)	(11,898)	-	(11,898)
Claims paid	(291,746)	-	(291,746)	(300,736)	(1,215)	(299,521)
<b>At 31 December</b>	<b>33,424</b>	<b>-</b>	<b>33,424</b>	<b>27,172</b>	<b>-</b>	<b>27,172</b>

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

	Group and Company			Group and Company		
	2016 Gross HRK'000	2016 Reinsurance HRK'000	2016 Net HRK'000	2015 Gross HRK'000	2015 Reinsurance HRK'000	2015 Net HRK'000
<i>Non-life business</i>						
<b>At 1 January</b>	232,995	4,738	228,257	227,363	5,896	221,467
Increase	36,772	4,096	32,676	56,460	1,507	54,953
Transfer to NOCR	(54,859)	(3,475)	(51,384)	(50,828)	(2,665)	(48,163)
<b>At 31 December</b>	<b>214,908</b>	<b>5,359</b>	<b>209,549</b>	<b>232,995</b>	<b>4,738</b>	<b>228,257</b>
<i>Life assurance business</i>						
<b>At 1 January</b>	2,899	503	2,396	3,028	581	2,447
Increase	1,163	135	1,028	846	8	838
Transfer to NOCR	(1,102)	(149)	(953)	(975)	(86)	(889)
<b>At 31 December</b>	<b>2,960</b>	<b>489</b>	<b>2,471</b>	<b>2,899</b>	<b>503</b>	<b>2,396</b>

## 1.21 Insurance contract provisions (continued)

### d) Life assurance provision and provision arising from liability adequacy test

Group and Company	2016	2016	2016	2015	2015	2015
	Gross HRK'000	Reinsurance HRK'000	Net HRK'000	Gross HRK'000	Reinsurance HRK'000	Net HRK'000
<b>At 1 January</b>	<b>2,500,034</b>	<b>364</b>	<b>2,499,670</b>	2,245,906	381	2,245,525
Premium allocation	248,928	1,372	247,556	373,381	1,210	372,171
Release of liabilities due to benefits paid, surrenders and other terminations	(249,328)	(1,375)	(247,953)	(204,854)	(1,227)	(203,627)
Unwinding of discount/accretion of interest	65,930	-	65,930	63,371	-	63,371
Change in liability arising from liability adequacy test	(118)	-	(118)	(129)	-	(129)
Change in Zillmer adjustment	14,168	-	14,168	7,471	-	7,471
Allocation of discretionary and guaranteed bonuses	(1,890)	-	(1,890)	12,550	-	12,550
Change in unearned premium reserve	(1,348)	-	(1,348)	2,338	-	2,338
<b>At 31 December</b>	<b>2,576,376</b>	<b>361</b>	<b>2,576,015</b>	2,500,034	364	2,499,670

Life assurance provision amounted to HRK 2,575,203 thousand (2015: HRK 2,498,743 thousand). Provision arising from liability adequacy test amounted to HRK 1,173 thousand (2015: HRK 1,291 thousand).

### e) Life assurance provisions for unit-linked and index-linked products

Group and Company	2016	2015
	Gross and Net HRK'000	Gross and Net HRK'000
<b>At 1 January</b>	<b>183,016</b>	261,726
Premium allocation	137,366	8,882
Release of liabilities due to benefits paid, surrenders and other terminations	(45,146)	(93,479)
Net gains from change in fair value of assets backing life assurance provision for unit-linked and index-linked products	8,480	5,887
<b>At 31 December</b>	<b>283,716</b>	183,016

## 1.21 Insurance contract provisions (continued)

### f) Development of claims (NOCR and IBNR)

For the year ended 31 December 2016

Group and Company	Prior 2010	2010	2011	2012	2013	2014	2015	2016	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	-	350,381	351,723	396,946	411,966	473,753	388,045	324,124	-
One year later	-	322,478	319,592	353,776	388,814	388,425	360,853	-	-
Two years later	-	305,440	302,481	332,759	374,301	376,364	-	-	-
Three years later	-	289,284	294,530	322,438	367,177	-	-	-	-
Four years later	-	287,924	295,439	318,889	-	-	-	-	-
Five years later	-	289,509	294,210	-	-	-	-	-	-
Six years later	-	292,268	-	-	-	-	-	-	-
<b>Estimate of cumulative claims</b>	-	292,268	294,210	318,889	367,177	376,364	360,853	324,124	2,333,885
Cumulative payments	-	268,426	259,498	289,517	323,288	331,194	270,173	172,796	1,914,892
Provisions for prior years	96,788	-	-	-	-	-	-	-	96,788
Claims handling costs	5,793	1,417	2,072	1,753	2,621	2,730	5,238	8,573	30,197
<b>Value recognised in the statement of financial position</b>	<b>102,581</b>	<b>25,259</b>	<b>36,784</b>	<b>31,125</b>	<b>46,510</b>	<b>47,900</b>	<b>95,918</b>	<b>159,901</b>	<b>545,978</b>

## 1.21 Insurance contract provisions (continued)

### g) Remaining maturities of insurance liabilities

#### 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
<b>Insurance liabilities</b>	<b>648,850</b>	<b>1,312,391</b>	<b>691,952</b>	<b>415,765</b>	<b>402,313</b>	<b>232,465</b>	<b>3,703,736</b>

#### Group and Company 2015

	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	245,002	46,745	626	166	82	10	292,631
NOCR & IBNR	233,696	212,840	51,631	26,908	14,735	12,791	552,601
Life assurance provisions, provision for unit linked products and provision arising from LAT	169,716	912,859	621,295	361,298	369,023	248,859	2,683,050
Other insurance provisions	4,266	240	-	-	-	-	4,506
<b>Insurance liabilities</b>	<b>652,680</b>	<b>1,172,684</b>	<b>673,552</b>	<b>388,372</b>	<b>383,840</b>	<b>261,660</b>	<b>3,532,788</b>

UPR stands for unearned premium reserve.

NOCR stands for notified outstanding 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 2016	Claims ratio, net 2016	Claims ratio, gross 2015	Claims ratio, net 2015
Motor vehicle liability insurance	40.38%	39.27%	40.87%	41.11%
Other motor insurance	59.80%	60.54%	75.17%	76.17%
Fire and other damage to property insurance	43.57%	44.48%	27.43%	47.33%
General liability insurance	60.67%	61.18%	68.46%	55.23%
Marine and inland marine hull insurance	77.16%	91.64%	113.44%	74.71%
Credit and suretyship insurance	58.15%	196.14%	89.07%	196.03%
Personal accident insurance	24.39%	24.77%	26.56%	27.30%
Health insurance	15.32%	21.09%	14.87%	4.67%
Miscellaneous financial loss	27.50%	56.84%	21.11%	80.62%
Assistance	19.82%	39.92%	14.10%	23.73%
<b>TOTAL - NON LIFE</b>	<b>45.36%</b>	<b>47.08%</b>	<b>45.01%</b>	<b>49.73%</b>

The above ratios are calculated using the formulas prescribed by HANFA's Instruction of the Regulation on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies (10.06.2016) as follows:

Claims ratio, gross = (claims paid, gross + change in claims reserves, gross + change in other technical reserves, gross) / (gross premiums written + change in gross unearned premium+bad debt).

Claims ratio, net = (claims paid, net + change in claims reserves, net + change in other technical reserves, net) / (net premiums written + change in net unearned premium+bad debt).

## 1.22 Insurance and other payables and deferred income

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Direct insurance contract payables				
- to policyholders	<b>27,174</b>	34,996	<b>27,174</b>	34,996
- to agents, brokers and intermediaries	<b>18,101</b>	11,258	<b>18,101</b>	11,258
Reinsurance contract payables	<b>60,318</b>	49,080	<b>60,318</b>	49,080
Reinsurance commission deferral	<b>6,762</b>	5,804	<b>6,762</b>	5,804
Commission expenses accrual	<b>1,895</b>	2,085	<b>1,895</b>	2,085
Provision for bonuses to employees	<b>10,016</b>	13,530	<b>9,368</b>	13,131
Liabilities for salaries	<b>7,535</b>	11,318	<b>7,360</b>	10,907
Liabilities for premium paid in advance	<b>67,477</b>	58,642	<b>67,477</b>	58,642
Liabilities for share based payments (Note 1.36)	<b>3,918</b>	4,449	<b>3,918</b>	4,449
Liabilities to investment funds non-controlling unitholders	<b>156,453</b>	105,571	-	-
Other payables and accrued expenses	<b>52,068</b>	40,847	<b>50,950</b>	39,073
	<b>411,717</b>	337,580	<b>253,323</b>	229,425

## 1.23 Equity

### a) Issued share capital

	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000
<b>Authorised, issued and fully paid</b>		
254,306 (2015: 254,306) ordinary shares of HRK 400	<b>101,722</b>	101,722

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:

	<b>2016</b>	2015
	<b>% ownership</b>	% ownership
Allianz New Europe Holding GmbH, Austria	<b>83.2</b>	83.2
Zagrebačka banka d.d., Croatia	<b>16.8</b>	16.8
	<b>100.0</b>	100.0

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 (2015: 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:

	<b>Group 2016 HRK'000</b>	Group 2015 HRK'000	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
<b>At 1 January</b>				
Gross fair value reserve	<b>180,587</b>	212,684	<b>180,563</b>	212,660
Deferred tax (Note 1.18)	<b>(36,112)</b>	(42,532)	<b>(36,112)</b>	(42,532)
<b>Net</b>	<b>144,475</b>	170,152	<b>144,451</b>	170,128
Net gains/(losses) from change in fair value of available-for-sale financial assets	<b>83,071</b>	(14,180)	<b>84,201</b>	(13,581)
Net gains on disposal of available-for-sale financial assets - transfer to profit or loss (Note 1.28)	<b>(3,703)</b>	(20,373)	<b>(4,816)</b>	(20,942)
Impairment of financial assets available for sale (Note 1.34)	<b>589</b>	2,456	<b>542</b>	2,426
	<b>79,957</b>	(32,097)	<b>79,927</b>	(32,097)
Deferred tax on net (gains)/losses from change in fair value of available-for-sale financial assets, net of amounts realised and impairment losses (Note 1.18)	<b>(14,387)</b>	6,420	<b>(14,387)</b>	6,420
Effect of tax rate change (Note 1.18)	<b>3,610</b>	-	<b>3,610</b>	-
<i>Net deferred tax expense/credit recognised in other comprehensive income</i>	<b>69,180</b>	(25,677)	<b>69,150</b>	(25,677)
<b>At 31 December</b>				
Gross fair value reserve	<b>260,544</b>	180,587	<b>260,490</b>	180,563
Deferred tax (Note 1.18)	<b>(46,889)</b>	(36,112)	<b>(46,889)</b>	(36,112)
<b>Net</b>	<b>213,655</b>	144,475	<b>213,601</b>	144,451

### d) Legal reserve

The legal reserve (HRK 25,053 thousand at 31 December 2016 and 2015) 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 2016 or 2015). The weighted average number of ordinary shares used for basic earnings per share was 254,306 (2015: 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 (2015: 254,306)

	<b>Group 2016</b>	Group 2015	<b>Company 2016</b>	Company 2015
Profit attributable to ordinary shareholders of the Company for earnings per share in HRK '000	<u><b>79,225</b></u>	<u>104,208</u>	<u><b>78,642</b></u>	<u>103,454</u>
Weighted average number of ordinary shares at 31 December	<u><b>254,306</b></u>	<u>254,306</u>	<u><b>254,306</b></u>	<u>254,306</u>
Basic and diluted earnings per share attributable to equity holders of the Company in HRK	<u><b>311.54</b></u>	<u>409.77</u>	<u><b>309.24</b></u>	<u>406.81</u>

## 1.25 Dividends per share

During 2016, the Company paid dividend for 2015 in the amount of HRK 60,601 thousand which gives dividend per share of HRK 238,30 (during 2015 for 2014 HRK 52,000 thousand or HRK 204.48 per share) based on the number of shares outstanding at the time of payment.

The Management Board will propose dividend for 2016 in the amount of HRK 243.81 per share or HRK 62,002 thousand in total that will be paid after approved by the General Assembly.



## 1.26 Premiums

	<b>Group and Company 2016 HRK'000</b>	Group and Company 2015 HRK'000
<i>Non-life insurance</i>		
Gross premium written	576,359	651,043
Written premiums ceded to reinsurers	(128,027)	(162,226)
Net premiums written from non-life insurance	448,332	488,817
Change in unearned premiums, gross	(1,314)	(10,540)
Change in unearned premiums, reinsurance share	4,177	38,418
<b>Total premium income net, (earned) from non-life insurance</b>	<b>451,195</b>	<b>516,695</b>
<i>Life assurance</i>		
Gross premium written	539,706	535,739
Written premiums ceded to reinsurers	(3,739)	(3,823)
Net premiums written from life assurance	535,967	531,916
Change in unearned premiums, gross	(1,246)	476
Change in unearned premiums, reinsurance share	(8)	(8)
<b>Total premium income net, (earned) from life assurance</b>	<b>534,713</b>	<b>532,384</b>
<b>Total gross premiums written</b>	<b>1,116,065</b>	<b>1,186,782</b>
<b>Total premiums ceded to reinsurers</b>	<b>(131,766)</b>	<b>(166,049)</b>
<b>Total net premiums written</b>	<b>984,299</b>	<b>1,020,733</b>
<b>Total change in the gross provision for unearned premiums</b>	<b>(2,560)</b>	<b>(10,064)</b>
<b>Total reinsurers' share of change in the provision for unearned premiums</b>	<b>4,169</b>	<b>38,410</b>
<b>Net earned premiums non-life and life</b>	<b>985,908</b>	<b>1,049,079</b>

Gross premiums written for the Group and the Company have been presented after deducting net impairment gain of HRK 1 thousand (2015: net impairment losses of HRK 4,097 thousand), as presented in Note 1.19.

## 1.26 Premiums (continued)

### Analysis by class of business

#### Group and Company

2016	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	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)
<b>Total non life</b>	<b>576,359</b>	<b>575,045</b>	<b>(261,407)</b>	<b>(127,732)</b>	<b>(125,409)</b>	<b>(55,623)</b>
<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
<b>Total life</b>	<b>539,706</b>	<b>538,460</b>	<b>(475,060)</b>	<b>(47,204)</b>	<b>(55,245)</b>	<b>(2,643)</b>
<b>Grand total</b>	<b>1,116,065</b>	<b>1,113,505</b>	<b>(736,467)</b>	<b>(174,936)</b>	<b>(180,654)</b>	<b>(58,266)</b>

## 1.26 Premiums (continued)

### Analysis by class of business (continued)

#### Group and Company

2015	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	52,956	54,976	(14,488)	(13,842)	(10,935)	(946)
Health insurance	2,589	1,768	(263)	(377)	(349)	(901)
Insurance of motor vehicles - full comprehensive motor (casco)	89,275	95,795	(71,598)	(17,814)	(19,062)	(1,267)
Full comprehensive motor insurance (casco) of track	-	5	-	(2)	(1)	-
Hull insurance of aircrafts	1,261	1,096	(59)	(175)	(225)	(934)
Marine and inland marine hull insurance	11,636	13,924	(15,744)	(2,501)	(2,830)	3,976
Insurance of goods in transport	4,412	3,966	(9,538)	(659)	(814)	6,324
Insurance of property against fire and allied perils	125,316	123,914	(20,573)	(26,890)	(24,840)	(50,417)
Other property insurances	54,723	54,131	(28,277)	(14,069)	(11,231)	(5,496)
Motor third-party liability insurance	166,239	202,325	(82,742)	(46,234)	(40,859)	(2,887)
Aviation third-party liability insurance	1,167	1,066	(3)	(164)	(218)	(965)
Shipowners' liability insurance	3,336	3,374	395	(577)	(699)	(786)
Other liability insurances	105,436	51,750	(35,445)	(5,984)	(10,468)	(71)
Credit insurance	2,513	2,822	(3,220)	(193)	(563)	(1,296)
Suretyship insurance	221	197	6	(27)	(40)	-
Insurance of financial losses	15,406	14,954	(3,133)	(2,040)	(2,969)	(10,122)
Travel insurance	14,557	14,440	(2,033)	(2,516)	(2,861)	(6,981)
<b>Total non life</b>	<b>651,043</b>	<b>640,503</b>	<b>(286,715)</b>	<b>(134,064)</b>	<b>(128,964)</b>	<b>(72,769)</b>
<i>Life assurance business</i>						
Traditional life	445,572	445,572	(418,520)	(54,699)	(43,500)	505
Annuity contracts	47,324	47,324	(45,581)	(3,163)	(9,342)	-
Supplementary insurance	33,758	34,267	(3,746)	(5,761)	(2,905)	(2,409)
Unit linked and index-linked	9,085	9,052	(14,519)	(674)	(62)	1
<b>Total life</b>	<b>535,739</b>	<b>536,215</b>	<b>(482,366)</b>	<b>(64,297)</b>	<b>(55,809)</b>	<b>(1,903)</b>
<b>Grand total</b>	<b>1,186,782</b>	<b>1,176,718</b>	<b>(769,081)</b>	<b>(198,361)</b>	<b>(184,773)</b>	<b>(74,672)</b>

