

Kvarner Vienna Insurance Group

Annual report and financial
statements
for 2011

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Management Board's report

The Management Board is submitting its report together with the audited financial statements for the year ended 31 December 2011.

The Company

Kvarner Vienna Insurance Group d.d. (the "Company") is a joint stock company offering life and non-life insurance products, with headquarters in Rijeka, Osječka 46. The Company originated from the merger of Wiener Städtische osiguranje d.d. Zagreb and Kvarner osiguranje d.d. Rijeka in 2001.

In December 2005 the Company was merged with Aurum Wiener Städtische osiguranje d.d., resulting in an expanded sales network and improved quality of client service.

Since the year 2006, the Vienna Insurance Group became the umbrella brand of Wiener Städtische Group in Central and Eastern Europe, so all the companies belonging to the Group, including the Company, are using the Vienna Insurance Group as a "family" name.

With a premium volume of around 9 billion euros and with around 25.000 employees of the Vienna Insurance Group (VIG) is a leading concern in Austria and in Central and Eastern Europe (CEE). Innovation, dedication to customer service and consistent high quality of the portfolio is characterised by products that offer attractive solutions in the field of life and non life insurance.

Because of its clearly focused strategy of expansion in the area of Central and Eastern Europe, VIG has already managed to turn out from the Austrian insurance company in the international group. Today it is present with about 50 insurance companies in 25 countries. VIG means financial security and can offer to its customers, shareholders, partners and employees a high degree of safety. This crucial and contributes no less important conservative investment policy. This is reflected in the "A +" rating of VIG with a stable outlook. Vienna Insurance Group is thus best positioned company in the leading index ATX Vienna Stock Exchange, from 2008 quoted on the Prague Stock Exchange.

For the Group is also an important task to strive for economic and social needs and to contribute to a better future society. Vienna Insurance Group thus remains consistent with its fundamental orientation of growth-oriented values.

The insurance market in Croatia is a strategic market for VIG group which makes the positioning of the Kvarner VIG as a safe and stable insurance company of the utmost importance. Further to the above, the gross written premium of HRK 438 million realised in 2011 puts the Kvarner Vienna Insurance Group d.d. in fifth place among insurance companies in Croatia, with a market share of 4.9%.

In 2011, the Company realised gross written premium of HRK 438 million, which represents a decrease of 11.8% in comparison to 2010. Both the non-life and life insurance segments recorded a decrease in written premiums, the most significant of which were recorded in the Motor hull (27%), Property fire (9%) and other property insurance (21%) lines of business.

As in the previous year, for individual lines of business, the largest share in total premiums relates to Life assurance (35%) followed by Motor Third Party Liability (25%). Ceded reinsurance amounted to HRK 184.5 million, which represents an increase of 2% in comparison to 2010. The number of insurance contracts in 2011 decreased by 7% compared to 2010, and at 31 December 2011 amounted to 304,784.

In 2011 the Vienna Insurance Group as the majority shareholder of the Company increased the share capital with EUR 38 million or HRK 284.3 million in order to ensure stability and security of the Company. This has strengthened the position of Kvarner VIG on the Croatian market which is in the VIG group recognised as a market of strategic importance for the Group.

Management Board's report (continued)

The economic environment

The financial and economic crisis which started in 2008 continued also in 2011. In the third quarter of 2011 Croatian GDP was for 0.6% higher than in 2010 when GDP has recorded a negative real growth rate of 1.2%. In December 2011, according to the Consumer Price Index, the prices of personal consumption goods were about 2.3% above those in 2010.

Negative trends in the economy are also reflected in employment. The registered unemployment rate grew from 17.4% in 2010 to 18.7% in December 2011. Although the annual increase in the unemployment rate is slower than in 2010, growth rates are still high.

The number of people employed continued to decrease in the period, however, the positive development is that, according to the Croatian Bureau of Statistics, the amount of net salaries paid in November 2011 was HRK 5,493, which was about 2.8% higher than in the same period of 2010.

The insurance industry

There were 26 insurance companies on the Croatian insurance market in 2011. As a result of the current crisis and market trends in 2011, a slight decline in premiums was recorded on the Croatian insurance market. According to statistical data from the Croatian Insurance Bureau, the total premiums charged for all Croatian insurance companies amounted to HRK 9,144 billion, representing a decline of 1.1% compared to 2010. This is the third consecutive year of decline in the Croatian insurance market. Gross written premium for non life insurance declined by 1.1% compared to 2010 and amounted to HRK 6.7 billion, (74% of total written premiums) and life insurance written premiums amounted to HRK 2.4 billion (26% of total written premiums), representing a decline of 1.1% compared to the previous year. Total liquidated claims increased in 2011 by 3.8%, which is due to a decline in liquidated claims in the non – life insurance segment (by 2.7% compared to 2010), while liquidated claims in life insurance continued with the negative growth rate trend of 24.6% compared to 2010.

