

Allianz Zagreb d.d.

Annual report for 2018.

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Management Report

After a record economic growth in 2017, Croatia continued with a solid growth in 2018 with an increase in full year GDP by 2,6% fuelled with strong domestic consumption. Inflation is still subdued and after reaching 2% during summer months, inflation rate for the whole 2018 stabilized at the level of 1,5%. Labor market continued tightening, according to Eurostat measurement the unemployment rate reached 7,7% in December 2018. Good macroeconomic data from one side, and ECB monetary stimulus from the other side, led to narrowing of market spreads.

In 2018, rating agencies Fitch and S&P increased Croatia's credit rating to BB+ and improved outlook to positive. Accomplished positive economic growth and improvement of the main macroeconomic indicators, partially owing to excellent tourism season, create a positive atmosphere in the domestic economy, but still with a moderately positive effect on the development of the insurance sector.

In general, the previous year 2018 was a very successful year for the Croatian economy, with the positive outlook for the GDP growing trend and stable state budget in the next year. Positive effects of tightening labor market, some tax relief measures and moderate loan growth will likely keep domestic demand strong. In this regard, we expect that future positive progress in the economy will also make positive effects on the development of the insurance sector.

The Company's main focus was achieving the high profitability on stable portfolio as well as maintaining a high level of capital adequacy to ensure a safe and stable continuation of the business operations.

After the transformation of the sales network and the optimization and digitalization of back office, we fulfilled the prerequisites for achieving a high level of flexibility for market demands and new legal regulations as well.

In 2018 the main focus of the Company was to maintain stability of the sales network and to increase productivity. The company also improved the process of claims management and developed new simplified products (Moj Auto, Moj Dom) to offer completely new experience in the insurance market to current and new clients.

The Company expanded the business by entering the Slovenian market and opening an operating branch in Slovenia. The Company has a significant expectation in future premium growth both in retail and corporate segment due to high share of insurance premium in GDP on Slovenian market, good services recognized under Allianz brand and support by experienced Croatian team.

By entering a 15-year distribution contract with a leading bank in Croatian market, the Company strengthened its position in bankassurance channel on the insurance market.

During the whole previous years, the work on digitalization of business was continued through new digitally integrated solutions, simplified products, processes and timely and adequate responses to customer needs.

In addition to the market challenges, the new market regulations strongly affect the insurance industry.

After applying the Solvency II Directive, insurance companies are simultaneously adapting to new regulations such as GDPR, IDD, PRIIPS, whereas they continue to raise the level of transparency towards customers and strengthen the protection of their personal data.

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

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

Management Report (continued)

The business results accomplished during the year 2018 and during the previous years prove that we are on a good way to achieve our medium-term business plans and strengthen the position of Company both in the Croatian insurance market and new markets as well, all in line with the position of the Company brand in the global market.

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

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

2018 financial performance

Company continued its successful operations in the year 2018 which was marked with opening of Slovenian branch office, increasing productivity of sales network, new products offer and good customer relations. In 2018, the Company achieved a total gross premium in the amount of HRK 1,165.9 million (including reversal of receivables impairment), which is 1.4 % more than in the previous year.

In the life insurance market, the Company is ranked third with a market share of 16.4%, which decreased by 1.7 pp compared to the share in previous year (2017:18.1%). In non-life insurance segment, the Company's market share decreased by 0.4 pp to 9.7% (2017:10.1%) and the Company's market share in this segment decreased from third to fourth market position.

In non-life insurance segment, Company generated the gross premium income in the amount of HRK 651.3 million (including net bad debt provision), recording thus a growth in the premium income by 5.3%, thereby achieving better results in the market in almost all segments of non-life insurance, whereby a significant increase was recorded in health insurance, proving thus that this segment still has a great growth potential.

In life insurance, gross premium income fell by 3.1% and gross premium remained as high as HRK 514.6 million. A slight decline in life insurance is an expected result of a change in the life insurance portfolio and a shift from traditional insurance to unit linked products.

The Group's gross profit in 2018 reached HRK 150.9 million (Company: HRK 150.2 million), which is the highest gross profit in the history of Company. The Company's gross profit also increased both in life and non-life insurance primarily as a result of a stable claim quota, significant cost control and good investment result due to the conservative investment policy in place.

At the same time, the solvency limit, which is an important business quality indicator, was 228% (258%) and the combined quota was 82.5 % (90.42%) which is in line with our expectations.

Management Report (continued)

Expected future development

When comparing the Croatian market with markets in the rest of Europe, we can freely say that the Croatian insurance industry is still underdeveloped, which is particularly pronounced in the segment of life insurance (the share in the insurance premium in GDP by the end of 2018 was only 0.9%). Taking these facts into account, the Croatian insurance market is characterized by a significant growth potential that the Company intends to make advantage of it. Life insurance is one of the most important strategic products as a result of ageing population and the greater need of provision of pensions.

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

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

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

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

By entering the new market, the Company intends to acquire a 2% of the Slovenian insurance market, through nonlife and life insurance and increase its market share in the following manner:

- by offering wide product portfolio within the retail and corporate business segment;
- using geographic interconnection of two countries, acquired knowledge in the local market and immediate operational support and
- advantages of linguistic and cultural similarities, as well as existing commercial connections between Slovenia and Croatia.

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

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

Large growth potential is expected in bank insurance channel on both markets by strengthening the cooperation with Zagrebačka banka d.d. and Unicredit bank Slovenia d.d. under the umbrella of the Allianz & Unicredit regional partnership and exclusive contract signed for period of 15 years. Long-term experience in the sales of bancassurance on Croatia market and cooperation with the leading bank creates the prerequisites for the successful development of bancassurance business also in Slovenia.

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 2018 the Company did not acquire and release any treasury shares.

The Company subsidiaries

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

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

Total investment in subsidiaries at the end of 2018 amounted to HRK 176.5 million. There were no new acquisitions in 2018, only changes in share of the investment funds. Details about structure of the ownership are shown under note 1.15.

Post balance sheet events

There were no significant post balance sheet events.

Non financial report

The Company is according to Accounting law, article 21a. paragraph 7., exempt from non financial reporting as it is included as a subsidiary in consolidated non- financial reporting of Allianz SE which is prepared and issued in english located on web www.allianz.com/nf-report.

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.

Management Report (continued)

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

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.

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 or equal to 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 the 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 currency risk, 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 Company is exposed to credit risk also with regard to portfolio composition in which more than 50% represent government bonds with low credit rating.

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

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

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


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


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

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

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

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


President of the Management
Board
Zrinka Galić Jakovljević


Member of the Management
Board
Slaven Dobrić


Member of the Management
Board
Lukas Oliver Pavić

Corporate Governance Information

Statement on the corporate governance Code

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

General Assembly

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

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

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

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

The Supervisory Board

The Supervisory Board consists of three members. The Supervisory Board members are elected by the General Assembly for a period of four years and 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 adoption of 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 and decide, among other, about the following: appointment and dismissal of members of the Board of management, 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.

In addition to the competences and obligations of the Supervisory Board defined in Companies Act, the Supervisory Board of the insurance company has, in accordance to the Insurance act also the responsibilities to: give approval to the Management Board on the business policy 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 annual program of internal audit and to decide on other matters specified by the Insurance Act.

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 system of governance; monitor the implementation of the business policy of the insurance company, strategic goals and strategies and

policy of underwriting and risk management; monitor procedure of publishing informatio; 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 of shareholders 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, either a member of the Supervisory Board, or a members of his immediate family hasacquired, directly or indirectly, stocks and shares in a legal entity on the basis of which member of the Supervisory Board together with his family member reaches or exceeds the qualifying holding in that legal person, or their share falls below the qualifying holding.

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

Members of the Supervisory Board for business year 2018 and up to the date of issuing of these financial statements were as follows:

- Mr Petros Papanikolaou, President of the Supervisory Board,
- Mr Ivo Jelinović, Vice President of the Supervisory Board,
- Mr Mario Ferrero, Supervisory Board Member.

Corporate Governance Information (continued)

Management Board of the Company

The Management Board, consists of four (4) members one of whom 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 prior 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 Company's 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.

Management Board is responsible to inform the Supervisory Board in writing and without delay, of a 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 either a Management Board member or a member of his immediate family, has , 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 2018 were the following:

- Mr Boris Galić, President of the Management Board
- Mrs Zrinka Galić Jakovljević, member of the Board,
- Mr Slaven Dobrić, member of the Board,

Mr Hrvoje Smiljanić, member of the Board till the 10th October 2018. Therefore, Company ended the business year 2018 with three (3) Board members. However, in the first quarter of the business year 2019 a new Board Member has been appointed – Mr Lukas Oliver Pavić, (a Board Member from 8th March 2019) and the mandate of Mr Boris Galić, President of the Management Board, expired on the 10th April 2019. Mrs Zrinka Galić Jakovljević, who was at the time member of the Board, was temporarily appointed as the President of the Management Board. Mrs Galić Jakovljević will act temporarily as President of the Management Board - till the appointment of the new President of the Management Board.

Corporate Governance Information (continued)

The Audit Committee

According to the Audit Law, the Company has an Audit Committee consisting of three (3) members who are elected and recalled by the General Assembly.

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.

Governance and control Committee (GovCC)

In order to ensure structured and institutionalized cooperation on governance and control matters, the Company has established a Governance and Control Committee (furtheron referred to as GovCC). GovCC consists of key functions holders (including Legal and Accounting and Reporting as additional functions) and member of Board of Managment in charge of organizational governance. The main objective of the GovCC is to discuss, prepare and propose to the Management Board decisions related to implementation and maintainance of governance and control system. Existance of this Committee does not affect nor diminish in any way responsibilities of the memebrs of the Management Board arising from their regular roles in the Company.

Key functions

In order to implement and maintaine effective governance and internal and risk control system Company has also established the following key functions:

- compliance function;
- actuarial function,
- risk management function and
- internal audit function

Corporate Governance Information (continued)

Conflict of interest

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

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

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


President of the Management Board
 Zrinka Galić Jakovljević


Member of the Management Board
 Slaven Dobrić


Member of the Management Board
 Lukas Oliver Pavić

Allianz 
 Allianz Zagreb d.d.

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

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

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

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

The separate and consolidated financial statements set out on pages 20 to 139 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 140 to 156, and the reconciliation, presented on pages 157 to 166, of the Schedules with the financial statements were authorised by the Management Board on 17th April 2019 for issue to the Supervisory Board and are signed below to signify this.


The Management Board is also responsible for the preparation and content of the other information (Management Report as required by the Croatian Accounting Act and Corporate Governance Information). The Management Report set out on pages 1 to 6 and Corporate Governance Information set on pages 7 to 11 were authorised by the Management Board on 17th April 2019 and signed accordingly.



President of the Management Board
Zrinka Galić Jakovljević



Member of the Management Board
Slaven Dobrić



Member of the Management Board
Lukas Oliver Pavić

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Independent auditor's report to the Shareholders of ALLIANZ ZAGREB d.d.

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of ALLIANZ ZAGREB d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2018, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The separate financial statements of the Company and the consolidated financial statements of the Group comprise:

- separate and consolidated statements of financial position as at 31 December 2018;
- separate and consolidated statements of comprehensive income for the year then ended;
- separate and consolidated statements of changes in equity for the year then ended;
- separate and consolidated cash flow statements for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the separate and consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

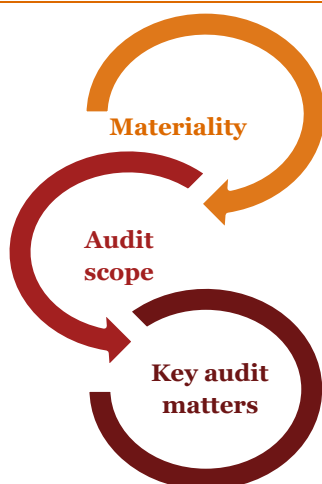
We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Company and the Group in the period from 1 January 2018 to 31 December 2018.

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Our audit approach

Overview



- Overall materiality for the separate financial statements of the Company as a whole: HRK 23 million, which represents 2 % of gross premiums written.
Overall materiality for the consolidated financial statements of the Group as a whole: HRK 23 million, which represents 2 % of gross premiums written.
- We audited the parent company, two domestic direct subsidiaries including asset manager and investment funds. Our audit scope addressed over 99.9% of the Group's revenues and over 99.9% of the Group's absolute value of underlying profit.
- Estimates used in calculation of insurance contract liabilities and Liability adequacy test (LAT)

As part of designing our audit we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate and consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate and consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate and consolidated financial statements as a whole.

Overall materiality for the financial statements as a whole

The Company: HRK 23 million
The Group: HRK 23 million

How we determined it

The Company: 2 % of gross premiums written
The Group: 2 % of gross premiums written

Rationale for the materiality benchmark applied

We chose gross premiums written as the benchmark because it is the benchmark against which the performance of the Company and the Group is measured, in terms of both its market share and customer base. We chose 2% which is consistent with quantitative materiality thresholds used for companies in this sector.



Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
<p><i>Estimates used in calculation of insurance contract liabilities and Liability adequacy test (LAT)</i></p> <p>Refer to note 1.6 ‘Principal assumptions that have the greatest effect on recognized insurance assets, liabilities, income and expenses’, note 1.7 ‘Liability adequacy test’ and note 1.21 ‘Insurance contract liabilities’.</p> <p>As at 31 December 2018, the Company and the Group had insurance contract liabilities of HRK 3.96 billion, representing 96% of the Company’s total liabilities (Group’s: 92%). This is an area that involves significant judgement over uncertain future outcomes, including primarily the timing and ultimate full settlement amount of long term policyholder liabilities, and therefore we considered it a key audit matter for our audit.</p> <p>Consistent with the insurance industry, the Company uses valuation models to support the calculations of the insurance contract liabilities. The complexity of the models may give rise to errors as a result of inadequate / incomplete data or the design or application of the models.</p>	<p>We used our own actuarial specialists to assist us in performing our audit procedures.</p> <p>In particular, our audit focused on the models considered more complex and / or requiring significant judgement in the setting of assumptions used in calculation of insurance contract liabilities or performing a liability adequacy test.</p> <p>We obtained the understanding of the internal actuarial process including management’s determination and approval process for setting of economic and actuarial assumptions. Our assessments also included challenging, as necessary, specified economic and actuarial assumptions considering management’s rationale for the actuarial judgments applied along with comparison to applicable industry experiences.</p> <p>We considered the appropriateness of actuarial judgements used in the models, which may vary depending on the product and / or the specifications of the product, and also the compliance of the models with the applicable accounting standards.</p> <p>Furthermore, by performing our recalculations of incurred but not reported provisions for the most significant lines of business (being 97% of total incurred but not reported provisions), and life assurance provision for the most significant products (being 71% of total life assurance provision), we have considered whether the models and systems were calculating the insurance contract liabilities accurately and completely.</p> <p>We tested the validity of management’s liability adequacy testing which is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. For the non-life part of the portfolio, we performed an independent assessment of provision for unearned premium adequacy. For the life part of the portfolio, we checked reasonableness of assumptions used in Company’s LAT and we validated used model on one policy sample.</p>



Key audit matter	How our audit addressed the Key audit matter
<p>Economic assumptions such as investment return and interest rates and actuarial assumptions such as mortality, longevity, customer behaviour, loss ratio and cost ratio are key inputs used to estimate these mainly long-term liabilities. Significant judgement is applied in setting these assumptions.</p> <p>The Company's IFRS liability adequacy test was performed in order to confirm that insurance contract liabilities were adequate in the context of expected future cash outflows.</p>	<p>The inputs used (amounts of gross written premium, provisions for unearned premium, incurred but not reported provisions and life assurance provision) were reconciled to the accounting records.</p> <p>Our work on the liability adequacy tests included assessing the reasonableness of the projected cash flows and challenging the assumptions adopted in the context of both the Company and industry experience and specific product features.</p> <p>Based on the evidence obtained, we found that the assumptions and data used within the models calculating insurance contract liabilities were reasonable. We consider management's conclusion to be consistent with the available information.</p> <p>As a result, the insurance contract liabilities are within a reasonable range of outcomes in the context of the uncertainties disclosed in the financial statements.</p> <p>We also assessed the adequacy of the disclosures regarding these liabilities in the financial statements and found them appropriate.</p>

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

As at 31 December 2018, the Group consists of the parent company, ALLIANZ ZAGREB d.d. and three direct subsidiaries. The Company also consolidates three investment funds that are under management of one of the direct subsidiaries. We audited the parent company, two domestic direct subsidiaries including asset manager and investment funds. One domestic direct subsidiary was not audited because it is immaterial to the Group as a whole.

Considering our ultimate responsibility for the opinion on the separate and consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, and component auditors operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Overall, our audit procedures covered over 99.9% of the Group in respect of revenue, profit after tax and total assets.



Reporting on other information including Management Report and Corporate Governance Statement

Management is responsible for the other information. The other information comprises the Annual Report of the Company and the Group, which includes the Management Report and Corporate Governance Statement, but does not include the separate and consolidated financial statements and our independent auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information, including the Management Report and Corporate Governance Statement.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 and 24 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the separate and consolidated financial statements are prepared is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act; and
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

Responsibilities of management and those charged with governance for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union and for such internal control as management determines is necessary to enable the preparation of 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 and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or the Group or to cease operations, or has no realistic alternative but to do so.

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



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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 and Group'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 or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's 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 independent auditor's report. However, future events or conditions may cause the Company or the Group 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.

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



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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company and the Group on 7 December 2017. This represents a first year of audit.

Other Legal and Regulatory Requirements

Based on the Ordinance on the form and content of financial statements and additional reports of insurance and reinsurance companies (Official Gazette 37/16 and 96/18), "Ordinance"), the Management Board of the Company created forms presented on pages 140 to 167, entitled the Statement of financial position of the Company as at 31 December 2018, and the Statement of comprehensive income, Statement of Cash flow and Statement of changes in equity of the Company for the year then ended together with information to reconcile the forms to the Company's financial statements. The Company's management is responsible for the preparation of these forms and information on reconciliation and they do not represent an integral part of these financial statements, but contain information required by the Ordinance. The financial information in the forms is based on the Company's separate financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as presented on pages 12 to 139 adjusted for the purposes of the Ordinance.

The engagement partner on the audit resulting in this independent auditor's report is Siniša Dušić.

PricewaterhouseCoopers d.o.o.
Heinzlova 70, Zagreb
17 April 2019

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Statements of financial position

As at 31 December

	Note	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Assets					
Property and equipment	1.11	37,338	40,475	33,000	35,959
Investment property	1.12	26,607	27,854	26,607	27,854
Intangible assets					
- Deferred acquisition costs	1.13	52,585	50,176	52,585	50,176
- Other intangible assets	1.14	182,449	18,366	180,469	16,556
Investments in subsidiaries	1.15	-	-	176,518	171,317
Held-to-maturity investments	1.16	609,477	594,092	577,970	584,788
Available-for-sale financial assets	1.16	3,076,853	3,445,878	3,076,337	3,255,939
Financial assets at fair value through profit or loss	1.16	717,820	580,035	601,834	510,020
Loans and receivables	1.16	31,669	50,436	35,277	38,480
Reinsurers' share of insurance contract liabilities	1.17	126,423	148,609	126,423	148,609
Deferred tax asset	1.18	27	38	-	-
Insurance receivables and other assets	1.19	178,467	188,139	178,230	187,769
Cash and cash equivalents	1.20	282,505	133,398	88,418	85,004
Total assets		5,322,220	5,277,496	5,153,668	5,112,471
Liabilities					
Insurance contract liabilities	1.21	3,964,393	3,890,241	3,964,393	3,890,241
Insurance and other payables and deferred income	1.22	301,160	334,545	133,092	169,492
Deferred tax liability	1.18	35,044	44,895	35,044	44,895
Current income tax liability		8,342	7,395	8,342	7,395
Total liabilities		4,308,939	4,277,076	4,140,871	4,112,023
Equity attributable to owners of the Company					
Issued share capital	1.23 (a)	101,722	101,722	101,722	101,722
Share premium	1.23 (b)	112,001	112,001	112,001	112,001
Fair value reserve	1.23 (c)	210,544	232,417	210,520	232,346
Legal reserve	1.23 (d)	25,053	25,053	25,053	25,053
Retained earnings		563,716	528,925	563,501	529,326
		1,013,036	1,000,118	1,012,797	1,000,448
Non-controlling interests		245	302	-	-
Total equity		1,013,281	1,000,420	1,012,797	1,000,448
Total liabilities and equity		5,322,220	5,277,496	5,153,668	5,112,471

Statements of comprehensive income

For the year ended 31 December

	Note	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Gross premiums written	1.24	1,165,901	1,149,959	1,165,901	1,149,959
Written premiums ceded to reinsurers	1.24	(93,662)	(89,038)	(93,662)	(89,038)
Net premiums written	1.24	1,072,239	1,060,921	1,072,239	1,060,921
Change in the gross provision for unearned premiums	1.24	(30,643)	(27,529)	(30,643)	(27,529)
Reinsurers' share of change in the provision for unearned premiums	1.24	9,142	(7,574)	9,142	(7,574)
Net earned premiums	1.24	1,050,738	1,025,818	1,050,738	1,025,818
Fee and commission income	1.25	9,008	10,636	7,477	11,415
Financial income	1.26	162,930	163,611	155,807	158,485
Other operating income	1.27	12,483	10,713	8,245	7,939
Net operating income		1,235,159	1,210,778	1,222,267	1,203,657
Claims and benefits incurred	1.28	(683,250)	(750,411)	(683,250)	(750,411)
Reinsurers' share of claims and benefits incurred	1.28	8,864	46,657	8,864	46,657
Net policyholder claims and benefits incurred	1.28	(674,386)	(703,754)	(674,386)	(703,754)
Acquisition costs	1.29	(165,989)	(163,778)	(163,375)	(163,538)
Administrative expenses	1.30	(169,228)	(169,099)	(161,691)	(160,092)
Other operating expenses	1.31	(12,696)	(10,024)	(12,840)	(10,967)
Financial expenses	1.32	(29,443)	(10,397)	(27,775)	(14,139)
Net foreign exchange translation losses on financial assets	1.33	(32,542)	(14,812)	(31,993)	(12,980)
Profit before income tax		150,875	138,914	150,207	138,187
Income tax expense	1.34	(26,398)	(25,228)	(26,289)	(25,266)
Profit for the year		124,477	113,686	123,918	112,921
Profit attributable to:					
- Owners of the Company		124,534	113,706	123,918	112,921
- Non-controlling interests		(57)	(20)	-	-
		124,477	113,686	123,918	112,921

Statements of comprehensive income (continued)

For the year ended 31 December

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Profit for the year	124,477	113,686	123,918	112,921
Other comprehensive income for the year				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax (Note 1.23c)	(21,873)	18,762	(21,826)	18,745
Total comprehensive income for the year	102,604	132,448	102,092	131,666
Attributable to:				
- Owners of the Company	102,661	132,468	102,092	131,666
- Non-controlling interests	(57)	(20)	-	-
	102,604	132,448	102,092	131,666

Statements of changes in equity

For the year ended 31 December

Group

	Attributable to owners of the Company						Non controlling interests HRK'000	Total equity HRK'000
	Issued share capital HRK'000	Share premium HRK'000	Fair value reserve HRK'000	Legal reserve HRK'000	Retained earnings HRK'000	Total HRK'000		
	At 1 January 2017	101,722	112,001	213,655	25,053	477,222		
Total comprehensive income for the year								
Change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.23c)	-	-	22,876	-	-	22,876	-	22,876
Deferred tax on change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.18; 1.23c)	-	-	(4,114)	-	-	(4,114)	-	(4,114)
<i>Other comprehensive income</i>	-	-	18,762	-	-	18,762	-	18,762
<i>Profit for the year</i>	-	-	-	-	113,706	113,706	(20)	113,686
Total comprehensive income for the year	-	-	18,762	-	113,706	132,468	(20)	132,448
Transactions with owners recognised directly in equity								
Dividend for 2016 paid (Note 1.23f)	-	-	-	-	(62,003)	(62,003)	-	(62,003)
At 31 December 2017	101,722	112,001	232,417	25,053	528,925	1,000,118	302	1,000,420
At 1 January 2018	101,722	112,001	232,417	25,053	528,925	1,000,118	302	1,000,420
Total comprehensive income for the year								
Change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.23c)	-	-	(26,663)	-	-	(26,663)	-	(26,663)
Deferred tax on change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.18; 1.23c)	-	-	4,790	-	-	4,790	-	4,790
<i>Other comprehensive income</i>	-	-	(21,873)	-	-	(21,873)	-	(21,873)
<i>Profit for the year</i>	-	-	-	-	124,534	124,534	(57)	124,477
Total comprehensive income for the year	-	-	(21,873)	-	124,534	102,661	(57)	102,604
Transactions with owners recognised directly in equity								
Dividend for 2017 paid (Note 1.23f)	-	-	-	-	(89,743)	(89,743)	-	(89,743)
At 31 December 2018	101,722	112,001	210,544	25,053	563,716	1,013,036	245	1,013,281

Statements of changes in equity

For the year ended 31 December

Company

	Issued share capital HRK'000	Share premium HRK'000	Fair value reserve HRK'000	Legal reserve HRK'000	Retained earnings HRK'000	Total HRK'000
At 1 January 2017	101,722	112,001	213,601	25,053	478,408	930,785
Total comprehensive income for the year						
Change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.23c)	-	-	22,859	-	-	22,859
Deferred tax on change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.18; 1.23c)	-	-	(4,114)	-	-	(4,114)
<i>Total other comprehensive income</i>	-	-	18,745	-	-	18,745
<i>Profit for the year</i>	-	-	-	-	112,921	112,921
Total comprehensive income for the year	-	-	18,745	-	112,921	131,666
Transactions with owners recognised						
Dividend for 2016 paid (Note 1.23f)	-	-	-	-	(62,003)	(62,003)
At 31 December 2017	101,722	112,001	232,346	25,053	529,326	1,000,448
At 1 January 2018	101,722	112,001	232,346	25,053	529,326	1,000,448
Total comprehensive income for the year						
Change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.23c)	-	-	(26,616)	-	-	(26,616)
Deferred tax on change in fair value of financial assets available for sale, net of amounts realised and impairment (Note 1.18; 1.23c)	-	-	4,790	-	-	4,790
<i>Total other comprehensive income</i>	-	-	(21,826)	-	-	(21,826)
<i>Profit for the year</i>	-	-	-	-	123,918	123,918
Total comprehensive income for the year	-	-	(21,826)	-	123,918	102,092
Transactions with owners recognised directly in equity						
Dividend for 2017 paid (Note 1.23f)	-	-	-	-	(89,743)	(89,743)
At 31 December 2018	101,722	112,001	210,520	25,053	563,501	1,012,797

Cash flow statements

For the year ended 31 December

		Group	Group	Company	Company
		2018	2017	2018	2017
	Notes	HRK'000	HRK'000	HRK'000	HRK'000
Cash flow from operating activities					
Profit after tax		124,477	113,686	123,918	112,921
Adjustments for:					
- Tax	1.34	26,398	25,228	26,289	25,266
- Depreciation of property and equipment	1.30	3,598	5,237	3,255	4,896
- Depreciation of investment property	1.32	1,247	1,249	1,247	1,249
- Change in deferred acquisition costs	1.29	(2,409)	(4,380)	(2,409)	(4,380)
- Amortisation of other intangible assets	1.30	8,686	6,717	8,067	6,151
- Net foreign exchange losses on financial assets	1.33	32,542	14,812	31,993	12,980
- Gain on disposal of property and equipment	1.11	(374)	(652)	(374)	(652)
- Unrealised losses/(gains) from financial assets at fair value through profit or loss	1.32	14,663	2,296	11,558	458
- Impairment losses on financial assets	1.34	11,330	8,832	11,285	8,787
- (Reversal of)/impairment losses on insurance receivables and other assets	1.19	794	(3,867)	794	(3,867)
- Interest and dividend income	1.26	(143,475)	(146,083)	(138,636)	(141,811)
		77,447	23,075	76,987	21,998
Changes in operating assets and liabilities					
Net decrease/(increase) in held-to-maturity investments		(22,759)	85,906	(428)	85,906
Net decrease/(increase) in available-for-sale financial assets		288,162	(390,766)	99,381	(340,782)
Net decrease/(increase) in financial assets at fair value through profit or loss		(152,467)	14,657	(103,350)	35,127
Net decrease/(increase) in loans and receivables		25,728	56,670	10,199	16,101
Net decrease/(increase) in reinsurance share in technical provisions		22,186	(1,212)	22,186	(1,212)
Net decrease/(increase) in insurance receivables and other assets		9,244	57,104	9,328	57,320
Net increase/(decrease) in insurance contract liabilities		74,152	186,505	74,152	186,505
Net increase/(decrease) in insurance and other payables		(33,483)	(55,338)	(36,400)	(81,692)
Cash generated from operations		288,210	(23,339)	152,055	(20,729)
Interest received		139,857	139,003	136,535	136,685
Dividend received		14,043	14,693	12,146	13,098
Income tax paid		(30,403)	(17,423)	(30,403)	(17,423)
Net cash from operating activities		411,707	112,874	270,333	111,631
Cash flows from investing activities					
Purchase of property and equipment	1.11	(541)	(1,448)	(377)	(646)
Purchase of other intangible assets	1.14	(172,771)	(6,664)	(171,980)	(5,748)
Proceeds from sale of property and equipment		455	930	455	930
Purchase of additional participation in the fund		-	-	(5,276)	(19,030)
Cash flows from investing activities		(172,857)	(7,182)	(177,178)	(24,494)
Cash flows from financing activities					
Dividend paid	1.23f	(89,743)	(62,003)	(89,743)	(62,003)
Net cash from financing activities		(89,743)	(62,003)	(89,743)	(62,003)
Net increase/(decrease) in cash and cash equivalents		149,107	43,689	3,414	25,134
Cash and cash equivalents at 1 January		133,398	89,709	85,004	59,870
Cash and cash equivalents at 31 December	1.20	282,505	133,398	88,418	85,004

1. Notes to the financial statements

1.1 Reporting entity

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

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

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

1.2 Basis of preparation

a) Statement of compliance

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

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

The financial statements were authorised for issue by the Management Board on 17th April 2019. The financial statements are prepared in English and Croatian language.