## 1.27 Fee and commission income

	<b>Group 2016 HRK'000</b>	Group 2015 HRK'000	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
<b>Fee income</b>				
Fund management based fees	<b>1,175</b>	1,981	<b>1,605</b>	1,981
<b>Commission income</b>				
Reinsurance commission	<b>20,109</b>	21,891	<b>20,109</b>	21,891
<b>Total fee and commission income</b>	<b>21,284</b>	23,872	<b>21,714</b>	23,872

## 1.28 Financial income

	<b>Group 2016 HRK'000</b>	Group 2015 HRK'000	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
<i>Interest income:</i>				
- Available for sale	<b>91,456</b>	96,325	<b>89,807</b>	94,647
- Held-to-maturity	<b>40,026</b>	39,921	<b>39,257</b>	39,665
- Loans and receivables	<b>4,011</b>	5,343	<b>3,410</b>	3,891
	<b>135,493</b>	141,589	<b>132,474</b>	138,203
Dividend income	<b>16,478</b>	14,003	<b>15,784</b>	13,393
Rental income from investment property	<b>2,112</b>	1,396	<b>2,112</b>	1,396
<i>Net foreign exchange translation gains/(losses) on financial assets:</i>				
- Held-to-maturity	<b>(5,262)</b>	(1,514)	<b>(5,262)</b>	(1,514)
- Available for sale	<b>(15,742)</b>	179	<b>(16,249)</b>	(408)
- Fair value through profit or loss	<b>(36)</b>	(22)	<b>(36)</b>	(22)
- Loans and receivables	<b>(651)</b>	(1,367)	<b>(651)</b>	(1,367)
- Current accounts	<b>646</b>	941	<b>657</b>	926
	<b>(21,045)</b>	(1,783)	<b>(21,541)</b>	(2,385)
Net realised gains from available-for-sale financial assets (Note 1.23c)	<b>3,703</b>	20,373	<b>4,816</b>	20,942
Net gains on financial assets at fair value through profit or loss	<b>16,601</b>	11,000	<b>10,023</b>	9,609
Impairment gain on loans	<b>14</b>	-	<b>14</b>	-
	<b>153,356</b>	186,578	<b>143,682</b>	181,158

### Company

	<b>Non-life 2016 HRK'000</b>	<b>Life 2016 HRK'000</b>	<b>Total 2016 HRK'000</b>	Non-life 2015 HRK'000	Life 2015 HRK'000	Total 2015 HRK'000
<b>Financial income</b>						
Income from assets backing equity	<b>3,850</b>	<b>1,848</b>	<b>5,698</b>	4,935	1,269	6,204
Income from assets backing life assurance provision	-	<b>84,169</b>	<b>84,169</b>	-	116,002	116,002
Income from assets backing other technical provisions	<b>41,129</b>	<b>4,340</b>	<b>45,469</b>	46,353	6,495	52,848
Income from assets backing index-linked products	-	<b>8,346</b>	<b>8,346</b>	-	6,104	6,104
	<b>44,979</b>	<b>98,703</b>	<b>143,682</b>	51,288	129,870	181,158

## 1.29 Other operating income

	<b>Group 2016 HRK'000</b>	Group 2015 HRK'000	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
Service claims	<b>2,085</b>	2,900	<b>2,081</b>	2,900
Foreign exchange translation gains arising on insurance contract receivables and payables	<b>86</b>	1,071	<b>86</b>	1,071
IT Services	<b>2,544</b>	2,721	-	-
Other	<b>3,498</b>	4,563	<b>3,151</b>	3,997
	<b>8,213</b>	11,255	<b>5,318</b>	7,968

### 1.30 Net policyholder claims and benefits incurred

	<b>Group and Company 2016 HRK'000</b>	Group and Company 2015 HRK'000
<i>Non-life insurance</i>		
Claims paid		
Gross amount	276,333	314,115
Reinsurers' share	(65,236)	(54,989)
Change in notified outstanding claims reserve		
Gross amount	5,151	(26,918)
Reinsurers' share	17,430	22,478
Change in incurred but not reported claims reserve		
Gross amount	(18,087)	5,632
Reinsurers' share	(621)	1,158
Change in other technical provisions		
Gross amount	(1,990)	(6,114)
Reinsurers' share	(38)	1,397
	<hr/>	<hr/>
Total gross claims incurred from non-life insurance	261,407	286,715
Total reinsurance share in claims incurred from non-life insurance	(48,465)	(29,956)
	<hr/>	<hr/>
<b>Total net claims incurred from non-life insurance</b>	<b>212,942</b>	<b>256,759</b>
	<hr/> <hr/>	<hr/> <hr/>
<i>Life assurance</i>		
Claims paid (benefits and surrenders)		
Gross amount	246,943	207,448
Reinsurers' share	(771)	(1,215)
Claims paid for unit linked products, gross and net	44,803	93,288
Change in life assurance provision and provision arising from LAT	-	-
Gross amount	76,342	254,128
Reinsurers' share	3	17
Change in life assurance provision for unit linked products, gross and net	100,700	(78,710)
Change in notified outstanding claims reserve, gross and net	6,252	6,395
Change in incurred but not reported claims reserve	-	-
Gross amount	61	(129)
Reinsurers' share	14	78
Change in other provisions, gross and net	(41)	(54)
	<hr/>	<hr/>
Total gross claims and benefits incurred from life assurance	475,060	482,366
Total reinsurance share in claims and benefits incurred from life assurance	(754)	(1,120)
	<hr/>	<hr/>
<b>Total net claims and benefits incurred from life assurance</b>	<b>474,306</b>	<b>481,246</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Total gross claims and benefits incurred</b>	<b>736,467</b>	<b>769,081</b>
<b>Total reinsurers' share in claims and benefits incurred</b>	<b>(49,219)</b>	<b>(31,076)</b>
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<b>Total non-life and life</b>	<b>687,248</b>	<b>738,005</b>
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### 1.31 Acquisition costs

	<b>Group 2016 HRK'000</b>	Group 2015 HRK'000	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
<i>Non-life</i>				
Commission expenses paid	<b>112,352</b>	105,612	<b>112,058</b>	105,525
Other acquisition costs paid	<b>16,968</b>	22,600	<b>16,921</b>	22,561
Changes in deferred acquisition costs (Note 1.13)	<b>(1,247)</b>	5,978	<b>(1,247)</b>	5,978
<b>Total acquisition costs, non-life</b>	<b>128,073</b>	134,190	<b>127,732</b>	134,064
<i>Life</i>				
Commission expenses paid	<b>38,714</b>	53,665	<b>38,714</b>	53,665
Other acquisition costs paid	<b>8,587</b>	10,546	<b>8,587</b>	10,546
Changes in deferred acquisition costs (Note 1.13)	<b>(97)</b>	86	<b>(97)</b>	86
<b>Total acquisition costs, life</b>	<b>47,204</b>	64,297	<b>47,204</b>	64,297
	<b>175,277</b>	198,487	<b>174,936</b>	198,361

Included within acquisition costs for the Group and the Company are internal sales staff costs amounting to HRK 40.5 million (2015: HRK 89.5 million). 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 2016</i>	<b>Commission HRK'000</b>	<b>Other acquisition costs HRK'000</b>	<b>Change in deferred acquisition costs (+/-) HRK'000</b>	<b>Total acquisition costs HRK'000</b>
<b>Non-life insurance business</b>				
Personal accident insurance	(13,528)	(1,195)	(759)	<b>(13,964)</b>
Health insurance	(562)	(172)	(175)	<b>(559)</b>
Motor hull	(16,697)	(3,125)	(3,299)	<b>(16,523)</b>
Track vehicles hull	-	-	-	-
Hull insurance of aircrafts	(13)	(5)	-	<b>(18)</b>
Marine and inland marine hull	(2,222)	(271)	300	<b>(2,793)</b>
Insurance of goods in transport	(824)	(101)	16	<b>(941)</b>
Insurance of property against fire and allied perils	(26,574)	(4,320)	(1,534)	<b>(29,360)</b>
Other property insurances	(16,619)	(1,485)	(363)	<b>(17,741)</b>
Motor third-party liability	(20,576)	(3,683)	5,178	<b>(29,437)</b>
Aviation third-party liability	(24)	(8)	-	<b>(32)</b>
Shipowners' liability insurance	(891)	127	91	<b>(855)</b>
Other liability insurances	(7,901)	(1,946)	(802)	<b>(9,045)</b>
Credit insurance	(130)	(56)	-	<b>(186)</b>
Suretyship insurance	(26)	(5)	-	<b>(31)</b>
Insurance of financial losses	(2,530)	(325)	185	<b>(3,040)</b>
Travel insurance	(2,941)	(351)	(85)	<b>(3,207)</b>
<b>Total Non-life insurance business</b>	<b>(112,058)</b>	<b>(16,921)</b>	<b>(1,247)</b>	<b>(127,732)</b>
<b>Life insurance business</b>				
Traditional life	(26,850)	(5,758)	-	<b>(32,608)</b>
Annuity contracts	(1,291)	(1,417)	-	<b>(2,708)</b>
Supplementary insurance	(3,686)	(491)	(97)	<b>(4,080)</b>
Unit linked	(6,887)	(921)	-	<b>(7,808)</b>
<b>Total life insurance business</b>	<b>(38,714)</b>	<b>(8,587)</b>	<b>(97)</b>	<b>(47,204)</b>
<b>Grand total</b>	<b>(150,772)</b>	<b>(25,508)</b>	<b>(1,344)</b>	<b>(174,936)</b>

## 1.31 Acquisition costs (continued)

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

<i>For 2015</i>				
	<b>Commission</b>	<b>Other acquisition costs</b>	<b>Change in deferred acquisition costs (+/-)</b>	<b>Total acquisition costs</b>
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
<b>Non-life insurance business</b>				
Personal accident insurance	(11,718)	(1,431)	693	<b>(13,842)</b>
Health insurance	(369)	(112)	(104)	<b>(377)</b>
Motor hull	(14,420)	(3,394)	-	<b>(17,814)</b>
Track vehicles hull	(1)	(1)	-	<b>(2)</b>
Hull insurance of aircrafts	(142)	(33)	-	<b>(175)</b>
Marine and inland marine hull	(1,776)	(403)	322	<b>(2,501)</b>
Insurance of goods in transport	(763)	32	(72)	<b>(659)</b>
Insurance of property against fire and allied perils	(21,335)	(5,980)	(425)	<b>(26,890)</b>
Other property insurances	(12,750)	(2,207)	(888)	<b>(14,069)</b>
Motor third-party liability	(31,830)	(6,631)	7,773	<b>(46,234)</b>
Aviation third-party liability	(133)	(31)	-	<b>(164)</b>
Shipowners' liability insurance	(558)	(99)	(80)	<b>(577)</b>
Other liability insurances	(5,206)	(1,595)	(817)	<b>(5,984)</b>
Credit insurance	(143)	(50)	-	<b>(193)</b>
Suretyship insurance	(22)	(5)	-	<b>(27)</b>
Insurance of financial losses	(2,113)	(268)	(341)	<b>(2,040)</b>
Travel insurance	(2,246)	(353)	(83)	<b>(2,516)</b>
<b>Total Non-life insurance business</b>	<b>(105,525)</b>	<b>(22,561)</b>	<b>5,978</b>	<b>(134,064)</b>
<b>Life insurance business</b>				
Traditional life	(46,118)	(8,581)	-	<b>(54,699)</b>
Annuity contracts	(1,913)	(1,250)	-	<b>(3,163)</b>
Supplementary insurance	(4,984)	(691)	86	<b>(5,761)</b>
Unit linked	(650)	(24)	-	<b>(674)</b>
<b>Total life insurance business</b>	<b>(53,665)</b>	<b>(10,546)</b>	<b>86</b>	<b>(64,297)</b>
<b>Grand total</b>	<b>(159,190)</b>	<b>(33,107)</b>	<b>6,064</b>	<b>(198,361)</b>

## 1.32 Administrative expenses

	Group 2016 HRK'000	Group 2015 HRK'000	Company 2016 HRK'000	Company 2015 HRK'000
Depreciation of property and equipment (Note 1.11)	6,500	6,951	6,293	6,785
Amortisation (Note 1.14)	5,621	7,419	5,111	6,812
Staff costs	75,080	77,968	69,661	72,614
Cash-settled-share-based staff costs (Note 1.36)	1,046	2,473	1,046	2,473
Goods and services	56,606	67,015	55,561	66,109
Software maintenance costs	10,068	6,475	8,625	5,342
Other costs	34,088	24,365	34,357	24,638
	<u>189,009</u>	<u>192,666</u>	<u>180,654</u>	<u>184,773</u>

In 2016, the average number of employees of the Group was 569 (2015: 1,106).

In 2016, the Group paid HRK 18.2 million (2015: HRK 26.9 million) of pension contributions into obligatory pension funds.

Included within administrative expenses is audit fee for the Group HRK 1 million (2015: HRK 0.84 million) and for the Company HRK 0.84 million (2015: HRK 0.68 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

<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
<b>Non-life insurance business</b>				
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)
	<u>(11,404)</u>	<u>(51,535)</u>	<u>(62,470)</u>	<u>(125,409)</u>
<b>Life insurance business</b>				
Traditional life	-	(12,654)	(23,808)	(36,462)
Annuity contracts	-	(3,627)	(6,823)	(10,450)
Supplementary insurance	-	(931)	(1,751)	(2,682)
Unit linked	-	(1,961)	(3,690)	(5,651)
	<u>-</u>	<u>(19,173)</u>	<u>(36,072)</u>	<u>(55,245)</u>
<b>Grand total</b>	<u>(11,404)</u>	<u>(70,708)</u>	<u>(98,542)</u>	<u>(180,654)</u>



## 1.32 Administrative expenses (continued)

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

<i>For 2015</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
<b>Non-life insurance business</b>				
Personal accident insurance	(1,110)	(4,626)	(5,199)	<b>(10,935)</b>
Health insurance	(36)	(147)	(166)	<b>(349)</b>
Motor hull	(1,934)	(8,065)	(9,063)	<b>(19,062)</b>
Track vehicles hull	(0)	(0)	(1)	<b>(1)</b>
Hull insurance of aircrafts	(22)	(94)	(109)	<b>(225)</b>
Marine and inland marine hull	(312)	(1,178)	(1,340)	<b>(2,830)</b>
Insurance of goods in transport	(83)	(344)	(387)	<b>(814)</b>
Insurance of property against fire and allied perils	(2,497)	(10,524)	(11,819)	<b>(24,840)</b>
Other property insurances	(1,118)	(4,673)	(5,440)	<b>(11,231)</b>
Motor third-party liability	(4,550)	(17,021)	(19,288)	<b>(40,859)</b>
Aviation third-party liability	(25)	(90)	(103)	<b>(218)</b>
Shipowners' liability insurance	(89)	(284)	(326)	<b>(699)</b>
Other liability insurances	(1,192)	(4,343)	(4,933)	<b>(10,468)</b>
Credit insurance	(59)	(237)	(267)	<b>(563)</b>
Suretyship insurance	(4)	(17)	(19)	<b>(40)</b>
Insurance of financial losses	(289)	(1,264)	(1,416)	<b>(2,969)</b>
Travel insurance	(277)	(1,219)	(1,365)	<b>(2,861)</b>
<b>Total Non-life insurance business</b>	<b><u>(13,597)</u></b>	<b><u>(54,126)</u></b>	<b><u>(61,241)</u></b>	<b><u>(128,964)</u></b>
<b>Life insurance business</b>				
Traditional life	-	(16,338)	(27,162)	(43,500)
Annuity contracts	-	(3,509)	(5,833)	(9,342)
Supplementary insurance	-	(1,091)	(1,814)	(2,905)
Unit linked	-	(23)	(39)	(62)
<b>Total life insurance business</b>	<b>-</b>	<b><u>(20,961)</u></b>	<b><u>(34,848)</u></b>	<b><u>(55,809)</u></b>
<b>Grand total</b>	<b><u>(13,597)</u></b>	<b><u>(75,087)</u></b>	<b><u>(96,089)</u></b>	<b><u>(184,773)</u></b>