Corporate governance

The main responsibility of the Management Board is the management of the Company's operations and representation of the Company toward third parties.

Management Board's report (continued)

The Management Board, during the course of 2011 and up to the date of the signing of this report, comprised:

Harald Riener	Member since 6 September 2010
Mario Kovač	Deputy member since 9 December 2011
Hand Raumauf	Deputy member from 7 November until 9 December 2011
Luka Matošić	President from 21 July 2010 until 7 November 2011

Once a year, the Supervisory Board submits a report to the General Assembly about its own performance and the performance of the audit committee. The audit committee is a legal requirement

Hans-Peter Hagen	President since 9 December 2011
Peter Franz Höfinger	Deputy Chairman since 9 December 2011
Natalia Cadek	Member since 9 December 2011
Roland Gröll	Member since 9 December 2011
Wolfgang Petschko	Member since 9 December 2011
Zoran Dimov	Member since 9 December 2011
Mario Kovač	Member since 9 December 2011
Hans Raumauf	President until 7 November 2011
Martin Simhandl	Deputy Chairman until 9 December 2011
Franz Kosyna	Member until 9 December 2011
Robert Haider	Member until 9 December 2011
Hartwig Fuchs	Member from 15 June 2011 until 09 December 2011
Klaus Mühleder	Member from 7 November 2011 until 09 December 2011
Ivica Brčić	Member until 6 April 2011

For the overall benefit of the Company, efficient cooperation has been established between the Company's Management Board and the Supervisory Board. The Management Board reports regularly (through quarterly and annual reports) to the Supervisory Board about the Company's operations, performance and financial plan realisation.

The Company considers responsible Corporate Governance to be a prerequisite for the creation of sustainable values, not only for the benefit of shareholders and policyholders, but for everyone who is interested in the Company achieving strong and stable performance. With this in mind, the Company implements both applicable external and internal regulations, as well as the regulations of its parent company – Vienna Insurance Group AG Wiener Versicherung Gruppe, provided these are not in conflict with the regulations in force in the Republic of Croatia.


Harald Riener
Member of the Management Board

KVARNER
VIENNA INSURANCE GROUP d.d.
RIJEKA 11


Mario Kovač
Deputy member of the Management Board

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements

The Management Board of the Company is required to prepare consolidated and unconsolidated financial statements for each financial year which give a true and fair view of the financial position of the Group and Company and of the results of their operations and cash flows, in accordance with International Financial Reporting Standards. The Management Board is responsible for implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform to 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 Group and Company will continue in business.

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

The consolidated and unconsolidated financial statements set out on pages 7 to 127 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 132/10) ("the Schedules"), presented on pages 128 to 142, and a reconciliation, presented on pages 143 to 152, of the Schedules with the financial statements were authorised by the Management Board on 22 March 2012 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of Kvarner Vienna Insurance Group d.d.:


Harald Riener
Member of the Management Board


Deputy member of the Management Board
KVARNER
VIENNA INSURANCE GROUP d.d.
RIJEKA
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Independent Auditors' Report to shareholders of Kvarner Vienna Insurance Group d.d.

We have audited the accompanying consolidated financial statements of Kvarner Vienna Insurance Group ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. We have also audited the accompanying unconsolidated financial statements of Kvarner Vienna Insurance Group d.d. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2011, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated and unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and unconsolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated and unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated and unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and unconsolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated and unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated and unconsolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and unconsolidated financial statements.

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



Independent Auditors' Report to shareholders of Kvarner Vienna Insurance Group d.d. (continued)

Opinion

The Group

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

The Company

In our opinion, the unconsolidated financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2011, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other legal and regulatory requirements

Pursuant to the Regulation of the Croatian Financial Services Supervisory Agency on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies, dated 19 November 2010 (Official Gazette 132/10), the Management Board of the Company has prepared the unconsolidated schedules of the Company set out on pages 128 to 142 ("the Schedules"), which comprise an alternative presentation of the unconsolidated statement of financial position as of 31 December 2011, and of the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a reconciliation ("the Reconciliation"), as presented on pages 143 to 152, of the Schedules with the unconsolidated financial statements as presented on pages 7 to 127. The Management Board of the Company is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the unconsolidated financial statements of the Company set out on pages 7 to 127 on which we have expressed an unmodified opinion as set out above.