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

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

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

1.2 Basis of preparation (continued)

e) Consolidation

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

Business combinations

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

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

Subsidiaries

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

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

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

All notes in the financial statements that are related to insurance contracts are the same for the Company and the Group.

The Company entered Slovenian market in 2018 operating through a foreign branch. Financial statements of branch in Slovenia are fully merged with the Company.

Non-controlling interests

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

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

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.

1.2 Basis of preparation (continued)

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.

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 as a separate item 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 2018 was EUR 1 = HRK 7.417575 (31 December 2017 was EUR 1 = HRK 7.513648), and USD 1 = HRK 6.469192 (31 December 2017: USD 1 = HRK 6.269733).

g) Comparatives

	As originally reported		Reclassification		As reclassified	
	Group	Company	Group	Company	Group	Company
	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash and cash equivalents (a)	138,441	90,047	(5,043)	(5,043)	133,398	85,004
Investments in subsidiaries (b)	-	132,785	-	38,532	-	171,317
Financial assets at fair value through profit or loss (b)	618,567	548,552	(38,532)	(38,532)	580,035	510,020
Total assets	5,321,070	5,117,513	-	-	5,277,496	5,112,471
Liabilities						
Insurance and other payables and deferred income (a,b)	378,119	174,534	(43,575)	(5,043)	334,545	169,492
Total liabilities	4,320,650	4,117,065	-	-	4,277,076	4,112,023

a) In 2018, the Group and the Company eliminated the cash equivalent suspense accounts with the corresponding liability accounts.

b) Additionally, investment in Allianz Portfolio related to unit linked products was reclassified from Financial assets at fair value through profit or loss to Investment in subsidiaries and eliminated in the Group financial statements.

The above reclassifications noted a) and b) affected only statements of financial position and in respect of cash and cash equivalents statements of cash flows also. Statements of other comprehensive income and changes in equity were not affected. Impact on the statement of financial position on 31 December 2016 was not material.

1.2 Basis of preparation (continued)

h) Macroeconomics impact

Croatian economy outlook

Croatia continued with solid economic growth in 2018 as full-year GDP growth reached 2,6%, fueled by strong domestic consumption. Although, signs of decelerating economic activity have become evident in 2H18', growth was 0,8 p.p. higher than in euro area (EA). Inflation is still subdued and after reaching 2% during summer months, inflation rate for the whole 2018 stood at 1,5%. Labor market continued tightening, according to Eurostat measurement, unemployment rate reached 7,7% in December 2018 (-2,0 p.p. yoy). Industrial production fell 1,0% in 2018, while retail trade surged by 3,8%. Consumer confidence remained buoyant, as retail sales data showed consecutive annual growth each month since September 2014.

Touristic season was also strong, with tourist arrivals increasing 7,1% and nights spent by 4,0%. Export of goods surged by 4% in 2018, while import of goods surged 8% and export-import coverage ratio stood at 61,1% after first 11 months in 2018 (64,0% in 2017).

State budget should have been in balance in 2018 and according to previous Ministry of Finance statements, budget deficit should not have breached 0,5% of GDP. According to Eurostat data, in 3Q18' Public debt / GDP ratio was at 74,5% (-4,0 p.p. yoy). Good macroeconomic data from one side, and ECB monetary stimulus from the other side, led to spreads narrowing. In 2018, rating agencies Fitch and S&P increased Croatia's credit rating to BB+ and improved outlook to positive. Hence, Croatia is now one notch below investment grade rating.

In 2019, growth expectations are around 2,7%, while inflation rate should stay close to 1%. Planned budget deficit for 2019 is at 0,4% of GDP, and further debt reduction is expected to take place. Positive effects of tightening labor market, some tax relief measures and moderate loan growth will likely keep domestic demand strong. External risks are more pronounced than year before, related primarily to lower growth in EA, while internal risks are present in form of shipyard crisis (Uljanik). In medium term the risk is present in form of shrinking labor force and net negative demographic shift.

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.

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

Impact on customers

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

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

1.3 Significant accounting policies

(a) Property and equipment

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

Recognition and measurement

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

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

Reclassification to investment property

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

Subsequent costs

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

Depreciation

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

The estimated useful lives are as follows:

	2018	2017
• Buildings	40 years	40 years
• Motor vehicles	5 years	5 years
• Furniture	5 years	5 years
• Other equipment	4 years	4 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. Other intangible asset consists of internally developed software, computer software and exclusive distribution right.

Exclusive distribution right represents an exclusive right for 15-years distribution of insurance products through bank channel initially recognised in the amount of non-refundable upfront fee.

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.

1.3 Significant accounting policies (continued)

(b) Intangible assets (continued)

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 amortized. The estimated useful lives are as follows:

	2018	2017
• Internally developed software	5 years	5 years
• Computer software	5 years	5 years
• Exclusive distribution right	15 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.

(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:

• Investment property	2018	2017
	40 years	40 years

1.3 Significant accounting policies (continued)

(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.

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 2018, 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".

Significant accounting policies (continued)

d) Financial instruments (continued)

Fair value measurement

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

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

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

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

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

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. At the reporting date the Company did not have such financial instruments.

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:

- 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.

Significant accounting policies (continued)

d) Financial instruments (continued)

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.

Trade and other receivables

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

Investments in subsidiaries

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

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

Trade and other payables

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

Offsetting of financial instruments

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

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

(e) Leased assets

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

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

(f) Cash and cash equivalents

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

(g) Employee benefits

Pension obligations

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

Significant accounting policies (continued)

d) Financial instruments (continued)

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.

Other employee benefits

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

(h) Income tax

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

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

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

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

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

(i) Provisions

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

Restructuring

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

Onerous contracts

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

(j) Equity*Issued share capital*

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

Share premium

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

Repurchase of share capital

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

Dividends

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

Legal reserve

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

Fair value reserve

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

Retained earnings

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

(k) Impairment of non-financial assets

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

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

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) Segment reporting

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

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

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

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

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

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

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

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

Allocation of equity and assets

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

Significant accounting policies (continued)

k) 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.

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. Non-life reinsurance commissions that meet the definition as acquisition costs are accounted for in accordance with the deferred acquisition costs accounting policy.

(l) 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, marketing and advertising expenses.

Non-life commission expenses are recognised on an accrual 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, rent 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*”.

(m) 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.

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 on the way that guaranteed liabilities are increased by discretionary bonuses. 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 79.05 million of provision for discretionary profit participation bonuses (2017: HRK 82.0 million) which is included within the life assurance provision. From this amount HRK 34.5 million (2017: HRK 35.0 million) is not allocated to individual policyholders. From this amount the Group did not make allocations to policyholders in 2018 and recognised only negative FX differences of HRK 0.4 million. In 2017 the Group also did not make allocations to policyholder and recognized only negative FX differences of HRK 0.2 million.

(n) 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 impairment of amounts due from policyholders (older than 120 days) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

1.3 Significant accounting policies (continued)

(s) 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.

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.

(t) 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 2018 and 2017 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.

(v) 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.

(w) 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.

(x) Insurance receivables and payables

Insurance receivables and payables include receivables and payables arising from insurance and reinsurance contracts entered by the Group. Insurance receivables are recognized at their nominal contractual value. Insurance receivables are subsequently measured at amortized cost less any impairment allowance. An impairment allowance in the full amount is established for premium receivables that are overdue more than 120 days. Insurance payables are recognized at their nominal value due under the contract.

(y) New standards, amendments and interpretations

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2018:

IFRS 15 Revenue from contracts with customers and associated amendments to various other standards
(effective for annual periods beginning on or after 1 January 2018)

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

1.3 Significant accounting policies (continued)

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

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

Amendments to IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective for annual periods beginning on or after 1 January 2018 - IASB)

The amendments made to IFRS 2 in July 2016 clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in IFRS 2. Where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature.

Entities with the following arrangements are likely to be affected by these changes:

- equity-settled awards that include net settlement features relating to tax obligations
- cash-settled share-based payments that include performance conditions, and
- cash-settled arrangements that are modified to equity-settled share-based payments.

Annual improvements 2014-2016 cycle – amendments to IFRS 1 and IAS 28 (effective for annual periods beginning on or after 1 January 2018 - IASB)

The following improvements were finalised in December 2016:

- IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant.

IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

1.3 Significant accounting policies (continued)

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

Transfers of Investment Property – Amendments to IAS 40 (effective for annual periods beginning on or after 1 January 2018 - IASB)

The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer.

The list of evidence for a change of use in the standard was re-characterised as a non-exhaustive list of examples to help illustrate the principle.

The Board provided two options for transition:

- prospectively, with any impact from the reclassification recognised as adjustment to opening retained earnings as at the date of initial recognition, or
- retrospectively - only permitted without the use of hindsight.

Additional disclosures are required if an entity adopts the requirements prospectively.

Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018 - IASB)

The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

Entities can choose to apply the interpretation:

- retrospectively for each period presented
- prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or
- prospectively from the beginning of a prior reporting period presented as comparative information.

The following standards and interpretations had been issued but were not mandatory for annual reporting periods ending 31 December 2018:

IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021 - IASB) -- **NOT YET ENDORSED BY EU**

IFRS 17, Insurance Contracts was issued by the IASB in May 2017 with the effective date of 1st January 2021 (retrospective application). IFRS 17 provides comprehensive guidance on accounting for reinsurance contracts and investment contracts discretionary participation features. For non-life insurance contracts IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk. Further IFRS 17 will change the presentation of insurance contract revenue, a gross written premium will no longer be presented in the statement of comprehensive income. For long-duration life insurance contracts, IFRS 17 is expected to have significant impact on actuarial modelling as more granular cash flow projections and regular updates of all assumptions will be required, either resulting in profit or loss or impacting the “contractual service margin”, a separate component of the insurance liability representing unearned profits from in-force contracts. Further, IFRS 17 introduces different measurement approaches for the insurance contract liabilities, reflecting a different extent of policyholder participation in investment or insurance entity performance. Due to strong interaction between underlying assets held and the measurement of direct participating insurance contracts, the Allianz Group decided to use the option to defer the full implementation of IFRS 9 until IFRS 17 becomes effective. The amendment to IFRS 4, which allows this deferral, has been endorsed by the EU in November 2017. The application of IFRS 17 will have a material impact on financial statements of the Company. However, quantitative effect of the adoption is currently not available.

1.3 Significant accounting policies (continued)

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

IFRS 9 Financial Instruments and associated amendments to various other standards (effective for annual periods beginning on or after 1 January 2018)

IFRS 9, issued by the IASB in July 2014, fully replaces IAS 39 and provides a new approach on how to classify financial instruments based on their cash flow characteristics and the business model under which they are managed. Furthermore, the standard introduces a new forward looking impairment model for debt instruments and provides new rules for hedge accounting.

It can be assumed that the main impact from IFRS 9 will arise from the new classification rules leading to more financial instruments being measured at fair value through profit and loss as well as the new impairment model. Interdependencies with IFRS 17 will need to be considered to assess the ultimate combined impact of both standards.

The amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts issued in September 2016 allow entities that issue insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 until 1 January 2021 under certain circumstances. It is to be noted that the IASB has recently proposed to defer the IFRS 9 effective date for such entities in scope by another year until 2022.

Given the strong interrelation between the two standards, the Group has decided to use the option to defer the full implementation of IFRS 9 until IFRS 17 becomes effective.

In order to qualify for the temporary exemption an entity has to prove that its activities are predominantly connected to insurance as of 31 December 2015. Under the amended IFRS 4, this condition is met if the insurer carries significant liabilities arising from contracts within the scope of IFRS 4. Significant insurance-related liabilities are given, among others, if the percentage of the total carrying amount of liabilities connected with insurance relative to the total carrying amount of all liabilities is greater than 90 %. A reassessment at a subsequent annual reporting date is required if, and only if, there was a change in the entity's activities during the annual period that ended on that date.

The following table provides an overview of the fair values as of 31 December 2018 and the amounts of change in the fair values during the reporting period separately for financial assets that meet the SPPI criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading in IFRS 9, or that is managed and whose performance is evaluated on a fair value basis) and all other financial assets:

1.3 Significant accounting policies (continued)

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

HRK ths

As of 31 December 2018	Financial assets that meet the SPPI criterion				All other financial assets		
	Classification according to IAS 39	Book value	Fair Value	Fair Value Change during the reporting period	Book value	Fair Value	Fair Value Change during the reporting period
Cash and cash-equivalents	LO&RE	95.193	95.193	0	0	0	0
Debt securities		2.918.641	2.948.037	-4.163	332.797	347.412	-326
Government and government agency bonds	AFS	2.620.887	2.620.887	-3.094	46.119	46.119	-1.593
Government and government agency bonds	HTM	293.768	323.164	-1.069	284.202	298.816	1.427
Corporate bonds	AFS	3.987	3.987	0	2.476	2.476	-160
Subtotal		3.013.834	3.043.230	-4.163	332.797	347.412	-326
Equity securities	AFS	0	0	0	50.390	50.390	383
Financial assets for unit-linked contracts	FVTPL	0	0	0	520.094	520.094	0
Derivative financial instruments	FVTPL	0	0	0	4.721	4.721	-218
Other	AFS	0	0	0	362.106	362.106	-9.501
Other	FVTPL	0	0	0	238.227	238.227	-88
Other	LO&RE	22.171	22.171	0	6.528	6.528	0
Total		3.036.005	3.065.401	-4.163	1.514.863	1.529.477	-9.750

The financial assets for unit-linked contracts are exclusively held on behalf and for the benefit of unit-linked policyholders. To ensure consistency with the corresponding accounting treatment for the unit-linked contracts, these investments are designated at fair value through income under current accounting rules. This treatment is going to be maintained under the future IFRS 9 regime accordingly.

The following table provides information about the credit risk exposures for financial assets with contractual terms that meet the SPPI criterion. It includes the carrying amounts applying IAS 39 (in the case of financial assets measured at amortized cost, before adjusting for any impairment allowances):

As of 31 December 2018	Cash and cash equivalents	Government and government agency bonds	Corporate bonds
Investment grade			
AAA		260.091	
AA		79.995	
A		273.722	
BBB		13.987	
BB		2.286.860	
Non-investment grade			
Not rated	22.171		3.987
Total	22.171	2.914.654	3.986.738

The publicly available IFRS 9 information disclosed by some subsidiaries that already apply IFRS 9 is not material from the Group's perspective.

1.3 Significant accounting policies (continued)

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

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019 - *early adoption is permitted only if IFRS 15 is adopted at the same time*)

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

As at the reporting date, the Group has non-cancellable operating lease commitments of HRK 104,479 thousand. Of these commitments, approximately HRK 859 thousand relate to short-term leases and HRK 987 thousand to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately HRK 77,370 thousand on 1 January 2019 and lease liabilities of HRK 77,370 thousand.

The group expects that net profit before tax will decrease by approximately HRK 639 thousand for 2019 as a result of adopting the new rules.

The group will apply the standard from its mandatory adoption date of 1 January 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Prepayment features with negative compensation – amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019 - IASB)

The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

Interpretation 23 (IFRIC 23) Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019)

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

1.3 Significant accounting policies (continued)

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

Annual Improvements for IFRSs 2015-2017 cycle • amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (effective for annual periods beginning on or after 1 January 2019 - IASB) - NOT YET ENDORSED BY EU

The following improvements were finalised in December 2017:

- IFRS 3 - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.
- IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- IAS 23 - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 – EU endorsement is postponed as IASB effective date is deferred indefinitely

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a ‘business’ (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor’s investors in the associate or joint venture. The amendments apply prospectively.

In December the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020) - NOT YET ENDORSED BY EU

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020) - NOT YET ENDORSED BY EU

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

1.4 Accounting estimates and judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Judgements relating to insurance contract liability 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

Estimation of uncertainty in relation to reserving for the Company

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

The Company'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 assessed.

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 liabilities are analysed in Note 1.21.

Estimation of uncertainty in relation to court claims for the Group and the Company

A significant source of estimation uncertainty stems from court claims. At 31 December 2018, the Group was involved in 1,127 (2017: 1,214) court cases for which HRK 125,029 thousand (2017: HRK 130,046 thousand) was provided as part of the claims reserve for reported but not yet settled claims, excluding Dunav claims which are discussed in Note 1.6. The Management Board believes that the related provisions are sufficient.

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

The Group and the Company recognised a provision of HRK 1,397 thousand (2017: HRK 1,651 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.

1.4 Accounting estimates and judgements (continued)

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

Financial asset and liability classification for the Group and the Company

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 Company has the positive intention and ability to hold these investments to maturity.

Control over Allianz Invest managed, open ended investment funds

The Company's stakes in Allianz Portfolio at 31 December 2018 was 9.57% (along with unit linked investments 55.74%) (2017: 11.08% and 54.02%), in Allianz Short Term Bond 58.1% (2017: 61.04%) and in Allianz Equity 19.88% (2017: 18.21%).

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 one of the open-ended funds at 31 December 2018, the management believes it is appropriate to conclude that all funds are subsidiaries as the Company controls the asset manager and is by far the biggest single investor.

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 1.0 million. For the accumulation of net property losses arising out of one occurrence, a reinsurance catastrophe treaty provides cover for EUR 118.5 million (2017: EUR 113.5 million) of losses exceeding the first EUR 1.5 million (2017: EUR 1.5 million).

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

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

1.5 Insurance risk management (continued)

Concentration of insurance risk

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

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

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

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

	2018 Group and Company			2017 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)	(50,051)	(1,560)	(51,611)	(45,948)	3,142	(42,806)
Motor (other classes)	(64,962)	1,596	(63,366)	(54,617)	-	(54,617)
Property	(127,042)	15,974	(111,068)	(155,620)	47,445	(108,175)
Personal lines	(19,948)	(99)	(20,047)	(16,781)	1,266	(15,515)
Other	569	(8,008)	(7,439)	(14,288)	(5,498)	(19,786)
Total non-life	(261,434)	7,903	(253,531)	(287,254)	46,355	(240,899)
<i>Life assurance business</i>						
Periodic premiums	(233,528)	961	(232,567)	(258,086)	302	(257,784)
Single premiums	(188,288)	-	(188,288)	(205,071)	-	(205,071)
Total life	(421,816)	961	(420,855)	(463,157)	302	(462,855)
<i>Thereof unit linked and index linked</i>	(178,770)	-	(178,770)	(151,496)	-	(151,496)
Grand total	(683,250)	8,864	(674,386)	(750,411)	46,657	(703,754)

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 (2017: 2,5%) . 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 2018 a percentage of 6% (2017: 6%) was used for both provisions except for claims greater than HRK 6.5 million, which are provided for individually.

Dunav osiguranje claims

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

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

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

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

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

At the reporting date, however, management has provided HRK 1.83 million (2017: HRK 1.89 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 2018, the Company paid out HRK 22 thousand (2017: 355 thousand) in respect to these claims either per court rulings or through out-of-court settlement.

In 2018, 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 1.1.2011. and 30.6.2016.
- 1.75% for policies issued between 1.7.2016. and 31.12.2017.
- 1% for policies issued after 1.1.2018.

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:

Products	Mortality tables used in 2018	Rates of interest for calculating reserve at 31 December 2018	Mortality tables used in 2017	Rates of interest for calculating reserve at 31 December 2017
MZ4, MZ4-J	MT RH 1989-91(less 30% smoothed)	2,75%	MT RH 1989-91(less 30% smoothed)	2,75%
M1, M2, M2-J, MZ1, M3, M3-J, MZ2, S1, S1-J	MT RH 2000-02	3,30%	MT RH 2000-02	3,30%
S1, S1-J (beginning in 2010)		3,00%		3,00%
M4, M4-J, M6J, M6DJ, M5, MZ5, IL, SPI-01		2,75%		2,75%
S3, S3-J, SDJ03, S3U, S3U-J, SDJU03, MB1-J		2,50%		2,50%
S3U, S3U-J, SDJU03 (issue date from 01.07.2016)		1,75%		1,75%
M5U-J, MZ5U-J, M6UJ, M6DUJ	MT RH 2000-02, unisex	2,75%	MT RH 2000-02, unisex	2,75%
M5U, M4U-J, MZ5U, MZ4U-J, M7U-J, MB1U-J, RNP-150		2,50%		2,50%
RNP1-150		0,00%		0,00%
M1-J, MZ2-J, D1	MT RH 2010-12	3,30%	MT RH 2010-12	3,30%
D1 (beginning in 2010)		3,00%		3,00%
M5-50, MZ5-50, DJ01, DJ01-J		2,75%		2,75%
S4UN, S4UN-J		1,00%		
S4UP, S4UP-J	MT RH 2010-12, adjusted for smokers (WHO index)	1,00%		
M5U-50, MZ5U-50, DJ02, DJ02-J	MT RH 2010-12, unisex	2,50%	MT RH 2010-12, unisex	2,50%
M6U, M8U-J, MZ6U, MZ8U-J, MB2U-J, DJ03, DJ03-J, ULNZ, ULR		0,00%		0,00%
TB1, DJTB01, DJTB01-J, TBZ1		2,75%		2,75%
DJTB02, DJTB02-J	MT RH 2010-12, incidence rates from Republic of Slovakia	2,50%	MT RH 2010-12, incidence rates from Republic of Slovakia	2,50%
DJTB02, DJTB02-J (issue date from 01.07.2016), DJTB03		2,50%		2,50%
		1,75%		1,75%

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

Life assurance (continued)

Products	Mortality tables used in 2018	Rates of interest for calculating reserve at 31 December 2018	Mortality tables used in 2017	Rates of interest for calculating reserve at 31 December 2017
TB5, TB5-U, TBZ5, TBZ5-U	MT RH 2010-12, incidence rates from GenRe	2,75%	MT RH 2010-12, incidence rates from GenRe	2,75%
TB5U, TB5U-U, TBZ5U, TBZ5U-U, TBZ5, TBZ5-U	MT RH 2010-12, incidence rates from GenRe, unisex	2,50%	MT RH 2010-12, incidence rates from GenRe, unisex	2,50%
TB5U, TB5U-U, TBZ5U, TBZ5U-U (issue date from 01.07.2016)		1,75%		1,75%
TB6UJ-U		0,00%		0,00%
RM1	Mix of German tables DA V1994R and MT RH 1989-91	3,30%	Mix of German tables DA V1994R and MT RH 1989-91	3,30%
RND-100, RND-150	Mix of German tables	2,50%	Mix of German tables	2,50%
RND1-100, RND1-150, RND2-100, RND2-150	DA V2004R and MT RH 2000-	0,00%	DA V2004R and MT RH 2000-	0,00%
BD1	MT RH 2010-12, incidence rates derived from data given by Croatian national institute of public health	2,75%	MT RH 2010-12, incidence rates derived from data given by Croatian national institute of public health	2,75%
BD1U	MT RH 2010-12, incidence rates derived from data given	2,50%	MT RH 2010-12, incidence rates derived from data given	2,50%
BD1U (issue date from 01.07.2016)		1,75%		1,75%
SSIUN, SSIUPN	MT SLO 2007	1,00%		
SSIUS	Adjusted Swiss Re MT, unisex	1,00%		
STB1UN	Adjusted Swiss Re MT, unisex; incidence rates from Swiss RE	1,00%		

Policyholder bonuses

Discretionary bonuses

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

Guaranteed bonus

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

1.7 Liability adequacy test

Life assurance

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

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

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

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

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

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

The principal assumptions used are:

Segmentation

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

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

Mortality and morbidity

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

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

Persistency

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

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

Expenses

Estimations of future renewal and maintenance expenses included in the liability adequacy test are derived from the Group’s current experience. For future periods cash flows for expenses have been increased by a factor equal to the Group’s estimate of annual inflation (2.2%).

1.7 Liability adequacy test (continued)

Life assurance (continued)

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.

Interest rate guarantee

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

Profit sharing

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

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

LAT result

At year end the Company recognised HRK 1,031 thousand (2017: HRK 1,097 thousand) as a result of liability adequacy test for life assurance.