### 1.33 Other operating expenses

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Health care charges from functional premiums	<b>2,997</b>	2,988	<b>2,997</b>	2,988
Charges for guarantee fund	<b>186</b>	(1,425)	<b>186</b>	(1,425)
Fire brigade contributions	<b>851</b>	862	<b>851</b>	862
Impairment losses/(reversal) of other receivables (Note 1.19)	<b>510</b>	(210)	<b>510</b>	(210)
Other charges	<b>2,155</b>	4,476	<b>3,385</b>	6,048
	<b>6,699</b>	6,691	<b>7,929</b>	8,263

### 1.34 Financial expenses

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Depreciation of investment property (Note 1.12)	<b>1,249</b>	1,250	<b>1,249</b>	1,250
Impairment losses on financial assets available for sale (1.23c)	<b>589</b>	2,456	<b>542</b>	2,426
Impairment losses on loans to customers (Note 1.16)	<b>2</b>	296	<b>2</b>	296
Other expenses	<b>1,452</b>	1,808	<b>3,605</b>	3,072
Allocation to investment fund non-controlling unitholders	<b>6,099</b>	2,564	-	-
	<b>9,391</b>	8,374	<b>5,398</b>	7,044

#### Company

	<b>Non-life</b>	<b>Life</b>	<b>Total</b>	Non-life	Life	Total
	<b>2016</b>	<b>2016</b>	<b>2016</b>	2015	2015	2015
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	HRK'000	HRK'000	HRK'000
<b>Financial expenses</b>						
Expenses from assets backing equity	<b>1,312</b>	<b>347</b>	<b>1,659</b>	2,743	512	3,255
Expenses from assets backing life assurance provision	-	<b>2,971</b>	<b>2,971</b>	-	3,044	3,044
Expenses from assets backing other technical provisions	<b>676</b>	<b>92</b>	<b>768</b>	600	145	745
	<b>1,988</b>	<b>3,410</b>	<b>5,398</b>	3,343	3,701	7,044

### 1.35 Income taxes

	<b>Group</b> <b>2016</b> <b>HRK'000</b>	Group 2015 HRK'000	<b>Company</b> <b>2016</b> <b>HRK'000</b>	Company 2015 HRK'000
Current tax expense	21,242	22,526	21,116	22,254
Deferred tax expense/(credit) (Note 1.18)	24	(77)	24	(77)
Tax rate change (Note 1.18)	675	-	675	-
<b>Total income tax expense</b>	<b>21,941</b>	<b>22,449</b>	<b>21,815</b>	<b>22,177</b>

#### Reconciliation of accounting profit for the period to income tax expense

	<b>Group</b> <b>2016</b> <b>HRK'000</b>	Group 2015 HRK'000	<b>Company</b> <b>2016</b> <b>HRK'000</b>	Company 2015 HRK'000
Accounting profit for the period before income taxes	101,137	126,561	100,457	125,631
Income tax at 20%	(20,227)	(25,312)	(20,091)	(25,126)
Non-deductible expenses	(2,816)	(2,181)	(2,680)	(2,091)
Non-taxable income	1,715	5,112	1,631	5,040
Tax rate change	(675)	-	(675)	-
Income tax losses not recognised as deferred tax asset	62	(68)	-	-
<b>Total income tax expense</b>	<b>(21,941)</b>	<b>(22,449)</b>	<b>(21,815)</b>	<b>(22,177)</b>
<b>Effective income tax rate</b>	<b>21.7%</b>	<b>17.7%</b>	<b>21.7%</b>	<b>17.7%</b>

#### Income tax recognised in other comprehensive income

	<b>Group</b> <b>2016</b> <b>HRK'000</b>	Group 2015 HRK'000	<b>Company</b> <b>2016</b> <b>HRK'000</b>	Company 2015 HRK'000
<b>On available-for-sale financial assets</b>				
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)	(14,387)	6,420	(14,387)	6,420

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

	<b>Group</b> <b>2016</b> <b>HRK'000</b>	Group 2015 HRK'000
31 December 2016	-	172
31 December 2017	77	85
31 December 2018	4	5
31 December 2019	68	75
31 December 2020	61	68
	<b>210</b>	<b>405</b>

## 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 2016 EUR per option	Fair value at 31 December 2016 HRK '000	End of vesting period
AEI 2013/RSU	1.196	90,90	157,00	1.419	03.03.2017
AEI 2014/RSU	1.088	98,71	149,55	1.230	08.03.2018
AEI 2015/RSU	866	126,30	141,81	928	06.03.2019
AEI 2016/RSU	1.041	110,67	133,68	1.052	28.02.2020

### *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 3,918 thousand at 31 December 2016 (2015: HRK 4,449 thousand) (Note 1.22), while expense recognised in 2016 amounted to HRK 1,046 thousand (2015: HRK 2,473 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 2016, HRK 18.9 million was recognised as an expense in the Group's and the Company's profit or loss in respect of operating leases (2015: HRK 24.9 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% (2015: 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 57.2 million (2015: HRK 151 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 2016, gross written premium acquired through the Zagrebačka banka Group distribution channels amounted HRK 340 million (2015: HRK 328 million). Commission paid to Zagrebačka banka Group relating to bank assurance sales amounted to HRK 27.5 million (2015: HRK 29.6 million).

Zagrebačka banka Group has property, motor, life and personal lines insurance policies with the Company. Policies written for Zagrebačka banka Group during 2016 amounted to HRK 26.8 million (2015: HRK 26.3 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 2016, amounted to HRK 15.4 million (2015: HRK 15.6 million), including fixed salary, accrued bonuses for 2016 and life assurance premiums paid by the Group. Out of this amount HRK 1,116 thousand (2015: HRK 745 thousand) relate to pension contributions. Value of units in the Group investment funds owned by Management Board at 31 December 2016 amounted to HRK 2,739 thousand (31 December 2015: HRK 2,279 thousand).

Liabilities for share based remuneration to management as at 31 December 2016 amounted to HRK 3,918 thousand (31 December 2015: HRK 4,449 thousand), while expense recognised in 2016 amounted to HRK 1,046 thousand (2015: HRK 2,473 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 2016 HRK'000	Company 2015 HRK'000
<b>Premium ceded:</b>		
Reinsurance premiums payable at beginning of year	47,914	12,035
Reinsurance premiums ceded during the year	122,218	153,529
Reinsurance premiums paid during the year	(111,471)	(117,650)
	<u>58,661</u>	<u>47,914</u>
<b>Reinsurance recoveries:</b>		
At the beginning of the year	8,223	31,853
Invoiced during the year	64,816	51,789
Received during the year	(47,078)	(75,419)
	<u>25,961</u>	<u>8,223</u>
<b>Reinsurance commission:</b>		
At the beginning of the year	3,243	1,694
Invoiced during the year	20,408	21,235
Received during the year	(18,307)	(19,686)
	<u>5,344</u>	<u>3,243</u>

### 1.38 Related parties (continued)

<b>Group 2016</b>	<b>Assets HRK'000</b>	<b>Liabilities HRK'000</b>	<b>Income HRK'000</b>	<b>Expense HRK'000</b>
<i>Key management personnel (including remuneration)</i>	2,357	8,146	-	15,437
<i>Ultimate parent company</i>				
Allianz SE, Munich	-	4	-	3,803
<i>Owners</i>				
Zagrebačka banka d.d.	84,881	1	26,765	28,578
<i>Subsidiaries</i>				
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	-
Alianz 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
<i>Related companies</i>				
Other subsidiaries of Allianz SE Group - Reinsurers	67,055	58,661	84,859	122,118
<i>Other related companies</i>	37	674	905	9,366
	<b>304,979</b>	<b>68,630</b>	<b>118,144</b>	<b>186,087</b>
<b>Company 2016</b>	<b>Assets HRK'000</b>	<b>Liabilities HRK'000</b>	<b>Income HRK'000</b>	<b>Expense HRK'000</b>
<i>Key management personnel (including remuneration)</i>	2,357	6,914	-	13,363
<i>Ultimate parent company</i>				
Allianz SE, Munich	-	4	-	3,803
<i>Owners</i>				
Zagrebačka banka d.d.	57,231	1	26,765	28,570
<i>Subsidiaries</i>				
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	-
Alianz 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
<i>Related companies</i>				
Other subsidiaries of Allianz SE Group - Reinsurers	67,055	58,661	84,859	122,118
<i>Other related companies</i>	37	674	905	9,366
	<b>276,997</b>	<b>67,066</b>	<b>114,242</b>	<b>180,660</b>

### 1.38 Related parties (continued)

<b>Group 2015</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expense</b>
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
<i>Key management personnel (including remuneration)</i>	1,616	9,614	-	17,972
<i>Ultimate parent company</i>				
Allianz SE, Munich	-	-	-	2,237
<i>Owners</i>				
Zagrebačka banka d.d.	151,398	2	28,716	30,898
<i>Subsidiaries</i>				
AZ Servisni Centar d.o.o.	36	624	717	1,725
Allianz Cash, open-ended investment fund	109,263	-	2,493	-
Allianz Portfolio, open-ended investment fund	9,249	-	1,153	-
Allianz Equity, open-ended investment fund	8,570	-	398	-
Autoelektro tehnički pregledi d.o.o.	3,028	-	165	-
Allianz Invest d.o.o.	-	746	817	4,027
<i>Related companies</i>				
Other subsidiaries of Allianz SE Group - Reinsurers	44,425	47,914	72,831	153,346
<i>Other related companies</i>	200	328	368	7,649
	<b>327,785</b>	<b>59,228</b>	<b>107,658</b>	<b>217,854</b>
<b>Company 2015</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expense</b>
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
<i>Key management personnel (including remuneration)</i>	1,616	8,834	-	15,597
<i>Ultimate parent company</i>				
Allianz SE, Munich	-	-	-	2,237
<i>Owners</i>				
Zagrebačka banka d.d.	109,873	2	28,344	30,890
<i>Subsidiaries</i>				
AZ Servisni Centar d.o.o.	36	624	158	1,725
Allianz Cash, open-ended investment fund	109,114	-	724	-
Allianz Portfolio, open-ended investment fund	9,188	-	562	-
Allianz Equity, open-ended investment fund	8,533	-	-	-
Autoelektro tehnički pregledi d.o.o.	3,028	-	165	-
Allianz Invest d.o.o.	-	499	258	1,269
<i>Related companies</i>				
Other subsidiaries of Allianz SE Group - Reinsurers	44,425	47,914	72,831	153,346
<i>Other related companies</i>	102	328	368	7,649
	<b>285,915</b>	<b>58,201</b>	<b>103,410</b>	<b>212,713</b>



## 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 Group in the amount of HRK 137,969 thousand (2015: loss of HRK 125,665 thousand). A decrease in 100 basis points in interest yields would be recognised as gain directly in other comprehensive income of the Group in the amount HRK 163,010 thousand (2015: gain of HRK 151,433 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 34,593 thousand (2015: loss of HRK 32,773 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 34,593 thousand (2015: gain of HRK 32,773 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 loss after tax	Impact on other comprehensive income after tax	Impact on profit or loss after tax	Impact on other comprehensive income after tax
	2016 HRK'000	2016 HRK'000	2015 HRK'000	2015 HRK'000
Change in price by $\pm$ 1%	4,281/(4,281)	1,067/(1,067)	2,547/(2,547)	1,030/(1,030)
Change in price by $\pm$ 3%	12,843/(12,843)	3,202/(3,202)	7,640/(7,640)	3,091/(3,091)
Change in price by $\pm$ 5%	21,405/(21,405)	5,336/(5,336)	12,733/(12,733)	5,151/(5,151)

  

Company	Impact on profit or loss after tax	Impact on other comprehensive income after tax	Impact on profit or loss after tax	Impact on other comprehensive income after tax
	2016 HRK'000	2016 HRK'000	2015 HRK'000	2015 HRK'000
Change in price by $\pm$ 1%	3,869/(3,869)	1,067/(1,067)	2,340/(2,340)	1,030/(1,030)
Change in price by $\pm$ 3%	11,606/(11,606)	3,202/(3,202)	7,020/(7,020)	3,091/(3,091)
Change in price by $\pm$ 5%	19,343/(19,343)	5,336/(5,336)	11,700/(11,700)	5,151/(5,151)

## 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.

<b>Group</b>	<b>Impact on profit or loss after tax 2016</b>	<b>Impact on other comprehensive income after tax 2016</b>	<b>Impact on profit or loss after tax 2015</b>	<b>Impact on other comprehensive income after tax 2015</b>
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
EUR / HRK rate				
Change in fx rate by + 1%	(492)/492	3,207/(3,207)	(1,001)/1,001	2,878/(2,878)
Change in fx rate by + 2%	(984)/984	6,414/(6,414)	(2,002)/2,002	5,757/(5,757)

<b>Company</b>	<b>Impact on profit or loss after tax 2016</b>	<b>Impact on other comprehensive income after tax 2016</b>	<b>Impact on profit or loss after tax 2015</b>	<b>Impact on other comprehensive income after tax 2015</b>
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
EUR / HRK rate				
Change in fx rate by + 1%	(626)/626	3,156/(3,156)	(1,108)/1,108	2,878/(2,878)
Change in fx rate by + 2%	(1,251)/1,251	6,312/(6,312)	(2,216)/2,216	5,757/(5,757)

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:

	<b>Group 2016 HRK'000</b>	Group 2015 HRK'000	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
Government bonds and bonds issued by local authorities	<b>2,369,278</b>	2,197,984	<b>2,329,434</b>	2,182,343
Treasury bills	<b>110,659</b>	102,333	-	6,908
Accrued interest on Government bonds and bonds issued by local authorities	<b>40,243</b>	39,205	<b>40,243</b>	39,205
	<b>2,520,180</b>	2,339,522	<b>2,369,677</b>	2,228,456

The total exposure to Croatian state risk represents 50% of the total assets of the Group (2015: 49%) and 48% of the Company (2015: 48%).