Zagreb, 22 March 2012

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

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

Goran Horvat
Director, Croatian Certified Auditor

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb

Statement of financial position as at 31 December

	Note	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Assets					
Property and equipment	11	64,920	98,562	23,387	50,048
Investment property	12	27,103	46,270	2,829	27,624
Intangible assets					
Deferred acquisition costs	13	19,491	32,796	19,491	32,796
Other intangible assets	14	13,273	23,164	13,273	23,164
Investments in subsidiaries and associates	15	6	6	1,600	1,702
Financial assets at fair value through profit or loss	16	124,804	59,917	124,804	59,917
Available-for-sale financial assets	16	514,496	474,205	514,496	474,205
Held-to-maturity investments	16	527,772	226,361	527,772	226,361
Loans and receivables	16	150,352	238,407	156,352	244,407
Reinsurers' share of insurance contract provisions	17	386,887	328,041	386,887	328,041
Deferred tax asset	18	5,065	2,246	5,065	2,246
Inventories		172	224	140	160
Insurance and other receivables	19	240,304	253,392	241,191	256,635
Current income tax prepayment		72	71	-	-
Assets held for sale	20	26,605	241	26,605	-
Cash and cash equivalents	21	3,786	13,567	3,661	13,503
Total assets		2,105,108	1,797,470	2,047,553	1,740,809
Shareholders' equity					
Share capital	22 a)	235,795	120,107	235,795	120,107
Share premium	22 b)	168,904	330	168,904	330
Legal reserve	22 c)	1,463	1,463	1,463	1,463
Fair value reserve	22 d)	(20,260)	(924)	(20,260)	(924)
Accumulated losses		(116,325)	(25,816)	(117,350)	(25,218)
Total equity attributable to equity holders of the Company		269,577	95,160	268,552	95,758
Liabilities					
Insurance contract provisions	24	1,246,676	1,181,647	1,246,676	1,181,647
Discretionary profit participation provision	25	8,304	9,335	8,304	9,335
Subordinated loan	26	15,061	14,770	15,061	14,770
Borrowings	27	55,861	55,662	-	-
Deferred tax liability	18	-	15	-	15
Provisions for liabilities and charges	28	925	1,500	925	1,500
Current tax liability		262	14	-	-
Insurance and other payables and deferred income	29	508,442	439,367	508,035	437,784
Total liabilities		1,835,531	1,702,310	1,779,001	1,645,051
Total liabilities and equity		2,105,108	1,797,470	2,047,553	1,740,809

The accounting policies and other explanatory notes on pages 12 to 127 form an integral part of these financial statements

Statement of comprehensive income for the year ended 31 December

	<i>Note</i>	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Gross premiums written	30	437,888	496,711	437,962	496,798
Written premiums ceded to reinsurers	30	(184,534)	(181,428)	(184,534)	(181,428)
Net premiums written		253,354	315,283	253,428	315,370
Change in the gross provision for unearned premiums	30	18,884	8,808	18,884	8,808
Reinsurers' share of change in the provision for unearned premiums	30	(510)	30,427	(510)	30,427
Net earned premiums		271,728	354,518	271,802	354,605
Fees and commission income	31	54,073	36,641	54,073	36,641
Financial income	32	79,790	77,554	77,716	76,006
Other operating income	33	7,299	4,068	6,830	3,230
Operating income		412,890	472,781	410,421	470,482
Claims and benefits incurred	34	(325,610)	(326,915)	(325,610)	(327,404)
Reinsurers' share of claims and benefits incurred	34	124,853	89,270	124,853	89,270
Net policyholder claims and benefits incurred		(200,757)	(237,645)	(200,757)	(238,134)
Acquisition costs	35	(67,230)	(79,693)	(67,230)	(79,693)
Administrative expenses	36	(126,879)	(121,131)	(129,900)	(121,483)
Other operating expenses	37	(44,230)	(25,410)	(44,230)	(25,380)
Financial expenses	38	(61,969)	(14,149)	(58,436)	(10,790)
Loss before income tax		(88,175)	(5,247)	(90,132)	(4,998)
Income tax expense	39	(2,334)	(82)	(2,000)	-
Loss for the year		(90,509)	(5,329)	(92,132)	(4,998)
Other comprehensive income for the year, net of income tax					
Net change in fair value of available-for-sale financial assets, net of deferred tax		(19,336)	(1,814)	(19,336)	(1,814)
Total comprehensive income for the year		(109,845)	(7,143)	(111,468)	(6,812)
Loss for the year attributable to equity holders of the Group and Company		(90,509)	(5,329)	(92,132)	(4,998)
Total comprehensive income for the period attributable to the equity holders of the Group and Company		(109,845)	(7,143)	(111,468)	(6,812)
Loss per share		HRK	HRK		
Basic and diluted loss per share	23	(392)	(28)		

The accounting policies and other explanatory notes on pages 12 to 127 form an integral part of these financial statements.