Non-life insurance

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

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

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

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

At year end no reserves for unexpired risk have been recognized as a result of liability adequacy testing (2017: 1,632 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 2018 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

	2018	2017
	HRK'000	HRK'000
Base run	2,752,361	2,612,210
Risk free rate +100bp	2,571,318	2,403,778
Risk free rate –100bp	2,948,299	2,852,828
Mortality (for products with death risk) +15%	2,760,682	2,620,405
Policy maintenance expenses +10%	2,789,295	2,649,812
Expense inflation +1%	2,776,105	2,637,758

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

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

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

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

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

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

Non-life insurance

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

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

Non-life insurance contracts

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

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.

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

Property insurance

This is broadly split into industrial, commercial and personal lines. For industrial lines and large commercial risks the Group uses underwriting 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.

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)

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 either required by law or on voluntary basis. 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 79,45% (2017: 82,72%) 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

There is a currency clause for all life products (amount of premium and sum assured is given in EUR or USD) and may be payable in regular instalments or as a single premium at inception of the policy. The premium is paid and sum assured payable in Croatian kuna with EUR or USD currency clause. 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 assurance products providing life-long financial protection. Many long-term policies give to the insurers 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. The premium is payable at once or in instalments. 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 Nikei 225 index with maturity benefit guarantee and minimum death benefit guarantee.

Annuity insurance

The Group has one active annuity product: immediate lifelong annuity. Policies are paid by single premium. After payment monthly annuity should be paid.

The Group does not have an active immediate temporary risk annuity and deferred lifelong annuity product. Policyholders can regularly pay premiums for deferred lifelong annuity 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. Segment reporting is presented only for the Group as the Non-life insurance and Life assurance segment relate to the Company and the segment Other relates to the consolidated subsidiaries and investment funds.

Note 1.9 of these financial statements provides further information about significant terms and conditions of insurance products.

The chief operating decision maker of the Group and the Company are Members of the Management Board of the Company.

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

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.

In 2018, the Company expanded the insurance business on Slovenian market by opening a foreign branch in Slovenia.

1.10 Segment reporting (continued)

Consolidated statement of financial position by business segment as at 31 December 2018

	Non-life HRK'000	Life HRK'000	Other HRK'000	Total HRK'000
Assets				
Property and equipment	33,000	-	4,338	37,338
Investment property	26,607	-	-	26,607
Intangible assets				
- Deferred acquisition costs	51,091	1,494	-	52,585
- Other intangible assets	51,397	129,072	1,980	182,449
Held-to-maturity investments	73,455	504,515	31,507	609,477
Available-for-sale financial assets	765,095	2,311,242	516	3,076,853
Financial assets at fair value through profit or loss	29,721	572,113	115,986	717,820
Loans and receivables	16,622	18,655	(3,608)	31,669
Reinsurers' share of insurance contract liabilities	125,435	988	-	126,423
Deferred tax asset	-	-	27	27
Insurance receivables and other assets	158,945	19,285	237	178,467
Cash and cash equivalents	30,123	58,295	194,087	282,505
Total assets	1,361,491	3,615,659	345,070	5,322,220
Liabilities				
Insurance contract liabilities	802,792	3,161,601	-	3,964,393
Insurance and other payables and deferred income	90,862	42,229	168,069	301,160
Deferred tax liabilities	3,562	31,482	-	35,044
Current income tax liability	4,997	3,345	-	8,342
Total liabilities	902,213	3,238,657	168,069	4,308,939
Equity				
Issued share capital	71,722	30,000	-	101,722
Share premium	31,501	80,500	-	112,001
Fair value reserve	33,755	176,765	24	210,544
Legal reserve	22,655	2,398	-	25,053
Retained earnings	324,566	238,935	215	563,716
Total equity attributable to equity holders of the Company	484,199	528,598	239	1,013,036
Non-controlling interests	-	-	245	245
Total equity	484,199	528,598	484	1,013,281
Total liabilities and equity	1,386,412	3,767,255	168,553	5,322,220

1.10 Segment reporting (continued)

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

	Non-life HRK'000	Life HRK'000	Other HRK'000	Total HRK'000
Assets				
Property and equipment	35,959	-	4,516	40,475
Investment property	27,854	-	-	27,854
Intangible assets				
- Deferred acquisition costs	48,861	1,315	-	50,176
- Other intangible assets	16,556	-	1,810	18,366
Held-to-maturity investments	73,780	511,008	9,304	594,092
Available-for-sale financial assets	790,015	2,465,924	189,939	3,445,878
Financial assets at fair value through profit or loss	38,299	510,253	31,483	580,035
Loans and receivables	18,308	20,172	11,956	50,436
Reinsurers' share of insurance contract liabilities	147,650	959	-	148,609
Current income tax prepayment	5,373	-	(5,373)	-
Deferred tax asset	-	-	38	38
Insurance receivables and other assets	183,550	4,218	370	188,138
Cash and cash equivalents	25,188	59,817	48,394	133,399
Total assets	1,411,393	3,573,666	292,437	5,277,496
Liabilities				
Insurance contract liabilities	817,676	3,072,565	-	3,890,241
Insurance and other payables and deferred income	135,722	33,770	165,053	334,545
Deferred tax liabilities	4,870	40,025	-	44,895
Current income tax liability	-	12,768	(5,373)	7,395
Total liabilities	958,268	3,159,128	159,680	4,277,076
Equity				
Issued share capital	71,722	30,000	-	101,722
Share premium	31,501	80,500	-	112,001
Fair value reserve	38,886	193,460	71	232,417
Legal reserve	22,655	2,398	-	25,053
Retained earnings	314,324	215,002	(401)	528,925
Total equity attributable to equity holders of the Company	479,088	521,360	(330)	1,000,118
Non controlling interests	-	-	302	302
Total equity	479,088	521,360	(28)	1,000,420
Total liabilities and equity	1,437,356	3,680,488	159,652	5,277,496

1.10 Segment reporting (continued)

Consolidated statement of comprehensive income by business segment for the year ended 31 December 2018

	Non-life HRK'000	Life HRK'000	Other HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	651,324	514,577	-	-	1,165,901
Written premiums ceded to reinsurers	(90,598)	(3,064)	-	-	(93,662)
Net premiums written	560,726	511,513			1,072,239
Change in the gross provision for unearned premiums	(29,300)	(1,343)	-	-	(30,643)
Reinsurers' share of change in the provision for unearned premiums	9,141	1	-	-	9,142
Net earned premiums	540,567	510,171	-	-	1,050,738
Fees and commission income	4,097	3,380	5,638	(4,107)	9,008
Financial income	33,501	122,306	7,252	(129)	162,930
Other operating income	8,151	93	5,730	(1,491)	12,483
Operating income	586,316	635,950	18,620	(5,727)	1,235,159
Claims and benefits incurred	(261,434)	(421,816)	-	-	(683,250)
Reinsurers' share of claims and benefits incurred	7,903	961	-	-	8,864
Net policyholder claims and benefits incurred	(253,531)	(420,855)	-	-	(674,386)
Acquisition costs	(137,233)	(26,142)	(4,571)	1,957	(165,989)
Administrative expenses	(106,195)	(55,483)	(8,897)	1,347	(169,228)
Other operating expenses	(10,909)	(1,931)	-	144	(12,696)
Financial expenses	(3,055)	(24,721)	(4,020)	2,353	(29,443)
Net foreign exchange translation losses on financial assets	(1,272)	(30,721)	(549)	-	(32,542)
Profit before income tax	74,121	76,097	583	74	150,875
Income tax expense	(14,472)	(11,817)	(98)	(11)	(26,398)
Profit for the year	59,649	64,280	485	63	124,477
Profit attributable to					
-Equity holders of the Company	59,649	64,280	485	63	124,477
-Non-controlling interests	-	-	(57)	-	(57)
Other comprehensive income					
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax	(5,128)	(16,697)	(48)	-	(21,873)
Total comprehensive income for the year	54,508	47,583	438	75	102,604
Attributable to					
-Equity holders of the Company	54,508	47,583	495	75	102,661
-Non-controlling interests	-	-	(57)	-	(57)
	54,508	47,583	438	75	102,604

1.10 Segment reporting (continued)

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

	Non-life HRK'000	Life HRK'000	Other HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	618,681	531,278	-	-	1,149,959
Written premiums ceded to reinsurers	(85,651)	(3,387)	-	-	(89,038)
Net premiums written	533,030	527,891	-	-	1,060,921
Change in the gross provision for unearned premiums	(26,540)	(989)	-	-	(27,529)
Reinsurers' share of change in the provision for unearned premiums	(7,559)	(15)	-	-	(7,574)
Net earned premiums	498,931	526,887	-	-	1,025,818
Fees and commission income	9,326	2,089	5,922	(6,701)	10,636
Financial income	39,965	118,519	5,495	(368)	163,611
Other operating income	7,328	611	4,732	(1,958)	10,713
Operating income	555,550	648,106	16,149	(9,027)	1,210,778
Claims and benefits incurred	(287,254)	(463,157)	-	-	(750,411)
Reinsurers' share of claims and benefits incurred	46,355	302	-	-	46,657
Net policyholder claims and benefits incurred	(240,899)	(462,855)	-	-	(703,754)
Acquisition costs	(130,674)	(32,864)	(4,792)	4,552	(163,778)
Administrative expenses	(113,736)	(46,356)	(10,022)	1,015	(169,099)
Other operating expenses	(8,684)	(2,283)	-	943	(10,024)
Financial expenses	(1,144)	(12,994)	1,375	2,366	(10,397)
Net foreign exchange translation financial assets	(150)	(12,830)	(1,832)	-	(14,812)
Profit before income tax	60,263	77,924	878	(151)	138,914
Income tax expense	(10,867)	(14,399)	38	-	(25,228)
Profit for the year	49,396	63,525	916	(151)	113,686
Profit attributable to					
-Equity holders of the Company	49,396	63,525	936	(151)	113,706
-Non-controlling interests	-	-	(20)	-	(20)
Other comprehensive income					
Change in fair value of available-for-sale financial assets, net of amounts realised and net of deferred tax	2,661	16,085	16	-	18,762
Total comprehensive income for the year	52,057	79,610	932	(151)	132,448
Attributable to					
- Equity holders of the Company	52,057	79,610	952	(151)	132,468
-Non-controlling interests	-	-	(20)	-	(20)
	52,057	79,610	932	(151)	132,448

1.11 Property and equipment

Group

	Land and buildings HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Acquired but not brought into use HRK'000	Total HRK'000
Cost					
At 1 January 2017	41,133	6,184	45,210	257	92,784
Additions	-	76	769	603	1,448
Transfer into use	-	-	55	(55)	-
Disposals	-	(2,048)	(3,470)	-	(5,518)
	<u>41,133</u>	<u>4,212</u>	<u>42,564</u>	<u>805</u>	<u>88,714</u>
At 31 December 2017	41,133	4,212	42,564	805	88,714
At 1 January 2018	41,133	4,212	42,564	805	88,714
Additions	-	-	532	9	541
Disposals	-	(1,298)	(1,908)	-	(3,206)
	<u>41,133</u>	<u>2,914</u>	<u>41,188</u>	<u>814</u>	<u>86,049</u>
At 31 December 2018	41,133	2,914	41,188	814	86,049
Depreciation and impairment losses					
At 1 January 2017	6,183	4,759	37,300	-	48,242
Depreciation charge for the year (Note 1.30)	909	972	3,355	-	5,236
Disposals	-	(1,915)	(3,325)	-	(5,240)
	<u>7,092</u>	<u>3,816</u>	<u>37,330</u>	<u>-</u>	<u>48,238</u>
At 31 December 2017	7,092	3,816	37,330	-	48,238
At 1 January 2018	7,092	3,816	37,330	-	48,238
Depreciation charge for the year (Note 1.30)	909	326	2,363	-	3,598
Disposals	-	(1,290)	(1,835)	-	(3,125)
	<u>8,001</u>	<u>2,852</u>	<u>37,858</u>	<u>-</u>	<u>48,711</u>
At 31 December 2018	8,001	2,852	37,858	-	48,711
Carrying amounts					
At 1 January 2017	34,950	1,425	7,910	257	44,542
At 31 December 2017	<u>34,041</u>	<u>396</u>	<u>5,233</u>	<u>805</u>	<u>40,475</u>
At 1 January 2018	34,041	396	5,233	805	40,475
At 31 December 2018	<u>33,132</u>	<u>62</u>	<u>3,330</u>	<u>814</u>	<u>37,338</u>

Included within land and buildings is non-depreciable land with a carrying value of HRK 4,874 thousand (2017: HRK 4,874 thousand).

During 2018 and 2017 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 1.30).

1.11 Property and equipment (continued)

Company

	Land and buildings HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Acquired but not brought into use HRK'000	Total HRK'000
Cost					
At 1 January 2017	37,376	6,001	43,979	3	87,359
Additions	-	76	518	52	646
Transfer into use	-	-	55	(55)	-
Disposals	-	(2,048)	(3,470)	-	(5,518)
	<u>37,376</u>	<u>4,029</u>	<u>41,082</u>	<u>-</u>	<u>82,487</u>
At 31 December 2017	37,376	4,029	41,082	-	82,487
At 1 January 2018	37,376	4,029	41,082	-	82,487
Additions	-	-	377	-	377
Disposals	-	(1,298)	(1,908)	-	(3,206)
	<u>37,376</u>	<u>2,731</u>	<u>39,551</u>	<u>-</u>	<u>79,658</u>
At 31 December 2018	37,376	2,731	39,551	-	79,658
Depreciation and impairment losses					
At 1 January 2017	5,572	4,705	36,595	-	46,872
Depreciation charge for the year (Note 1.30)	827	936	3,133	-	4,896
Disposals	-	(1,915)	(3,325)	-	(5,240)
	<u>6,399</u>	<u>3,726</u>	<u>36,403</u>	<u>-</u>	<u>46,528</u>
At 31 December 2017	6,399	3,726	36,403	-	46,528
At 1 January 2018	6,399	3,726	36,403	-	46,528
Depreciation charge for the year (Note 1.30)	827	290	2,138	-	3,255
Disposals	-	(1,290)	(1,835)	-	(3,125)
	<u>7,226</u>	<u>2,726</u>	<u>36,706</u>	<u>-</u>	<u>46,658</u>
At 31 December 2018	7,226	2,726	36,706	-	46,658
Carrying amounts					
At 1 January 2017	31,804	1,296	7,384	3	40,487
At 31 December 2017	30,977	303	4,679	-	35,959
	<u>30,977</u>	<u>303</u>	<u>4,679</u>	<u>-</u>	<u>35,959</u>
At 1 January 2018	30,977	303	4,679	-	35,959
At 31 December 2018	30,150	5	2,845	-	33,000

Included within land and buildings is non-depreciable land with a carrying value of HRK 4,288 thousand (2017: HRK 4,288 thousand).

During 2018 and 2017 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 1.30).

1.12 Investment property

	Group and Company HRK'000
Cost	
At 1 January 2017	52,229
At 31 December 2017	52,229
At 1 January 2018	52,229
Disposals	(852)
At 31 December 2018	51,377
Depreciation	
At 1 January 2017	23,126
Depreciation charge for the year (Note 1.32)	1,249
At 31 December 2017	24,375
At 1 January 2018	24,375
Depreciation charge for the year (Note 1.32)	1,247
Disposals	(852)
At 31 December 2018	24,770
Carrying amounts	
At 1 January 2017	29,103
At 31 December 2017	27,854
At 1 January 2018	27,854
At 31 December 2018	26,607

The rental income arising during the year amounted to HRK 1,759 thousand (2017: HRK 2,040 thousand), which is recognised in “Financial income” (Note 1.26). 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 2018 amounted to HRK 597 thousand (2017: 681 thousand) and is recognised in other costs under „Administrative expenses“ (Note 1.30). The fair value of investment property is higher than carrying amount and amounts to HRK 37,770 thousand (2017: HRK 39,236 thousand).

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

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	
	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000	2018 HRK'000	2017 HRK'000
At 1 January	48,861	44,554	1,315	1,242	50,176	45,796
Capitalization of acquisition costs	51,093	48,861	1,494	1,315	52,587	50,176
Amortization of acquisition costs	(48,863)	(44,554)	(1,315)	(1,242)	(50,178)	(45,796)
Net change recognised in profit or loss (Note 1.29)	2,230	4,307	179	73	2,409	4,380
At 31 December	51,091	48,861	1,494	1,315	52,585	50,176

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	Exclusive distributio n right HRK'000	Total HRK'000
Cost						
At 1 January 2017	24	42,529	45,974	190	-	88,717
Additions	-	3,757	1,669	1,238	-	6,664
Transfer into use	-	-	24	(24)	-	-
Write off	-	-	(299)	-	-	(299)
	24	46,286	47,368	1,404	-	95,082
At 31 December 2017						
At 1 January 2018	24	46,286	47,358	1,414	-	95,082
Additions	-	5,209	320	1,540	165,702	172,771
Transfer into use	-	-	450	(450)	-	-
Write off	-	-	(224)	-	-	(224)
	24	51,495	47,904	2,504	165,702	267,629
At 31 December 2018						
Amortisation						
At 1 January 2017	-	37,825	32,473	-	-	70,298
Amortisation charge for the year (Note 1.30)	-	4,761	1,956	-	-	6,717
Write off	-	-	(299)	-	-	(299)
	-	42,586	34,130	-	-	76,716
At 31 December 2017						
At 1 January 2018	-	42,586	34,130	-	-	76,716
Amortisation charge for the year (Note 1.30)	-	4,838	2,008	-	1,840	8,686
Write off	-	-	(223)	-	-	(223)
	-	47,424	35,915	-	1,840	85,179
At 31 December 2018						
Carrying amounts						
At 1 January 2017	24	4,704	13,501	190	-	18,418
At 31 December 2017	24	3,700	13,228	1,414	-	18,366
At 1 January 2018	24	3,700	13,228	1,414	-	18,366
At 31 December 2018	24	4,071	11,988	2,504	163,862	182,449

During 2018 and 2017 there were no capitalised borrowing costs related to the acquisition of software.

The amortisation charge is recognised in profit or loss under “Administrative expenses” (Note 1.30).

1.14 Other intangible assets (continued)

Company

	Internally developed software HRK'000	Purchased computer software HRK'000	Computer software under development HRK'000	Exclusive distribution right HRK'000	Total HRK'000
Cost					
At 1 January 2017	42,529	40,254	190	-	82,973
Additions	3,757	753	1,238	-	5,748
Transfer into use	-	14	(14)	-	-
Write off	-	(299)	-	-	(299)
At 31 December 2017	46,286	40,722	1,414	-	88,422
At 1 January 2018	46,286	40,722	1,414	-	88,422
Additions	5,209	320	750	165,702	171,981
Write off	-	(223)	-	-	(223)
At 31 December 2018	51,495	40,819	2,164	165,702	260,179
Amortisation					
At 1 January 2017	29,331	36,682	-	-	66,013
Amortisation charge for the year (Note 1.30)	4,761	1,390	-	-	6,151
Write off	-	(299)	-	-	(299)
At 31 December 2017	34,092	37,773	-	-	71,865
At 1 January 2018	34,092	37,773	-	-	71,865
Amortisation charge for the year (Note 1.30)	4,838	1,389	-	1,840	8,067
Write off	-	(223)	-	-	(223)
At 31 December 2018	38,930	38,939	-	1,840	79,709
Carrying amounts					
At 1 January 2017	13,198	3,572	190	-	16,960
At 31 December 2017	12,194	2,949	1,414	-	16,557
At 1 January 2018	12,194	2,949	1,414	-	16,557
At 31 December 2018	12,564	1,879	2,164	163,862	180,469

During 2018 and 2017 there were no capitalised borrowing costs related to the acquisition of software.

The amortisation charge is recognised in profit or loss under “Administrative expenses” (Note 1.30).

1.15 Investments in subsidiaries

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Group ownership at 31 December 2018	Group ownership at 31 December 2017
<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 Short Term Bond, open-ended investment fund	Investment	Croatia	58.1%	61.0%
Allianz Portfolio, open-ended investment fund	Investment	Croatia	55.7%	54.02%
<i>Investments in subsidiaries – available for sale</i>				
Allianz Equity, open-ended investment fund	Investment	Croatia	19.9%	18.2%

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 one open-ended fund at 31 December 2018, the management believes it is appropriate to conclude that all funds are subsidiaries as the Company controls the asset manager and is by far the biggest single investor. Investment in Allianz Portfolio relates also to investments made through unit linked products. At 31 December 2018 total investment in Allianz Portfolio, related to unit linked investments, amounted to HRK 47,459 thousands (2017: HRK 38,532 thousands). In 2018, the Company made a reclassification of investments in Allianz Portfolio from Investments at fair value to profit and loss to investment in subsidiaries and consolidated the amount in the Group financial statements.

b) Investments in subsidiaries are as follows:

	Company 2018 HRK'000	Company 2017 HRK'000
<i>Investments in subsidiaries - held at cost</i>		
Allianz Invest d.o.o.	5,000	5,000
AZ Servisni centar d.o.o.	200	200
Autoelektro tehnički pregledi d.o.o.	488	488
Total subsidiaries at cost	5,688	5,688
<i>Investments in subsidiaries - designated at fair value through profit or loss</i>		
Allianz Short Term Bond, open-ended investment fund	103,914	107,372
Allianz Portfolio, open-ended investment fund	57,294	48,479
Total subsidiaries at fair value through profit or loss	161,208	155,851
<i>Investments in subsidiaries - available for sale</i>		
Allianz Equity, open-ended investment fund	9,622	9,778
Total subsidiaries available for sale	9,622	9,778
	176,518	171,317

1.15 Investments in subsidiaries (continued)

c) Movements in investments in subsidiaries was as follows:

	Company 2018 HRK'000	Company 2017 HRK'000
At 1 January	171,317	132,742
Disposal of units in Allianz Short Term Bond, open-ended investment fund	(3,495)	-
Fair value gains on investment in Allianz Short Term Bond, open-ended investment fund	38	237
Fair value gains on investment in Allianz Portfolio, open-ended investment fund	8,815	38,445
Fair value losses on investment in Allianz Equity, open-ended investment fund	(156)	(107)
At 31 December	176,518	171,317

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:

	2018 HRK'000	2017 HRK'000
Revenue	446	378
Profit	118	41
Profit attributable to NCI	59	20
Current assets	255	151
Non-current assets	2,995	3,076
Current liabilities	(16)	(15)
Non-current liabilities	(2,738)	(2,833)
Net assets	496	379
Net assets attributable to NCI	253	193

The remaining of non-controlling interest is related to Allianz Invest d.o.o., management company for open-ended investment funds that are presented under financial liabilities.

1.16 Financial investments

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Held-to-maturity investments (Note 1.16c)	609,477	594,092	577,970	584,788
Available-for-sale financial assets (Note 1.16c)	3,076,853	3,445,878	3,076,337	3,255,939
Financial assets held for trading	120,758	146,305	120,758	146,305
Financial assets designated at fair value through profit or loss	597,062	433,730	481,076	363,715
Financial assets at fair value through profit or loss (Note 1.16c)	717,820	580,035	601,834	510,020
Loans and receivables (Note 1.16a; 1.16c)	31,669	50,436	35,277	38,480
	4,708,973	4,466,682	4,427,759	4,211,941

Table below analyses financial investments exposed to credit risk:

	Group 2018				Group 2017			
	Neither past due nor impaired HRK'000	Past due but not impaired HRK'000	Impaired HRK'000	Total HRK'000	Neither past due nor impaired HRK'000	Past due but not impaired HRK'000	Impaired HRK'000	Total HRK'000
Held-to-maturity investments	609,477	-	-	609,477	594,092	-	-	594,092
Available-for-sale debt securities	2,673,980	-	-	2,673,980	2,945,002	-	-	2,945,002
Debt securities at fair value through profit or loss	64,745	-	-	64,745	41,988	-	-	41,988
Loans and receivables	30,803	866	511	32,180	49,704	732	8,156	58,592
Impairment	-	-	(511)	(511)	-	-	(8,156)	(8,156)
	3,379,005	866	-	3,379,871	3,630,786	732	-	3,631,518

	Company 2018				Company 2017			
	Neither past due nor impaired HRK'000	Past due but not impaired HRK'000	Impaired HRK'000	Total HRK'000	Neither past due nor impaired HRK'000	Past due but not impaired HRK'000	Impaired HRK'000	Total HRK'000
Held-to-maturity investments	577,970	-	-	577,970	584,788	-	-	584,788
Available-for-sale debt securities	2,673,464	-	-	2,673,464	2,755,063	-	-	2,755,063
Debt securities at fair value through profit or loss	8,620	-	-	8,620	41,988	-	-	41,988
Loans and receivables	34,411	866	511	35,788	37,748	732	8,156	46,636
Impairment	-	-	(511)	(511)	-	-	(8,156)	(8,156)
	3,294,465	866	-	3,295,333	3,419,587	732	-	3,420,315

1.16 Financial investments (continued)

a) Loans and receivables

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

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Deposits with banks	12,552	22,340	12,552	6,305
Loans to customers	19,628	36,252	22,748	39,593
Subordinated loan to subsidiary	-	-	488	738
Impairment allowance on loans to customers	(511)	(8,156)	(511)	(8,156)
	31,669	50,436	35,277	38,480

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. The repayment of this loans is subordinated to all other liabilities of Allianz Invest.