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

	<b>Group 2016 HRK'000</b>	Group 2015 HRK'000	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
<b>Debt securities</b>				
Available for sale (Note 1.16c)	<b>2,551,451</b>	2,366,620	<b>2,410,264</b>	2,260,750
Held to maturity (Note 1.16c)	<b>675,387</b>	675,483	<b>666,025</b>	670,247
<b>Loans and receivables</b>				
Deposits with credit institutions (Note 1.16c)	<b>63,266</b>	64,927	<b>6,339</b>	6,541
Loans (Note 1.16c)	<b>51,035</b>	55,752	<b>55,303</b>	58,756
<b>Foreign corporate bonds backing index linked products (Note 1.16c)</b>	<b>76,948</b>	106,337	<b>76,948</b>	106,337
<b>Cash and cash equivalents (Note 1.20)</b>	<b>91,848</b>	177,581	<b>62,010</b>	135,756
<b>Insurance receivables and other assets (Note 1.19)</b>	<b>296,063</b>	267,477	<b>295,830</b>	267,236
<b>Reinsurers' share of insurance contract provisions (Note 1.17)</b>	<b>147,397</b>	160,016	<b>147,397</b>	160,016
<b>Total assets bearing credit risk</b>	<b>3,953,395</b>	3,874,193	<b>3,720,116</b>	3,665,639

## 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

	<b>Group 2016 HRK'000</b>	Group 2015 HRK'000	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000
<b>Debt securities</b>				
AAA	472,511	467,599	472,511	467,599
A	104,942	181,884	104,942	181,884
BBB	163,441	86,287	163,441	86,287
Below BBB or not rated	2,485,944	2,306,333	2,335,395	2,195,227
<b>Total debt securities</b>	<b>3,226,838</b>	3,042,103	<b>3,076,289</b>	2,930,997
<b>Loans and receivables</b>				
Below BBB or not rated	114,301	120,679	61,642	65,297
<b>Total loans and receivables</b>	<b>114,301</b>	120,679	<b>61,642</b>	65,297
<b>Foreign corporate bonds backing index linked products</b>				
A	76,948	106,337	76,948	106,337
<b>Foreign corporate bonds backing index linked products</b>	<b>76,948</b>	106,337	<b>76,948</b>	106,337
<b>Cash and cash equivalents</b>				
Below BBB or not rated	91,848	177,581	62,010	135,756
<b>Total cash and cash equivalents</b>	<b>91,848</b>	177,581	<b>62,010</b>	135,756
<b>Insurance receivables and other assets</b>				
AA	64,951	43,661	64,951	43,661
Below BBB or not rated	231,112	223,816	230,879	223,575
<b>Total Insurance receivables and other assets</b>	<b>296,063</b>	267,477	<b>295,830</b>	267,236
<b>Reinsurers' share of insurance contract provisions</b>				
AA+	3,949	-	3,949	-
AA	65,390	108,217	65,390	108,217
AA-	2,110	14,948	2,110	14,948
A+	13,581	-	13,581	-
A	46,622	-	46,622	-
A-	13,415	-	13,415	-
Below BBB or not rated	2,330	36,851	2,330	36,851
<b>Total reinsurance share of insurance contract provisions</b>	<b>147,397</b>	160,016	<b>147,397</b>	160,016
<b>Total financial asset that are neither past due nor impaired</b>	<b>3,953,395</b>	3,874,193	<b>3,720,116</b>	3,665,639

## 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 2016:

	<b>Company 2016 HRK'000</b>	Company 2015 HRK'000	Financial Strength Rating
Allianz Global Automotive Division	39,071	37,977	AA
Allianz SE	24,265	4,133	AA
Jardine Lloyd Thompson Limited	1,615	1,551	AA
Allianz Global Assistance	318	2,107	NR
Other	3,714	437	
	<b>68,983</b>	<b>46,205</b>	

Reinsurance receivables as at 31 December 2016 and 31 December 2015 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 2016:

### 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	2,356,648	194,757	46	2,551,451
-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
<b>Total Assets</b>	<b>3,420,350</b>	<b>200,172</b>	<b>2,384</b>	<b>3,622,906</b>

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 2015*

	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	49,092	1,017	-	50,109
-Debt securities	2,261,438	105,142	40	2,366,620
-Investment funds	359,637	-	-	359,637
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	106,337	-	-	106,337
-Equity securities	21,140	-	622	21,762
-Financial assets relating to share-based payments	-	5,219	-	5,219
-Investment funds	296,569	-	-	296,569
<b>Total Assets</b>	<b>3,094,213</b>	<b>111,378</b>	<b>662</b>	<b>3,206,253</b>

## 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
KODT-P-A	1,971	Peer group	P/E multiple: 17.26 - 21.36 P/B multiple; 0.74 - 0.86 P/B multiple; 1.64 - 2.09 Illiquidity discount - 30% Discount for preferential share - 10%	The estimated fair value would increase if: <ul style="list-style-type: none"> <li>• P/E, P/B or P/B multiple were higher;</li> <li>• illiquidity discount was lower;</li> <li>• discount for preferential share was lower.</li> </ul>
KNZM-P-A	367	Peer group	P/E multiple: 17.26 - 21.36 P/B multiple; 0.74 - 0.86 P/B multiple; 1.64 - 2.09 Illiquidity discount - 30%	The estimated fair value would increase if: <ul style="list-style-type: none"> <li>• P/E, P/B or P/B multiple were higher;</li> <li>• illiquidity discount was lower.</li> </ul>
DLKV-O-302A	46	Discounted Cash Flow	Discounted rate (10.57%)	The estimated fair value would increase if: <ul style="list-style-type: none"> <li>• the discounted rate was lower.</li> </ul>

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

#### As at 1 January 2015

Net gains recognised in profit and loss	1,789
Purchase/Sale	(964)
Transfers to/from level 3	(163)

#### As at 31 December 2015

**662**

Net gains recognised in profit and loss	388
Purchase/Sale	-
Transfers to/from level 3	1,334

#### As at 31 December 2016

**2,384**



## 1.39 Financial Risk Management (continued)

### Fair values (continued)

#### Company

For the year ended 31 December 2016

	Level 1	Level 2	Level 3	Total
Assets	HRK'000	HRK'000	HRK'000	HRK'000
<i>Investments in subsidiaries at fair value</i>	127,054	-	-	<b>127,054</b>
<i>Available-for-sale financial assets</i>				
-Equity securities	59,611	786	-	<b>60,397</b>
-Debt securities	2,326,592	83,672	-	<b>2,410,264</b>
-Investment funds	394,364	-	-	<b>394,364</b>
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	76,948	-	-	<b>76,948</b>
-Financial assets relating to share-based payments	-	4,629	-	<b>4,629</b>
-Investment funds	483,584	-	-	<b>483,584</b>
<b>Total Assets</b>	<b>3,468,153</b>	<b>89,087</b>	<b>-</b>	<b>3,557,240</b>

#### Company

For the year ended 31 December 2015

	Level 1	Level 2	Level 3	Total
Assets	HRK'000	HRK'000	HRK'000	HRK'000
<i>Investments in subsidiaries at fair value</i>	126,835	-	-	<b>126,835</b>
<i>Available-for-sale financial assets</i>				
-Equity securities	49,092	1,017	-	<b>50,109</b>
-Debt securities	2,251,126	9,624	-	<b>2,260,750</b>
-Investment funds	359,637	-	-	<b>359,637</b>
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	106,337	-	-	<b>106,337</b>
-Financial assets relating to share-based payments	-	5,219	-	<b>5,219</b>
-Investment funds	292,492	-	-	<b>292,492</b>
<b>Total Assets</b>	<b>3,185,519</b>	<b>15,860</b>	<b>-</b>	<b>3,201,379</b>

At 31 December 2016, investments classified as Level 2 comprise approximately 5.4% (2015: 3.5%) of Group's financial assets measured as fair value on recurring basis. At 31 December 2016, investments classified as Level 2 comprise approximately 2.4% (2015: 0.5%) 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

## 1.39 Financial Risk Management (continued)

### Fair values (continued)

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

Available for sale debt securities in level 1 at year end in the amount of HRK 422 thousand (2015: HRK 840 thousand) during the year were included in level 2. There were no available for sale equity securities in level 1 at the year end that (2015: 1,909) were included in level 2 during the year. There were no available for sale equity securities in level 2 at the year end (2015: HRK 436 thousand) 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 78,650 thousand (2015: 0) were included in level 1 during the year.

There were no available for sale debt securities at year end (2015: 8,082) and available for sale equity securities at year end (2015: 31) that were during the year directly included in level 2.

Group	2016		2015	
	Book value HRK '000	Fair value HRK '000	Book value HRK '000	Fair value HRK '000
Held-to-maturity investments	675,387	759,030	675,483	756,519
Available for sale financial assets	3,006,212	3,006,212	2,776,366	2,776,366
Financial assets at fair value through profit or loss	616,694	616,694	429,887	429,887
Loans and receivables	114,301	114,301	120,679	120,679
	<u>4,412,594</u>	<u>4,496,237</u>	<u>4,002,415</u>	<u>4,083,451</u>
Investment property	29,103	29,103	30,352	30,352
	<u>4,441,697</u>	<u>4,525,340</u>	<u>4,032,767</u>	<u>4,113,803</u>
Financial liabilities	<u>(202,412)</u>	<u>(202,412)</u>	<u>(188,374)</u>	<u>(188,374)</u>
<b>Company</b>				
Held-to-maturity investments	666,025	749,238	670,247	751,283
Available for sale financial assets	2,865,025	2,865,025	2,670,496	2,670,496
Financial assets at fair value through profit or loss	565,161	565,161	404,048	404,048
Loans and receivables	61,642	61,642	65,297	65,297
	<u>4,157,853</u>	<u>4,241,066</u>	<u>3,810,088</u>	<u>3,891,124</u>
Investments in subsidiaries at cost	5,688	5,688	5,688	5,688
Investments in subsidiaries at fair value	127,054	127,054	126,835	126,835
Investment property	29,103	29,103	30,352	30,352
	<u>4,319,698</u>	<u>4,402,911</u>	<u>3,972,963</u>	<u>4,053,999</u>
Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)	<u>(200,336)</u>	<u>(200,336)</u>	<u>(186,613)</u>	<u>(186,613)</u>

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 2016 and 2015, 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 (Solvency II disclosures for 2015 are only illustrative as the new legislation came into force from 1 January 2016). At the reporting date, Solvency II figures are not yet audited.

	<b>Unaudited</b>	<b>Unaudited</b>
	<b>31.12.2016.</b>	<b>Illustrative</b>
	<b>HRK'000</b>	<b>31.12.2015.</b>
	<b>Company</b>	<b>Company</b>
<b>Basic own funds</b>	<b>1.410.720</b>	1.339.631
Ordinary share capital	101.722	101.722
Share premium account related to ordinary share capital	112.001	112.001
Reconciliation reserve	1.196.997	1.125.908
<b>Excess of assets over liabilities</b>	<b>1.471.321</b>	1.401.631
Total assets	4.642.680	4.770.912
Total liabilities	3.171.359	3.369.281
Own shares (held directly and indirectly)	-	-
Foreseeable dividends, distributions and charges	60.600	62.000
Other basic own fund items	213.723	213.723
<b>Ancillary own funds</b>	<b>-</b>	-
<b>Total available own funds to meet the SCR</b>	<b>1.410.720</b>	1.339.631
<b>Total available own funds to meet the MCR</b>	<b>1.410.720</b>	1.339.631
SCR	532.624	538.513
MCR	163.315	175.927
Ratio of Eligible own funds to SCR	265%	249%
Ratio of Eligible own funds to MCR	864%	761%

## 1.39 Financial Risk Management (continued)

### Capital management (continued)

Capital disclosures for 2015 under the legislation in force at the time are also provided.

	2015 HRK'000 Non-life	2015 HRK'000 Life
<b>Tier 1 Capital</b>		
Issued share capital	71,722	30,000
Legal reserve	22,655	2,398
Share premium	31,501	80,500
Retained earnings	245,784	111,128
Intangible assets	16,020	-
	<u>355,642</u>	<u>224,026</u>
<b>Tier 2 Capital</b>		
Fair value reserve	-	-
	<u>355,642</u>	<u>224,026</u>
<b>Guarantee capital</b>	<u>355,642</u>	<u>224,026</u>
<b>Deductions</b>		
Holdings in other insurance companies, insurance holding companies, banks, stock-broker firms, management companies and other financial institutions	(5,000)	-
Investments in subordinated debt instruments and other investments in the entities for the purpose of compliance with capital adequacy requirements of these entities, which are taken into account when calculating their capital	(488)	-
Illiquid assets (shares not listed on regulated markets and other assets that cannot be sold when necessary to settle due liabilities)	(893)	(550)
	<u>(6,381)</u>	<u>(550)</u>
<b>Capital</b>	<u>349,261</u>	<u>223,476</u>
<b>Solvency margin</b>	<u>103,573</u>	<u>121,800</u>
<b>Minimum guarantee capital</b>	<u>28,860</u>	<u>28,860</u>
<b>Excess of guarantee capital over minimum guarantee capital</b>	<u>326,782</u>	<u>195,166</u>
<b>Excess of capital over solvency margin</b>	<u>245,688</u>	<u>101,676</u>

Solvency margin was calculated separately for both non-life and life insurance. In non-life segment, claims and premiums in the past three years were weighted by risk factors set by the regulator, the higher of which was taken as the solvency margin. Thereafter, the total solvency margin for the prior period was compared with current year result and the higher amount was taken. In life segment, the solvency margin was calculated by weighting the mathematical reserve with risk factors prescribed by the regulator. In addition, the sum insured was added and weighted with risk factors prescribed by the regulator, depending on the insurance term.

## 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 2016 and 31 December 2015 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 – 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
<b>Financial assets</b>						
<i>Held-to-maturity investments</i>						
Debt securities	85,964	-	5,194	525,013	59,216	675,387
<i>Available-for-sale financial assets</i>						
Debt securities	182,685	142,777	170,443	615,676	1,439,870	2,551,451
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	39,150	23,777	-	339	-	63,266
Loans to customers	35,691	4,104	2,284	1,465	7,491	51,035
Reinsurers' share of insurance contract provisions	34,473	19,652	30,886	44,628	17,758	147,397
Receivables	283,721	10,739	1,598	5	-	296,063
Cash and cash equivalents	91,848	-	-	-	-	91,848
<b>Total financial assets</b>	<b>1,318,214</b>	<b>207,619</b>	<b>378,461</b>	<b>1,519,273</b>	<b>1,524,335</b>	<b>4,947,902</b>
<b>Financial liabilities</b>						
Payables	136,256	8,433	24,501	12,720	-	181,910
Other liabilities	20,502	-	-	-	-	20,502
<b>Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)</b>	<b>156,758</b>	<b>8,433</b>	<b>24,501</b>	<b>12,720</b>	<b>-</b>	<b>202,412</b>
<b>Maturity gap</b>	<b>1,161,456</b>	<b>199,186</b>	<b>353,960</b>	<b>1,506,553</b>	<b>1,524,335</b>	<b>4,745,490</b>

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 – 2015

	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
<b>Financial assets</b>						
<i>Held-to-maturity investments</i>						
Debt securities	-	-	84,802	531,051	59,630	675,483
<i>Available-for-sale financial assets</i>						
Debt securities	82,599	162,640	219,915	520,426	1,381,040	2,366,620
Equity securities	-	-	50,109	-	-	50,109
Investment funds	-	-	92,491	267,146	-	359,637
<i>Financial assets at fair value through profit or loss</i>						
Equity securities	21,762	-	-	-	-	21,762
Foreign corporate bonds backing index linked products	-	29,047	34,970	42,320	-	106,337
Shares relating to share-based payments	1,628	-	1,427	2,164	-	5,219
Investment funds	296,569	-	-	-	-	296,569
<i>Loans and receivables</i>						
Deposits with banks	51,891	13,036	-	-	-	64,927
Loans to customers	8,212	35,729	3,131	1,644	7,036	55,752
Reinsurers' share of insurance contract provisions	55,168	23,641	31,918	33,847	15,442	160,016
Receivables	250,714	16,168	595	-	-	267,477
Cash and cash equivalents	177,581	-	-	-	-	177,581
<b>Total financial assets</b>	<b>946,124</b>	<b>280,261</b>	<b>519,358</b>	<b>1,398,598</b>	<b>1,463,148</b>	<b>4,607,489</b>
<b>Financial liabilities</b>						
Payables	121,467	8,692	22,010	11,886	-	164,055
Other liabilities	23,831	-	-	488	-	24,319
<b>Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)</b>	<b>145,298</b>	<b>8,692</b>	<b>22,010</b>	<b>12,374</b>	<b>-</b>	<b>188,374</b>
<b>Maturity gap</b>	<b>800,826</b>	<b>271,569</b>	<b>497,348</b>	<b>1,386,224</b>	<b>1,463,148</b>	<b>4,419,115</b>

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 – 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
<b>Financial assets</b>						
<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	85,964	-	-	520,845	59,216	666,025
<i>Available-for-sale financial assets</i>						
Debt securities	79,497	133,835	167,073	603,792	1,426,067	2,410,264
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	6,000	-	-	339	-	6,339
Loans to customers	35,691	4,104	2,284	2,586	10,638	55,303
Reinsurers' share of insurance contract provisions	34,473	19,652	30,886	44,628	17,758	147,397
Receivables	283,488	10,739	1,598	5	-	295,830
Cash and cash equivalents	62,010	-	-	-	-	62,010
<b>Total financial assets</b>	<b>1,100,272</b>	<b>174,900</b>	<b>369,897</b>	<b>1,504,342</b>	<b>1,646,421</b>	<b>4,795,832</b>
<b>Financial liabilities</b>						
Payables	136,256	8,433	24,501	12,720	-	181,910
Other liabilities	18,426	-	-	-	-	18,426
<b>Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)</b>	<b>154,682</b>	<b>8,433</b>	<b>24,501</b>	<b>12,720</b>	<b>-</b>	<b>200,336</b>
<b>Maturity gap</b>	<b>945,590</b>	<b>166,467</b>	<b>345,396</b>	<b>1,491,622</b>	<b>1,646,421</b>	<b>4,595,496</b>