Statement of changes in equity

Group

	Share capital	Share premium	Legal reserve	Fair value reserve	Accumulated loss	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January 2010	120,107	330	1,463	890	(20,487)	102,303
Total comprehensive income for the year						
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	(2,267)	-	(2,267)
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	453	-	453
<i>Other comprehensive income</i>	-	-	-	(1,814)	-	(1,814)
<i>Loss for the year</i>	-	-	-	-	(5,329)	(5,329)
Total comprehensive income for the year, net of income tax	-	-	-	(1,814)	(5,329)	(7,143)
Balance at 31 December 2010	120,107	330	1,463	(924)	(25,816)	95,160
Balance at 1 January 2011	120,107	330	1,463	(924)	(25,816)	95,160
Total comprehensive income for the year						
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	(24,170)	-	(24,170)
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	4,834	-	4,834
<i>Other comprehensive income</i>	-	-	-	(19,336)	-	(19,336)
<i>Loss for the year</i>	-	-	-	-	(90,509)	(90,509)
Total comprehensive income for the year, net of income tax	-	-	-	(19,336)	(90,509)	(109,845)
Transactions with owners recognised directly in equity						
Increase in share capital (Note 22 a)	115,688	168,574	-	-	-	284,262
Balance at 31 December 2011	235,795	168,904	1,463	(20,260)	(116,325)	269,577

The accounting policies and other explanatory notes on pages 12 to 127 form an integral part of these financial statements.

Statement of changes in equity (continued)

Company

	Share capital HRK'000	Share premium HRK'000	Legal reserve HRK'000	Fair value reserve HRK'000	Accumulated loss HRK'000	Total HRK'000
Balance at 1 January 2010	120,107	330	1,463	890	(20,220)	102,570
Total comprehensive income for the year						
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	(2,267)	-	(2,267)
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	453	-	453
<i>Other comprehensive income</i>	-	-	-	(1,814)	-	(1,814)
<i>Loss for the year</i>	-	-	-	-	(4,998)	(4,998)
Total comprehensive income for the year, net of income tax	-	-	-	(1,814)	(4,998)	(6,812)
Balance 31 December 2010	120,107	330	1,463	(924)	(25,218)	95,758
Balance at 1 January 2011	120,107	330	1,463	(924)	(25,218)	95,758
Total comprehensive income for the year						
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	(24,170)	-	(24,170)
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	4,834	-	4,834
<i>Other comprehensive income</i>	-	-	-	(19,336)	-	(19,336)
<i>Loss for the year</i>	-	-	-	-	(92,132)	(92,132)
Total comprehensive income for the year, net of income tax	-	-	-	(19,336)	(92,132)	(111,468)
Transactions with owners recognised directly in equity						
Increase in share capital (Note 22 a)	115,688	168,574	-	-	-	284,262
Balance 31 December 2011	235,795	168,904	1,463	(20,260)	(117,350)	268,552

The accounting policies and other explanatory notes on pages 12 to 127 form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December

	Group	Group	Company	Company
Note	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
Cash flows from operating activities				
Insurance premiums received	455,642	510,104	455,716	510,191
Reinsurance premiums paid	(184,662)	(152,938)	(184,662)	(152,938)
Fees and commissions received	50,543	26,080	50,543	26,080
Interest received	57,895	50,475	58,302	50,813
Dividends received	172	196	172	196
Rent from investment property received	2,433	1,886	-	-
Claims and benefits paid	(243,221)	(216,801)	(243,221)	(217,290)
Reinsurance claims received	117,990	84,844	117,990	84,844
Payments to intermediaries	(51,587)	(66,174)	(51,587)	(66,174)
Payments to employees and suppliers	(125,452)	(131,929)	(129,569)	(133,839)
Interest paid	(2,955)	(4,110)	(1,175)	(1,028)
Other operating cash flows	(41,956)	2,139	(40,659)	(313)
Net (acquisition)/disposal of operating assets				
- Equities	10,106	(7,520)	10,106	(7,520)
- Debt securities	(367,901)	(220,658)	(367,901)	(220,658)
- Units in investment funds	(50,829)	45,927	(50,829)	45,927
- Deposits with banks and loans to customers	74,134	114,878	74,134	113,378
- Investments for the benefit of unit and index linked life assurance	(12,350)	(9,227)	(12,350)	(9,227)
Income taxes paid	(86)	(270)	-	-
Net cash (used in)/from operations	(312,084)	26,902	(314,990)	22,442
Cash flow from investing activities				
Proceeds from sale of property and equipment	28,360	1,219	28,358	560
Proceeds from sale of investment property	955	1,371	955	1,371
Proceeds from sale of associate	-	6	-	-
Proceeds from sale of assets held for sale	241	-	-	-
Acquisition of property and equipment	(3,365)	(18,123)	(3,071)	(18,061)
Acquisition of other intangible assets	(2,527)	(5,181)	(2,527)	(5,207)
Acquisition of investment property	(2,969)	(1,395)	(2,829)	(1,381)
Net cash from/(used in) investing activities	20,695	(22,103)	20,886	(22,718)
Cash flows from financing activities				
Proceeds from increase in share capital	284,262	-	284,262	-
Repayment of borrowings	(2,654)	(5,097)	-	-
Net cash from/(used in) financing activities	281,608	(5,097)	284,262	-
Net decrease in cash and cash equivalents	(9,781)	(298)	(9,842)	(276)
Cash and cash equivalents at 1 January	13,567	13,865	13,503	13,779
Cash and cash equivalents at 31 December	3,786	13,567	3,661	13,503