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

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
At 1 January	8,156	591	8,156	591
Impairment losses on loans	494	7,576	494	7,576
Release of impairment allowance	(7,576)	-	(7,576)	-
Collection of amounts previously provided	(68)	(5)	(68)	(5)
Net impairment losses/(reversal of impairment losses) recognised in profit or loss (Note 1.32)	(7,150)	7,571	(7,150)	7,571
Amounts written off	(495)	(6)	(495)	(6)
At 31 December	511	8,156	511	8,156

1.16 Financial investments (continued)

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 Group's and Company's portfolio:

Reclassification date	Net book value at the reclassification date HRK'000	Effective interest rate at the reclassification date %	Other comprehensive income up to the reclassification date HRK'000
21 August 2008	127,607	5,66	(9,173)
6 October 2008	99,367	5,66	(1,306)
26 March 2010	156,691	6,06	8,518
4 July 2011	77,388	6,06	4,047
10 October 2011	57,927	6,96	(356)
Total	518,980	5,99	(1,730)

	At the reclassification date		31 December 2018		31 December 2017	
	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
Assets reclassified in 2008:						
Debt securities	226,974	226,974	238,666	250,783	241,356	264,262
Assets reclassified in 2010:						
Debt securities	156,691	156,691	153,722	164,366	155,969	174,761
Assets reclassified in 2011:						
Debt securities	135,315	135,315	133,515	152,268	135,067	159,911
	518,980	518,980	525,903	567,417	532,392	598,934

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

	2018		2017	
	Profit or loss HRK'000	Other comprehensive income HRK'000	Profit or loss HRK'000	Other comprehensive income HRK'000
Available-for-sale financial assets reclassified to held-to-maturity investments 2008 to 2013				
Interest income	31,647	-	32,251	-
Amortisation of premium	(605)	-	(437)	-
Amortisation of fair value reserve to profit or loss	(358)	-	(157)	-
Fair value reserve balance, net of income tax	-	(293)	-	(129)
	30,684	(293)	31,657	(129)

1.16 Financial investments (continued)

b) Reclassifications (continued)

The following table shows the amounts that would have been recognised in profit or loss and other comprehensive income from reclassified assets in 2018 and 2017 if there had been no reclassification:

	2018		2017	
	Profit or loss HRK'000	Other comprehensive income HRK'000	Profit or loss HRK'000	Other comprehensive income HRK'000
Available-for-sale financial assets reclassified to held-to-maturity investments 2008 to 2013				
Interest income	31,647	-	32,251	-
Amortisation of premium	(605)	-	(437)	-
Change in fair value reserve, net of income tax	-	(31,518)	-	(10,760)
	<u>31,042</u>	<u>(31,518)</u>	<u>31,814</u>	<u>(10,760)</u>

At 1 January 2018, the Group has reclassified the following amounts from Financial asset available for sale to Fair value through profit and loss:

Investment fund	Net book value at the reclassification date HRK'000	Effective interest rate at the reclassification date %	Other comprehensive income up to the reclassification date HRK'000
Allianz Short Term Bond	134,048	2,50	0
Allianz Portfolio	47,370	2,33	2,186
Allianz Equity	7,688	1,93	185
Total	<u>189,106</u>		<u>2,371</u>

1.16 Financial investments (continued)

c) Breakdown (continued)

Group

	Held-to-maturity investments HRK '000	Available-for-sale financial assets HRK '000	Fair value through profit or loss HRK'000	Loans and receivables HRK '000	Total HRK '000
31 December 2018					
Shares	-	50,390	55,088	-	105,478
Shares relating to share-based payments	-	-	4,721	-	4,721
Bonds – fixed interest rate - listed					
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	609,477	2,039,721	56,090	-	2,705,288
Bonds – Governments of EU member states – listed	-	627,794	-	-	627,794
Foreign and domestic corporate bonds – listed	-	6,464	35	-	6,499
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	4,899	-	4,899
Foreign corporate bonds – assets backing unit-linked products – quoted	-	-	3,720	-	3,720
	609,477	2,673,970	64,744	-	3,348,201
Investment funds - quoted					
Open – ended investment funds	-	311,117	125,531	-	436,648
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	467,736	-	467,736
Close – ended investment funds – quoted	-	41,367	-	-	41,367
	-	352,484	593,267	-	945,751
Loans and receivables					
Deposits with credit institutions	-	-	-	12,552	12,552
Loans to policyholders	-	-	-	12,136	12,136
Mortgage loans	-	-	-	2,543	2,543
Other loans	-	-	-	4,438	4,438
	-	-	-	31,669	31,669
	609,477	3,076,854	717,820	31,669	4,435,820
31 December 2017					
Shares	-	56,854	60,537	-	117,391
Shares relating to share-based payments	-	-	5,235	-	5,235
Bonds – fixed interest rate - listed					
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	594,092	2,315,897	-	-	2,909,989
Bonds – Governments of EU member states – listed	-	626,343	-	-	626,343
Foreign and domestic corporate bonds – listed	-	2,762	-	-	2,762
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	41,988	-	41,988
	594,092	2,945,002	41,988	-	3,581,082
Investment funds - quoted					
Open – ended investment funds	-	377,331	155,783	-	533,114
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	316,492	-	316,492
Close – ended investment funds – quoted	-	66,691	-	-	66,691
	-	444,022	472,275	-	916,297
Loans and receivables					
Deposits with credit institutions	-	-	-	22,340	22,340
Loans to policyholders	-	-	-	12,801	12,801
Mortgage loans	-	-	-	10,431	10,431
Other loans	-	-	-	4,864	4,864
	-	-	-	50,436	50,436
	594,092	3,445,878	580,035	50,436	4,670,441

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
31 December 2018						
Shares	-	-	50,390	-	-	50,390
Shares relating to share-based payments	-	-	-	4,720	-	4,720
Investments in subsidiaries	176,518	-	-	-	-	176,518
Bonds – fixed interest rate - listed						
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	-	577,970	2,039,206	-	-	2,617,176
Bonds – Governments of EU member states – listed	-	-	627,794	-	-	627,794
Foreign and domestic corporate bonds – listed	-	-	6,463	-	-	6,463
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	-	4,899	-	4,899
Foreign corporate bonds – assets backing unit-linked products – quoted	-	-	-	3,720	-	3,720
	176,518	577,970	2,723,853	13,340	-	3,491,682
Investment funds - quoted						
Open – ended investment funds	-	-	311,117	120,758	-	431,875
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	-	467,736	-	467,736
Close – ended investment funds – quoted	-	-	41,367	-	-	41,367
	-	-	352,484	588,493	-	940,977
Loans and receivables						
Deposits with credit institutions	-	-	-	-	12,552	12,552
Loans to policyholders	-	-	-	-	12,136	12,136
Mortgage loans	-	-	-	-	5,281	5,281
Subordinated loan to subsidiary	-	-	-	-	488	488
Other loans	-	-	-	-	4,820	4,820
	-	-	-	-	35,277	35,277
	176,518	577,970	3,076,337	601,834	35,277	4,467,936
31 December 2017						
Shares	-	-	56,854	-	-	56,854
Shares relating to share-based payments	-	-	-	5,235	-	5,235
Investments in subsidiaries	171,317	-	-	-	-	171,317
Bonds – fixed interest rate - listed						
Debt securities issued by Government of the Republic of Croatia and local authorities – listed	-	584,788	2,126,001	-	-	2,710,789
Bonds – Governments of EU member states – listed	-	-	626,343	-	-	626,343
Foreign and domestic corporate bonds – listed	-	-	2,719	-	-	2,719
Foreign corporate bonds – assets backing index-linked products – quoted	-	-	-	41,988	-	41,988
	-	584,788	2,755,063	41,988	-	3,381,839
Investment funds - quoted						
Open – ended investment funds	-	-	422,801	146,305	-	569,106
Open – ended investment funds – assets backing unit-linked products – quoted	-	-	-	316,492	-	316,492
Close – ended investment funds – quoted	-	-	21,221	-	-	21,221
	-	-	444,022	462,797	-	906,819
Loans and receivables						
Deposits with credit institutions	-	-	-	-	6,305	6,305
Loans to policyholders	-	-	-	-	12,801	12,801
Mortgage loans	-	-	-	-	13,264	13,264
Subordinated loan to subsidiary	-	-	-	-	738	738
Other loans	-	-	-	-	5,372	5,372
	-	-	-	-	38,480	38,480
	171,317	584,788	3,255,939	510,020	38,480	4,560,544

1.16 Financial investments (continued)

c) Breakdown (continued)

Bonds issued by governments of EU member states include bonds of the Republic of Germany of HRK 260,090 thousand (2017: HRK 333,494 thousand), Republic of Poland of HRK 16,286 thousand (2017: 42,103 thousand), Slovak Republic of HRK 102,817 thousand (2017: 105,427 thousand) and the Kingdom of Spain of 154,618 thousand (2017:145,319 thousand).

1.17 Reinsurers' share of insurance contract liabilities

Group and Company

	<i>Note</i>	2018 HRK'000	2017 HRK'000
Non-life insurance			
Reinsurance share in unearned premium reserve	1.21 a)	70,783	61,642
Reinsurance share in notified outstanding claims reserve	1.21 b)	51,524	82,628
Reinsurance share in incurred but not reported claims reserve	1.21 c)	3,129	3,380
Reinsurance share in other reserves		(1)	-
Total non-life insurance		125,435	147,650
Life insurance			
Reinsurance share in unearned premium reserve	1.21 a)	134	133
Reinsurance share incurred but not reported claims reserve	1.21 c)	554	506
Reinsurance share in life assurance provision	1.21 d)	300	320
Total life insurance		988	959
Total reinsurance share of insurance		126,423	148,609

1. 18 Deferred tax liability

Group

	Temporary differences						Deferred tax asset on tax losses HRK'000
	Total deferred tax liability on temporary differences HRK'000	Financial assets at fair value through profit or loss HRK'000	Impairment losses on financial assets AFS HRK'000	AFS financial assets in fair value reserve HRK'000	Impairment losses on investment property HRK'000	Impairment losses on receivables for overdue securities HRK'000	
Balance as at 1 January 2017	(40,710)	54	1,590	(46,889)	2,687	1,848	-
Recognised in profit or loss (Note 1.34)	(71)	-	(71)	-	-	-	38
<i>Total recognised in in profit and loss</i>	(71)	-	(71)	-	-	-	38
Deferred tax on net gains from change in fair value, net of amounts realised, recognised in other comprehensive income (Note 1.23c)	(4,114)	-	-	(4,114)	-	-	-
<i>Total recognised in other comprehensive income</i>	(4,114)	-	-	(4,114)	-	-	38
Balance as at 31 December 2017	(44,895)	54	1,519	(51,003)	2,687	1,848	38
Balance as at 1 January 2018	(44,895)	54	1,519	(51,003)	2,687	1,848	38
Recognised in profit or loss (Note 1.34)	5,061	-	5,061	-	-	-	-
<i>Total recognised in in profit and loss</i>	5,061	-	5,061	-	-	-	38
Deferred tax on net gains from change in fair value, net of amounts realised (Note 1.23c)	4,790	-	-	4,790	-	-	(11)
<i>Total recognised in other comprehensive income</i>	4,790	-	-	4,790	-	-	(11)
Balance as at 31 December 2018	(35,044)	54	6,580	(46,213)	2,687	1,848	27

Company

	Total deferred tax liability on temporary differences HRK'000	Financial assets at fair value through profit or loss HRK'000	Impairment losses on financial assets AFS HRK'000	AFS financial assets in fair value reserve HRK'000	Impairment losses on investment property HRK'000	Impairment losses on receivables for overdue securities HRK'000
Balance as at 1 January 2017	(40,710)	54	1,590	(46,889)	2,687	1,848
Recognised in profit or loss (Note 1.34)	(71)	-	(71)	-	-	-
<i>Total recognised in profit and loss</i>	(71)	-	(71)	-	-	-
Deferred tax on net gains from change in fair value, net of amounts realised, recognised in other comprehensive income (Note 1.23c)	(4,114)	-	-	(4,114)	-	-
<i>Total recognised in other comprehensive income</i>	(4,114)	-	-	(4,114)	-	-
Balance as at 31 December 2017	(44,895)	54	1,519	(51,003)	2,687	1,848
Balance as at 1 January 2018	(44,895)	54	1,519	(51,003)	2,687	1,848
Recognised in profit or loss (Note 1.34)	5,061	-	5,061	-	-	-
<i>Total recognised in profit and loss</i>	5,061	-	5,061	-	-	-
Deferred tax on net gains from change in fair value, net of amounts realised (Note 1.23c)	4,790	-	-	4,790	-	-
<i>Total recognised in other comprehensive income</i>	4,790	-	-	4,790	-	-
Balance as at 31 December 2018	(35,044)	54	6,580	(46,213)	2,687	1,848

1. 19 Insurance receivables and other assets

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Receivables arising from insurance contracts				
- from contract holders (from policyholders)	143,478	138,498	143,478	138,498
Receivables from reinsurance				
- for claims recoveries	23,195	14,463	23,195	14,463
- for reinsurance commission	778	2,533	778	2,533
- for reinsurance premium paid in advance	302	42,470	302	42,470
Other receivables and prepayments	69,526	53,801	69,289	53,431
Impairment allowance				
- for insurance receivables	(44,914)	(50,555)	(44,914)	(50,555)
- for reinsurance receivables	(1,376)	(352)	(1,376)	(352)
- for other receivables	(12,522)	(12,720)	(12,522)	(12,720)
	<u>178,467</u>	<u>188,138</u>	<u>178,230</u>	<u>187,768</u>

The analysis of insurance receivables and other receivables is given below:

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Neither past due nor impaired	93,293	122,389	93,293	122,389
Past due	143,986	129,377	143,749	129,007
Impairment allowance	(58,812)	(63,627)	(58,812)	(63,627)
	<u>178,467</u>	<u>188,139</u>	<u>178,230</u>	<u>187,769</u>

1.19 Insurance receivables and other assets (continued)

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

	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
At 1 January	50,555	58,199
Increase in impairment losses	8,963	6,715
Collection of amounts previously provided	(9,289)	(10,582)
Reversal of impairment losses recognised in profit or loss (Note 1.24)	(326)	(3,867)
Amounts written off	(5,315)	(3,777)
At 31 December	44,914	50,555

Impairment losses for insurance receivables are netted against gross premiums written presented in Note 1.24.

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

	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
At 1 January	12,720	12,705
Increase in provisions for other receivables	258	593
Collection of amounts previously provided	(413)	(283)
Transfer to loans and receivables	-	-
Impairment losses recognised in profit or loss (Note 1.31)	(155)	310
Amounts written off	(43)	(295)
At 31 December	12,522	12,720

1.20 Cash and cash equivalents

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Cash at bank	135,276	128,138	88,418	85,004
Deposits in banks with original maturity up to three months	147,229	5,260	-	-
	282,505	133,398	88,418	85,004

1.21 Insurance contract liabilities

Group and Company

	2018 HRK'000	2017 HRK'000
Non-life insurance		
Provision for unearned premiums (Note 1.21a)	341,265	311,964
Notified outstanding claims reserve (Note 1.21b)	276,829	303,901
Incurred but not reported claims reserve (Note 1.21c)	182,055	197,337
Other provisions	2,643	4,474
Total non-life	802,792	817,676
Life assurance		
Provision for unearned premiums (Note 1.21a)	12,099	10,756
Life assurance provision (Note 1.21d)	2,570,874	2,630,536
Provision arising from liability adequacy test (Note 1.21d)	1,031	1,097
	2,571,905	2,631,633
Life assurance provision for unit-linked and index-linked products (Note 1.21e)	520,094	387,749
Notified outstanding claims reserve (Note 1.21b)	54,643	39,285
Incurred but not reported claims reserve (Note 1.21c)	2,708	2,931
Other provisions	152	211
Total life	3,161,601	3,072,565
Total insurance contract liabilities	3,964,393	3,890,241

Other provisions relate to provisions for bonuses and rebates and unexpired risk reserve. As at 31 December 2018 there is no unexpired risk reserve (2017: 1,632 thousand).

a) Analysis of movement on provision for unearned premium

Group and Company	2018	2018	2018	2017	2017	2017
	Gross HRK'000	Reinsurance HRK'000	Net HRK'000	Gross HRK'000	Reinsurance HRK'000	Net HRK'000
<i>Non-life business</i>						
At 1 January	311,964	61,642	250,322	285,424	69,201	216,223
Premiums written during the year	650,998	90,598	560,400	618,681	85,651	533,030
Premiums earned during the year	(621,697)	(81,457)	(540,240)	(592,141)	(93,210)	(498,931)
At 31 December	341,265	70,783	270,482	311,964	61,642	250,322
<i>Life assurance business</i>						
At 1 January	10,756	133	10,623	9,767	148	9,619
Premiums written during the year	32,070	1,145	30,925	32,272	2,122	30,150
Premiums earned during the year	(30,727)	(1,144)	(29,583)	(31,283)	(2,137)	(29,146)
At 31 December	12,099	134	11,965	10,756	133	10,623

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

1.21 Insurance contract liabilities (continued)

b) Analysis of movements in notified outstanding claims reserve

	Group and Company			Group and Company		
	2018 Gross HRK'000	2018 Reinsurance HRK'000	2018 Net HRK'000	2017 Gross HRK'000	2017 Reinsurance HRK'000	2017 Net HRK'000
<i>Non-life business</i>						
At 1 January	303,901	82,628	221,273	294,686	71,786	222,900
Current year claims	308,671	29,454	279,217	309,210	38,604	270,606
Change in previous year claims	(30,124)	(21,299)	(8,825)	(6,613)	9,783	(16,396)
Claims paid	(305,619)	(39,259)	(266,360)	(293,382)	(37,545)	(255,837)
At 31 December	276,829	51,524	225,305	303,901	82,628	221,273
<i>Life assurance business</i>						
At 1 January	39,285	-	39,285	33,424	-	33,424
Current year claims	366,413	-	366,413	319,612	-	319,612
Change in previous year claims	(16,932)	-	(16,932)	(15,698)	-	(15,698)
Claims paid	(334,123)	-	(334,123)	(298,053)	-	(298,053)
At 31 December	54,643	-	54,643	39,285	-	39,285

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

	Group and Company			Group and Company		
	2018 Gross HRK'000	2018 Reinsurance HRK'000	2018 Net HRK'000	2017 Gross HRK'000	2017 Reinsurance HRK'000	2017 Net HRK'000
<i>Non-life business</i>						
At 1 January	197,337	3,380	193,957	214,908	5,359	209,549
Increase	60,262	15,907	44,355	30,101	115	29,986
Less transfer to claims reported provision	(75,544)	(16,158)	(59,386)	(47,672)	(2,094)	(45,578)
At 31 December	182,055	3,129	178,926	197,337	3,380	193,957
<i>Life assurance business</i>						
At 1 January	2,931	506	2,425	2,960	489	2,471
Increase	961	211	750	900	57	844
Less transfer to claims reported provision Transfer	(1,184)	(163)	(1,021)	(929)	(40)	(889)
At 31 December	2,708	554	2,154	2,931	506	2,425

1.21 Insurance contract liabilities (continued)

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

Group and Company	2018	2018	2018	2017	2017	2017
	Gross HRK'000	Reinsurance HRK'000	Net HRK'000	Gross HRK'000	Reinsurance HRK'000	Net HRK'000
At 1 January	2,631,633	320	2,631,313	2,576,376	361	2,576,015
Premium allocation	169,059	1,145	167,914	236,072	1,264	234,808
Release of liabilities due to benefits paid, surrenders and other terminations	(295,514)	(1,165)	(294,349)	(249,931)	(1,305)	(248,626)
Unwinding of discount/accretion of interest	64,892	-	64,892	66,119	-	66,119
Change in liability arising from liability adequacy test	(66)	-	(66)	(76)	-	(76)
Change in Zillmer adjustment	13,464	-	13,464	12,793	-	12,793
Allocation of discretionary and guaranteed bonuses	(8,044)	-	(8,044)	(6,915)	-	(6,915)
Change in unearned premium reserve	(3,519)	-	(3,519)	(2,805)	-	(2,805)
At 31 December	2,571,905	300	2,571,605	2,631,633	320	2,631,313

Life assurance provision amounted to HRK 2,570,874 thousand (2017: HRK 2,630,536 thousand). Provision arising from liability adequacy test amounted to HRK 1,031 thousand (2017: HRK 1,097 thousand).

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

Group and Company	2018	2017
	Gross and Net HRK'000	Gross and Net HRK'000
At 1 January	387,749	283,716
Premium allocation	194,844	153,164
Release of liabilities due to benefits paid, surrenders and other terminations	(46,451)	(47,480)
Net gains from change in fair value of assets backing life assurance provision for unit-linked and index-linked products	(16,048)	(1,651)
At 31 December	520,094	387,749

1.21 Insurance contract liabilities (continued)

f) Development of claims (NOCR and IBNR)

For the year ended 31 December 2018

Group and Company	Prior 2012	2012	2013	2014	2015	2016	2017	2018	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	-	396,946	411,966	473,753	388,045	324,124	349,596	330,955	-
One year later	-	353,776	388,814	388,425	360,853	314,515	341,451	-	-
Two years later	-	332,759	374,301	376,364	340,217	304,410	-	-	-
Three years later	-	322,438	367,177	366,330	340,149	-	-	-	-
Four years later	-	318,889	362,832	363,088	-	-	-	-	-
Five years later	-	316,732	359,503	-	-	-	-	-	-
Six years later	-	313,889	-	-	-	-	-	-	-
Estimate of cumulative claims	-	313,889	359,503	363,088	340,149	304,410	341,451	330,955	2,353,444
Cumulative payments	-	294,148	331,436	337,535	299,297	256,908	269,719	178,300	1,967,344
Provisions for prior years	102,255	-	-	-	-	-	-	-	102,255
Claims handling costs	6,141	1,117	1,691	1,498	2,394	2,753	3,972	8,314	27,880
Value recognised in the statement of financial position	108,397	20,857	29,758	27,051	43,246	50,255	75,704	160,969	516,237
Non life	Prior 2012	2012	2013	2014	2015	2016	2017	2018	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	-	384,969	399,482	457,450	367,811	301,975	326,046	297,264	-
One year later	-	346,677	383,448	382,898	353,145	304,704	330,660	-	-
Two years later	-	326,551	369,522	371,224	334,391	297,250	-	-	-
Three years later	-	316,607	362,812	361,856	335,040	-	-	-	-
Four years later	-	313,274	359,085	358,946	-	-	-	-	-
Five years later	-	311,226	355,840	-	-	-	-	-	-
Six years later	-	307,138	-	-	-	-	-	-	-
Estimate of cumulative claims	-	307,138	355,840	358,946	335,040	297,250	330,660	297,264	2,282,138
Cumulative payments	-	289,654	328,707	335,046	297,701	254,881	268,183	177,546	1,951,718
Provisions for prior years	102,255	-	-	-	-	-	-	-	102,255
Claims handling cost	6,141	1,049	1,663	1,448	2,289	2,599	3,695	7,326	26,210
Value recognised in the statement of financial position	108,397	18,532	28,796	25,348	39,628	44,967	66,171	127,044	458,883

1.21 Insurance contract liabilities (continued)

f) Development of claims (NOCR and IBNR continued)

Life	Prior 2012 HRK'000	2012 HRK'000	2013 HRK'000	2014 HRK'000	2015 HRK'000	2016 HRK'000	2017 HRK'000	2018 HRK'000	Total HRK'000
Estimate of cumulative claims at the end of accident year	-	11,977	12,484	16,303	20,234	22,149	23,551	33,692	-
One year later	-	7,099	5,366	5,527	7,708	9,811	10,791	-	-
Two years later	-	6,209	4,779	5,139	5,826	7,160	-	-	-
Three years later	-	5,831	4,365	4,474	5,109	-	-	-	-
Four years later	-	5,615	3,747	4,142	-	-	-	-	-
Five years later	-	5,506	3,663	-	-	-	-	-	-
Six years later	-	6,751	-	-	-	-	-	-	-
Estimate of cumulative claims	-	6,751	3,663	4,142	5,109	7,160	10,791	33,692	71,307
Cumulative payments	-	4,494	2,729	2,489	1,597	2,027	1,536	754	15,626
Provisions for prior years	-	-	-	-	-	-	-	-	-
Claims handling cost	-	68	28	50	105	154	278	988	1,670
Value recognised in the statement of financial position	-	2,325	962	1,702	3,617	5,287	9,533	33,925	57,352

1.21 Insurance contract liabilities (continued)

g) Remaining maturities of insurance liabilities

Group and Company 2018

	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	281,837	70,252	1,127	119	29	-	353,364
NOCR & IBNR	233,792	172,141	62,833	25,219	9,303	12,947	516,235
Life assurance provisions, provision for unit linked products and provision arising from LAT	254,277	1,145,827	662,950	489,568	359,161	180,216	3,091,999
Other insurance provisions	2,643	152	-	-	-	-	2,795
Insurance liabilities	772,549	1,388,372	726,910	514,906	368,493	193,163	3,964,393

Group and Company 2017

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

UPR stands for unearned premium reserve.

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

IBNR stands for incurred but not reported claims reserve.

LAT stands for liability adequacy test.

1.21 Insurance contract liabilities (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	Costs ratio gross	Combined ratio gross	Claims ratio gross	Costs ratio gross	Combined ratio gross
	2018	2018	2018	2017	2017	2017
Motor vehicle liability insurance	42.79%	38.47%	81.26%	36.32%	40.44%	76.76%
Other motor insurance	70.77%	38.58%	109.35%	58.90%	39.10%	98.00%
Fire and other damage to property insurance	46.62%	45.71%	92.34%	64.02%	47.90%	111.92%
General liability insurance	41.99%	34.27%	76.27%	53.63%	34.75%	88.38%
Marine, aviation and transport	-9.53%	42.16%	32.63%	56.34%	44.00%	100.34%
Credit and suretyship insurance	3.29%	22.49%	25.78%	29.67%	23.90%	53.57%
Personal accident insurance	14.90%	43.25%	58.15%	16.83%	44.96%	61.79%
Health insurance	38.59%	32.77%	71.36%	32.52%	37.48%	70.00%
Miscellaneous financial loss	30.25%	34.46%	64.71%	22.90%	36.33%	59.23%
Assistance	18.93%	34.82%	53.75%	24.98%	37.32%	62.30%
TOTAL - NON LIFE	42.06%	40.18%	82.24%	48.42%	42.00%	90.42%

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

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

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

Combined ratio = claims ratio + costs ratio

1.22 Insurance and other payables and deferred income

	Group	Group	Company	Company
	2018	2017	2018	2017
	HRK'000	HRK'000	HRK'000	HRK'000
Direct insurance contract payables				
- to policyholders	14,293	10,440	14,293	10,440
- to agents, brokers and intermediaries	14,382	17,725	14,382	17,725
Reinsurance contract payables	17,461	58,806	17,461	58,806
Reinsurance commission deferral	3,268	3,252	3,268	3,252
Commission expenses accrual	2,133	2,532	2,133	2,532
Provision for bonuses to employees	10,306	8,879	9,540	8,334
Liabilities for salaries	7,527	7,038	7,205	6,674
Liabilities for premium paid in advance	6,638	7,536	6,638	7,536
Liabilities for share based payments (Note 1.36)	4,084	4,559	4,084	4,559
Liabilities to investment funds non-controlling unitholders	159,245	191,986	-	-
Other payables and accrued expenses	61,823	60,324	54,088	49,634
	301,160	334,545	133,092	169,492

1.23 Equity

a) Issued share capital

	2018	2017
	HRK'000	HRK'000
Authorised, issued and fully paid		
254,306 (2017: 254,306) ordinary shares of HRK 400	101,722	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:

	2018	2017
	% ownership	% ownership
Allianz New Europe Holding GmbH, Austria	83.2	83.2
Zagrebačka banka d.d., Croatia	16.8	16.8
	100.0	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 (2017: HRK 112,001 thousand) representing the excess of the paid-in amount over the nominal value of the issued shares. In 2013 the Company increased its issued share capital by converting share premium amounting to HRK 7,500 thousand into share capital (bonus share issue) by issuing 18,750 new ordinary shares each with the nominal amount of HRK 400. New shares were awarded to the existing shareholders in proportion to their current shareholdings. There were no subsequent changes.

1.23 Equity(continued)

c) Fair value reserve

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

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
At 1 January				
Gross fair value reserve	283,420	260,544	283,349	260,490
Deferred tax (Note 1.18)	(51,003)	(46,889)	(51,003)	(46,889)
Net	232,417	213,655	232,346	213,601
Net gains from change in fair value of available-for-sale financial assets	(27,929)	37,103	(30,122)	36,277
Net gains on disposal of available-for-sale financial assets - transfer to profit or loss (Note 1.26)	(17,214)	(15,488)	(14,930)	(14,634)
Impairment loss on financial assets available for sale (Note 1.32)	18,480	1,261	18,435	1,216
	(26,663)	22,876	(26,617)	22,859
Deferred tax on net gains from change in fair value of available-for-sale financial assets, net of amounts realised and impairment losses (Note 1.18)	4,790	(4,114)	4,790	(4,114)
<i>Net deferred tax expense/credit recognised in other comprehensive income</i>	4,790	(4,114)	4,790	(4,114)
At 31 December				
Gross fair value reserve	256,757	283,420	256,734	283,349
Deferred tax (Note 1.18)	(46,212)	(51,003)	(46,212)	(51,003)
Net	210,544	232,417	210,520	232,346

d) Legal reserve

The legal reserve (HRK 25,053 thousand at 31 December 2018 and 2017) 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.