## 1.40 Maturity analysis (continued)

### Company – 2015

	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
<b>Financial assets</b>						
<i>Investments in subsidiaries</i>						
At cost	-	-	-	-	5,688	5,688
At fair value through P&L	-	-	-	-	118,302	118,302
AFS	-	-	-	-	8,533	8,533
<i>Held-to-maturity investments</i>						
Debt securities	-	-	84,802	525,815	59,630	670,247
<i>Available-for-sale financial assets</i>						
Debt securities	-	149,815	218,449	512,915	1,379,571	2,260,750
Equity securities	-	-	50,109	-	-	50,109
Investment funds	-	-	92,491	267,146	-	359,637
<i>Financial assets at fair value through profit or loss</i>						
Foreign corporate bonds						
backing index linked products	-	29,047	34,970	42,320	-	106,337
Shares relating to share-based payments	1,628	-	1,427	2,164	-	5,219
Investment funds	292,492	-	-	-	-	292,492
<i>Loans and receivables</i>						
Deposits with banks	6,541	-	-	-	-	6,541
Loans to customers	8,212	35,729	3,131	1,644	10,040	58,756
Reinsurers' share of insurance contract provisions	55,168	23,641	31,918	33,847	15,442	160,016
Receivables	250,473	16,168	595	-	-	267,236
Cash and cash equivalents	135,756	-	-	-	-	135,756
<b>Total financial assets</b>	<b>750,270</b>	<b>254,400</b>	<b>517,892</b>	<b>1,385,851</b>	<b>1,597,206</b>	<b>4,505,619</b>
<b>Financial liabilities</b>						
Payables	121,450	8,692	22,010	11,886	-	164,038
Other liabilities	22,575	-	-	-	-	22,575
<b>Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)</b>	<b>144,025</b>	<b>8,692</b>	<b>22,010</b>	<b>11,886</b>	<b>-</b>	<b>186,613</b>
<b>Maturity gap</b>	<b>606,245</b>	<b>245,708</b>	<b>495,882</b>	<b>1,373,965</b>	<b>1,597,206</b>	<b>4,319,006</b>



## 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 2016 and 31 December 2015 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 – 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
<b>Financial assets</b>									
<i>Held-to-maturity investments</i>									
Debt securities	5.90	85,964	-	5,194	525,013	59,216	-	<b>675,387</b>	675,387
<i>Available-for-sale financial assets</i>									
Debt securities	4.42	182,685	142,777	170,443	615,676	1,439,870	-	<b>2,551,451</b>	2,551,451
Equity securities	n/a	-	-	-	-	-	60,397	<b>60,397</b>	-
Investment funds	n/a	-	-	-	-	-	394,364	<b>394,364</b>	-
<i>Financial assets at fair value through profit or loss</i>									
Debt securities	-	-	-	-	-	-	-	-	-
Equity securities	n/a	-	-	-	-	-	43,835	<b>43,835</b>	-
Foreign corporate bonds backing index linked products	-	-	-	-	-	-	76,948	<b>76,948</b>	-
Shares relating to share- based payments	n/a	-	-	-	-	-	4,629	<b>4,629</b>	-
Investment funds	-	-	-	-	-	-	491,282	<b>491,282</b>	-
<i>Loans and receivables</i>									
Deposits with banks	1.63	39,150	23,777	-	339	-	-	<b>63,266</b>	63,266
Loans to customers	6.72	35,691	4,104	2,284	1,465	7,491	-	<b>51,035</b>	51,035
Reinsurers' share of insurance contract provisions	n/a	-	-	-	-	-	147,397	<b>147,397</b>	-
Receivables	n/a	-	-	-	-	-	296,063	<b>296,063</b>	-
Cash and cash equivalents	n/a	91,848	-	-	-	-	-	<b>91,848</b>	91,848
<b>Total financial assets</b>		<b>435,338</b>	<b>170,658</b>	<b>177,921</b>	<b>1,142,493</b>	<b>1,506,577</b>	<b>1,514,915</b>	<b>4,947,902</b>	<b>3,432,987</b>
<b>Financial liabilities</b>									
Payables	n/a	-	-	-	-	-	181,910	<b>181,910</b>	-
Other liabilities	n/a	897	-	-	-	-	19,605	<b>20,502</b>	897
<b>Total financial liabilities (excluding liabilities to investment funds non- controlling unitholders)</b>		<b>897</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>201,515</b>	<b>202,412</b>	<b>897</b>
<b>Repricing gap</b>		<b>434,441</b>	<b>170,658</b>	<b>177,921</b>	<b>1,142,493</b>	<b>1,506,577</b>	<b>1,313,400</b>	<b>4,745,490</b>	<b>3,432,090</b>

## 1.41 Interest rate repricing analysis (continued)

### Group – 2015

	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
<b>Financial assets</b>									
<i>Held-to-maturity investments</i>									
Debt securities	5,90	-	-	84,802	531,051	59,630	-	675,483	675,483
<i>Available-for-sale financial assets</i>									
Debt securities	4,42	82,599	162,640	219,915	520,426	1,381,040	-	2,366,620	2,366,620
Equity securities	n/a	-	-	-	-	-	50,109	50,109	-
Investment funds	n/a	-	-	-	-	-	359,637	359,637	-
<i>Financial assets at fair value through profit or loss</i>									
Debt securities	-	-	-	-	-	-	-	-	-
Equity securities	n/a	-	-	-	-	-	21,762	21,762	-
Foreign corporate bonds backing index linked products	-	-	-	-	-	-	106,337	106,337	106,337
Shares relating to share- based payments	n/a	-	-	-	-	-	5,219	5,219	-
Investment funds	-	-	-	-	-	-	296,569	296,569	-
<i>Loans and receivables</i>									
Deposits with banks	1,63	51,891	13,036	-	-	-	-	64,927	64,927
Loans to customers	6,72	8,212	35,729	3,131	1,644	7,036	-	55,752	55,752
Reinsurers' share of insurance contract provisions	n/a	-	-	-	-	-	160,016	160,016	-
Receivables	n/a	277	-	-	-	-	267,200	267,477	-
Cash and cash equivalents	n/a	177,581	-	-	-	-	-	177,581	177,581
<b>Total financial assets</b>		<b>320,560</b>	<b>211,405</b>	<b>307,848</b>	<b>1,053,121</b>	<b>1,447,706</b>	<b>1,266,849</b>	<b>4,607,489</b>	<b>3,446,700</b>
<b>Financial liabilities</b>									
Payables	n/a	-	-	-	-	-	164,055	164,055	-
Other liabilities	n/a	364	-	-	-	-	23,955	24,319	-
<b>Total financial liabilities (excluding liabilities to investment funds non-controlling unitholders)</b>		<b>364</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>188,010</b>	<b>188,374</b>	<b>-</b>
<b>Repricing gap</b>		<b>320,196</b>	<b>211,405</b>	<b>307,848</b>	<b>1,053,121</b>	<b>1,447,706</b>	<b>1,078,839</b>	<b>4,419,115</b>	<b>3,446,700</b>

## 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
<b>Financial assets</b>									
<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	85,964	-	-	520,845	59,216	-	666,025	666,025
<i>Available-for-sale financial assets</i>									
Debt securities	4,35	79,497	133,835	167,073	603,792	1,426,067	-	2,410,264	2,410,264
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	6,000	-	-	339	-	-	6,339	6,339
Loans to customers	5,89	35,691	4,104	2,284	2,586	10,638	-	55,303	55,303
Reinsurance share in technical provisions	n/a	-	-	-	-	-	147,397	147,397	-
Receivables	n/a	-	-	-	-	-	295,830	295,830	-
Cash and cash equivalents	n/a	62,010	-	-	-	-	-	62,010	62,010
<b>Total financial assets</b>		<b>269,162</b>	<b>137,939</b>	<b>169,357</b>	<b>1,127,562</b>	<b>1,495,921</b>	<b>1,595,891</b>	<b>4,795,832</b>	<b>3,199,941</b>
<b>Financial liabilities</b>									
Payables	n/a	-	-	-	-	-	181,910	181,910	-
Other liabilities	n/a	-	-	-	-	-	18,426	18,426	-
<b>Total financial liabilities (excluding liabilities to investment funds non-controlling unitholders)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200,336</b>	<b>200,336</b>	<b>-</b>
<b>Repricing gap</b>		<b>269,162</b>	<b>137,939</b>	<b>169,357</b>	<b>1,127,562</b>	<b>1,495,921</b>	<b>1,395,555</b>	<b>4,595,496</b>	<b>3,199,941</b>

## 1.41 Interest rate repricing analysis (continued)

### Company – 2015

	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
<b>Financial assets</b>									
<i>Investments in subsidiaries</i>									
At cost	n/a	-	-	-	-	-	5,688	<b>5,688</b>	-
At fair value through P&L	n/a	-	-	-	-	-	118,302	<b>118,302</b>	-
AFS	n/a	-	-	-	-	-	8,533	<b>8,533</b>	-
<i>Held-to-maturity investments</i>									
Debt securities	5,90	-	-	84,802	525,815	59,630	-	<b>670,247</b>	670,247
<i>Available-for-sale financial assets</i>									
Debt securities	4,42	-	149,815	218,449	512,915	1,379,571	-	<b>2,260,750</b>	2,260,750
Equity securities	n/a	-	-	-	-	-	50,109	<b>50,109</b>	-
Investment funds	n/a	-	-	-	-	-	359,637	<b>359,637</b>	-
<i>Financial assets at fair value through profit or loss</i>									
Foreign corporate bonds backing index linked products	-	-	-	-	-	-	106,337	<b>106,337</b>	-
Shares relating to share-based payments	-	-	-	-	-	-	5,219	<b>5,219</b>	-
Investment funds	-	-	-	-	-	-	292,492	<b>292,492</b>	-
<i>Loans and receivables</i>									
Deposits with banks	1,63	6,541	-	-	-	-	-	<b>6,541</b>	6,541
Loans to customers	6,72	8,212	35,729	3,131	1,644	10,040	-	<b>58,756</b>	58,756
Reinsurance share in technical provisions	n/a	-	-	-	-	-	160,016	<b>160,016</b>	-
Receivables	n/a	-	-	-	-	-	267,236	<b>267,236</b>	-
Cash and cash equivalents	n/a	135,756	-	-	-	-	-	<b>135,756</b>	135,756
<b>Total financial assets</b>		<b>150,509</b>	<b>185,544</b>	<b>306,382</b>	<b>1,040,374</b>	<b>1,449,241</b>	<b>1,373,569</b>	<b>4,505,619</b>	<b>3,132,050</b>
<b>Financial liabilities</b>									
Payables	n/a	-	-	-	-	-	164,038	<b>164,038</b>	-
Other liabilities	n/a	-	-	-	-	-	22,575	<b>22,575</b>	-
<b>Total financial liabilities (excluding liabilities to investment funds non-controlling unitholders)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>186,613</b>	<b>186,613</b>	<b>-</b>
<b>Repricing gap</b>		<b>150,509</b>	<b>185,544</b>	<b>306,382</b>	<b>1,040,374</b>	<b>1,449,241</b>	<b>1,186,956</b>	<b>4,319,006</b>	<b>3,132,050</b>

## 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 2016 and 31 December 2015.

### 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
<b>Financial assets</b>						
<i>Held-to-maturity investments</i>						
Debt securities	-	507,535	507,535	-	167,852	<b>675,387</b>
<i>Available-for-sale financial assets</i>						
Debt securities	957,867	713,104	1,670,971	45,502	834,978	<b>2,551,451</b>
Equity securities	129	-	129	-	60,268	<b>60,397</b>
Investment funds	394,364	-	394,364	-	-	<b>394,364</b>
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	-	-	-	-	-	-
Equity securities	5,645	-	5,645	30	38,160	<b>43,835</b>
Foreign corporate bonds backing index linked products	76,948	-	76,948	-	-	<b>76,948</b>
Shares relating to share-based payments	4,629	-	4,629	-	-	<b>4,629</b>
Investment funds	693	144,040	144,733	12,966	333,583	<b>491,282</b>
<i>Loans and receivables</i>						
Deposits with banks	-	323	323	-	62,943	<b>63,266</b>
Loans to customers	-	34,665	34,665	6	16,364	<b>51,035</b>
Reinsurance share in technical provisions	23,167	5,118	28,285	6,565	112,547	<b>147,397</b>
Receivables	105,379	21,454	126,833	4,755	164,475	<b>296,063</b>
Cash and cash equivalents	25,423	-	25,423	1,269	65,156	<b>91,848</b>
<b>Total financial assets</b>	<b>1,594,244</b>	<b>1,426,239</b>	<b>3,020,483</b>	<b>71,093</b>	<b>1,856,326</b>	<b>4,947,902</b>
<b>Financial liabilities</b>						
Payables	59,725	-	59,725	593	121,592	<b>181,910</b>
Other liabilities	-	-	-	-	20,502	<b>20,502</b>
<b>Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)</b>	<b>59,725</b>	<b>-</b>	<b>59,725</b>	<b>593</b>	<b>142,094</b>	<b>202,412</b>
<b>Currency gap on financial assets and financial liabilities</b>	<b>1,534,519</b>	<b>1,426,239</b>	<b>2,960,758</b>	<b>70,500</b>	<b>1,714,232</b>	<b>4,745,490</b>

## 1.42 Currency risk analysis (continued)

### Group – 2015

	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
<b>Financial assets</b>						
<i>Held-to-maturity investments</i>						
Debt securities	-	512,636	512,636	-	162,847	675,483
<i>Available-for-sale financial assets</i>						
Debt securities	735,082	777,936	1,513,018	53,802	799,800	2,366,620
Equity securities	157	-	157	-	49,952	50,109
Investment funds	359,637	-	359,637	-	-	359,637
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	-	-	-	-	-	-
Equity securities	2,570	-	2,570	31	19,161	21,762
Foreign corporate bonds backing index linked products	106,337	-	106,337	-	-	106,337
Shares relating to share- based payments	5,219	-	5,219	-	-	5,219
Investment funds	2,176	69,036	71,212	15,317	210,040	296,569
<i>Loans and receivables</i>						
Deposits with banks	-	396	396	127	64,404	64,927
Loans to customers	-	41,171	41,171	10	14,571	55,752
Reinsurance share in technical provisions	29,629	-	29,629	8,680	121,707	160,016
Receivables	97,908	-	97,908	5,994	163,575	267,477
Cash and cash equivalents	73,115	-	73,115	4,331	100,135	177,581
<b>Total financial assets</b>	<b>1,411,830</b>	<b>1,401,175</b>	<b>2,813,005</b>	<b>88,292</b>	<b>1,706,192</b>	<b>4,607,489</b>
<b>Financial liabilities</b>						
Payables	48,666	-	48,666	413	114,976	164,055
Other liabilities	69	-	69	-	24,250	24,319
<b>Financial liabilities (excluding liabilities to investment funds non- controlling unitholders)</b>	<b>48,735</b>	<b>-</b>	<b>48,735</b>	<b>413</b>	<b>139,226</b>	<b>188,374</b>
<b>Currency gap on financial assets and financial liabilities</b>	<b>1,363,095</b>	<b>1,401,175</b>	<b>2,764,270</b>	<b>87,879</b>	<b>1,566,966</b>	<b>4,419,115</b>

## 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
<b>Financial assets</b>						
<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	-	507,535	507,535	-	158,490	666,025
<i>Available-for-sale financial assets</i>						
Debt securities	946,464	713,104	1,659,568	30,854	719,842	2,410,264
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	-	323	323	-	6,016	6,339
Loans to customers	-	38,959	38,959	6	16,338	55,303
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	164,242	295,830
Cash and cash equivalents	16,938	-	16,938	921	44,151	62,010
<b>Total financial assets</b>	<b>1,568,018</b>	<b>1,440,418</b>	<b>3,008,436</b>	<b>56,067</b>	<b>1,731,329</b>	<b>4,795,832</b>
<b>Financial liabilities</b>						
Payables	59,725	-	59,725	593	121,592	181,910
Other liabilities	-	-	-	-	18,426	18,426
<b>Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)</b>	<b>59,725</b>	<b>-</b>	<b>59,725</b>	<b>593</b>	<b>140,018</b>	<b>200,336</b>
<b>Currency gap on financial assets and financial liabilities</b>	<b>1,508,293</b>	<b>1,440,418</b>	<b>2,948,711</b>	<b>55,474</b>	<b>1,591,311</b>	<b>4,595,496</b>