The accounting policies and other explanatory notes on pages 12 to 127 form an integral part of these financial statements.

Notes to the consolidated and separate financial statements

1 Reporting entity

Kvarner Vienna Insurance Group d.d. (the “Company”) is a joint stock company incorporated and domiciled in Croatia, whose registered address is at Osječka 46, Rijeka. The Company is the parent of Kvarner Wiener Staedtische nekretnine d.o.o. (together “the Group”). Until 27 September 2011 the Company was also the parent of SOS Expert d.o.o., a wholly owned subsidiary which was disposed of as further explained in Note 15.

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

The Company’s major shareholder (99.2% of voting rights) and ultimate parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe (previously Vienna Insurance Group Wiener Staedtische Versicherung AG), which is a joint stock company, incorporated and domiciled in Austria, Vienna.

2 Basis of preparation

(a) Statement of compliance

These financial statements comprise both the consolidated and separate financial statements of the Company as defined in International Accounting Standard 27 “*Consolidated and Separate Financial Statements*”. The consolidated and separate financial statements of the Company and its subsidiaries, “the Group”, have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Management Board on 22 March 2012 for approval by the Supervisory Board.

(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: available-for-sale financial assets and financial assets at fair value through profit or loss.

(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 otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS 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 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 financial year are included in Note 4.

2 Basis of preparation (continued)

(e) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired including intangible assets is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

In the separate financial statements of the Company, the investments in subsidiaries are stated at cost, less impairment losses, if any.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any minority interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments (refer to accounting policy 3 f)) depending on the level of influence retained.

Transactions eliminated on consolidation

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

Associates

Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit or loss, and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

3 Significant accounting policies

(a) Property and equipment

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

Recognition and measurement

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

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

Property that is being constructed for future use as investment property is accounted for as property and equipment until construction or development is complete, at which time it is reclassified as investment property.

When the use of 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 or 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 carrying amount of the replaced component is derecognised. 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 component 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:

	2011	2010
Buildings	40 years	40 years
Equipment and furniture	4 -10 years	4 -10 years
Motor vehicles	5 years	5 years
Leasehold improvements	over the period of the lease	over the period of the lease

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 asset, and are included in profit or loss.

3 Significant accounting policies (continued)

(b) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in supply of services or for administrative purposes.

Investment property is measured 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, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset as follows:

	2011	2010
Investment property	40 years	40 years

(c) 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 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 and administrative costs are not deferred.

For non-life insurance business, the deferred acquisition cost asset is calculated by applying the rate of 15% on unearned premiums.

For life assurance business, acquisition costs are taken into account in calculating life provisions by means of Zillmerisation. As such, a separate deferred acquisition cost asset 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.

(d) Other intangible assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the Group's share of the underlying net identifiable assets acquired, including intangible assets, at the date of acquisition. Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Goodwill represents amounts arising on acquisition of subsidiaries and is included in intangible assets.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is not amortised but is tested annually for impairment (Note 4.2). Impairment losses on goodwill are not reversed.

3 Significant accounting policies (continued)

(d) Other intangible assets (continued)

Acquired present value of in-force business (acquired PVIF)

Insurance contracts acquired in business combinations and portfolio transfers are measured at fair value at the acquisition date. The difference between the fair value of the insurance contracts and the liability measured in accordance with the accounting policies for the insurance contracts is recorded as the acquired present value of in-force business (“acquired PVIF”) and is amortised over the estimated life of the insurance contracts. It is tested for impairment at each reporting date. Best estimate actuarial assumptions for interest, mortality, persistency and expenses are used in calculating acquired PVIF.