1.23 Equity (continued)

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.

f) Dividends per share

During 2018, the Company paid dividend for 2017 in the amount of HRK 89,742 thousand which gives dividend per share of HRK 352.90 (during 2017 for 2016 HRK 62,003 thousand or HRK 243.81 per share) based on the number of shares outstanding at the time of payment.

The Management Board will propose dividend for 2018 in the amount of HRK 578.42 per share or HRK 147.096 thousand in total that will be paid after approved by the General Assembly.

1.24 Premiums

	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
<i>Non-life insurance</i>		
Gross premium written	651,324	618,681
Written premiums ceded to reinsurers	(90,598)	(85,651)
Net premiums written from non-life insurance	560,726	533,030
Change in unearned premiums, gross	(29,300)	(26,540)
Change in unearned premiums, reinsurance share	9,141	(7,559)
Total premium income net, (earned) from non-life insurance	540,567	498,931
<i>Life assurance</i>		
Gross premium written	514,577	531,278
Written premiums ceded to reinsurers	(3,064)	(3,387)
Net premiums written from life assurance	511,513	527,891
Change in unearned premiums, gross	(1,343)	(989)
Change in unearned premiums, reinsurance share	1	(15)
Total premium income net, (earned) from life assurance	510,171	526,887
Total gross premiums written	1,165,901	1,149,959
Total premiums ceded to reinsurers	(93,662)	(89,038)
Total net premiums written	1,072,239	1,060,921
Total change in the gross provision for unearned premiums	(30,652)	(27,529)
Total reinsurers' share of change in the provision for unearned premiums	9,142	(7,574)
Net earned premiums non-life and life	1,050,738	1,025,818

Gross premiums written for the Group and the Company have been presented after net impairment reversal of HRK 326 thousand (2017: net impairment reversal of HRK 3,867 thousand), as presented in Note 1.19.

1.24 Premiums (continued)

Analysis by class of business

Group and Company

2018	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition costs (Note 1.29) HRK'000	Administrative expenses (Note 1.30) HRK'000	Ceded contribution HRK'000
<i>Non-life insurance business</i>						
Personal accident insurance	53,738	53,150	7,922	14,277	8,695	(114)
Health insurance	24,192	18,251	7,312	2,837	3,137	(1,256)
Insurance of motor vehicles - full comprehensive motor (casco)	94,101	93,919	64,127	19,598	15,627	14
Full comprehensive motor insurance (casco) of track vehicles	530	938	1,850	201	157	500
Hull insurance of aircrafts	358	203	45	20	87	(108)
Marine and inland marine hull insurance	11,599	12,201	2,131	2,470	2,066	(3,494)
Insurance of goods in transport	6,081	6,309	1,932	1,154	1,009	(980)
Insurance of property against fire and allied perils	141,348	137,742	48,741	34,192	22,665	(30,518)
Other property insurances	56,893	50,761	39,345	18,627	9,991	14,388
	113,801	117,340	50,050	21,610	19,964	(4,359)
Motor third-party liability insurance						
Aviation third-party liability insurance	239	135	(7)	12	63	(114)
Shipowners' liability insurance	4,539	4,826	(6,411)	1,139	801	(6,316)
Other liability insurances	94,896	78,540	32,968	12,806	14,009	(16,348)
Credit insurance	3,484	3,001	711	271	515	(2,622)
Suretyship insurance	335	280	14	33	47	-
Insurance of financial losses	20,007	19,635	5,989	3,476	3,270	(9,690)
Travel insurance	25,183	24,784	4,714	4,510	4,104	(8,440)
Total non life	651,324	622,015	261,433	137,233	106,207	(69,457)
<i>Life assurance business</i>						
Traditional life	269,795	269,796	231,900	13,198	30,271	658
Annuity contracts	7,096	7,096	7,890	993	8,523	-
Supplementary insurance	32,070	31,037	3,256	3,153	2,818	(1,440)
Unit linked and index-linked	205,615	205,304	178,770	8,798	13,870	5
Total life	514,576	513,233	421,816	26,142	55,482	(777)
Grand total	1,165,901	1,135,249	683,250	163,375	161,691	(70,234)

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

1.24 Premiums (continued)

Analysis by class of business (continued)

Group and Company						
2017	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition costs (Note 1.29) HRK'000	Administrative expenses (Note 1.30) HRK'000	Ceded contribution HRK'000
<i>Non-life insurance business</i>						
Personal accident insurance	52,926	51,283	8,619	13,304	9,736	(396)
Health insurance	12,386	7,395	2,471	1,325	1,445	(1,129)
Insurance of motor vehicles - full comprehensive motor (casco)	95,741	92,089	54,536	18,747	17,432	(1,067)
Full comprehensive motor insurance (casco) of track	1,266	258	142	8	52	-
Hull insurance of aircrafts	139	130	133	15	25	29
Marine and inland marine hull insurance	13,035	12,432	9,568	2,798	2,397	(9,818)
Insurance of goods in transport	5,976	5,776	2,138	1,060	1,114	(686)
Insurance of property against fire and allied perils	131,499	129,494	73,389	34,667	24,606	(3,153)
Other property insurances	51,198	50,107	41,697	16,552	9,729	9,456
Motor third-party liability insurance	123,655	126,377	45,949	23,319	24,574	(115)
Aviation third-party liability insurance	239	246	(34)	20	45	(217)
Shipowners' liability insurance	5,265	4,843	1,448	1,198	955	(705)
Other liability insurances	81,534	68,094	36,537	10,238	13,356	(11,399)
Credit insurance	3,512	3,280	972	231	609	(1,060)
Suretyship insurance	192	209	2	25	43	-
Insurance of financial losses	17,381	17,415	3,996	3,021	3,300	(8,692)
Travel insurance	22,737	22,713	5,691	4,146	4,318	(8,576)
Total non life	618,681	592,141	287,254	130,674	113,736	(37,528)
<i>Life assurance business</i>						
Traditional life	321,852	321,852	294,936	20,437	30,411	(934)
Annuity contracts	12,792	12,792	13,744	1,570	8,392	-
Supplementary insurance	32,272	31,611	2,981	3,478	2,734	(1,969)
Unit linked and index-linked	164,362	164,034	151,496	7,379	4,819	4
Total life	531,278	530,289	463,157	32,864	46,356	(2,899)
Grand total	1,149,959	1,122,430	750,411	163,538	160,092	(40,427)

1.25 Fee and commission income

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Fee income				
Fund management based fees	3,586	1,108	2,055	1,887
Commission income				
Reinsurance commission	5,422	9,528	5,422	9,528
Total fee and commission income	9,008	10,636	7,477	11,415

1.26 Financial income

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
<i>Interest income:</i>				
- Available for sale	92,719	94,489	90,759	92,515
- Held-to-maturity	34,295	34,784	33,396	34,366
- Loans and receivables	1,491	2,054	1,408	1,771
	128,505	131,327	125,563	128,652
Dividend income	14,970	14,756	13,073	13,159
Rental income from investment property	1,759	2,040	1,759	2,040
Net realised gains from available-for-sale financial assets (Note 1.23c)	17,214	15,488	14,930	14,634
Net income from the sale of building	476	-	476	-
Reversal of impairment losses on loans	6	-	6	-
Total financial income	162,930	163,611	155,807	158,485

Company

	Non-life 2018 HRK'000	Life 2018 HRK'000	Total 2018 HRK'000	Non-life 2017 HRK'000	Life 2017 HRK'000	Total 2017 HRK'000
Net financial income						
Income from assets backing equity	3,363	(70)	3,293	3,457	331	3,788
Income from assets backing life assurance provision	-	119,242	119,242	-	114,033	114,033
Income from assets backing other technical provisions	30,190	3,082	33,272	36,741	3,923	40,664
	33,553	122,254	155,807	40,198	118,342	158,485

1.27 Other operating income

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Service claims	4,712	2,612	3,418	2,587
Foreign exchange translation gains arising on insurance contract receivables and payables	97	92	97	92
IT Services	1,808	2,368	-	-
Other	5,866	5,641	4,730	5,260
	12,483	10,713	8,245	7,939

1.28 Net policyholder claims and benefits incurred

	Group and Company 2018 HRK'000	Group and Company 2017 HRK'000
<i>Non-life insurance</i>		
Claims paid		
Gross amount	305,619	293,382
Reinsurers' share	(39,259)	(37,545)
Change in notified outstanding claims reserve		
Gross amount	(27,072)	9,215
Reinsurers' share	31,104	(10,842)
Change in incurred but not reported claims reserve		
Gross amount	(15,282)	(17,571)
Reinsurers' share	251	1,979
Change in other technical provisions		
Gross amount	(1,831)	2,228
Reinsurers' share	1	53
	<hr/>	<hr/>
Total gross claims incurred from non-life insurance	261,434	287,254
Total reinsurance share in claims incurred from non-life insurance	(7,903)	(46,355)
	<hr/>	<hr/>
Total net claims incurred from non-life insurance	253,530	240,899
	<hr/> <hr/>	<hr/> <hr/>
<i>Life assurance</i>		
Claims paid (benefits and surrenders)		
Gross amount	287,836	250,835
Reinsurers' share	(933)	(326)
Claims paid for unit linked products, gross and net	46,287	47,218
Change in life assurance provision and provision arising from LAT	-	-
Gross amount	(59,730)	55,257
Reinsurers' share	20	41
Change in life assurance provision for unit linked products, gross and net	132,345	104,033
Change in notified outstanding claims reserve, gross and net	15,360	5,861
Change in incurred but not reported claims reserve	-	-
Gross amount	(223)	(29)
Reinsurers' share	(48)	(17)
Change in other provisions, gross and net	(59)	(18)
	<hr/>	<hr/>
Total gross claims and benefits incurred from life assurance	421,815	463,157
Total reinsurance share in claims and benefits incurred from life assurance	(961)	(302)
	<hr/>	<hr/>
Total net claims and benefits incurred from life assurance	420,854	462,855
	<hr/> <hr/>	<hr/> <hr/>
Total gross claims and benefits incurred	683,250	750,411
Total reinsurers' share in claims and benefits incurred	(8,864)	(46,657)
	<hr/>	<hr/>
Total non-life and life	674,386	703,754
	<hr/> <hr/>	<hr/> <hr/>

1.29 Acquisition costs

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
<i>Non-life</i>				
Commission expenses paid	128,185	122,930	125,571	122,697
Other acquisition costs paid	13,894	12,291	13,894	12,284
Changes in deferred acquisition costs (Note 1.13)	(2,232)	(4,307)	(2,232)	(4,307)
Total acquisition costs, non-life	139,847	130,914	137,233	130,674
<i>Life</i>				
Commission expenses paid	21,845	26,673	21,845	26,673
Other acquisition costs paid	4,476	6,264	4,476	6,264
Changes in deferred acquisition costs (Note 1.13)	(179)	(73)	(179)	(73)
Total acquisition costs, life	26,142	32,864	26,142	32,864
	165,989	163,778	163,375	163,538

Included within acquisition costs for the Group and the Company are internal sales staff costs amounting to HRK 23,6 million (2017: HRK 27 million). Breakdown of total acquisition cost per line of business of the Company is also analysed in Note 1.24.

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

<i>For 2018</i>	Commission HRK'000	Other acquisition costs HRK'000	Change in deferred acquisition costs (+/-) HRK'000	Total acquisition costs HRK'000
Non-life insurance business				
Personal accident insurance	(13,500)	(811)	(35)	(14,276)
Health insurance	(2,975)	(453)	(591)	(2,837)
Motor hull	(16,524)	(1,933)	1,143	(19,600)
Track vehicles hull	(170)	(16)	15	(201)
Hull insurance of aircrafts	(17)	(4)	(1)	(20)
Marine and inland marine hull	(2,270)	(200)	-	(2,470)
Insurance of goods in transport	(1,005)	(99)	49	(1,153)
Insurance of property against fire and allied perils	(30,854)	(4,176)	(838)	(34,192)
Other property insurances	(18,930)	(1,236)	(1,539)	(18,627)
Motor third-party liability	(18,548)	(1,880)	1,182	(21,610)
Aviation third-party liability	(12)	(2)	(2)	(12)
Shipowners' liability insurance	(1,003)	(82)	54	(1,139)
Other liability insurances	(12,151)	(2,264)	(1,609)	(12,806)
Credit insurance	(222)	(49)	-	(271)
Suretyship insurance	(29)	(4)	-	(33)
Insurance of financial losses	(3,222)	(297)	(43)	(3,476)
Assistance (Travel insurance)	(4,140)	(388)	(18)	(4,510)
Total Non-life insurance business	(125,572)	(13,894)	(2,233)	(137,233)
Life insurance business				
Traditional life	(10,790)	(2,407)	-	(13,197)
Annuity contracts	(319)	(674)	-	(993)
Supplementary insurance	(3,067)	(265)	(179)	(3,153)
Unit linked	(7,669)	(1,129)	-	(8,798)
Total life insurance business	(21,845)	(4,475)	(179)	(26,142)
Grand total	(147,416)	(18,370)	(2,411)	(163,375)

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

1.29 Acquisition costs (continued)

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

For 2017

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

1.30 Administrative expenses

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Depreciation of property and equipment (Note 1.11)	3,390	5,031	3,255	4,896
Amortisation (Note 1.14)	8,893	6,922	8,067	6,151
Staff costs	68,688	68,054	64,125	62,509
Cash-settled-share-based staff costs (Note 1.35)	1,337	2,337	1,337	2,337
Goods and services	39,619	46,853	38,700	45,777
Software maintenance costs	19,270	10,578	17,699	9,111
Other costs	28,031	29,324	28,508	29,311
	<u>169,228</u>	<u>169,099</u>	<u>161,691</u>	<u>160,092</u>

In 2018, the average number of employees of the Group was 340 (2017: 382).

In 2018, the Group paid HRK 14,9 million (2017: HRK 14,5 million) of pension contributions into obligatory pension funds.

Included within administrative expenses is audit fee for the Group HRK 1,26 million (2017: HRK 0,86 million) and for the Company HRK 1,12 million (2017: HRK 0,73 million).

Breakdown of total administrative expenses of the Company per lines of business is also disclosed within Note 1.24.

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

<i>For 2018</i>	Depreciation of property and equipment and amortisation of intangible assets HRK'000	Personnel expenses and cash settled share based payments HRK'000	Other administration costs HRK'000	Total administration costs HRK'000
Non-life insurance business				
Personal accident insurance	(803)	(3,701)	(4,192)	(8,696)
Health insurance	(290)	(1,337)	(1,508)	(3,135)
Motor hull	(1,439)	(6,632)	(7,556)	(15,627)
Track vehicles hull	(16)	(66)	(75)	(157)
Hull insurance of aircrafts	(3)	(21)	(64)	(88)
Marine and inland marine hull	(187)	(833)	(1,045)	(2,065)
Insurance of goods in transport	(91)	(430)	(488)	(1,009)
Insurance of property against fire and allied perils	(2,048)	(9,629)	(10,988)	(22,665)
Other property insurances	(768)	(3,756)	(5,468)	(9,992)
Motor third-party liability	(2,109)	(8,271)	(9,588)	(19,968)
Aviation third-party liability	(3)	(14)	(46)	(63)
Shipowners' liability insurance	(76)	(340)	(385)	(801)
Other liability insurances	(1,333)	(5,616)	(7,061)	(14,010)
Credit insurance	(50)	(218)	(248)	(516)
Suretyship insurance	(4)	(20)	(23)	(47)
Insurance of financial losses	(289)	(1,397)	(1,584)	(3,270)
Travel insurance	(364)	(1,758)	(1,981)	(4,103)
Total Non-life insurance business	<u>(9,873)</u>	<u>(44,039)</u>	<u>(52,300)</u>	<u>(106,207)</u>
Life insurance business				
Traditional life	(773)	(11,564)	(17,935)	(30,270)
Annuity contracts	(20)	(3,333)	(5,171)	(8,524)
Supplementary insurance	(88)	(1,070)	(1,660)	(2,818)
Unit linked	(570)	(5,212)	(8,088)	(13,870)
Total life insurance business	<u>(1,451)</u>	<u>(21,179)</u>	<u>(32,854)</u>	<u>(55,482)</u>
Grand total	<u>(11,324)</u>	<u>(65,218)</u>	<u>(85,154)</u>	<u>(161,689)</u>

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

1.30 Administrative expenses (continued)

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

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

1.31 Other operating expenses

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Health care charges from functional premiums	3,043	2,855	3,043	2,855
Charges for guarantee fund	576	936	576	936
Fire brigade contributions	459	(199)	459	(199)
Impairment losses/(reversal) of other receivables (Note 1.19)	(155)	310	(155)	310
Other charges	8,773	6,122	8,917	7,065
	12,696	10,024	12,840	10,967

1.32 Financial expenses

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Depreciation of investment property (Note 1.12)	1,249	1,249	1,249	1,249
Impairment losses on financial assets available for sale (1.23c)	18,480	1,261	18,435	1,216
Impairment losses / (reversal) on loans to customers (Note 1.16a)	(7,150)	7,571	(7,150)	7,571
Net losses on financial assets at fair value through profit or loss	14,633	2,296	11,558	458
Other expenses	1,568	1,448	3,683	3,645
Allocation (from)/to investment fund non-controlling unitholders	663	(3,428)	-	-
	29,443	10,397	27,775	14,139

Company

	Non-life 2018 HRK'000	Life 2018 HRK'000	Total 2018 HRK'000	Non-life 2017 HRK'000	Life 2017 HRK'000	Total 2017 HRK'000
Financial expenses						
Expenses from assets backing equity	2,059	10,475	12,534	1,738	8,333	10,071
Expenses from assets backing life assurance provision	683	14,396	15,079	-	3,312	3,312
Expenses from assets backing other technical provisions	80	82	162	672	84	756
	2,822	24,953	27,775	2,410	11,729	14,139

1.33 Net foreign exchange translation losses on financial assets

	Group 2018	Group 2017	Company 2018	Company 2017
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Net foreign exchange translation losses on financial assets:</i>				
- Held-to-maturity	6,522	2,999	6,522	2,999
- Available for sale	25,270	11,133	24,937	9,381
- Fair value through profit or loss	41	11	41	11
- Loans and receivables	141	8	141	8
- Current accounts	568	661	352	581
	<hr/>	<hr/>	<hr/>	<hr/>
	32,542	14,812	31,993	12,980
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Company

	Non-life 2018	Life 2018	Total 2018	Non-life 2017	Life 2017	Total 2017
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Net foreign exchange translation losses on financial assets						
Expenses from assets backing equity	85	161	246	33	33	66
Expenses from assets backing life assurance provision		30,469	30,469		12,775	12,775
Expenses from assets backing other technical provisions	887	391	1,278	61	78	139
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	972	31,021	31,993	94	12,886	12,980
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

1.34 Income taxes

	Group 2018	Group 2017	Company 2018	Company 2017
	HRK'000	HRK'000	HRK'000	HRK'000
Current tax expense	31,459	25,195	31,350	25,195
Deferred tax expense/(credit) (Note 1.18)	(5,061)	33	(5,061)	71
Total income tax expense	<u>26,398</u>	<u>25,228</u>	<u>26,289</u>	<u>25,266</u>

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

	Group 2018	Group 2017	Company 2018	Company 2017
	HRK'000	HRK'000	HRK'000	HRK'000
Accounting profit for the period before income taxes	150,875	138,914	150,207	138,187
Income tax at 18% (2017: 18%)	(27,158)	(25,005)	(27,037)	(24,874)
Non-deductible expenses	(3,435)	(1,800)	(3,290)	(1,702)
Non-taxable income	4,797	1,431	4,697	1,310
Correction tax from previous years	(659)	-	(659)	-
Utilization of income tax losses previously not recognised as deferred tax asset	57	146	-	-
Total income tax expense	<u>(26,398)</u>	<u>(25,228)</u>	<u>(26,289)</u>	<u>(25,266)</u>
Effective income tax rate	<u>17.5%</u>	<u>18.2%</u>	<u>17.5%</u>	<u>18.3%</u>

Income tax recognised in other comprehensive income:

	Group 2018	Group 2017	Company 2017	Company 2017
	HRK'000	HRK'000	HRK'000	HRK'000
On available-for-sale financial assets				
Deferred tax on net gains from change in fair value of available-for-sale financial assets, net of amounts realised and impairment losses (Note 1.23c; 1.18)	(5,061)	(4,114)	(5,061)	(4,114)
	<u>(5,061)</u>	<u>(4,114)</u>	<u>(5,061)</u>	<u>(4,114)</u>

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

	Group 2018	Group 2017
	HRK'000	HRK'000
31 December 2020	317	57
	<u>317</u>	<u>57</u>

1.35 Share based payments

The Group and the Company

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 2018 EUR per option	Fair value at 31 December 2018 HRK ‘000	End of vesting period
AEI 2015/RSU	866	126,30	175,12	1,124	06.03.2019
AEI 2016/RSU	1,041	110,67	166,23	1,283	28.02.2020
AEI 2017/RSU	886	135,40	156,63	1,029	05.03.2021
AEI 2018/RSU	1182	148,65	146,32	1,282	04.03.2022

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

Share appreciation rights

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

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

Liabilities for share based remuneration (RSU and SAR) to management amounted to HRK 4,084 thousand at 31 December 2018 (2017: HRK 4,559 thousand) (Note 1.22), while expense recognised in 2018 amounted to HRK 1,337 thousand (2017: HRK 2,337 thousand) (Note 1.30).

1.36 Operating leases

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

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	Group	Group	Company	Company
	2018	2017	2018	2017
	HRK'000	HRK'000	HRK'000	HRK'000
Not later than 1 year	14,667	14,396	14,667	14,396
Later than 1 year and not later than 5 years	52,084	51,952	52,084	51,952
Later than 5 years	37,728	49,964	37,728	49,964
	104,479	116,312	104,479	116,312

During the year ended 31 December 2018, HRK 15,65 million was recognised as an expense in the Group's and the Company's profit or loss in respect of operating leases (2017: HRK 18,1 million).

1.37 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% (2017: 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 103.8 million (2017: HRK 94.6 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 2018, gross written premium acquired through the Zagrebačka banka Group distribution channels amounted HRK 353.2 million (2017: HRK 344.4 million). Commission paid to Zagrebačka banka Group relating to bank assurance sales amounted to HRK 24.7 million (2017: HRK 26.9 million).

Zagrebačka banka Group has property, motor, life and personal lines insurance policies with the Company. Policies written for Zagrebačka banka Group during 2018 amounted to HRK 26.3 million (2017: HRK 27.1 million) of gross written premiums.

In 2018, the Company signed a 15 years exclusive distribution contract with Zagrebačka banka d.d. and Unicredit bank in Slovenia under the umbrella of the Allianz & Unicredit regional partnership.

(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 2018, amounted to HRK 13 million (2017: HRK 13.3 million), including fixed salary, accrued bonuses for 2018 and life assurance premiums paid by the Group. Out of this amount HRK 728,7 thousand (2017: HRK 815 thousand) relate to pension contributions. Value of units in the Group investment funds owned by Management Board at 31 December 2018 amounted to HRK 2,776 thousand (31 December 2017: HRK 3,293 thousand).

Liabilities for share based remuneration to management as at 31 December 2018 amounted to HRK 4,084 thousand (31 December 2017: HRK 4,559 thousand), while expense recognised in 2018 amounted to HRK 1,337 thousand (2017: HRK 2,337 thousand) (please refer to Note 1.35).

1.37 Related parties (continued)

(c) Relationship with Allianz SE, Munich

Liabilities to Allianz SE, Munich as at 31 December 2018 amounted to HRK 2,326 thousand (31 December 2017: HRK 852 thousand), while expense recognised in 2018 amounted to HRK 4,447 thousand (2017: HRK 3,317 thousand) and relate to group charges for services provided.

(d) 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 2018 HRK'000	Company 2017 HRK'000
Premium ceded:		
Reinsurance premiums payable at beginning of year	56,482	58,661
Reinsurance premiums ceded during the year	31,005	78,831
Reinsurance premiums paid during the year	(73,683)	(81,010)
	<hr/>	<hr/>
Reinsurance premiums payable at the year end	13,804	56,482
	<hr/> <hr/>	<hr/> <hr/>
Reinsurance recoveries:		
At the beginning of the year	12,285	25,961
Invoiced during the year	36,395	33,276
Received during the year	(30,265)	(46,952)
	<hr/>	<hr/>
Outstanding at the year end	18,415	12,285
	<hr/> <hr/>	<hr/> <hr/>
Reinsurance commission:		
At the beginning of the year	2,469	5,344
Invoiced during the year	2,173	4,905
Received during the year	(4,158)	(7,780)
	<hr/>	<hr/>
Outstanding at the year end	484	2,469
	<hr/> <hr/>	<hr/> <hr/>

(e) Relationship with subsidiaries of the Company

Receivables from AZ Servisni Centar d.o.o. as at 31 December 2018 amounted to HRK 407 thousand (31 December 2017: HRK 541 thousand), while income recognised in 2018 amounted to HRK 89 thousand (2017: HRK 204 thousand) and relate to sublease of office space. Liabilities to AZ Servisni Centar d.o.o. as at 31 December 2018 amounted to HRK 145 thousand (31 December 2017: HRK 633 thousand), while expense recognised in 2018 amounted to HRK 532 thousand (2017: HRK 1,003 thousand) and relate to IT services provided.

Receivables from Autoelektro tehnički pregledi d.o.o. as at 31 December 2018 amounted to HRK 2,738 thousand (31 December 2017: HRK 2,833 thousand), while income recognised in 2018 amounted to HRK 167 thousand (2017: HRK 172 thousand) and relates to the loan given.

Receivables from Allianz Invest d.o.o. as at 31 December 2018 amounted to HRK 488 thousand (31 December 2017: HRK 738 thousand), while income recognised in 2018 amounted to HRK 233 thousand (2017: HRK 255 thousand) and relate to sublease of office space. There were no open liabilities to Allianz Invest d.o.o. as at 31 December 2018 thousand (31 December 2017: HRK 179 thousand), while expense recognised in 2018 amounted to HRK 2,150 thousand (2017: HRK 2,150 thousand) and relate to management fee.