## 1.42 Currency risk analysis (continued)

### Company – 2015

	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
<b>Financial assets</b>						
<i>Investments in subsidiaries</i>						
At cost	-	-	-	-	5,688	5,688
At fair value through P&L	-	-	-	-	118,302	118,302
AFS	-	8,533	8,533	-	-	8,533
<i>Held-to-maturity investments</i>						
Debt securities	-	512,636	512,636	-	157,611	670,247
<i>Available-for-sale financial assets</i>						
Debt securities	728,536	777,936	1,506,472	50,792	703,486	2,260,750
Equity securities	157	-	157	-	49,952	50,109
Investment funds	359,637	-	359,637	-	-	359,637
<i>Financial assets at fair value through profit or loss</i>						
Foreign corporate bonds backing index linked products	106,337	-	106,337	-	-	106,337
Shares relating to share-based payments	5,219	-	5,219	-	-	5,219
Investment funds	-	69,036	69,036	15,317	208,139	292,492
<i>Loans and receivables</i>						
Deposits with banks	-	396	396	127	6,018	6,541
Loans to customers	-	44,199	44,199	10	14,547	58,756
Reinsurers' share of insurance contract provisions	29,629	-	29,629	8,680	121,707	160,016
Receivables	97,908	-	97,908	5,994	163,334	267,236
Cash and cash equivalents	67,980	-	67,980	3,440	64,336	135,756
<b>Total financial assets</b>	<b>1,395,403</b>	<b>1,412,736</b>	<b>2,808,139</b>	<b>84,360</b>	<b>1,613,120</b>	<b>4,505,619</b>
<b>Financial liabilities</b>						
Payables	48,666	-	48,666	413	114,959	164,038
Other liabilities	-	-	-	-	22,575	22,575
<b>Financial liabilities (excluding liabilities to investment funds non-controlling unitholders)</b>	<b>48,666</b>	<b>-</b>	<b>48,666</b>	<b>413</b>	<b>137,534</b>	<b>186,613</b>
<b>Currency gap on financial assets and financial liabilities</b>	<b>1,346,737</b>	<b>1,412,736</b>	<b>2,759,473</b>	<b>83,947</b>	<b>1,475,586</b>	<b>4,319,006</b>



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

### Statement of financial position (balance sheet) 31.12.2016

ASSETS				<i>in HRK</i>					
Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
<b>001</b>	002+003	<b>I</b>	<b>INTANGIBLE ASSETS</b>		<b>16,020,155</b>	<b>16,020,155</b>		<b>16,959,034</b>	<b>16,959,034</b>
002		1	Goodwill						
003		2	Other intangible assets		16,020,155	<b>16,020,155</b>		16,959,034	<b>16,959,034</b>
<b>004</b>	005+006+007	<b>II</b>	<b>TANGIBLE ASSETS</b>		<b>40,921,141</b>	<b>40,921,141</b>		<b>40,603,250</b>	<b>40,603,250</b>
005		1	Land and buildings intended for company business operations		29,017,494	<b>29,017,494</b>		31,803,670	<b>31,803,670</b>
006		2	Equipment		11,791,831	<b>11,791,831</b>		8,683,732	<b>8,683,732</b>
007		3	Other tangible assets and stock		111,817	<b>111,817</b>		115,849	<b>115,849</b>
<b>008</b>	009+010+014+033	<b>III</b>	<b>INVESTMENTS</b>	<b>2,929,312,461</b>	<b>952,346,878</b>	<b>3,881,659,339</b>	<b>3,136,308,302</b>	<b>953,087,765</b>	<b>4,089,396,067</b>
<b>009</b>		<b>A</b>	<b>Investments in land and buildings not intended for company business operations</b>		30,352,028	<b>30,352,028</b>		29,103,483	<b>29,103,483</b>
<b>010</b>	011+012+013	<b>B</b>	<b>Investments in subsidiaries, associates and joint ventures</b>		<b>5,688,100</b>	<b>5,688,100</b>		<b>5,688,100</b>	<b>5,688,100</b>
011		1	Shares and stakes in subsidiaries		5,688,100	<b>5,688,100</b>		5,688,100	<b>5,688,100</b>
012		2	Shares and stakes in associates						
013		3	Joint venture participation						
<b>014</b>	015+018+023+029	<b>C</b>	<b>Financial investments</b>	<b>2,929,312,461</b>	<b>916,306,750</b>	<b>3,845,619,211</b>	<b>3,136,308,302</b>	<b>918,296,182</b>	<b>4,054,604,484</b>
<b>015</b>	016+017	<b>1</b>	<b>Investments held-to-maturity</b>	<b>512,635,555</b>	<b>157,611,092</b>	<b>670,246,647</b>	<b>513,972,256</b>	<b>161,661,147</b>	<b>675,633,404</b>
016		1.1	<i>Debt securities and other securities with fixed revenue</i>	512,635,555	157,611,092	<b>670,246,647</b>	513,972,256	161,661,147	<b>675,633,404</b>
017		1.2	<i>Other investments held to maturity</i>						

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

### Statement of financial position (balance sheet) 31.12.2016 (continued)

ASSETS				<i>in HRK</i>					
Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
<b>018</b>	019+020+021+022	<b>2</b>	<b>Investments available-for-sale</b>	<b>1,992,340,200</b>	<b>686,686,436</b>	<b>2,679,026,636</b>	<b>2,253,034,917</b>	<b>665,388,031</b>	<b>2,918,422,948</b>
019		2.1	Shares, stakes and other securities with variable revenue	46,048,192	4,060,366	<b>50,108,558</b>	54,690,963	5,705,891	<b>60,396,854</b>
020		2.2	Debt securities and other securities with fixed revenue	1,619,623,023	641,124,664	<b>2,260,747,687</b>	1,835,915,017	617,861,862	<b>2,453,776,880</b>
021		2.3	Investment fund units	326,668,985	41,501,406	<b>368,170,391</b>	362,428,937	41,820,278	<b>404,249,215</b>
022		2.4	Other investments available for sale						
<b>023</b>	024+025+026+027+028	<b>3</b>	<b>Investments at fair value through profit and loss account</b>	<b>297,769,157</b>	<b>41,566,596</b>	<b>339,335,752</b>	<b>338,755,478</b>	<b>59,859,170</b>	<b>398,614,648</b>
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		5,218,579	<b>5,218,579</b>		4,628,772	<b>4,628,772</b>
027		3.4	Investment fund units	281,254,271	36,348,016	<b>317,602,288</b>	323,487,522	55,230,398	<b>378,717,920</b>
028		3.5	Other investments	16,514,885		<b>16,514,885</b>	15,267,956		<b>15,267,956</b>
<b>029</b>	030+031+032	<b>4</b>	<b>Deposits, loans and receivables</b>	<b>126,567,550</b>	<b>30,442,626</b>	<b>157,010,176</b>	<b>30,545,651</b>	<b>31,387,833</b>	<b>61,933,484</b>
030		4.1	Deposits with credit institutions (banks)	91,714,132	6,540,446	<b>98,254,578</b>		6,394,356	<b>6,394,356</b>
031		4.2	Loans	34,853,418	23,902,180	<b>58,755,598</b>	30,545,651	24,993,477	<b>55,539,128</b>
032		4.3	Other loans and receivables						
<b>033</b>		<b>D</b>	<b>Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)</b>						
<b>034</b>		<b>IV</b>	<b>INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS</b>	<b>183,015,296</b>		<b>183,015,296</b>	<b>283,715,679</b>		<b>283,715,679</b>

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

### Statement of financial position (balance sheet) 31.12.2016 (continued)

**ASSETS**

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
<b>035</b>	036+037+038+039+040 +041+042	<b>V</b>	<b>REINSURANCE SHARE IN TECHNICAL PROVISIONS</b>	<b>1,022,577</b>	<b>158,991,170</b>	<b>160,013,746</b>	<b>998,458</b>	<b>146,397,331</b>	<b>147,395,789</b>
036		1	Unearned premiums, reinsurance share	155,855	65,024,840	<b>65,180,695</b>	148,192	69,201,626	<b>69,349,818</b>
037		2	Mathematical provision, reinsurance share	364,221		<b>364,221</b>	361,366		<b>361,366</b>
038		3	Provision for claims outstanding, reinsurance share	502,500	93,951,879	<b>94,454,379</b>	488,900	77,143,301	<b>77,632,201</b>
039		4	Provisions for return of premiums depending and not depending on the result (bonuses and rebates),		14,451	<b>14,451</b>		52,404	<b>52,404</b>
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						
<b>043</b>	044+045	<b>VI</b>	<b>DEFERRED AND CURRENT TAX ASSET</b>				<b>-7,456,632</b>	<b>7,833,740</b>	<b>377,108</b>
044		1	Deferred tax asset						
045		2	Current tax asset				-7,456,632	7,833,740	<b>377,108</b>
<b>046</b>	047+050+051	<b>VII</b>	<b>RECEIVABLES</b>	<b>4,145,026</b>	<b>206,282,398</b>	<b>210,427,424</b>	<b>3,676,777</b>	<b>234,868,738</b>	<b>238,545,515</b>
<b>047</b>	048+049	<b>1</b>	<b>Receivables from direct insurance business</b>	<b>955,279</b>	<b>126,676,425</b>	<b>127,631,704</b>	<b>484,013</b>	<b>134,065,180</b>	<b>134,549,193</b>
048		1.1	<i>From policyholders</i>	955,279	126,676,425	<b>127,631,704</b>	484,013	134,065,180	<b>134,549,193</b>
049		1.2	<i>From insurance agents, or insurance brokers</i>						
<b>050</b>		<b>2</b>	<b>Receivables from co-insurance and reinsurance business</b>	<b>33,975</b>	<b>46,170,603</b>	<b>46,204,577</b>	<b>49,152</b>	<b>68,823,304</b>	<b>68,872,456</b>

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

### Statement of financial position (balance sheet) 31.12.2016 (continued)

ASSETS				<i>in HRK</i>					
Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
<b>051</b>	052+053+054	<b>3</b>	<b>Other receivables</b>	3,155,772	33,435,370	36,591,142	3,143,612	31,980,255	35,123,867
052		3.1	Receivables from other insurance business		8,836,925	8,836,925		10,260,654	10,260,654
053		3.2	Receivables for return on investments	536,978	37,986	574,964	738,147	204,371	942,518
054		3.3	Other receivables	2,618,794	24,560,458	27,179,253	2,405,465	21,515,229	23,920,694
<b>055</b>	056+060+061	<b>VIII</b>	<b>OTHER ASSETS</b>	37,037,664	7,657,781	44,695,446	48,128,133	14,550,402	62,678,535
<b>056</b>	057+058+059	<b>1</b>	<b>Cash at bank and in hand</b>	37,037,664	7,657,781	44,695,446	48,128,133	14,550,402	62,678,535
057		1.1	Funds in the business account	35,836,651	7,124,123	42,960,774	31,384,047	14,023,071	45,407,118
058		1.2	Funds in the account of assets covering mathematical provision	1,081,864		1,081,864	16,604,982		16,604,982
059		1.3	Cash in hand	119,150	533,659	652,808	139,105	527,330	666,436
<b>060</b>		<b>2</b>	<b>Long-term assets intended for sale and business cessation</b>						
<b>061</b>		<b>3</b>	<b>Other</b>						
<b>062</b>	063+064+065	<b>IX</b>	<b>PREPAYMENTS AND ACCRUED INCOME</b>	40,156,923	60,339,992	100,496,915	1,857,099	47,025,823	48,882,922
063		1	Deferred interest and rent	37,928,092	14,583,925	52,512,017	2,897	20,839	23,737
064		2	Deferred acquisition costs	1,144,984	43,307,067	44,452,051	1,241,542	44,554,143	45,795,685
065		3	Other prepayments and accrued income	1,083,847	2,449,000	3,532,847	612,660	2,450,840	3,063,501
<b>066</b>	001+004+008+034+035+043+046+055+062	<b>X</b>	<b>TOTAL ASSETS (A+B+C+D+E+F+G+H+I+J)</b>	3,194,689,947	1,442,559,514	4,637,249,461	3,467,227,817	1,461,326,082	4,928,553,899
<b>067</b>		<b>XI</b>	<b>OFF BALANCE SHEET ITEMS</b>						

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

### Statement of financial position (balance sheet) 31.12.2016 (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
<b>068</b>	069+072+073+077+081+084	<b>XII</b>	<b>CAPITAL AND RESERVES</b>	<b>387,061,447</b>	<b>456,530,304</b>	<b>843,591,751</b>	<b>469,198,234</b>	<b>461,586,299</b>	<b>930,784,533</b>
<b>069</b>	070+071	<b>1</b>	<b>Subscribed capital</b>	<b>30,000,000</b>	<b>71,722,400</b>	<b>101,722,400</b>	<b>30,000,000</b>	<b>71,722,400</b>	<b>101,722,400</b>
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>						
<b>072</b>		<b>2</b>	<b>Issued shares premiums (capital reserves)</b>	<b>80,500,000</b>	<b>31,500,600</b>	<b>112,000,600</b>	<b>80,500,000</b>	<b>31,500,600</b>	<b>112,000,600</b>
<b>073</b>	074+075+076	<b>3</b>	<b>Revaluation reserve</b>	<b>113,727,617</b>	<b>30,721,677</b>	<b>144,449,294</b>	<b>177,373,271</b>	<b>36,228,085</b>	<b>213,601,356</b>
074		3.1	<i>Land and buildings</i>						
075		3.2	<i>Financial investments</i>	113,727,617	30,721,677	144,449,294	177,373,271	36,228,085	213,601,356
076		3.3	<i>Other revaluation reserves</i>						
<b>077</b>	078+079+080	<b>4</b>	<b>Reserves</b>	<b>2,397,219</b>	<b>22,655,124</b>	<b>25,052,343</b>	<b>2,397,219</b>	<b>22,655,124</b>	<b>25,052,343</b>
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>						
<b>081</b>	082+083	<b>5</b>	<b>Transferred (retained) profit or loss</b>	<b>111,128,578</b>	<b>245,784,064</b>	<b>356,912,642</b>	<b>134,836,141</b>	<b>264,929,853</b>	<b>399,765,994</b>
082		5.1	<i>Retained profit</i>	111,128,578	245,784,064	356,912,642	134,836,141	264,929,853	399,765,994
083		5.2	<i>Transferred loss (-)</i>						
<b>084</b>	085+086	<b>6</b>	<b>Profit or loss of the current accounting period</b>	<b>49,308,033</b>	<b>54,146,439</b>	<b>103,454,472</b>	<b>44,091,603</b>	<b>34,550,237</b>	<b>78,641,840</b>
085		6.1	<i>Profit of the current accounting period</i>	49,308,033	54,146,439	103,454,472	44,091,603	34,550,237	78,641,840
086		6.2	<i>Loss of the current accounting period (-)</i>						
<b>087</b>		<b>XIII</b>	<b>SUBORDINATED LIABILITIES</b>						