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.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses, if any.

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

	2011	2010
Software	4 years	4 years
Acquired present value of in-force business	10 years	10 years

Amortisation 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 the carrying amount, and are included in the profit or loss.

(e) Non-current assets and disposal groups classified as held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group’s accounting policies. Thereafter, the assets (or disposal group of assets and liabilities) are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3 Significant accounting policies (continued)

(f) Financial instruments

Classification and recognition

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

Reclassification

In October 2008, the International Accounting Standards Board (“IASB”) issued the Reclassification of Financial Assets (Amendments to IAS 39: “*Financial Instruments: Recognition and Measurement*” and IFRS 7: “*Financial Instruments: Disclosures*”). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair-value-through-profit-or-loss category in certain circumstances. The amendment to IFRS 7 introduces additional disclosure requirements when a business entity reclassifies financial assets in compliance with IAS 39. The amendments are effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Group reclassified certain financial assets from fair-value through profit or loss category into available-for-sale category in 2009. The effect of this reclassification is shown in Note 16.

In 2011, irrespective of the above amendments, the Company 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 equity to profit or loss when the financial asset is disposed of or impaired. The impact of this reclassification is shown in Note 16.

Financial assets at fair value through profit or loss

Financial assets 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. The Group does not apply hedge accounting.

As stated above, this category has 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 are those assets 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 at fair value through profit or loss when either:

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

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

At the reporting date the Company had no financial liabilities measured at fair value through profit or loss.

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

Loans and receivables

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

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

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

Receivables arising from insurance contracts are accounted for under IFRS 4 *Insurance Contracts*.

Held-to-maturity financial 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 financial investments include government and municipal debt securities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are 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 investments in debt securities, equity securities and investment funds.

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 unit-linked and index-linked products described in accounting policy 3(z). 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".

Recognition and derecognition

Regular way purchases and sales of financial assets available for sale, financial assets at fair value through profit or loss and held-to-maturity investments are recognised on the trade date which is the date that the Group becomes a party to the contractual provisions of the investment. Loans and receivables and other 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 assets 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, i.e. 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.

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not 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 assets 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.

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 at fair value through profit or loss are recognised in the profit or loss.

Gains or losses arising 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 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 derecognition of available-for-sale financial assets, any cumulative gains or losses on the instrument are transferred from other comprehensive income to the profit or loss.

Interest income on monetary assets at fair value through profit and 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 profit or loss, when a financial instrument is derecognised or when its value is impaired.

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

Fair value measurement principles

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is their quoted bid market price at the reporting date without any deductions for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, 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, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate applicable at the reporting date for a financial instrument with similar terms and conditions.

At the reporting date the Group did not have any financial assets and liabilities at fair value which was measured by valuation techniques.

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

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 a negative effect on the estimated future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at an asset-by-asset basis. Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, 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 rate. 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 for a financial asset carried at amortised cost to decrease, the impairment loss is reversed through profit or loss.

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 are not subsequently reversed through profit or loss, but all value increases until the final sale are recognised in other comprehensive income.

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.

Specific instruments

Embedded derivatives within insurance and investment contracts

Sometimes, a derivative may be a component of a hybrid (combined) financial instrument or insurance contract that includes both the derivative and 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 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 and changes in its fair value are not recognised in profit or loss.

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

Specific instruments (continued)

Embedded derivatives within insurance and investment contracts (continued)

Embedded derivatives which satisfy the definition of an insurance contract do not need to be separated from their host contract. In addition, the Group took advantage of the following 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 a policyholder's option to surrender contracts with discretionary participation features.

Sale and repurchase agreements

The Group enters into purchases and sales of securities under agreements to resell or repurchase substantially identical securities at a certain date in the future at a fixed price. Investments purchased, subject to such commitments to resell them at future dates, are not recognised. The amounts paid are recognised in loans and receivables to either banks or customers.

The receivables are collateralised by the underlying security. Securities sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the securities are reported as liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

Debt securities

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

Deposits with banks

Deposits with banks 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 presented net of impairment allowances to reflect the estimated recoverable amounts.

Equity securities

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

Investments in investment funds

Investments in open ended investment funds are classified as financial assets at fair value through profit or loss and as available-for-sale financial assets and are carried at current fair value.