1.37 Related parties (continued)

Group 2018	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel (including remuneration)</i>	2,776	6,991	-	12,962
<i>Ultimate parent company</i>				
Allianz SE. Munich	-	2,326	-	4,447
<i>Owners</i>				
Zagrebačka banka d.d.	269,502	-	26,379	28,807
<i>Related companies</i>				
Other subsidiaries of Allianz SE Group - Reinsurers	19,194	13,804	40,352	79,250
<i>Other related companies</i>	18	4,926	2,321	22,722
	291,490	28,047	69,052	148,188
Company 2018	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel (including remuneration)</i>	2,295	3,367	-	11,029
<i>Ultimate parent company</i>				
Allianz SE. Munich	-	2,326	-	4,447
<i>Owners</i>				
Zagrebačka banka d.d.	260,300	-	26,379	28,799
<i>Subsidiaries</i>				
AZ Servisni Centar d.o.o.	407	145	89	532
Allianz Short Term Bond, open-ended investment fund	103,914	-	38	-
Allianz Portfolio, open-ended investment fund	57,294	-	-	112
Allianz Equity, open-ended investment fund	9,622	-	-	-
Autoelektro tehnički pregledi d.o.o.	2,738	-	167	-
Allianz Invest d.o.o.	488	-	233	2,150
<i>Related companies</i>				
Other subsidiaries of Allianz SE Group - Reinsurers	19,194	13,804	40,352	79,250
<i>Other related companies</i>	18	4,926	2,321	22,722
	456,270	24,568	69,579	149,041

1.37 Related parties (continued)

Group 2017	Assets	Liabilities	Income	Expense
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Key management personnel (including remuneration)</i>	3,293	9,021	-	13,308
<i>Ultimate parent company</i>				
Allianz SE, Munich	-	852	-	3,317
<i>Owners</i>				
Zagrebačka banka d.d.	96,796	56	27,140	27,521
<i>Related companies</i>				
Other subsidiaries of Allianz SE Group - Reinsurers	57,224	56,482	37,716	72,868
<i>Other related companies</i>	268	2,925	1,237	11,891
	157,581	69,336	67,093	128,905

Company 2017	Assets	Liabilities	Income	Expense
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Key management personnel (including remuneration)</i>	2,804	5,100	-	10,961
<i>Ultimate parent company</i>				
Allianz SE, Munich	-	852	-	3,317
<i>Owners</i>				
Zagrebačka banka d.d.	86,209	56	27,140	27,512
<i>Subsidiaries</i>				
AZ. Servisni Centar d.o.o.	541	633	204	1,003
Alianz Cash, open-ended investment fund	107,372	-	238	-
Alianz Portfolio, open-ended investment fund	48,479	-	-	-
Allianz Equity, open-ended investment fund	9,778	-	-	-
Autoelektro tehnički pregledi d.o.o.	2,833	-	172	-
Allianz Invest d.o.o.	738	179	255	2,150
<i>Related companies</i>				
Other subsidiaries of Allianz SE Group - Reinsurers	57,224	56,482	37,716	72,868
<i>Other related companies</i>	268	2,925	1,237	11,891
	316,246	66,227	66,962	129,702

1.38 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.

1.38 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 179,999 thousand (2017: loss of HRK 217,900 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 86,716 thousand (2017: gain of HRK 258,247 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 40,195 thousand (2017: loss of HRK 39,604 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 40,195 thousand (2017: gain of HRK 39,604 thousand).

Note 1.40 discloses the effective interest rates and re-pricing analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities.

Price risk

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

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

Group	Impact on profit or	Impact on other	Impact on profit or	Impact on other
	loss after tax	comprehensive	loss after tax	comprehensive
	2018	income after tax	2017	income after tax
	HRK'000	2018	HRK'000	2017
		HRK'000	HRK'000	HRK'000
Change in price by \pm 3%	15,446/(15,446)	2,663/(2,663)	14,055/(14,055)	3,438/(3,438)
Change in price by \pm 5%	25,743/(25,743)	4,439/(4,439)	23,854/(23,425)	5,730/(5,730)

Company	Impact on profit or	Impact on other	Impact on profit or	Impact on other
	loss after tax	comprehensive	loss after tax	comprehensive
	2018	income after tax	2017	income after tax
	HRK'000	2018	HRK'000	2017
		HRK'000	HRK'000	HRK'000
Change in price by \pm 3%	15,286/(15,286)	2,432/(2,432)	12,333/(12,333)	3,198/(3,198)
Change in price by \pm 5%	25,477/(25,477)	4,054/(4,054)	20,554/(20,554)	5,330/(5,330)

1.38 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 1.41 discloses the currency analysis at the statement of financial position for Group's and the Company's financial assets and financial liabilities.

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

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

Group	Impact on profit or loss after tax 2018	Impact on other comprehensive income after tax 2018	Impact on profit or loss after tax 2017	Impact on other comprehensive income after tax 2017
EUR / HRK rate	HRK'000	HRK'000	HRK'000	HRK'000
Change in fx rate by ± 1%	(809)/809	(2,890)/2,890	(1,621)/1,621	3,692/(3,692)
Change in fx rate by ± 2%	(1,617)/1,617	(5,781)/5,781	(3,241)/3,241	7,383/(7,383)

Company	Impact on profit or loss after tax 2018	Impact on other comprehensive income after tax 2018	Impact on profit or loss after tax 2017	Impact on other comprehensive income after tax 2017
EUR / HRK rate	HRK'000	HRK'000	HRK'000	HRK'000
Change in fx rate by ± 1%	(898)/898	(2,890)/2,890	(1,808)/1,808	(3,641)/3,641
Change in fx rate by ± 2%	(1,796)/1,796	(5,781)/5,781	(3,616)/3,616	(7,282)/7,282

These movements would be offset by the opposite movements in the liabilities. Currency structure of asset and liability is shown in detail in 1.42

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.

1.38 Financial Risk Management (continued)

Credit risk (continued)

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

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Government bonds and bonds issued by local authorities	2,665,756	2,745,847	2,577,644	2,668,486
Treasury bills	-	121,839	-	-
Accrued interest on Government bonds and bonds issued by local authorities	39,533	42,303	39,533	42,303
	<u>2,705,289</u>	<u>2,909,989</u>	<u>2,617,177</u>	<u>2,710,789</u>

The total exposure to Croatian state risk represents 51% of the total assets of the Group (2017: 55%) and 51% of the Company (2017: 53%).

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

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Debt securities				
Available for sale (Note 1.16c)	2,673,980	2,945,002	2,673,464	2,755,063
Held to maturity (Note 1.16c)	609,477	594,092	577,970	584,788
Loans and receivables				
Deposits with credit institutions (Note 1.16c)	12,552	22,340	12,552	6,305
Loans (Note 1.16c)	19,117	28,096	22,725	32,175
Foreign corporate bonds backing index linked products (Note 1.16c)	8,620	41,988	8,620	41,988
Cash and cash equivalents (Note 1.20)	282,505	138,441	88,418	85,004
Insurance receivables and other assets (Note 1.19)	178,467	188,138	178,230	187,768
Reinsurers' share of insurance contract liabilities (Note 1.17)	126,423	148,609	126,423	148,609
	<u>4,033,801</u>	<u>4,106,706</u>	<u>3,697,021</u>	<u>3,883,689</u>

1.38 Financial Risk Management (continued)

Credit risk (continued)

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

	Group 2018 HRK'000	Group 2017 HRK'000	Company 2018 HRK'000	Company 2017 HRK'000
Debt securities				
AAA	260,091	333,497	260,091	333,497
AA,	79,995	-	79,995	-
A	277,444	105,427	277,444	105,427
BBB	13,987	187,422	13,987	187,422
BB		2,910,031		2,710,788
BB+	2,768,139	-	2,622,075	-
Not rated	6,461	2,717	6,461	2,717
Total debt securities	3,406,117	3,539,094	3,260,053	3,339,851
Loans and receivables				
Below BBB or not rated	31,669	50,436	35,277	38,480
Total loans and receivables	31,669	50,436	35,277	38,480
Foreign corporate bonds backing index linked products (Note 1.16c)				
A	8,620	41,988	8,620	41,988
Foreign corporate bonds backing index linked products	8,620	41,988	8,620	41,988
Cash and cash equivalents				
Below BBB or not rated	282,505	138,441	88,418	85,004
Total cash and cash equivalents	282,505	138,441	88,418	85,004
Insurance receivables and other assets				
AA	12,640	52,564	12,640	52,564
Below BBB or not rated	165,827	135,574	165,590	135,204
Total Insurance receivables and other assets	178,467	188,138	178,230	187,768
Reinsurers' share of insurance contract liabilities				
AA+	150	-	150	-
AA	94,382	127,643	94,382	127,643
AA-	17,888	15,318	17,888	15,318
A+	3,272	4,562	3,272	4,562
A	9,297	-	9,297	-
A-	-	15	-	15
Below BBB or not rated	1,434	1,071	1,434	1,071
Total reinsurance share of insurance contract liabilities	126,423	148,609	126,423	148,609
Total financial asset bearing credit risk	4,033,800	4,106,706	3,697,021	3,846,743

1.38 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 2018:

	Company 2018 HRK'000	Company 2017 HRK'000	Financial Strength Rating
Allianz Global Automotive Division	3,376	45,908	AA
Allianz SE	10,139	3,618	AA
Allianz Global Corporate & Specialty SE	2,501	3,038	AA
Jardine Lloyd Thompson Limited	1,403	1,457	NR
Other	6,786	5,445	
	<u>24,205</u>	<u>59,466</u>	

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 1.39 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 liabilities.

1.38 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 2018:

Group

For the year ended 31 December 2018

	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	50,381	9	-	50,390
-Debt securities	2,667,517	6,463	-	2,673,980
-Investment funds	100,015	252,469	-	352,484
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	4,899	-	-	4,899
-Equity securities	55,088	-	-	55,088
-Debt securities	31,568	28,242	35	59,845
-Financial assets relating to share-based payments	-	-	4,721	4,721
-Investment funds	-	593,266	-	593,266
Total Assets	2,909,468	880,449	4,756	3,794,673

Group

For the year ended 31 December 2017

	Level 1	Level 2	Level 3	Total
Assets	HRK'000	HRK'000	HRK'000	HRK'000
<i>Available-for-sale financial assets</i>				
-Equity securities	56,838	16	-	56,854
-Debt securities	2,705,388	239,572	42	2,945,002
-Investment funds	45,470	398,553	-	444,023
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	41,988	-	-	41,988
-Equity securities	60,536	-	-	60,536
-Financial assets relating to share-based payments	-	-	5,235	5,235
-Investment funds	-	472,275	-	472,275
Total Assets	2,910,220	1,110,416	5,277	4,025,913

1.38 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.

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

	HRK'000
As at 1 January 2017	7,013
Net gains recognised in profit and loss	767
Purchase/Sale/Expiration	(532)
Transfers to/from level 3	(1,971)
	<hr/>
As at 31 December 2017	5,277
	<hr/> <hr/>
Net gains recognised in profit and loss	(275)
Purchase/Sale/Expiration	(1,543)
Transfers to/from level 3	1,297
	<hr/>
As at 31 December 2018	4,756
	<hr/> <hr/>

1.38 Financial Risk Management (continued)

Fair values (continued)

Company

For the year ended 31 December 2018

	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Assets				
<i>Investments in subsidiaries at fair value</i>		170,830		170,830
<i>Available-for-sale financial assets</i>				
-Equity securities	50,381	9	-	50,390
-Debt securities	2,667,006	6,463	-	2,673,469
-Investment funds	100,015	252,469	-	352,484
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	4,899	-	-	4,899
- Debt securities	3,721	-	-	3,721
-Financial assets relating to share-based payments	-	-	4,721	4,721
-Investment funds	-	588,493	-	588,493
Total Assets	2,826,022	1,018,264	4,721	3,849,007

Company

For the year ended 31 December 2017

	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Assets				
<i>Investments in subsidiaries at fair value</i>		165,629		165,629
<i>Available-for-sale financial assets</i>				
-Equity securities	56,838	16	-	56,854
-Debt securities	2,645,065	109,998	-	2,755,063
-Investment funds	45,470	398,553	-	444,023
<i>Financial assets at fair value through profit or loss</i>				
-Foreign corporate bonds backing index linked products	41,988	-	-	41,988
-Financial assets relating to share-based payments	-	-	5,235	5,235
-Investment funds	462,798	-	-	462,798
Total Assets	3,252,159	674,196	5,235	3,931,590

At 31 December 2018, investments classified as Level 2 comprise approximately 23% (2017: 27%) of Group's financial assets measured as fair value on recurring basis. At 31 December 2018, investments classified as Level 2 comprise approximately 26% (2017: 17%) of the Company's financial assets measured as fair value on recurring basis. Financial assets classified as Level 3 include shares relating to share-based payments for the Company and the Group and to domestic bonds for the Group in 2018.

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

None of available for sale debt securities in level 1 at year end during the year were included in level 2 (2017: HRK 0). None of available for sale equity securities in level 1 at the year end (2017: 0) were included in level 2 during the year. There were no available for sale equity securities in level 2 at the year end (2017: HRK 0) that were included in level 1 during the year. Available for sale debt securities in level 2 at year end in the amount of HRK 6,126 thousand (2017: HRK 109,688 thousand) were included in level 1 during the year.

1.38 Financial Risk Management (continued)

Fair values (continued)

There were no available for sale debt securities at year end (2017: -) and available for sale equity securities at year end (2017: -) that were during the year directly included in level 2.

Group	2018		2017	
	Book value	Fair value	Book value	Fair value
	HRK '000	HRK '000	HRK '000	HRK '000
Held-to-maturity investments	609,477	631,284	594,092	665,003
Available for sale financial assets	3,076,853	3,076,853	3,445,878	3,445,878
Financial assets at fair value through profit or loss	717,820	717,820	580,035	580,035
Loans and receivables	31,669	31,669	50,436	50,436
	4,435,819	4,457,626	4,670,441	4,741,352
Investment property	26,607	37,770	27,854	39,236
	4,462,425	4,495,395	4,698,295	4,780,588
Financial liabilities (including liabilities to investment funds non-controlling unitholders)	(301,161)	(301,161)	(334,545)	(334,454)
Company				
Held-to-maturity investments	577,970	621,980	584,788	656,090
Available for sale financial assets	3,076,337	3,076,337	3,255,939	3,255,939
Financial assets at fair value through profit or loss	601,834	601,834	510,020	510,020
Loans and receivables	35,277	35,277	38,480	38,480
	4,291,418	4,335,428	4,389,227	4,460,529
Investments in subsidiaries at cost	5,688	5,688	5,688	5,688
Investments in subsidiaries at fair value	170,830	170,830	165,629	165,629
Investment property	26,607	37,770	27,854	39,236
	4,494,543	4,549,716	4,588,398	4,671,082
Financial liabilities	(133,092)	(133,092)	(169,492)	(169,492)

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. 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.

Fair value of investment property is determined by inputs for the valuation of asset that are not based on observable market data therefore these would be classified as level 3 within fair value hierarchy. The fair value of investment property is derived primarily through the income method. The most significant inputs in this valuation were price or rent income per square meter, which were generated on the basis of comparable real estate in the immediate vicinity and which were then adjusted to the differences in key attributes.

The increase in the estimated capitalization rate, the unit building cost and the average price per sqm +/- 1%, without changing the other variables, would have an impact on the increase (decrease) in the fair value of real estate investments of +/- HRK 377,7 thousand.

1.38 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 31 December 2018 and 2017, guarantee capital of the Company was higher than minimum core capital required by Act 19 of Insurance law, and as far from solvency margin calculated based on Act 98 Insurance law, as follows. At the reporting date, Solvency II figures as at 31 December 2018 are not yet audited.

	Unaudited 31.12.2018. HRK'000 Company	31.12.2017. HRK'000 Company
Basic own funds	1,032,880	1,265,645
Ordinary share capital	101,722	101,722
Share premium account related to ordinary share capital	112,001	112,001
Reconciliation reserve	819,157	1,051,922
Excess of assets over liabilities	1,178,686	1,355,389
Total assets	4,861,616	5,002,748
Total liabilities	3,682,930	3,647,360
Own shares (held directly and indirectly)	-	-
Foreseeable dividends, distributions and charges	145,806	89,743
Other basic own fund items	213,723	213,723
Ancillary own funds	-	-
Total available own funds to meet the SCR	1,032,880	1,265,645
Total available own funds to meet the MCR	1,032,880	1,265,645
SCR	452,258	491,236
MCR	193,348	191,351
Ratio of Eligible own funds to SCR	228%	258%
Ratio of Eligible own funds to MCR	534%	661%

1.39 Maturity analysis

The tables below analyse the financial assets within scope of IAS 39 of the Group and the Company at 31 December 2018 and 31 December 2017 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 – 2018

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
<i>Held-to-maturity investments</i>						
Debt securities	-	284,203	233,565	75,837	15,872	609,477
<i>Available-for-sale financial assets</i>						
Debt securities	-	46,114	144,911	646,064	1,836,890	2,673,979
Equity securities	-	-	50,390	-	-	50,390
Investment funds	-	352,484	-	-	-	352,484
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	3,720	-	20,067	22,410	14,059	60,256
Equity securities	54,677	-	-	-	-	54,677
Foreign corporate bonds backing index linked products	4,899	-	-	-	-	4,899
Shares relating to share-based payments	1,125	-	2,313	1,283	-	4,721
Investment funds	4,773	588,493	-	-	-	593,266
<i>Loans and receivables</i>						
Deposits with banks	12,292	-	261	-	-	12,553
Loans to customers	5,376	3,910	2,107	3,483	4,240	19,116
Reinsurers' share of insurance contract liabilities	28,192	30,549	30,731	30,616	6,335	126,423
Receivables	154,126	22,956	1,385	-	-	178,467
Cash and cash equivalents	282,505	-	-	-	-	282,505
Total financial assets	551,685	1,328,709	485,730	779,693	1,877,396	5,023,213
Financial liabilities						
Liabilities to investment funds	159,238	-	-	-	-	159,238
Payables	99,591	-	1,238	-	-	100,829
Other liabilities	41,093	-	-	-	-	41,093
Financial liabilities	299,922	-	1,238	-	-	301,160
Maturity gap	251,763	1,328,709	484,492	779,693	1,877,396	4,722,053

1.39 Maturity analysis (continued)

Group – 2017

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
<i>Held-to-maturity investments</i>						
Debt securities	-	4,155	287,156	297,632	5,149	594,092
<i>Available-for-sale financial assets</i>						
Debt securities	134,079	143,471	48,589	782,741	1,836,122	2,945,002
Equity securities	-	-	56,854	-	-	56,854
Investment funds	-	444,022	-	-	-	444,022
<i>Financial assets at fair value through profit or loss</i>						
Equity securities	60,537	-	-	-	-	60,537
Foreign corporate bonds backing index linked products	-	33,264	-	8,724	-	41,988
Shares relating to share-based payments	-	1,566	1,193	2,476	-	5,235
Investment funds	9,478	462,797	-	-	-	472,275
<i>Loans and receivables</i>						
Deposits with banks	6,020	16,035	-	285	-	22,340
Loans to customers	12,979	4,704	2,359	1,628	6,426	28,096
Reinsurers' share of insurance contract liabilities	33,165	38,261	24,710	35,529	16,944	148,609
Receivables	179,180	6,678	2,280	-	-	188,138
Cash and cash equivalents	138,441	-	-	-	-	138,441
Total financial assets	573,879	1,154,953	423,141	1,129,015	1,864,641	5,145,629
Financial liabilities						
Liabilities to investment funds	148,217	-	-	-	-	148,217
Payables	151,862	-	1,546	-	-	153,408
Other liabilities	32,920	-	-	-	-	32,920
Financial liabilities	332,999	-	1,546	-	-	334,545
Maturity gap	240,880	1,154,953	421,595	1,129,015	1,864,641	4,811,084

1.39 Maturity analysis (continued)

Company – 2018

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
<i>Investments in subsidiaries</i>						
At cost	-	-	-	-	5,688	5,688
At fair value through P&L	-	-	-	-	161,208	161,208
AFS	-	-	-	-	9,622	9,622
<i>Held-to-maturity investments</i>						
Debt securities	-	284,203	233,565	60,202	-	577,970
<i>Available-for-sale financial assets</i>						
Debt securities	-	46,114	144,911	646,064	1,836,374	2,673,463
Equity securities	-	-	50,390	-	-	50,390
Investment funds	-	352,484	-	-	-	352,484
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	3,720	-	-	-	-	3,720
Foreign corporate bonds backing index linked products	4,899	-	-	-	-	4,899
Shares relating to share-based payments	1,125	-	2,313	1,283	-	4,721
Investment funds	-	588,493	-	-	-	588,493
<i>Loans and receivables</i>						
Deposits with banks	12,292	-	261	-	-	12,553
Loans to customers	5,376	3,910	2,107	4,378	6,954	22,725
Reinsurers' share of insurance contract liabilities	28,192	30,549	30,731	30,616	6,335	126,423
Receivables	153,889	22,956	1,385	-	-	178,230
Cash and cash equivalents	88,418	-	-	-	-	88,418
Total financial assets	297,911	1,328,709	465,663	742,543	2,026,181	4,861,007
Financial liabilities						
Payables	99,591	-	1,238	-	-	100,829
Other liabilities	32,263	-	-	-	-	32,263
Financial liabilities	131,854	-	1,238	-	-	133,092
Maturity gap	166,057	1,328,709	464,425	742,543	2,026,181	4,727,915

1.39 Maturity analysis (continued)**Company – 2017**

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
<i>Investments in subsidiaries</i>						
At cost	-	-	-	-	5,688	5,688
At fair value through P&L	-	-	-	-	155,851	155,851
AFS	-	-	-	-	9,778	9,778
<i>Held-to-maturity investments</i>						
Debt securities	-	-	287,156	297,632	-	584,788
<i>Available-for-sale financial assets</i>						
Debt securities	-	141,825	48,589	735,012	1,829,637	2,755,063
Equity securities	-	-	56,854	-	-	56,854
Investment funds	-	444,022	-	-	-	444,022
<i>Financial assets at fair value through profit or loss</i>						
Foreign corporate bonds backing index linked products	-	33,264	-	8,724	-	41,988
Shares relating to share-based payments	-	1,566	1,193	2,476	-	5,235
Investment funds	-	462,797	-	-	-	462,797
<i>Loans and receivables</i>						
Deposits with banks	6,020	-	-	285	-	6,305
Loans to customers	12,979	4,704	2,359	2,649	9,484	32,175
Reinsurers' share of insurance contract liabilities	33,165	38,261	24,710	35,529	16,944	148,609
Receivables	178,810	6,678	2,280	-	-	187,768
Cash and cash equivalents	85,005	-	-	-	-	85,005
Total financial assets	315,979	1,133,117	423,141	1,082,307	2,027,382	4,981,926
Financial liabilities						
Payables	151,862	-	1,546	-	-	153,408
Other liabilities	21,125	-	-	-	-	21,125
Financial liabilities	167,947	-	1,546	-	-	174,533
Maturity gap	142,992	1,133,117	421,595	1,082,307	2,027,382	4,807,393

1.40 Interest rate repricing analysis

The following tables present the Group's and the Company's financial assets and liabilities within scope of IAS 39 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 2018 and 31 December 2017 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 – 2018

	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	Other* HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
<i>Held-to-maturity investments</i>									
Debt securities	6.00	-	284,202	233,565	75,837	15,872	-	609,476	609,476
<i>Available-for-sale financial assets</i>									
Debt securities	4.00	-	46,119	144,911	646,064	1,836,890	-	2,673,985	2,673,985
Equity securities		-	-	50,390	-	-	-	50,390	
Investment funds		-	352,484	-	-	-	-	352,484	
<i>Financial assets at fair value through profit or loss</i>									
Debt securities		3,721	-	20,067	22,410	14,059	-	60,257	60,257
Equity securities		31,718	-	-	-	-	22,959	54,677	
Foreign corporate bonds backing index linked products	n/a	4,899	-	-	-	-	-	4,899	4,899
Shares relating to share- based payments	n/a	1,125	-	2,313	1,283	-	-	4,721	
Investment funds		2,827	588,493	-	-	-	1,946	593,266	
<i>Loans and receivables</i>									
Deposits with banks	0.67	12,292	-	261	-	-	-	12,553	12,553
Loans to customers	4.06	5,275	3,950	2,128	3,489	4,275	-	19,116	19,116
Reinsurers' share of insurance contract liabilities		-	-	-	-	-	126,423	126,423	
Receivables		-	-	-	-	-	178,467	178,467	-
Cash and cash equivalents		282,505	-	-	-	-	-	282,505	282,505
Total financial assets		344,362	1,275,248	453,635	749,083	1,871,096	329,795	5,023,218	3,662,791
Financial liabilities									
<i>Liabilities to investment funds</i>									
Payables		-	-	-	-	-	159,238	159,238	-
Other liabilities		157	-	-	-	-	40,936	41,093	-
Total financial liabilities		157	-	-	-	-	301,003	301,160	-
Repricing gap		344,205	1,275,248	453,635	749,083	1,871,096	28,792	4,722,058	3,662,791

* Relates to non-interest bearing and liabilities to investment funds non-controlling unitholders

1.40 Interest rate repricing analysis (continued)

Group – 2017

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Other* HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
<i>Held-to-maturity investments</i>									
Debt securities	6,00	-	4,155	287,156	297,632	5,149	-	594,092	594,092
<i>Available-for-sale financial assets</i>									
Debt securities	4,00	134,079	143,471	48,589	782,741	1,836,122	-	2,945,002	2,945,002
Equity securities	n/a	-	-	-	-	-	56,854	56,854	-
Investment funds	n/a	-	-	-	-	-	444,022	444,022	-
<i>Financial assets at fair value through profit or loss</i>									
Debt securities	-	-	-	-	-	-	-	-	-
Equity securities	n/a	-	-	-	-	-	60,537	60,537	-
Foreign corporate bonds backing index linked products	-	-	-	-	-	-	41,988	41,988	41,988
Shares relating to share-based payments	n/a	-	-	-	-	-	5,235	5,235	-
Investment funds	-	-	-	-	-	-	472,275	472,275	-
<i>Loans and receivables</i>									
Deposits with banks	0,67	6,020	16,035	-	285	-	-	22,340	22,340
Loans to customers	4,06	12,979	4,704	2,359	1,628	6,426	-	28,096	28,096
Reinsurers' share of insurance contract liabilities	n/a	-	-	-	-	-	148,609	148,609	-
Receivables	n/a	-	-	-	-	-	188,138	188,138	-
Cash and cash equivalents	n/a	138,441	-	-	-	-	-	138,441	138,441
Total financial assets		291,519	168,365	338,104	1,082,286	1,847,697	1,417,658	5,145,629	3,769,959
Financial liabilities									
Liabilities to investment funds	-	-	-	-	-	-	148,217	148,217	-
Payables	n/a	-	-	-	-	-	153,408	153,408	-
Other liabilities	n/a	-	-	-	-	-	32,920	32,920	-
Total financial liabilities		-	-	-	-	-	334,545	334,545	-
Repricing gap		291,519	168,365	338,104	1,082,286	1,847,697	183,113	4,811,084	3,769,959

* Relates to non-interest bearing and liabilities to investment funds non-controlling unitholders

1.40 Interest rate repricing analysis (continued)

Company – 2018

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non- interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
<i>Investments in subsidiaries</i>									
At cost	-	-	-	-	-	-	5,688	5,688	-
At fair value through P&L	-	-	-	-	-	-	161,208	161,208	-
AFS	-	-	-	-	-	-	9,622	9,622	-
<i>Held-to-maturity investments</i>									
Debt securities	5.81	-	284,202	233,565	60,202	-	-	577,969	-
<i>Available-for-sale financial assets</i>									
Debt securities	4.13	-	46,119	144,911	646,064	1,836,374	-	2,673,469	-
Equity securities	-	-	-	50,390	-	-	-	50,390	-
Investment funds	-	-	352,484	-	-	-	-	352,484	-
<i>Financial assets at fair value through profit or loss</i>									
Debt securities	-	3,721	-	-	-	-	-	3,721	-
Foreign corporate bonds backing index linked products	-	4,899	-	-	-	-	-	4,899	-
Shares relating to share- based payments	-	1,125	-	2,313	1,283	-	-	4,721	-
Investment funds	-	-	588,493	-	-	-	-	588,493	-
<i>Loans and receivables</i>									
Deposits with banks	0.03	12,292	-	261	-	-	-	12,553	12,553
Loans to customers	4.43	5,274	3,950	2,128	4,385	6,987	-	22,723	22,723
Reinsurance share in technical provisions	-	-	-	-	-	-	126,423	126,423	-
Receivables	-	-	-	-	-	-	178,230	178,230	-
Cash and cash equivalents		88,418						88,418	88,418
Total financial assets		115,729	1,275,248	433,568	711,934	1,843,362	481,171	4,861,012	123,694
Financial liabilities									
Payables		-	-	-	-	-	-100,829	100,829	-
Other liabilities		-	-	-	-	-	-32,263	32,263	-
Total financial liabilities		-	-	-	-	-	133,092	133,092	-
Repricing gap		115,729	1,275,248	433,568	711,934	1,843,362	348,079	4,727,920	123,694

1.40 Interest rate repricing analysis (continued)

Company – 2017

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non- interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
<i>Investments in subsidiaries</i>									
At cost	n/a	-	-	-	-	-	5,688	5,688	-
At fair value through P&L	n/a	-	-	-	-	-	155,851	155,851	-
AFS	n/a	-	-	-	-	-	9,778	9,778	-
<i>Held-to-maturity investments</i>									
Debt securities	6,00	-	-	287,156	297,632	-	-	584,788	584,788
<i>Available-for-sale financial assets</i>									
Debt securities	4,00	-	141,825	48,589	735,012	1,829,637	-	2,755,063	2,755,063
Equity securities	n/a	-	-	-	-	-	56,854	56,854	-
Investment funds	n/a	-	-	-	-	-	444,022	444,022	-
<i>Financial assets at fair value through profit or loss</i>									
Foreign corporate bonds backing index linked products	n/a	-	33,264	-	8,724	-	-	41,988	-
Shares relating to share-based payments	n/a	-	-	-	-	-	5,235	5,235	-
Investment funds	n/a	-	-	-	-	-	462,797	462,797	-
<i>Loans and receivables</i>									
Deposits with banks	0,67	6,020	-	-	285	-	-	6,305	6,305
Loans to customers	4,06	12,979	4,704	2,359	2,649	9,484	-	32,175	32,175
Reinsurance share in technical provisions	n/a	-	-	-	-	-	148,609	148,609	-
Receivables	n/a	-	-	-	-	-	187,768	187,768	-
Cash and cash equivalents	n/a	85,004	-	-	-	-	-	85,004	-
Total financial assets		104,003	179,793	338,104	1,044,302	1,839,121	1,476,602	4,981,924	3,378,331
Financial liabilities									
Payables	-	-	-	-	-	-	153,408	153,408	-
Other liabilities	-	-	-	-	-	-	21,125	21,125	-
Total financial liabilities		-	-	-	-	-	174,533	174,533	-
Repricing gap		104,003	179,793	338,104	1,044,302	1,839,121	1,302,069	4,807,391	3,378,331

1.41 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 2018 and 31 December 2017.