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

### Statement of financial position (balance sheet) 31.12.2016 (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
<b>089</b>	090+091+092+093+094+095	<b>XV</b>	<b>TECHNICAL PROVISIONS</b>	<b>2,538,895,812</b>	<b>810,875,773</b>	<b>3,349,771,585</b>	<b>2,622,756,281</b>	<b>797,264,092</b>	<b>3,420,020,373</b>
090		1	Unearned premiums, gross amount	8,521,029	284,110,161	292,631,190	9,767,467	285,424,025	295,191,492
091		2	Mathematical provision, gross amount	2,500,034,288		2,500,034,288	2,576,376,855		2,576,376,855
092		3	Provision for claims outstanding, gross amount	30,070,187	522,529,074	552,599,261	36,383,407	509,593,605	545,977,012
093		4	Provisions for return of premiums depending and not depending on the result (bonuses and rebates), gross amount		1,705,143	1,705,143		2,246,462	2,246,462
094		5	Equalisation provision, gross amount		50,916	50,916			
095		6	Other insurance technical provisions, gross amount	270,308	2,480,479	2,750,787	228,552		228,552
<b>096</b>		<b>XVI</b>	<b>LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount</b>	<b>183,015,296</b>		<b>183,015,296</b>	<b>283,715,679</b>		<b>283,715,679</b>
<b>097</b>	098+099	<b>XVII</b>	<b>OTHER RESERVES</b>						
098		1	Provisions for pensions and similar liabilities						
099		2	Other provisions						
<b>100</b>	101+102	<b>XVIII</b>	<b>DEFERRED AND CURRENT TAX LIABILITY</b>	<b>31,494,089</b>	<b>-50,973</b>	<b>31,443,116</b>	<b>36,349,114</b>	<b>4,359,931</b>	<b>40,709,045</b>
101		1	Deferred tax liability	25,541,683	3,692,521	29,234,204	36,349,114	4,359,931	40,709,045
102		2	Current tax liability	5,952,406	-3,743,494	2,208,912			
<b>103</b>		<b>XIX</b>	<b>DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE</b>						
<b>104</b>	105+106+107	<b>XX</b>	<b>FINANCIAL LIABILITIES</b>						
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) 31.12.2016 (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
<b>108</b>	109+110+111+112	<b>XXI</b>	<b>OTHER LIABILITIES</b>	<b>41,876,982</b>	<b>144,736,408</b>	<b>186,613,389</b>	<b>36,210,837</b>	<b>164,125,575</b>	<b>200,336,411</b>
109		1	Liabilities from direct insurance business	36,515,272	78,444,100	<b>114,959,372</b>	31,567,488	90,025,027	<b>121,592,514</b>
110		2	Liabilities from co-insurance and reinsurance business	534,578	48,544,817	<b>49,079,395</b>	1,005,976	59,312,087	<b>60,318,062</b>
111		3	Liabilities for sale and ceased business						
112		4	Other liabilities	4,827,132	17,747,491	<b>22,574,623</b>	3,637,374	14,788,461	<b>18,425,835</b>
<b>113</b>	114+115	<b>XXII</b>	<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>12,346,321</b>	<b>30,468,003</b>	<b>42,814,324</b>	<b>18,997,672</b>	<b>33,990,185</b>	<b>52,987,857</b>
114		1	Deferred reinsurance commission		5,803,800	<b>5,803,800</b>		6,762,353	<b>6,762,353</b>
115		2	Other accrued expenses and deferred income	12,346,321	24,664,203	<b>37,010,524</b>	18,997,672	27,227,832	<b>46,225,504</b>
<b>116</b>	068+087+088+089+096+097+100+103+104+108+113	<b>XXIII</b>	<b>TOTAL LIABILITIES (A+B+C+D+E+F+G+H+I+J)</b>	<b>3,194,689,947</b>	<b>1,442,559,514</b>	<b>4,637,249,461</b>	<b>3,467,227,817</b>	<b>1,461,326,082</b>	<b>4,928,553,899</b>
<b>117</b>		<b>XXIV</b>	<b>OFF BALANCE SHEET ITEMS</b>						

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

### Statement of comprehensive income (income statement) 01.01.2016 – 31.12.2016

*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
<b>001</b>	<b>002+003+004 +005+006</b>	<b>I</b>	<b>Earned premiums (recognized in revenue)</b>	<b>532,384,135</b>	<b>516,694,765</b>	<b>1,049,078,900</b>	<b>534,712,188</b>	<b>451,195,189</b>	<b>985,907,377</b>
002		1	Written gross premiums	535,738,576	655,140,309	<b>1,190,878,885</b>	539,705,636	576,357,240	<b>1,116,062,876</b>
003		2	Value adjustment and charged adjustment of insurance/co-insurance premium value		-4,097,071	<b>-4,097,071</b>		1,743	<b>1,743</b>
004		3	Premiums ceded to reinsurance (-)	-3,822,940	-162,226,230	<b>-166,049,169</b>	-3,739,347	-128,026,717	<b>-131,766,064</b>
005		4	Change in gross provisions for unearned premiums (+/-)	476,685	-10,540,307	<b>-10,063,622</b>	-1,246,438	-1,313,864	<b>-2,560,302</b>
006		5	Change in provisions for unearned premiums, reinsurance share (+/-)	-8,186	38,418,063	<b>38,409,877</b>	-7,663	4,176,786	<b>4,169,123</b>
<b>007</b>	<b>008+009+010+011 +012+013+014</b>	<b>II</b>	<b>Income from investments</b>	<b>135,868,724</b>	<b>54,130,190</b>	<b>189,998,913</b>	<b>131,484,523</b>	<b>49,226,906</b>	<b>180,711,429</b>
008		1	Income from subsidiaries, associates and joint ventures						
009		2	Income from investment in land and buildings		1,395,843	1,395,843		2,111,911	2,111,911
010		3	Interest income	95,208,265	42,994,464	138,202,729	89,962,492	42,510,880	132,473,373
011		4	Realized profits from investment	7,549,509	1,193,202	8,742,711	9,919,212	251,344	10,170,556
012		5	Unrealized profits from investment	18,826,835	3,636,994	22,463,829	16,611,595	464,655	17,076,250
013		6	Net positive exchange rate differentials	2,392,497	2,827,657	5,220,154	880,146	2,195,040	3,075,186
014		7	Other investment profits	11,891,618	2,082,030	13,973,648	14,111,077	1,693,076	15,804,153



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

### Statement of comprehensive income (income statement) 01.01.2016 – 31.12.2016 (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	2,788,058	21,084,846	23,872,904	1,953,847	19,761,184	21,715,031
016		IV	Other insurance-technical income, net of reinsurance	122,981	3,472,898	3,595,879	50,922	2,642,457	2,693,379
017		V	Other income	201,976	5,236,364	5,438,340	975,037	2,552,796	3,527,832
018	019+022	VI	Expenditures for insured events, net	-305,866,194	-261,474,361	-567,340,555	-297,301,146	-214,968,960	-512,270,106
019	020+021	1	Settled claims	-299,522,923	-259,124,116	-558,647,038	-290,974,326	-211,095,850	-502,070,176
020		1.1	Gross amount (-)	-300,738,860	-314,113,548	-614,852,408	-291,745,870	-276,332,165	-568,078,035
021		1.2	Reinsurer share(+)	1,215,937	54,989,433	56,205,370	771,544	65,236,315	66,007,859
022	023+024	2	Change in provisions for claims outstanding (+/-)	-6,343,271	-2,350,245	-8,693,516	-6,326,820	-3,873,110	-10,199,930
023		2.1	Gross amount (-)	-6,264,671	21,286,495	15,021,824	-6,313,220	12,935,469	6,622,249
024		2.2	Reinsurer share(+)	-78,600	-23,636,741	-23,715,341	-13,600	-16,808,579	-16,822,179
025	026+029	VII	Change in other technical provisions, net of reinsurance	-254,091,741	4,537,576	-249,554,165	-76,303,666	2,531,395	-73,772,272
026	027+028	1	Change in mathematical provision (+/-)	-254,145,657		-254,145,657	-76,345,423		-76,345,423
027		1.1	Gross amount (-)	-254,128,452		-254,128,452	-76,342,567		-76,342,567
028		1.2	Reinsurer share(+)	-17,206		-17,206	-2,855		-2,855
029	030+031	2	Change in other technical provisions, net of reinsurance (+/-)	53,916	4,537,576	4,591,492	41,756	2,531,395	2,573,151
030		2.1	Gross amount (-)	53,916	4,537,576	4,591,492	41,756	2,531,395	2,573,151
031		2.2	Reinsurer share(+)						

**Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)**  
**Statement of comprehensive income (income statement) 01.01.2016 – 31.12.2016 (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
<b>032</b>	033+034	<b>VIII</b>	<b>Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)</b>	<b>78,710,436</b>		<b>78,710,436</b>	-100,700,383		<b>-100,700,383</b>
033		1	<i>Gross amount (-)</i>	78,710,436		78,710,436	-100,700,383		-100,700,383
034		2	<i>Reinsurer share(+)</i>						
<b>035</b>	036+037	<b>IX</b>	<b>Expenditures for return of premium (bonuses and rebates), net of reinsurance</b>		<b>178,705</b>	<b>178,705</b>		<b>-503,366</b>	<b>-503,366</b>
036		1	Depending on the result (bonuses)						
037		2	Not depending on the result (rebates)		178,705	178,705		-503,366	-503,366
<b>038</b>	039+043	<b>X</b>	<b>Business expenditures (for business operations), net</b>	<b>-120,106,165</b>	<b>-263,027,670</b>	<b>-383,133,835</b>	<b>-102,449,122</b>	<b>-253,140,640</b>	<b>-355,589,762</b>
039	040+041+042	<b>1</b>	<b>Acquisition costs</b>	-64,297,314	-134,063,819	-198,361,133	-47,203,674	-127,731,829	-174,935,502
040		1.1	<i>Commission</i>	-53,662,894	-105,526,736	-159,189,630	-38,714,198	-112,057,143	-150,771,341
041		1.2	<i>Other acquisition costs</i>	-10,548,533	-22,559,024	-33,107,558	-8,586,034	-16,921,762	-25,507,796
042		1.3	<i>Change in deferred acquisition costs (+/-)</i>	-85,887	-5,978,059	-6,063,946	96,558	1,247,076	1,343,634
043	044+045+046	<b>2</b>	<b>Administration costs</b>	-55,808,850	-128,963,851	-184,772,701	-55,245,448	-125,408,811	-180,654,260
044		2.1	<i>Depreciation of tangible assets</i>		-13,596,662	-13,596,662		-11,403,930	-11,403,930
045		2.2	<i>Salaries, taxes and contributions to and from salaries</i>	-20,961,323	-54,125,231	-75,086,554	-19,173,151	-51,534,677	-70,707,828
046		2.3	<i>Other administration costs</i>	-34,847,527	-61,241,959	-96,089,486	-36,072,297	-62,470,204	-98,542,501

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

### Statement of comprehensive income (income statement) 01.01.2016 – 31.12.2016 (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
<b>047</b>	048+049+050+051+052+053+054	<b>XI</b>	<b>Investment expenses</b>	<b>-9,702,234</b>	<b>-6,183,032</b>	<b>-15,885,267</b>	<b>-36,189,425</b>	<b>-6,252,436</b>	<b>-42,441,862</b>
048		1	Depreciation (buildings not intended for business operations of the company)		-1,250,035	-1,250,035		-1,248,546	-1,248,546
049		2	Interest						
050		3	Investment value adjustment (reduction)	-1,276,755	-2,026,843	-3,303,598	-524,298	-42,591	-566,889
051		4	Losses from sale (realization) of financial assets	-655,081		-655,081	-10,447,288	-1,958,931	-12,406,219
052		5	Unrealised losses from financial investment						
053		6	Net negative exchange rate differences	-3,099,849	-155,807	-3,255,657	-21,412,326	-498,476	-21,910,801
054		7	Other investment expenses	-4,670,548	-2,750,347	-7,420,895	-3,805,515	-2,503,892	-6,309,407
<b>055</b>	056+057	<b>XII</b>	<b>Other technical expenses, net of reinsurance</b>	<b>-1,127,305</b>	<b>-6,197,828</b>	<b>-7,325,132</b>	<b>-445,257</b>	<b>-6,843,770</b>	<b>-7,289,027</b>
056		1	Expenses for preventive operations	-557,851	-153,925	-711,776	-147,819		-147,819
057		2	Other technical expenses of insurance	-569,453	-6,043,903	-6,613,356	-297,438	-6,843,770	-7,141,208
<b>058</b>		<b>XIII</b>	<b>Other expenses including value adjustments</b>	<b>-15,065</b>	<b>-1,988,564</b>	<b>-2,003,629</b>	<b>-11,482</b>	<b>-1,519,704</b>	<b>-1,531,186</b>
<b>059</b>	001+007+015+016+017+018+025+032+035+038+047+055+058	<b>XIV</b>	<b>Profit or loss of the accounting period before taxation (+/-)</b>	<b>59,167,606</b>	<b>66,463,887</b>	<b>125,631,494</b>	<b>55,776,034</b>	<b>44,681,051</b>	<b>100,457,085</b>
<b>060</b>	061+062	<b>XV</b>	<b>Profit or loss tax</b>	<b>-9,859,573</b>	<b>-12,317,448</b>	<b>-22,177,022</b>	<b>-11,684,431</b>	<b>-10,130,814</b>	<b>-21,815,245</b>
061		1	Current tax expense	-10,106,409	-12,147,400	-22,253,809	-11,380,691	-9,735,491	-21,116,183
062		2	Deferred tax expense (income)	246,836	-170,049	76,787	-303,739	-395,323	-699,062

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

### Statement of comprehensive income (income statement) 01.01.2016 – 31.12.2016 (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
<b>063</b>	072+073	<b>XVI</b>	<b>Profit or loss of the accounting period after taxation (+/-)</b>	<b>49,308,033</b>	<b>54,146,439</b>	<b>103,454,472</b>	<b>44,091,603</b>	<b>34,550,237</b>	<b>78,641,840</b>
064		1	Attributable to owners of the parent						
065		2	Attributable to non-controlling interests						
<b>066</b>	001+010+024+025+026+075	<b>XVII</b>	<b>TOTAL INCOME</b>	671,612,709	600,449,014	1,272,061,723	668,872,777	524,983,209	1,193,855,986
<b>067</b>	027+036+044+048+051+060+068+071+074	<b>XVIII</b>	<b>TOTAL EXPENDITURE</b>	-622,304,676	-546,302,575	-1,168,607,251	-624,781,174	-490,432,972	-1,115,214,146

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

### Statement of comprehensive income (income statement) 01.01.2016 – 31.12.2016 (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
<b>068</b>	082+083+084+085+086+087+088+089	<b>XIX</b>	<b>Other comprehensive income</b>	<b>-19,964,387</b>	<b>-5,714,081</b>	<b>-25,678,469</b>	<b>63,645,654</b>	<b>5,506,408</b>	<b>69,152,062</b>
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	-24,955,484	-7,142,602	<b>-32,098,086</b>	74,149,346	5,778,495	<b>79,927,841</b>
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	4,991,097	1,428,521	<b>6,419,618</b>	-10,503,692	-272,087	<b>-10,775,779</b>
<b>077</b>	076+081	<b>XX</b>	<b>Total comprehensive income</b>	<b>29,343,646</b>	<b>48,432,358</b>	<b>77,776,003</b>	<b>107,737,257</b>	<b>40,056,645</b>	<b>147,793,902</b>
078		1	Attributable to owners of the parent						
079		2	Attributable to non-controlling interests						
<b>080</b>		<b>XXI</b>	<b>Reclassification adjustments</b>						

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

### STATEMENT OF CASH FLOW (INDIRECT METHOD) for period 01.01.2016 – 31.12.2016

in HRK

Position no.	Elements of sum	Position code	Position description	Current business period	The same period of the previous year
<b>001</b>	002+013+031	<b>1</b>	<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>74,711,431</b>	<b>63,116,945</b>
<b>002</b>	003+004	<b>1</b>	<b>Cash flow before the change in assets and liabilities</b>	<b>248,524,708</b>	<b>278,469,236</b>
003		1,1	Profit/loss before taxation	100,457,085	125,631,494
004	005+006+007 +008+009+010 +011+012	1,2	Adjustments	148,067,623	152,837,742
005		1,2,1	Depreciation of real estate and equipment	6,292,927	6,785,128
006		1,2,2	Depreciation of intangible assets	5,111,003	6,811,534
007		1,2,3	Value impairment and profits/losses on reduction to fair value	-575,008	-1,388,161
008		1,2,4	Interest expense		
009		1,2,5	Interest income	132,473,373	138,202,729
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	4,765,328	2,426,513
<b>013</b>	014+015+...+030	<b>2</b>	<b>Increase/decrease in assets and liabilities</b>	<b>-150,111,075</b>	<b>-198,692,203</b>
014		2,1	Increase/decrease in investments available-for-sale	-160,012,029	-284,788,949
015		2,2	Increase/decrease in investment valued at fair value through profit and loss account	-57,455,342	-83,576,371
016		2,3	Increase/decrease in deposits, loans and receivables	95,076,692	31,281,489
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	-92,353,382	84,814,950
019		2,6	Increase/decrease in reinsurance share in technical provisions	12,617,958	-13,280,095
020		2,7	Increase/decrease in tax assets		
021		2,8	Increase/decrease in receivables	-186,097,688	-158,218,314
022		2,9	Increase/decrease in other assets		
023		2,10	Increase/decrease in prepayments and accrued income	51,613,993	9,934,397
024		2,11	Increase/decrease in technical provisions	70,248,789	243,002,817
025		2,12	Increase decrease in life assurance technical provisions where the policyholder bears the investment risk	92,353,381	-84,814,950
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		-173,690
029		2,16	Increase/decrease in other liabilities	13,723,022	55,307,994
030		2,17	Increase/decrease in accruals and deferred income	10,173,533	1,818,519