Investments held on account and at risk of life assurance policyholders

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

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

Specific instruments (continued)

Trade and other receivables

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

Investments in subsidiaries

Investments in subsidiaries are accounted at cost less impairment in the separate financial statements of the Company. Investments in subsidiaries are fully consolidated in the consolidated financial statements.

Loans, borrowings and subordinated debt

Interest-bearing loans, borrowings and subordinated debt are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the year of the borrowings on an effective interest basis.

Trade and other payables

Trade and other payables are initially recognised at fair value and then 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, including gains and losses arising from a group of similar transactions.

(g) 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 3 (p), under *Operating lease payments*.

(h) Cash and cash equivalents

For the purpose of the statement of financial position and cash flow statement, cash and cash equivalents comprise cash and demand deposits with banks.

(i) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred.

Jubilee awards

Jubilee awards are recorded as the net present value of the liability for defined benefits at the reporting date.

3 Significant accounting policies (continued)

(j) 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 directly in equity, 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 in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws 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.

(k) Provisions for liabilities and charges

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. Accounting policy for onerous insurance contracts is disclosed under 3 (t) *Unexpired risk reserve*.

(l) Share capital

Ordinary share capital

Ordinary share capital represents the nominal value of paid-in ordinary shares classified as equity and is denominated in HRK. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium

The share premium reserve represents the accumulated positive difference between the par value of shares issued and the amount received upon issue of share capital.

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.

3 Significant accounting policies (continued)

(l) Share capital (continued)

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

Fair value reserve

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

Retained earnings

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

(m) Impairment

The carrying amounts of the Group's assets, other than deferred acquisition costs (see accounting policy 3 (c)), financial assets (see accounting policy 3 (f)) and deferred tax assets (see accounting policy 3 (j)), are tested for impairment at each reporting date. If any indication of impairment 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.

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 or group of assets that generates cash flows that are largely independent from the Company'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 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.

3 Significant accounting policies (continued)

(n) 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 segment, non-life insurance segment and investment property segment.

Allocation of costs 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 and shareholders' funds are attributed 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 in the life assurance business segment.

During the year, direct administration costs, marketing and other acquisition costs are directly charged to the non-life and life segments. Allocation is performed automatically based on cost allocation keys. The principal categories used in the calculation of allocation keys for life and non-life segments are: gross written premium (at the Company and branch level), technical reserves, number of claims paid, financial investments, number of employees (at the Company and departmental level), number of IT licences and desk top units and the square metre area of premises occupied.

Commissions and part of personnel expenses are recorded directly to the life and non-life insurance segments.

Allocation of equity and assets

Property and equipment and intangible assets are allocated to the non-life and life segments while investment property of the Company is allocated to the non-life segment. Financial investments are allocated according to source of funds. Financial investments from equity are allocated to both non-life and life segments. Equity is allocated according to minimal regulatory capital requirements, fair value reserve is allocated according to the source of the related financial assets while legal reserve is allocated to life assurance segment only. Other receivables and payables are allocated based on those segments from which they originate.

Investment property segment

Investment property segment includes assets, liabilities, income and expenses of Kvarner Wiener Staedtische nekretnine d.o.o.

(o) Revenue

The accounting policy in relation to revenue recognition from insurance contracts is disclosed in Note 3 (r).

Financial income

Interest income is recognised in 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 at fair value through profit or loss, is recognised as interest income at the coupon interest rate.

Financial income also includes net positive foreign exchange differences resulting from 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 of financial assets available for sale. Dividend income is recognised in profit or loss on the date that the dividend is declared.

The accounting policy in relation to financial income recognition is disclosed in Note 3 (f) under "Gains and losses".

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

3 Significant accounting policies (continued)

(o) Revenue (continued)

Fees 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. Fees and commission income includes various reinsurance commission income.

(p) Expenses

Operating expenses

Operating expenses consist of policy acquisition costs, administration costs 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 internal sales personnel and marketing and advertising expenses. Non-life commission expenses are recognised on an accruals basis, while life commission expenses are recognised on a cash basis consistent with the related income recognition criteria (see accounting policy 3 (r)).

The Group's accounting policy for deferred acquisition costs is disclosed in accounting policy 3 (c).

Administration costs

Administration costs include personnel expenses, depreciation of property and equipment, amortisation of intangible assets, energy costs and other costs. Other costs consist mainly of costs of premium collection, policy termination costs, portfolio management costs and administration costs relating to reinsurance.

Operating lease payments

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

Financial expenses

Financing costs 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 Note 3(f) under "Gains and losses".

(q) 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. 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 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. Insurance contracts may also transfer some financial risk.

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 investment contracts.