Group – 2018

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	Other foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Financial assets						
<i>Held-to-maturity investments</i>						
Debt securities	-	504,515	504,515	-	104,962	609,477
<i>Available-for-sale financial assets</i>						
Debt securities	894,744	627,348	1,522,092	-	1,151,893	2,673,985
Equity securities	-	-	-	-	50,390	50,390
Investment funds	352,484	-	352,484	-	-	352,484
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	10,188	-	10,188	-	50,069	60,257
Equity securities	7,292	-	7,292	38	47,347	54,677
Foreign corporate bonds backing index linked products	4,899	-	4,899	-	-	4,899
Shares relating to share-based payments	4,721	-	4,721	-	-	4,721
Investment funds	7,933	398,274	406,207	7,351	179,709	593,267
<i>Loans and receivables</i>						
Deposits with banks	-	-	-	-	12,553	12,553
Loans to customers	-	14,827	14,827	-	4,289	19,116
Reinsurance share in technical provisions	15,429	3,402	18,831	1,260	106,332	126,423
Receivables	40,580	-	40,580	1,304	136,583	178,467
Cash and cash equivalents	50,998	-	50,999	11,495	220,011	282,505
Total financial assets	1,389,268	1,548,366	2,937,635	21,448	2,064,138	5,023,221
Insurance liabilities	2,943,736		2,943,736	2,410	1,018,247	3,964,393
Financial liabilities						
Liabilities to investment funds	14,555	-	14,555	10,273	134,410	159,238
Payables	15,818	-	15,818	588	84,423	100,829
Other liabilities	6,938	-	6,938	-	34,155	41,093
Financial liabilities	37,311	-	37,311	10,861	252,988	301,160
Currency gap on financial assets and financial liabilities	(1,591,779)	1,548,366	(43,413)	8,177	792,903	757,668

1.41 Currency risk analysis (continued)

Group – 2017

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	Other foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Financial assets						
<i>Held-to-maturity investments</i>						
Debt securities	-	511,007	511,007	-	83,085	594,092
<i>Available-for-sale financial assets</i>						
Debt securities	848,129	733,460	1,581,589	-	1,363,413	2,945,002
Equity securities	-	-	-	-	56,854	56,854
Investment funds	444,022	-	444,022	-	-	444,022
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	-	-	-	-	-	-
Equity securities	6,180	-	6,180	2,706	51,651	60,537
Foreign corporate bonds backing index linked products	41,988	-	41,988	-	-	41,988
Shares relating to share-based payments	5,235	-	5,235	-	-	5,235
Investment funds	265,657	-	265,657	10,390	196,228	472,275
<i>Loans and receivables</i>						
Deposits with banks	-	285	285	-	22,055	22,340
Loans to customers	-	23,080	23,080	-	5,016	28,096
Reinsurance share in technical provisions	10,352	1,908	12,260	3,865	132,484	148,609
Receivables	45,268	-	45,268	1,951	140,919	188,138
Cash and cash equivalents	18,035	-	18,035	1,247	119,159	138,441
Total financial assets	1,684,866	1,269,740	2,954,606	20,159	2,170,864	5,145,629
Financial liabilities						
Liabilities to investment funds	21,923	-	21,923	14,636	111,658	148,217
Payables	58,145	-	58,145	660	94,603	153,408
Other liabilities	-	-	-	-	32,920	32,920
Financial liabilities	80,068	-	80,068	15,296	239,181	334,545
Currency gap	1,604,798	1,269,740	2,874,538	4,863	1,931,683	4,811,084

1.41 Currency risk analysis (continued)

Company – 2018

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	Other foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Financial assets						
<i>Investments in subsidiaries</i>						
At cost	-	-	-	-	5,688	5,688
At fair value through P&L	-	-	-	-	161,208	161,208
AFS	-	9,622	9,622	-	-	9,622
<i>Held-to-maturity investments</i>						
Debt securities	-	504,515	504,515	-	73,455	577,969
<i>Available-for-sale financial assets</i>						
Debt securities	894,744	627,348	1,522,092	-	1,151,377	2,673,469
Equity securities	-	-	-	-	50,390	50,390
Investment funds	352,484	-	352,484	-	-	352,484
<i>Financial assets at fair value through profit or loss</i>						
Debt securities	8,621	-	8,621	-	-	8,621
Equity securities						
Foreign corporate bonds backing index linked products	-	-	-	-	-	-
Shares relating to share-based payments	4,721	-	4,721	-	-	4,721
Investment funds	3,159	-	3,159	-	585,334	588,493
<i>Loans and receivables</i>						
Deposits with banks	-	-	-	-	12,553	12,553
Loans to customers	-	18,460	18,460	-	4,264	22,724
Reinsurers' share of insurance contract liabilities	15,429	3,402	18,831	1,260	106,332	126,423
Receivables	40,580	-	40,580	1,304	136,346	178,230
Cash and cash equivalents	41,245	-	41,245	782	46,390	88,418
Total financial assets	1,360,983	1,163,347	2,524,330	3,346	2,333,336	4,861,012
Financial liabilities						
Payables	15,818	-	15,818	588	84,423	100,829
Other liabilities	33	-	33	-	32,230	32,263
Financial liabilities	15,851	-	15,851	588	116,653	133,092
Currency gap on financial assets and financial liabilities	1,345,132	1,163,347	2,508,479	2,758	2,216,683	4,727,920

1.41 Currency risk analysis (continued)

Company – 2017

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	Other foreign currencies HRK'000	HRK HRK'000	Total HRK'000
Financial assets						
<i>Investments in subsidiaries</i>						
At cost	-	-	-	-	5,688	5,688
At fair value through P&L	-	-	-	-	155,851	155,851
AFS	-	9,778	9,778	-	-	9,778
<i>Held-to-maturity investments</i>						
Debt securities	-	511,007	511,007	-	73,781	584,788
<i>Available-for-sale financial assets</i>						
Debt securities	842,662	733,460	1,576,122	-	1,178,941	2,755,063
Equity securities	-	-	-	-	56,854	56,854
Investment funds	444,022	-	444,022	-	-	444,022
<i>Financial assets at fair value through profit or loss</i>						
Foreign corporate bonds backing index linked products	41,988	-	41,988	-	-	41,988
Shares relating to share-based payments	5,235	-	5,235	-	-	5,235
Investment funds	258,520	-	258,520	10,390	193,887	462,797
<i>Loans and receivables</i>						
Deposits with banks	-	285	285	-	6,020	6,305
Loans to customers	-	28,166	28,166	0	4,009	32,175
Reinsurers' share of insurance contract liabilities	10,352	1,908	12,260	3,865	132,484	148,609
Receivables	45,268	-	45,268	1,951	140,549	187,768
Cash and cash equivalents	2,692	-	2,692	976	81,335	85,004
Total financial assets	1,650,739	1,284,604	2,935,343	17,182	1,995,911	4,948,436
Financial liabilities						
Payables	58,145	-	58,145	660	94,603	153,408
Other liabilities	-	-	-	-	21,125	21,125
Financial liabilities	58,145	-	58,145	660	115,728	174,533
Currency gap on financial assets and financial liabilities	1,554,061	1,284,604	2,877,198	16,522	1,880,183	4,773,903

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

Statement of financial position (balance sheet) 31.12.2018

ASSETS

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
001	002+003	I	INTANGIBLE ASSETS		16,557,010	16,557,010	129,071,297	51,398,361	180,469,658
002		1	Goodwill						
003		2	Other intangible assets		16,557,010	16,557,010	129,071,297	51,398,361	180,469,658
004	005+006+007	II	TANGIBLE ASSETS		36,082,667	36,082,667		33,139,465	33,139,465
005		1	Land and buildings intended for company business operations		30,976,474	30,976,474		30,149,278	30,149,278
006		2	Equipment		4,982,143	4,982,143		2,850,054	2,850,054
007		3	Other tangible assets and stock		124,049	124,049		140,133	140,133
008	009+010+014+033	III	INVESTMENTS	3,227,222,082	973,136,127	4,200,358,209	3,037,798,663	936,365,090	3,974,163,752
009		A	Investments in land and buildings not intended for company business operations		27,854,937	27,854,937		26,606,392	26,606,392
010	011+012+013	B	Investments in subsidiaries, associates and joint ventures		5,688,100	5,688,100		5,688,100	5,688,100
011		1	Shares and stakes in subsidiaries		5,688,100	5,688,100		5,688,100	5,688,100
012		2	Shares and stakes in associates						
013		3	Joint venture participation						
014	015+018+023+029	C	Financial investments	3,227,222,082	939,593,090	4,166,815,172	3,037,798,663	904,070,598	3,941,869,260
015	016+017	1	Investments held-to-maturity	511,007,131	73,779,603	584,786,733	504,514,900	73,454,504	577,969,404
016		1.1	<i>Debt securities and other securities with fixed revenue</i>	511,007,131	73,779,603	584,786,733	504,514,900	73,454,504	577,969,404
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) 31.12.2018 (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
018	019+020+021+022	2	Investments available-for-sale	2,475,700,591	790,015,507	3,265,716,097	2,320,866,557	765,097,851	3,085,964,408
019		2.1	Shares, stakes and other securities with variable revenue	50,770,770	6,083,483	56,854,254	41,849,389	8,540,347	50,389,737
020		2.2	Debt securities and other securities with fixed revenue	2,015,592,541	739,468,633	2,755,061,174	1,951,174,994	722,293,663	2,673,468,657
021		2.3	Investment fund units	409,337,279	44,463,390	453,800,670	327,842,174	34,263,840	362,106,014
022		2.4	Other investments available for sale						
023	024+025+026+027+028	3	Investments at fair value through profit and loss account	220,593,920	57,526,660	278,120,580	193,992,563	48,955,440	242,948,004
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		5,234,495	5,234,495		4,720,721	4,720,721
027		3.4	Investment fund units	211,331,911	52,292,165	263,624,076	190,271,314	44,234,719	234,506,033
028		3.5	Other investments	9,262,010		9,262,010	3,721,250		3,721,250
029	030+031+032	4	Deposits, loans and receivables	19,920,441	18,271,320	38,191,761			
030		4.1	Deposits with credit institutions (banks)		6,305,279	6,305,279			
031		4.2	Loans	19,920,441	11,966,041	31,886,482			
032		4.3	Other loans and receivables						
033		D	Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)						
034		IV	INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS	387,748,984		387,748,984	520,094,036		520,094,036

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

Statement of financial position (balance sheet) 31.12.2018 (continued)

ASSETS

Position no,	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
035	036+037+038+039+040 +041+042	V	REINSURANCE SHARE IN TECHNICAL PROVISIONS	959,397	147,648,856	148,608,253	988,334	125,432,491	126,420,824
036		1	Unearned premiums, reinsurance share	133,016	61,642,720	61,775,736	133,562	70,782,757	70,916,318
037		2	Mathematical provision, reinsurance share	320,781		320,781	300,872		300,872
038		3	Provision for claims outstanding, reinsurance share	505,600	86,006,137	86,511,737	553,900	54,649,734	55,203,634
039		4	Provisions for return of premiums depending and not depending on the result (bonuses and rebates),						
040		5	Equalisation provisions, reinsurance share						
041		6	Other insurance technical provisions, reinsurance share						
042		7	Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share						
043	044+045	VI	DEFERRED AND CURRENT TAX ASSET						
044		1	Deferred tax asset						
045		2	Current tax asset						
046	047+050+051	VII	RECEIVABLES	4,130,740	181,184,626	185,315,366	18,819,313	155,628,100	174,447,413
047	048+049	1	Receivables from direct insurance business	563,343	87,379,984	87,943,327	1,208,701	97,355,352	98,564,053
048		1.1	<i>From policyholders</i>	563,343	87,379,984	87,943,327	1,208,701	97,355,352	98,564,053
049		1.2	<i>From insurance agents, or insurance brokers</i>						
050		2	Receivables from co-insurance and reinsurance business	104,122	59,008,639	59,112,761	220,118	22,678,425	22,898,543

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

Statement of financial position (balance sheet) 31.12.2018 (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
051	052+053+054	3	Other receivables	3,463,276	34,796,003	38,259,279	17,390,494	35,594,323	52,984,817
052		3.1	<i>Receivables from other insurance business</i>		13,176,323	13,176,323		13,842,231	13,842,231
053		3.2	<i>Receivables for return on investments</i>	256,111	41,795	297,906	250,423	65,108	315,531
054		3.3	<i>Other receivables</i>	3,207,165	21,577,885	24,785,050	17,140,071	21,686,984	38,827,055
055	056+060+061	VIII	OTHER ASSETS	59,958,505	30,455,901	90,414,407	58,409,967	30,494,210	88,904,177
056	057+058+059	1	Cash at bank and in hand	59,958,505	30,455,901	90,414,407	58,409,967	30,494,210	88,904,177
057		1.1	<i>Funds in the business account</i>	40,603,068	30,231,640	70,834,708	19,662,442	30,122,093	49,784,536
058		1.2	<i>Funds in the account of assets covering mathematical provision</i>	19,214,800		19,214,800	38,630,457		38,630,457
059		1.3	<i>Cash in hand</i>	140,637	224,262	364,899	117,068	372,117	489,184
060		2	Long-term assets intended for sale and business cessation						
061		3	Other						
062	063+064+065	IX	PREPAYMENTS AND ACCRUED INCOME	1,516,667	50,911,844	52,428,511	2,072,491	53,954,601	56,027,091
063		1	<i>Deferred interest and rent</i>	2,897	5,883	8,780			
064		2	<i>Deferred acquisition costs</i>	1,315,039	48,860,584	50,175,623	1,494,470	51,091,203	52,585,673
065		3	<i>Other prepayments and accrued income</i>	198,731	2,045,378	2,244,108	578,020	2,863,397	3,441,418
066	001+004+008+034+035+043+046+055+062	X	TOTAL ASSETS (A+B+C+D+E+F+G+H+I+J)	3.681.536.376	1.435.977.032	5.117.513.408	3,767,254,100	1,386,412,316	5,153,666,416
067		XI	OFF BALANCE SHEET ITEMS						

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

Statement of financial position (balance sheet) 31.12.2018 (continued)

EQUITY AND LIABILITIES

in HRK

Position no,	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
068	069+072+073+077+081+084	XII	CAPITAL AND RESERVES	521,359,833	479,087,578	1,000,447,411	528,597,607	484,201,539	1,012,799,147
069	070+071	1	Subscribed capital	30,000,000	71,722,400	101,722,400	30,000,000	71,722,400	101,722,400
070		1.1	<i>Paid-up capital - ordinary shares</i>	30,000,000	71,722,400	101,722,400	30,000,000	71,722,400	101,722,400
071		1.2	<i>Paid-up capital - preference shares</i>						
072		2	Issued shares premiums (capital reserves)	80,500,000	31,500,600	112,000,600	80,500,000	31,500,600	112,000,600
073	074+075+076	3	Revaluation reserve	193,460,130	38,885,672	232,345,802	176,764,523	33,757,266	210,521,790
074		3.1	<i>Land and buildings</i>						
075		3.2	<i>Financial investments</i>	193,460,130	38,885,672	232,345,802	176,764,523	33,757,266	210,521,790
076		3.3	<i>Other revaluation reserves</i>						
077	078+079+080	4	Reserves	2,397,219	22,655,124	25,052,343	2,397,219	22,655,124	25,052,343
078		4.1	<i>Legally stipulated reserves</i>	1,300,066	7,098,754	8,398,820	1,300,066	7,098,754	8,398,820
079		4.2	<i>Statutory reserve</i>	1,097,153	15,556,369	16,653,523	1,097,153	15,556,369	16,653,523
080		4.3	<i>Other reserve</i>						
081	082+083	5	Transferred (retained) profit or loss	151,475,635	264,929,853	416,405,488	174,654,369	264,929,853	439,584,223
082		5.1	<i>Retained profit</i>	151,475,635	264,929,853	416,405,488	174,654,369	264,929,853	439,584,223
083		5.2	<i>Transferred loss (-)</i>						
084	085+086	6	Profit or loss of the current accounting period	63,526,850	49,393,929	112,920,779	64,281,496	59,636,296	123,917,792
085		6.1	<i>Profit of the current accounting period</i>	63,526,850	49,393,929	112,920,779	64,281,496	59,636,296	123,917,792
086		6.2	<i>Loss of the current accounting period (-)</i>						
087		XIII	SUBORDINATED LIABILITIES						

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

Statement of financial position (balance sheet) 31.12.2018 (continued)

EQUITY AND LIABILITIES

in HRK

Position no,	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
089	090+091+092+093+094+095	XV	TECHNICAL PROVISIONS	2,684,816,372	817,676,544	3,502,492,916	2,641,509,115	802,792,250	3,444,301,366
090		1	Unearned premiums, gross amount	10,756,232	311,964,258	322,720,490	12,099,613	341,264,577	353,364,190
091		2	Mathematical provision, gross amount	2,631,634,038		2,631,634,038	2,571,905,483		2,571,905,483
092		3	Provision for claims outstanding, gross amount	42,215,058	501,237,837	543,452,895	57,351,598	458,884,733	516,236,331
093		4	Provisions for return of premiums depending and not depending on the result (bonuses and rebates), gross amount		2,773,717	2,773,717		2,555,402	2,555,402
094		5	Equalisation provision, gross amount		68,218	68,218		87,539	87,539
095		6	Other insurance technical provisions, gross amount	211,044	1,632,515	1,843,559	152,421		152,421
096		XVI	LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount	387,748,984		387,748,984	520,094,036		520,094,036
097	098+099	XVII	OTHER RESERVES						
098		1	Provisions for pensions and similar liabilities						
099		2	Other provisions						
100	101+102	XVIII	DEFERRED AND CURRENT TAX LIABILITY	52,792,309	-503,043	52,289,266	34,826,365	8,557,339	43,383,704
101		1	Deferred tax liability	40,024,737	4,869,606	44,894,344	31,481,563	3,560,756	35,042,318
102		2	Current tax liability	12,767,572	-5,372,649	7,394,923	3,344,802	4,996,583	8,341,385
103		XIX	DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE						
104	105+106+107	XX	FINANCIAL LIABILITIES						
105		1	Liabilities on the basis of loans						
106		2	Liabilities on the basis of issued securities						
107		3	Other financial liabilities						

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

Statement of financial position (balance sheet) 31.12.2018 (continued)

EQUITY AND LIABILITIES

in HRK

Position no,	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
108	109+110+111+112	XXI	OTHER LIABILITIES	21,433,110	108,682,710	130,115,821	29,903,120	66,789,806	96,692,926
109		1	Liabilities from direct insurance business	16,457,826	33,727,483	50,185,310	17,016,884	29,971,512	46,988,397
110		2	Liabilities from co-insurance and reinsurance business	556,661	58,248,673	58,805,334	778,996	16,682,068	17,461,064
111		3	Liabilities for sale and ceased business						
112		4	Other liabilities	4,418,623	16,706,554	21,125,177	12,107,239	20,136,226	32,243,465
113	114+115	XXII	ACCRUED EXPENSES AND DEFERRED INCOME	13,385,767	31,033,242	44,419,010	12,323,857	24,071,381	36,395,238
114		1	Deferred reinsurance commission		3,252,331	3,252,331		3,268,629	3,268,629
115		2	Other accrued expenses and deferred income	13,385,767	27,780,911	41,166,679	12,323,857	20,802,752	33,126,609
116	068+087+088+089+096+097+100+103+104+108+113	XXIII	TOTAL LIABILITIES+Equity (A+B+C+D+E+F+G+H+I+J)	3,681,536,376	1,435,977,032	5,117,513,408	3,767,254,100	1,386,412,316	5,153,666,416
117		XXIV	OFF BALANCE SHEET ITEMS						

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

Statement of comprehensive income (income statement) 01.01.2018 – 31.12.2018

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
001	002+003+004 +005+006	I	Earned premiums (recognized in revenue)	526,887,032	498,930,509	1,025,817,541	510,170,512	540,566,323	1,050,736,835
002		1	Written gross premiums	531,278,189	614,813,718	1,146,091,907	514,577,564	650,998,275	1,165,575,839
003		2	Value adjustment and charged adjustment of insurance/co-insurance premium value		3,866,706	3,866,706		326,573	326,573
004		3	Premiums ceded to reinsurance (-)	-3,387,216	-85,650,775	-89,037,991	-3,064,218	-90,598,242	-93,662,461
005		4	Change in gross provisions for unearned premiums (+/-)	-988,765	-26,540,233	-27,528,999	-1,343,380	-29,300,319	-30,643,699
006		5	Change in provisions for unearned premiums, reinsurance share (+/-)	-15,176	-7,558,906	-7,574,083	546	9,140,037	9,140,583
007	008+009+010+011 +012+013+014	II	Income from investments	121,252,812	42,592,965	163,845,777	140,027,256	35,097,176	175,124,431
008		1	Income from subsidiaries, associates and joint ventures						
009		2	Income from investment in land and buildings		2,040,027	2,040,027		2,235,292	2,235,292
010		3	Interest income	93,445,544	35,204,593	128,650,137	95,718,648	29,844,827	125,563,476
011		4	Unrealized profits from investment	87,349	1,182,112	1,269,460	37,408	4,239	41,647
012		5	Realized profits from investment	15,724,163	1,159,495	16,883,658	25,071,258	186,522	25,257,780
013		6	Net positive exchange rate differentials	475,028	1,363,545	1,838,573	507,240	795,212	1,302,453
014		7	Other investment profits	11,520,728	1,643,193	13,163,921	18,692,701	2,031,084	20,723,785

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

Statement of comprehensive income (income statement) 01.01.2018 – 31.12.2018 (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	2,089,413	9,326,419	11,415,831	3,379,654	4,096,601	7,476,255
016		IV	Other insurance-technical income, net of reinsurance	26,206	3,824,086	3,850,291	15,378	4,190,639	4,206,017
017		V	Other income	585,339	3,780,482	4,365,821	77,736	4,044,317	4,122,053
018	019+022	VI	Expenditures for insured events, net	-303,542,313	-238,617,919	-542,160,232	-348,279,799	-255,362,229	-603,642,028
019	020+021	1	Settled claims	-297,727,362	-255,836,524	-553,563,886	-333,191,559	-266,358,931	-599,550,490
020		1.1	Gross amount (-)	-298,053,477	-293,381,411	-591,434,889	-334,124,241	-305,618,116	-639,742,357
021		1.2	Reinsurer share(+)	326,115	37,544,887	37,871,003	932,682	39,259,185	40,191,867
022	023+024	2	Change in provisions for claims outstanding (+/-)	-5,814,951	17,218,605	11,403,654	-15,088,240	10,966,701	-4,091,539
023		2.1	Gross amount (-)	-5,831,651	8,355,769	2,524,118	-15,136,540	42,353,104	27,216,564
024		2.2	Reinsurer share(+)	16,700	8,862,836	8,879,536	48,300	-31,356,402	-31,308,102
025	026+029	VII	Change in other technical provisions, net of reinsurance	-55,280,259	-1,700,732	-56,980,992	59,767,268	1,613,193	61,380,461
026	027+028	1	Change in mathematical provision (+/-)	-55,297,767		-55,297,767	59,708,646		59,708,646
027		1.1	Gross amount (-)	-55,257,182		-55,257,182	59,728,555		59,728,555
028		1.2	Reinsurer share(+)	-40,585		-40,585	-19,909		-19,909
029	030+031	2	Change in other technical provisions, net of reinsurance (+/-)	17,508	-1,700,732	-1,683,224	58,622	1,613,193	1,671,816
030		2.1	Gross amount (-)	17,508	-1,700,732	-1,683,224	58,622	1,613,193	1,671,816
031		2.2	Reinsurer share(+)						