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

### STATEMENT OF CASH FLOW (INDIRECT METHOD) for period 01.01.2016 – 31.12.2016

*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	-23,702,202	-16,660,088
032	033+034+...+046	II	<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>3,779,234</b>	<b>5,249,971</b>
033		1	Inflows from sale of tangible assets		
034		2	Outflows for purchase of tangible assets	-5,975,037	-2,080,262
035		3	Inflows from sale of intangible assets		
036		4	Outflows for purchase of intangible assets	-6,049,882	-6,379,584
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		908,006
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	15,804,153	12,801,811
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	<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-60,601,120</b>	<b>-52,000,491</b>
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	-60,601,120	-52,000,491
053	001+032+047		<b>NET CASH FLOW</b>	<b>17,889,545</b>	<b>16,366,426</b>
054		IV	<b>EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS</b>	<b>93,543</b>	<b>-66,183</b>
055	053+054	V	<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>17,983,088</b>	<b>16,300,243</b>
056		1	Cash and cash equivalents at the beginning of the period	44,695,446	28,395,203
057	055+056	2	<b>Cash and cash equivalents at the end of the period</b>	<b>62,678,534</b>	<b>44,695,446</b>

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

### STATEMENT OF CHANGES IN EQUITY for period 01.01.2016 – 31.12.2016

*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		
<b>I.</b>	<b>Balance as at 1 January of previous year</b>	<b>101,722,400</b>	<b>112,000,600</b>	<b>170,127,763</b>	<b>25,052,343</b>	<b>321,531,717</b>	<b>87,381,416</b>	<b>817,816,239</b>		<b>817,816,239</b>
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
<b>II.</b>	<b>Balance as at 1 January of previous year (corrected)</b>	<b>101,722,400</b>	<b>112,000,600</b>	<b>170,127,763</b>	<b>25,052,343</b>	<b>321,531,717</b>	<b>87,381,416</b>	<b>817,816,239</b>		<b>817,816,239</b>
<b>III.</b>	<b>Comprehensive income/loss of the previous year</b>			<b>-25,678,469</b>			<b>103,454,472</b>	<b>77,776,003</b>		<b>77,776,003</b>
1.	Profit or loss of the period						<b>103,454,472</b>	<b>103,454,472</b>		<b>103,454,472</b>
2.	<b>Other comprehensive income or loss of the previous year</b>			<b>-25,678,469</b>				<b>-25,678,469</b>		<b>-25,678,469</b>
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			<b>-32,098,086</b>				<b>-32,098,086</b>		<b>-32,098,086</b>
2.3.	Realised gains or losses from financial assets available for sale			<b>6,419,618</b>				<b>6,419,618</b>		<b>6,419,618</b>
2.4.	Other non-owner changes in equity									
<b>IV.</b>	<b>Transactions with owners (previous period)</b>					<b>35,380,925</b>	<b>-87,381,416</b>	<b>-52,000,491</b>		<b>-52,000,491</b>
1.	Increase/decrease in subscribed capital									
2.	Other payments by owners									
3.	Payment of shares in profit /dividends						<b>-52,000,491</b>	<b>-52,000,491</b>		<b>-52,000,491</b>
4.	Other distributions to owners					<b>35,380,925</b>	<b>-35,380,925</b>			
<b>V.</b>	<b>Balance as at the last day of the reporting period in previous year</b>	<b>101,722,400</b>	<b>112,000,600</b>	<b>144,449,294</b>	<b>25,052,343</b>	<b>356,912,642</b>	<b>103,454,472</b>	<b>843,591,751</b>		<b>843,591,751</b>



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

### STATEMENT OF CHANGES IN EQUITY for period 01.01.2016 – 31.12.2016

*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		
<b>VI.</b>	<b>Balance as at 1 January of the current year</b>	<b>101,722,400</b>	<b>112,000,600</b>	<b>144,449,294</b>	<b>25,052,343</b>	<b>356,912,642</b>	<b>103,454,472</b>	<b>843,591,751</b>	<b>843,591,751</b>	
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
<b>VII.</b>	<b>Balance as at 1 January of the current year (corrected)</b>	<b>101,722,400</b>	<b>112,000,600</b>	<b>144,449,294</b>	<b>25,052,343</b>	<b>356,912,642</b>	<b>103,454,472</b>	<b>843,591,751</b>	<b>843,591,751</b>	
<b>VIII.</b>	<b>Comprehensive income/loss of the current year</b>			<b>69,152,062</b>			<b>78,641,840</b>	<b>147,793,902</b>	<b>147,793,902</b>	
1.	Profit or loss of the previous period						78,641,840	78,641,840	78,641,840	
2.	<b>Other comprehensive income or loss of the current year</b>			<b>69,152,062</b>				<b>69,152,062</b>	<b>69,152,062</b>	
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									
<b>IX.</b>	<b>Transactions with owners (current period)</b>					<b>42,853,353</b>	<b>-103,454,472</b>	<b>-60,601,119</b>	<b>-60,601,119</b>	
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 transactions with owners					42,853,353	-42,853,353			
<b>X.</b>	<b>Balance as at the last day of the reporting period in the current year</b>	<b>101,722,400</b>	<b>112,000,600</b>	<b>213,601,356</b>	<b>25,052,343</b>	<b>399,765,995</b>	<b>78,641,840</b>	<b>930,784,534</b>	<b>930,784,534</b>	

## Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules

### Statement of financial position – Assets as at 31 December 2016

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	
<b>RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID</b>	-									
Called up capital	-									
Uncalled capital	-									
<b>INTANGIBLE ASSETS</b>	<b>16,959</b>									
Goodwill	-									
Other intangible assets	16,959								16,959	Other intangible assets
<b>TANGIBLE ASSETS</b>	<b>40,603</b>	(116)							40,487	Property and equipment
Land and buildings intended for company business operations	31,804									
Equipment	8,684									
Other tangible assets and stock	116									
<b>INVESTMENTS</b>	<b>4,089,396</b>									
<b>Investments in land and buildings not intended for company business operations</b>	<b>29,103</b>								29,103	Investment property
<b>Investments in subsidiaries, associates and joint ventures</b>	<b>5,688</b>						127,054		132,742	Investment in subsidiaries
Shares and stakes in subsidiaries	5,688									
Shares and stakes in associates	-									
Joint venture participation	-									
<b>Other financial investments</b>	<b>4,054,604</b>									
<b>Investments held-to-maturity</b>	<b>675,633</b>				(9,609)			1	666,025	Held-to-maturity investments
Debt securities and other securities with fixed revenue	675,633									
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 2016

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	
<b>Investments available-for-sale</b>	<b>2,918,423</b>								Available-for-sale financial assets
<i>Shares, stakes and other securities with variable revenue</i>	60,397								
<i>Debt securities and other securities with fixed revenue</i>	2,453,777								
<i>Investment fund units</i>	404,249								
<i>Other investments available for sale</i>	-								
<b>Investments at fair value through profit and loss account</b>	<b>398,615</b>	283,716				(117,169)	-1	565,161	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>	4,629								
<i>Investment fund units</i>	378,718								
<i>Other investments</i>	15,268								
<b>Deposits, loans and receivables</b>	<b>61,933</b>				(292)		1	61,642	Loans and receivables
<i>Deposits with credit institutions (banks)</i>	6,394								
<i>Loans</i>	55,539								
<i>Other loans and receivables</i>	-								
<i>Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)</i>	-								
<b>INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS</b>	<b>283,716</b>	(283,716)							





## Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of financial position – Equity and liabilities as at 31 December 2016

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	
<b>CAPITAL AND RESERVES</b>	<b>930,785</b>						<b>930,785</b>	<b>Total equity</b>
<b>Subscribed capital</b>	<b>101,722</b>						101,722	Issued share capital
<i>Paid-up capital - ordinary shares</i>	101,722							
<i>Paid-up capital - preference shares</i>	-							
<i>Called up capital</i>	-							
<b>Issued shares premiums (capital reserves)</b>	<b>112,001</b>						112,001	Share premium
<b>Revaluation reserves</b>	<b>213,601</b>						213,601	Fair value reserve
<i>Land and buildings</i>	-							
<i>Financial investments</i>	213,601							
<i>Other revaluation reserves</i>	-							
<b>Reserves</b>	<b>25,052</b>						25,053	Legal reserve
<i>Legally stipulated reserves</i>	8,399					1		
<i>Statutory reserves</i>	16,654							
<i>Other reserves</i>	-							
<b>Transferred (retained) profit or loss</b>	<b>399,766</b>	78,642					478,408	Retained earnings
<i>Retained profit</i>	399,766							
<i>Transferred loss (-)</i>	-							
<b>Profit or loss of the current accounting period</b>	<b>78,642</b>							
<i>Profit of the current accounting period</i>	78,642	(78,642)						
<i>Loss of the current accounting period (-)</i>	-							
<b>SUBORDINATED LIABILITIES</b>	<b>-</b>							
<b>TECHNICAL PROVISIONS</b>	<b>3,420,020</b>				283,716		3,703,736	Insurance contract provisions
Unearned premiums, gross amount	295,191							
Mathematical provision, gross amount	2,576,377							
Provision for claims outstanding, gross amount	545,977							
Provisions for return of premiums depending and not depending on the result (bonuses and rebates), gross amount	2,246							
Equalisation provision, gross amount	-							
Other insurance technical provisions, gross amount	229							

**Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)****Statement of financial position – Equity and liabilities as at 31 December 2016**

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	
<b>LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount</b>	<b>283,716</b>			(283,716)			
<b>OTHER RESERVES</b>	-						
Provisions for pensions and similar liabilities	-						
Other provisions	-						
<b>DEFERRED AND CURRENT TAX LIABILITY</b>	<b>40,709</b>						
Deferred tax liability	40,709				1	40,710	Deferred tax liability
Current tax liability	-						Current income tax liability
<b>DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE</b>	-						
<b>FINANCIAL LIABILITIES</b>	-						
Liabilities on the basis of loans	-						
Liabilities on the basis of issued securities	-						
Other financial liabilities	-						
<b>OTHER LIABILITIES</b>	<b>200,336</b>		52,988		(1)	253,323	Insurance and other payables and deferred income
Liabilities from direct insurance business	121,593						
Liabilities from co-insurance and reinsurance business	60,318						
Liabilities for sale and ceased business	-						
Other liabilities	18,426						
<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>52,988</b>		(52,988)				
Deferred reinsurance commission	6,762						
Other accrued expenses and deferred income	46,226						
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>4,928,554</b>					<b>4,928,554</b>	<b>Total liabilities and equity</b>
Total liabilities and equity difference	-						
<b>OFF BALANCE SHEET ITEMS</b>	-						

## Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules

Statement of comprehensive income for year ended 31 December 2016

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	Statutory financial statements
<b>Earned premiums (recognised in revenue)</b>	<b>985,907</b>							1	<b>985,908</b>	<b>Net earned premiums</b>
Written gross premiums	1,116,063			1				1	1,116,065	Gross premiums written
Value adjustment and charged adjustment of insurance/coinsurance premium value	2			(1)				(1)		Written premiums ceded to reinsurers
Premiums ceded to reinsurance (-)	(131,766)								(131,766)	
Change in gross provisions for unearned premiums +/-	(2,560)								(2,560)	Change in the gross provision for unearned premiums
Change in provisions for unearned premiums, reinsurance share (+/-)	4,169								4,169	Reinsurers' share of change in the provision for unearned premiums
<b>Income from investments</b>	<b>180,711</b>					(37,030)		1	<b>143,682</b>	<b>Financial income</b>
Income from subsidiaries, associates and joint ventures	-									
Income from investment in land and buildings	2,112									
Interest income	132,473									
Unrealized profits from investment	10,171									
Realized profits from investment investments	17,076									
Net positive exchange rate differentials	3,075									
Other investment profits	15,804									



**Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)**

Statement of comprehensive income for year ended 31 December 2016

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 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	HRK'000	
<b>Income from commissions and fees</b>	<b>21,715</b>							(1)	21,714	Fee and commission income
<b>Other insurance-technical income, net of reinsurance</b>	<b>2,693</b>	(2,693)								
<b>Other income</b>	<b>3,528</b>	2,693				(14)	(890)	1	5,318	Other operating income
<b>Expenditures for insured events, net</b>	<b>(512,270)</b>									
Settled claims	(502,070)									
Gross amount (-)	(568,078)		568,078					(2)	(736,467)	Claims and benefits incurred
Reinsurer share(+)	66,008								49,219	Reinsurers' share of claims and benefits incurred
Change in provisions for claims outstanding (+/-)	(10,200)		(66,008)							
Gross amount (-)	6,622		(6,622)							
Reinsurer share(+)	(16,822)		16,822							
<b>Change in other technical provisions, net of reinsurance</b>	<b>(73,772)</b>									
Change in mathematical provision (+/-)	(76,345)									
Gross amount (-)	(76,343)		76,343							
Reinsurer share(+)	(3)		3							
Change in other technical provisions, net of reinsurance (+/-)	2,573									
Gross amount (-)	2,573		(2,573)							
Reinsurer share(+)	-									
<b>Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance(+/-)</b>	<b>(100,700)</b>									
Gross amount (-)	(100,700)		100,700							
Reinsurer share(+)	-									
<b>Expenditures for return of premium (bonuses and rebate), net of reinsurance +/-</b>	<b>(503)</b>		503							
Depending on the result (bonuses)	(503)									
Not depending on the result (rebates)	-									

## Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of comprehensive income for year ended 31 December 2016

Supplementary information prescribed by a decision of the Croatian  
Financial Services Supervisory Agency

	HRK'000	Transfer of 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	Statutory financial statements
<b>Business expenditures (for business operations), net</b>	<b>(355,590)</b>									
Acquisition costs	(174,936)							-	(174,936)	Acquisition costs
Commission	(150,771)									
Other acquisition costs	(25,508)									
Change in deferred acquisition costs( +/-)	1,344									
Administration costs	(180,654)							-	(180,654)	Administrative expenses
Depreciation of tangible assets	(11,404)									
Salaries, taxes and contributions to and from salaries	(70,708)									
Other administration costs	(98,543)									
<b>Investment expenses</b>	<b>(42,442)</b>					37,044		-	(5,398)	Financial expenses
Depreciation (buildings not intended for business operations of the company)	(1,249)									
Interest	-									
Investment value adjustment (reduction)	(567)									
Losses from sale (realization) of financial assets	(12,406)									
Net negative exchange rate differences	(21,911)									
Other investment expenses	(6,309)									
<b>Other technical expenses, net of reinsurance</b>	<b>(7,289)</b>				(1,531)		890	1	(7,929)	Other operating expenses
Expenses for preventive operations	(148)									
Other technical expenses of insurance	(7,141)									
<b>Other expenses including value adjustments</b>	<b>(1,531)</b>				1,531					
<b>Profit or loss of the accounting period before taxation (+/-)</b>	<b>100,457</b>							-	<b>100,457</b>	<b>Profit before income tax</b>

**Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)****Statement of comprehensive income for year ended 31 December 2016**

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	(21,815)							-	(21,815) Income tax expense
Current tax expense	(21,116)								
Deferred tax expense (income)	(699)								
<b>Profit or loss of the accounting period after taxation (+/-)</b>	<b>78,642</b>								<b>78,642 Profit for the year</b>
Attributable to owners of the parent	-								
Attributable to non-controlling interests	-								
<b>TOTAL INCOME</b>	<b>1,193,856</b>								
<b>TOTAL EXPENDITURE</b>	<b>(1,115,214)</b>								
<b>Other comprehensive income</b>	<b>69,152</b>							(2)	69,150 Change in fair value of available for sale financial assets, net of amounts realised and net of deferred tax
Profits/losses on revaluation of available for sale financial assets	79,928								
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	(10,776)								
<b>Total comprehensive income</b>	<b>147,794</b>							(2)	<b>147,792 Total comprehensive income for the year</b>
Attributable to owners of the parent	-								
Attributable to non-controlling interests	-								
<b>Reclassification adjustments</b>	<b>-</b>								

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## Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)

### Statement of the cash flow for the year ended 31 December 2016

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 140 to 141 (“HANFA CF”) differ significantly in the presentation from the Statement of cash flows (“CF”) forming a part of statutory financial statements, presented on page 19.

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.