Schedules prescribed by the Regulation of the Croatian Financial Services Supervisory Agency (continued)
Statement of comprehensive income (income statement) 01.01.2018 – 31.12.2018 (continued)

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Non life	Life	Total
032	033+034	VIII	Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)	-104,033,305		-104,033,305	-132,345,051		-132,345,051
033		1	<i>Gross amount (-)</i>	-104,033,305		-104,033,305	-132,345,051		-132,345,051
034		2	<i>Reinsurer share(+)</i>						
035	036+037	IX	Expenditures for return of premium (bonuses and rebates), net of reinsurance		-579,659	-579,659		218,315	218,315
036		1	Depending on the result (bonuses)						
037		2	Not depending on the result (rebates)		-579,659	-579,659		218,315	218,315
038	039+043	X	Business expenditures (for business operations), net	-79,217,384	-244,412,254	-323,629,638	-81,620,897	-243,442,923	-325,063,821
039	040+041+042	1	Acquisition costs	-32,861,055	-130,676,646	-163,537,702	-26,144,193	-137,231,784	-163,375,977
040		1.1	<i>Commission</i>	-26,672,812	-122,698,029	-149,370,842	-21,843,876	-125,569,363	-147,413,238
041		1.2	<i>Other acquisition costs</i>	-6,261,740	-12,285,057	-18,546,797	-4,479,749	-13,893,041	-18,372,790
042		1.3	<i>Change in deferred acquisition costs (+/-)</i>	73,497	4,306,440	4,379,938	179,431	2,230,620	2,410,051
043	044+045+046	2	Administration costs	-46,356,329	-113,735,607	-160,091,936	-55,476,704	-106,211,139	-161,687,843
044		2.1	<i>Depreciation of tangible assets</i>		-11,047,198	-11,047,198	-1,450,198	-9,873,186	-11,323,384
045		2.2	<i>Salaries, taxes and contributions to and from salaries</i>	-17,717,748	-47,130,197	-64,847,946	-21,173,055	-44,036,384	-65,209,439
046		2.3	<i>Other administration costs</i>	-28,638,581	-55,558,211	-84,196,792	-32,853,451	-52,301,569	-85,155,020

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

Statement of comprehensive income (income statement) 01.01.2018 – 31.12.2018 (continued)

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Non life	Life	Total
047	048+049+050+051 +052+053+054	XI	Investment expenses	-28,557,944	-3,922,691	-32,480,636	-73,161,459	-5,924,477	-79,085,907
048		1	Depreciation (buildings not intended for business operations of the company)		-1,248,546	-1,248,546		-1,248,546	-1,248,546
049		2	Interest						
050		3	Investment value adjustment (reduction)	-8,382,312	-409,430	-8,791,742	-18,053,826	-875,825	-18,929,651
051		4	Losses from sale (realization) of financial assets	-2,207,253		-2,207,253	-9,700,846	-754,158	-10,455,004
052		5	Unrealised losses from financial investment	-1,769,903		-1,769,903	-11,258,298	-215,851	-11,474,149
053		6	Net negative exchange rate differences	-12,471,023		-12,471,023	-30,506,766	-886,791	-31,393,557
054		7	Other investment expenses	-3,727,454	-2,264,715	-5,992,169	-3,641,723	-1,943,277	-5,585,000
055	056+057	XII	Other technical expenses, net of reinsurance	-2,275,243	-8,105,210	-10,380,452	-1,931,590	-10,658,108	-12,589,698
056		1	Expenses for preventive operations	-1,927,556	-139,125	-2,066,681	-1,408,201		-1,408,201
057		2	Other technical expenses of insurance	-347,687	-7,966,085	-8,313,771	-523,389	-10,658,108	-11,181,497
058		XIII	Other expenses including value adjustments	-8,215	-855,225	-863,441		-331,025	-331,025
059	001+007+015+016 +017+018+025+ 032+035+038+047 +055+058	XIV	Profit or loss of the accounting period before taxation (+/-)	77,926,137	60,260,771	138,186,907	76,099,007	74,107,832	150,206,838
060	061+062	XV	Profit or loss tax	-14,399,287	-10,866,842	-25,266,129	-11,817,510	-14,471,536	-26,289,046
061		1	Current tax expense	-14,254,925	-10,940,539	-25,195,465	-16,695,796	-14,654,639	-31,350,435
062		2	Deferred tax expense (income)	-144,361	73,697	-70,664	4,878,285	183,103	5,061,389

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

Statement of comprehensive income (income statement) 01.01.2018 – 31.12.2018 (continued)

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Non life	Life	Total
063	059-060	XVI	Profit or loss of the accounting period after taxation (+/-)	63,526,850	49,393,929	112,920,779	64,281,496	59,636,296	123,917,792
064		1	Attributable to owners of the parent						
065		2	Attributable to non-controlling interests						
066	001+007+015+016+017+062	XVII	TOTAL INCOME	650,696,439	558,528,158	1,209,224,597	658,548,821	588,178,158	1,246,726,979
067	018+025+032+035+038+047+055+058+061	XVII I	TOTAL EXPENDITURE	-587,169,589	-509,134,229	-1,096,303,819	-594,267,325	-528,541,863	-1,122,809,187

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

Statement of comprehensive income (income statement) 01.01.2018 – 31.12.2018 (continued)

in HRK

Position no,	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Non life	Life	Total
068	069+070+071+072+073+074+075+076	XIX	Other comprehensive income	16,086,859	2,657,587	18,744,446	-16,695,606	5,128,406	-21,824,012
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	19,618,120	3,240,960	22,859,080	-20,360,496	-6,254,153	-26,614,648
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	-3,531,262	-583,373	-4,114,634	3,664,889	1,125,747	4,790,636
077	066+067+068	XX	Total comprehensive income	79,613,709	52,051,516	131,665,224	47,585,890	54,507,890	102,093,780
078		1	Attributable to owners of the parent						
079		2	Attributable to non-controlling interests						
080		XXI	Reclassification adjustments						

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

STATEMENT OF CASH FLOW (INDIRECT METHOD) for period 01.01.2018 – 31.12.2018

in HRK

Position no,	Elements of sum	Position code	Position description	Current business period	The same period of the previous year
001	002+013+031	I	CASH FLOW FROM OPERATING ACTIVITIES	248,403,651	14,574,301
002	003+004	1	Cash flow before the change in assets and liabilities	52,399,575	24,888,712
003		1.1	Profit/loss before taxation	150,206,838	138,186,907
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments	-97,807,264	-113,298,195
005		1.2.1	<i>Depreciation of real estate and equipment</i>	4,503,726	4,622,067
006		1.2.2	<i>Depreciation of intangible assets</i>	8,068,203	6,425,131
007		1.2.3	<i>Value impairment and profits/losses on reduction to fair value</i>	23,635,919	-8,589
008		1.2.4	<i>Interest expense</i>		
009		1.2.5	<i>Interest income</i>	-125,563,476	-128,650,137
010		1.2.6	<i>Shares in profit of associated companies</i>		
011		1.2.7	<i>Profits/losses on sale of tangible assets (including land and buildings)</i>	-850,025	-278,000
012		1.2.8	<i>Other adjustments</i>	18,686,953	4,591,333
013	014+015+...+030	2	Increase/decrease in assets and liabilities	226,407,614	7,109,023
014		2.1	<i>Increase/decrease in investments available-for-sale</i>	109,763,460	-325,649,777
015		2.2	<i>Increase/decrease in investment valued at fair value through profit and loss account</i>	23,573,576	121,751,202
016		2.3	<i>Increase/decrease in deposits, loans and receivables</i>	10,214,716	23,741,723
017		2.4	<i>Increase/decrease of deposits in insurance business ceded to reinsurance</i>		
018		2.5	<i>Increase/decrease in investments for the account and risk of life assurance policyholders</i>	-132,345,051	-102,275,728
019		2.6	<i>Increase/decrease in reinsurance share in technical provisions</i>	22,187,429	-1,212,465
020		2.7	<i>Increase/decrease in tax assets</i>		
021		2.8	<i>Increase/decrease in receivables</i>	135,207,664	188,340,825
022		2.9	<i>Increase/decrease in other assets</i>		
023		2.10	<i>Increase/decrease in prepayments and accrued income</i>	-1,189,580	-3,545,589
024		2.11	<i>Increase/decrease in technical provisions</i>	-58,191,551	82,472,543
025		2.12	<i>Increase decrease in life assurance technical provisions where the policyholder bears the investment risk</i>	132,345,051	102,275,728
026		2.13	<i>Increase/decrease in tax liabilities</i>		
027		2.14	<i>Increase/decrease in deposits retained from business ceded to reinsurance</i>		
028		2.15	<i>Increase/decrease in financial liabilities</i>		
029		2.16	<i>Increase/decrease in other liabilities</i>	-33,422,894	-70,220,591
030		2.17	<i>Increase/decrease in accruals and deferred income</i>	-8,023,772	-8,568,848

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

STATEMENT OF CASH FLOW (INDIRECT METHOD) for period 01.01.2018 – 31.12.2018

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	-30,403,537	-17,423,434
032	033+034+...+046	II	CASH FLOW FROM INVESTING ACTIVITIES	-159,297,062	94,069,448
033		1	Inflows from sale of tangible assets	930,982	930,118
034		2	Outflows for purchase of tangible assets	-392,936	-101,483
035		3	Inflows from sale of intangible assets		
036		4	Outflows for purchase of intangible assets	-171,980,851	-6,023,108
037		5	Inflows from sale of land and buildings not intended for business operations of the company		
038		6	Outflows for purchase of land and buildings not intended for business operations of the company		
039		7	Increase/decrease in investments in subsidiaries, associates and joint ventures		
040		8	Inflows from investments held to maturity		86,100,000
041		9	Outflows for investments held to maturity		
042		10	Inflows from sale of securities and stakes		
043		11	Outflows for investments in securities and stakes		
044		12	Inflows from dividends and shares in profit	12,145,743	13,163,921
045		13	Inflows on the basis of payment of given short-term and long-term loans		
046		14	Outflows for given short-term and long-term loans		
047	048+049+050+051+052	III	CASH FLOW FROM FINANCING ACTIVITIES	-89,742,044	-62,002,346
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	-89,742,044	-62,002,346
053	001+032+047		NET CASH FLOW	-635,455	28,658,313
054		IV	EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS	-874,775	-922,442
055	053+054	V	NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	-1,510,230	27,735,871
056		1	Cash and cash equivalents at the beginning of the period	90,414,407	62,678,535
057	055+056	2	Cash and cash equivalents at the end of the period	88,904,177	90,414,406

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

STATEMENT OF CHANGES IN EQUITY for period 01.01.2018 – 31.12.2018

in HRK

Position code	Position description	Attributable to owners of the parent							Attributable to non-controlling interest	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year	Total capital and reserves		
I.	Balance as at 1 January of previous year	101,722,400	112,000,600	213,601,356	25,052,343	399,765,994	78,641,840	930,784,533		930,784,533
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
II.	Balance as at 1 January of previous year (corrected)	101,722,400	112,000,600	213,601,356	25,052,343	399,765,994	78,641,840	930,784,533		930,784,533
III.	Comprehensive income/loss of the previous year			18,744,446			112,920,779	131,665,224		131,665,224
1.	Profit or loss of the period						112,920,779	112,920,779		112,920,779
2.	Other comprehensive income or loss of the previous year			18,744,446				18,744,446		18,744,446
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			22,859,080				22,859,080		22,859,080
2.3.	Realised gains or losses from financial assets available for sale			-4,114,634				-4,114,634		-4,114,634
2.4.	Other non-owner changes in equity									
IV.	Transactions with owners (previous period)					16,639,494	-78,641,840	-62,002,346		-62,002,346
1.	Increase/decrease in subscribed capital									
2.	Other payments by owners									
3.	Payment of shares in profit /dividends						-62,002,346	-62,002,346		-62,002,346
4.	Other distributions to owners					16,639,494	-16,639,494			
V.	Balance as at the last day of the reporting period in previous year	101,722,400	112,000,600	232,345,802	25,052,343	416,405,488	112,920,779	1,000,447,411		1,000,447,411

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

STATEMENT OF CHANGES IN EQUITY for period 01.01.2018 – 31.12.2018

in HRK

Position code	Position description	Attributable to owners of the parent							Attributable to non-controlling interest	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year	Total capital and reserves		
VI.	Balance as at 1 January of the current year	101,722,400	112,000,600	232,345,802	25,052,343	416,405,488	112,920,779	1,000,447,411		1,000,447,411
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
VII.	Balance as at 1 January of the current year (corrected)	101,722,400	112,000,600	232,345,802	25,052,343	416,405,488	112,920,779	1,000,447,411		1,000,447,411
VIII.	Comprehensive income/loss of the current year			-21,824,012			123,917,792	102,093,780		102,093,780
1.	Profit or loss of the previous period						123,917,792	123,917,792		123,917,792
2.	Other comprehensive income or loss of the current year			-21,824,012				-21,824,012		-21,824,012
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			-26,614,648				-26,614,648		-26,614,648
2.3.	Realised gains or losses from financial assets available for sale			4,790,637				4,790,637		4,790,637
2.4.	Other non-owner changes in equity									
IX.	Transactions with owners (current period)					23,178,734	-112,920,779	-89,742,044		-89,742,044
1.	Increase/decrease in subscribed capital									
2.	Other payments by owners									
3.	Payment of shares in profit /dividends						-89,742,044	-89,742,044		-89,742,044
4.	Other transactions with owners					23,178,734	-23,178,734			
X.	Balance as at the last day of the reporting period in the current year	101,722,400	112,000,600	210,521,790	25,052,343	439,584,223	123,917,792	1,012,799,147		1,012,799,147

Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules

Statement of financial position – Assets as at 31 December 2018

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	
RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	-									
Called up capital	-									
Uncalled capital	-									
INTANGIBLE ASSETS	180,470									
Goodwill	-									
Other intangible assets	180,470						(1)	180,469		Other intangible assets
TANGIBLE ASSETS	33,139	(140)					1	33,000		Property and equipment
Land and buildings intended for company business operations	30,149									
Equipment	2,850									
Other tangible assets and stock	140									
INVESTMENTS	3,974,159									
Investments in land and buildings not intended for company business operations	27,855						1	26,607,854		Investment property
Investments in subsidiaries, associates and joint ventures	5,688							170,830	176,518	Investment in subsidiaries
Shares and stakes in subsidiaries	5,688									
Shares and stakes in associates	-									
Joint venture participation	-									
Other financial investments	3,941,869									
Investments held-to-maturity	577,969						1	577,970		Held-to-maturity investments
Debt securities and other securities with fixed revenue	577,969									

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

Statement of financial position – Assets as at 31 December 2018

Schedules prescribed by Regulation of the Croatian Financial Services Supervisory Agency	HRK'000	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	Statutory financial statements
Investments available-for-sale	3,085,964								
<i>Shares, stakes and other securities with variable revenue</i>	50,390								
<i>Debt securities and other securities with fixed revenue</i>	2,673,469								
<i>Investment fund units</i>	362,106								
<i>Other investments available for sale</i>	-								
Investments at fair value through profit and loss account	242,948	520,094				(161,208)	1	601,834	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>	4,721								
<i>Investment fund units</i>	234,506								
<i>Other investments</i>	3,721								
Deposits, loans and receivables	34,987				290		-	35,277	Loans and receivables
<i>Deposits with credit institutions (banks)</i>	12,553								
<i>Loans</i>	22,434								
<i>Other loans and receivables</i>	-								
<i>Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)</i>	-								
INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS	520,094	(520,094)							

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

Statement of financial position – Assets as at 31 December 2018

Supplementary information prescribed by Regulation of the
Croatian Financial Services Supervisory Agency

	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	Statutory financial statements
REINSURANCE SHARE IN TECHNICAL PROVISIONS	126,421							2	126,423	Reinsurers' share of insurance contract liabilities
Unearned premiums, reinsurance share	70,916									
Mathematical provision, reinsurance share	301									
Provision for claims outstanding, reinsurance share	70,916									
Provisions for return of premiums depending and not depending on the result (bonuses and rebates), reinsurance share	301									
Equalisation provisions, reinsurance share	-									
Other insurance technical provisions, reinsurance share	-									
Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share	-									
DEFERRED AND CURRENT TAX ASSETS	-									
Deferred tax asset	-									
Current tax asset	-								-	Current income tax prepayment
RECEIVABLES	174,447	140		3,441	(290)	489		2	178,230	Insurance receivables and other assets
Receivables from direct insurance business	98,564									
From policyholders	98,564									
From insurance agents, or insurance brokers	-									
Receivables from co-insurance and reinsurance business	22,899									

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

Statement of financial position – Assets as at 31 December 2018

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
Other receivables	52,985								
<i>Receivables from other insurance business</i>	<i>13,842</i>								
<i>Receivables for return on investments</i>	<i>316</i>								
<i>Other receivables</i>	<i>38,827</i>								
OTHER ASSETS	88,904								
Cash at bank and in hand	88,904					(489)		2	88,417
<i>Funds in the business account</i>	<i>49,785</i>								Cash and cash equivalents
<i>Funds in the account of assets covering mathematical provision</i>	<i>38,630</i>								
<i>Cash in hand</i>	<i>489</i>								
Long-term assets intended for sale and business cessation	-								
Other	-								
PREPAYMENTS AND ACCRUED INCOME	56,027								
<i>Deferred interest and rent</i>	<i>-</i>								
<i>Deferred acquisition costs</i>	<i>52,586</i>							(1)	52,585
<i>Other prepayments and accrued income</i>	<i>3,441</i>			(3,441)					DAC
TOTAL ASSETS	5,153,666								5,153,668
Total assets difference	-								
OFF BALANCE SHEET ITEMS	-								Total assets

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

Statement of financial position – Equity and liabilities as at 31 December 2018

Supplementary information prescribed by Regulation of the Croatian
Financial Services Supervisory Agency

	HRK*000						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 liabilities	Rounding difference			Statutory financial statements
CAPITAL AND RESERVES	1,012,799				(2)		1,012,797	Total equity
Subscribed capital	101,722						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>	-							
Issued shares premiums (capital reserves)	112,001						112,001	Share premium
Revaluation reserves	210,522						210,520	Fair value reserve
<i>Land and buildings</i>	-							
<i>Financial investments</i>	210,522							
<i>Other revaluation reserves</i>	-							
Reserves	25,052					1	25,053	Legal reserve
<i>Legally stipulated reserves</i>	8,399							
<i>Statutory reserves</i>	16,654							
<i>Other reserves</i>	-							
Transferred (retained) profit or loss	439,584	123,918				(1)	563,501	Retained earnings
<i>Retained profit</i>	439,584							
<i>Transferred loss (-)</i>	-							
Profit or loss of the current accounting period	123,918							
<i>Profit of the current accounting period</i>	123,918	(123,918)						
<i>Loss of the current accounting period (-)</i>	-							
SUBORDINATED LIABILITIES	-							
TECHNICAL PROVISIONS	3,964,393			520,094		(2)	3,964,393	Insurance contract liabilities
Unearned premiums, gross amount	353,364							
Mathematical provision, gross amount	2,571,905							
Provision for claims outstanding, gross amount	516,236							
Provisions for return of premiums depending and not depending on the result (bonuses and rebates), gross amount	2,555							
Equalisation provision, gross amount	88							
Other insurance technical provisions, gross amount	152							

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

Statement of financial position – Equity and liabilities as at 31 December 2018

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 liabilities	Rounding difference	HRK'000	
LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount	520,094			(520,094)			
OTHER RESERVES	-						
Provisions for pensions and similar liabilities	-						
Other provisions	-						
DEFERRED AND CURRENT TAX LIABILITY	43,384						
Deferred tax liability	35,042				2	35,044	Deffered tax liability
Current tax liability	8,341				1	8,342	Current income tax liability
DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE	-						
FINANCIAL LIABILITIES	-						
Liabilities on the basis of loans	-						
Liabilities on the basis of issued securities	-						
Other financial liabilities	-						
OTHER LIABILITIES	96,693						
Liabilities from direct insurance business	46,988						
Liabilities from co-insurance and reinsurance business	17,461						
Liabilities for sale and ceased business	-						
Other liabilities	32,243						
ACCRUED EXPENSES AND DEFERRED INCOME	36,395						
Deferred reinsurance commission	3,269						
Other accrued expenses and deferred income	33,127						
	5,153,666						
TOTAL LIABILITIES AND EQUITY						5,153,668	Total liabilities and equity
Total liabilities and equity difference	-						
OFF BALANCE SHEET ITEMS	-						

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

Statement of comprehensive income for year ended 31 December 2018

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	Statutory financial statements	
									HRK'000	
Earned premiums (recognised in revenue)	1,050,737							1	1,050,738	Net earned premiums
Written gross premiums	1,165,576			327				(1)	1,165,901	Gross premiums written
Value adjustment and charged adjustment of insurance/coinsurance premium value	327			(327)						
Premiums ceded to reinsurance (-)	(93,662)								(93,662)	Written premiums ceded to reinsurers
Change in gross provisions for unearned premiums +/-	(30,644)							1	(30,643)	Change in the gross provision for unearned premiums
Change in provisions for unearned premiums, reinsurance share (+/-)	9,141							1	9,142	Reinsurers' share of change in the provision for unearned premiums
Income from investments	175,124					(19,319)			155,807	Financial income
Income from subsidiaries, associates and joint ventures	-									
Income from investment in land and buildings	2,235									
Interest income	125,563									
Unrealized profits from investment	42									
Realized profits from investment investments	25,258									
	25,528									
Net positive exchange rate differentials	25,528									
Other investment profits	25,528									

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

Statement of comprehensive income for year ended 31 December 2018

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

		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	Statutory financial statements
Income from commissions and fees	7,476							1	7,477	Fee and commission income
Other insurance-technical income, net of reinsurance	4,206	(4,206)								
Other income	4,122	4,206					(82)	(1)	8,245	Other operating income
Expenditures for insured events, net	(603,642)									
Settled claims	(599,550)									
<i>Gross amount (-)</i>	(639,742)		639,742						(683,250)	Claims and benefits incurred
<i>Reinsurer share(+)</i>	40,192		(40,192)						8,864	Reinsurers' share of claims and benefits incurred
Change in provisions for claims outstanding (+/-)	(4,092)									
<i>Gross amount (-)</i>	27,217		(27,217)							
<i>Reinsurer share(+)</i>	(31,308)		31,308							
Change in other technical provisions, net of reinsurance	61,380									
Change in mathematical provision (+/-)	59,708									
<i>Gross amount (-)</i>	59,729		(59,729)							
<i>Reinsurer share(+)</i>	(20)		20							
Change in other technical provisions, net of reinsurance (+/-)	1,672									
<i>Gross amount (-)</i>	1,672		(1,672)							
<i>Reinsurer share(+)</i>	-									
Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance(+/-)	(132,345)									
<i>Gross amount (-)</i>	(132,345)		132,345							
<i>Reinsurer share(+)</i>	-									
Expenditures for return of premium (bonuses and rebate), net of reinsurance +/-	218									
<i>Depending on the result (bonuses)</i>	-		(218)							
<i>Not depending on the result (rebates)</i>	218									

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

Statement of comprehensive income for year ended 31 December 2018

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 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	Statutory financial statements	
								Rounding difference	HRK'000
Business expenditures (for business operations), net	(325,064)								
Acquisition costs	(163,376)							1	(163,375) Acquisition costs
Commission	(147,413)								
Other acquisition costs	(18,373)								
Change in deferred acquisition costs(+/-)	2,410								
Administration costs	(161,688)							(3)	(161,691) Administrative expenses
Depreciation of tangible assets	(11,323)								
Salaries, taxes and contributions to and from salaries	(65,209)								
Other administration costs	(85,155)								
	(79,086)								
Investment expenses						19,318		1	(59,768) Financial expenses and FX result
Depreciation (buildings not intended for business operations of the company)	(1,249)								
Interest	-								
Investment value adjustment (reduction)	(18,930)								
Losses from sale (realization) of financial assets	(10,455)								
Unrealised losses from financial investments	(11,474)								
FX losses	(31,394)								
Other investment expenses	(5,585)								
Other technical expenses, net of reinsurance	(12,590)								
Expenses for preventive operations	(1,408)								
Other technical expenses of insurance	(11,181)				(331)		82	(1)	(12,840) Other operating expenses
Other expenses including value adjustments	(331)				331				
Profit or loss of the accounting period before taxation (+/-)	150,207								150,207

Reconciliation between statutory financial statements and Croatian Financial Services Supervisory Agency Schedules (continued)**Statement of comprehensive income for year ended 31 December 2018**

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	(26,289)							-	(26,289) Income tax expense
Current tax expense	(31,350)								
Deferred tax expense (income)	5,061								
Profit or loss of the accounting period after taxation (+/-)	123,918								123,918 Profit for the year
Attributable to owners of the parent	-								
Attributable to non-controlling interests	-								
TOTAL INCOME	1,246,727								
TOTAL EXPENDITURE	(1,122,809)								
Other comprehensive income	(21,814)								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	(26,615)								(21,824) tax
Profits/losses on revaluation of other tangible and (except land and real estate) intangible assets	-								
Effects from cash flow hedging instruments	-								
Actuarial profits/losses on defined benefit pension plans	-								
Share in other comprehensive income of associated companies	-								
Profit tax on other comprehensive income	4,791								
Total comprehensive income	102,094								Total comprehensive income for the year
Attributable to owners of the parent	-								
Attributable to non-controlling interests	-								
Reclassification adjustments	-								

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

Statement of the cash flow for the year ended 31 December 2018

Statement of cash flow prepared in accordance with the *Regulation on the structure and content of the annual financial statements of insurance and reinsurance companies*, the preparation of which is described in detail in the *Instructions for preparation of financial statements of insurance and reinsurance companies*, presented on pages 147 to 148 (“HANFA CF”) differ significantly in the presentation from the Statement of cash flows (“CF”) forming a part of statutory financial statements, presented on page 25.

Main differences are described below:

1. Adjustments to profit after tax in CF are different from adjustments to profit before tax under HANFA CF,
2. Differences in line items presenting increases and decreases of operating assets and liabilities between CF and HANFA CF on the specific positions are due to differences in amounts of related positions, resulting from different presentation between statutory financial statements and HANFA Schedules, which have been described in more details in the reconciliation of ASSETS and EQUITY AND LIABILITIES schedules,
3. Further, line item changes in financial assets presented in CF reflect net cash effects (sales and redemptions on maturity are reduced by acquisitions of financial assets eliminating non-cash effects), while changes in financial assets in HANFA CF also include non-cash effects (fair value and foreign exchange differences),
4. Line item changes in operating assets in CF also includes changes in held-to-maturity investments, while this effect in HANFA CF is presented within cash flows from investing activities,
5. The effect of foreign exchange differences, as already described above, within HANFA CF are not eliminated within line items of changes in related operating assets and liabilities, contrary to presentation in CF, instead they are separately presented in the line item “Effects of changes in exchange rates for foreign currencies on cash and cash equivalents”, as described in point 1 of this reconciliation.