3 Significant accounting policies (continued)

(q) Classification of contracts (continued)

Contracts with discretionary participation features

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

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

Discretionary profit participation provision

Policyholders or beneficiaries of endowment, pure endowment and term-fix assurance policies (C/C03, E, VF, CE, B, BR, AUR20, AUR21, A11, A12, AWS, A07, DJ, C11, E11, VF11, CE-N, B11, CE-N11, A2011, BR11 and DJ11 tariffs) are entitled to a share in the profits of the Group realised through the management of life assurance funds. The entitlement is calculated following the expiry of the third year of insurance for policies with regular payment and following the expiry of the first year of insurance for policies with single payment. Entitlements are based on net profits achieved for the year. The level of the profit entitlement is determined by management.

The discretionary element of those contracts is accounted for as a liability in the discretionary profit participation provision.

(r) Premiums

Non-life business written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. Premiums written include adjustments to premiums written in prior accounting periods.

Premiums written include adjustments to reflect write-offs of amounts due from policyholders and the movement in impairment allowances for premiums due from policyholders.

The earned portion of premiums received 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.

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.

3 Significant accounting policies (continued)

(s) Provision for unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following financial years, computed using the “pro rata temporis” or 365 method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

The provision for unearned premiums in respect of life assurance is included within the life assurance provision.

Unearned premium provision for individual insurance contracts 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 “pro-rata temporis” method is used.

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

(t) Unexpired risk provision

Provision is made for unexpired risks arising from non-life business where the expected value of claims and expenses (including deferred acquisition 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 date of financial position exceeds the provision for unearned premiums related 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, after taking into account relevant investment returns. Liability adequacy testing for both life and non-life and related assets is disclosed in more detail in accounting policy Note 3 (y) and in Note 7.

(u) Claims provisions

The 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 includes provisions for reported claims and provisions for incurred but not reported claims.

(v) 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 insurers, 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. The prospective net premium valuation method has been adopted with the exception of unit-linked and index-linked products where the provision is based on the fair value of the underlying assets.

The Group uses the full Zillmer rate of 3.5% in the year of policy inception. The applied Zillmer rate is within the limits prescribed by HANFA.

The provision is initially measured using the assumptions used for calculating the corresponding premiums and remains unchanged except where liability inadequacy occurs. 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 3 (y)). 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 profit or loss with a corresponding increase to the life assurance provision.

The amount of bonus allocated to policyholders has been determined at the reporting date and is presented within the discretionary profit participation provision. The Group does not have a policy to decrease the discretionary profit participation provision, in favour of the Group, once provision has been formed.

3 Significant accounting policies (continued)

(w) Claims

Claims arising from non-life business

Claims incurred in respect of non-life business consist of claims and claims-handling costs settled 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 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 the related internal and external claims-handling expenses and an appropriate margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, 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. Reinsurance is determined according to contracts valid at the time claims occurred.

Whilst management considers that the gross provisions for claims and the related reinsurance recoveries are fairly 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 6.

Claims 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.

(x) Reinsurance

The Group cedes premium to 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 profit or loss on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim. 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 Note 3 (f). 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.

3 Significant accounting policies (continued)

(x) Reinsurance (continued)

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 based on earned premium.

(y) Liabilities and related assets under 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 and other related insurance assets and liabilities. Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in 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 or 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.

(z) Liability measurement of unit-linked and index-linked contracts

Liabilities in relation to unit-linked and index-linked insurance contracts are classified at fair value through profit and loss. The financial liability is measured based on the carrying value of the assets that are held to back the contract.

(aa) Insurance receivables and payables

Insurance receivables and payables are accounted for in accordance with IFRS 4. Insurance receivables and payables include receivables and payables arising from insurance and reinsurance contracts entered by the Group.

(bb) New standards and interpretations not yet adopted

Several new and altered Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, have been authorised for issue but are not applicable to entities reporting under IFRS for period ended 31 December 2011, and have not been applied in preparation of these financial statements. Most new and altered Standards and Interpretations are not relevant to the Group's business and will not affect the financial statements, except for IFRS 9 Financial Instruments (a complete version of this standard is not yet been adopted), that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after 1 January 2015; early adoption is permitted. This Standard introduces significant changes with respect to the classification and measurement of financial assets. The Group has not yet decided on the date of the initial application of the new Standard neither it has analysed the effects of its application.

3 Significant accounting policies (continued)

(cc) 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. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. 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 on the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss.

Changes in the fair value of monetary 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. The translation differences are recognised in income as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within investment income or investment expense in the profit or loss. Other changes in the carrying amount are recognised in equity.

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 fair value.

The most significant foreign currency in which the Group holds assets and liabilities is Euro. The exchange rate used for translation at 31 December 2011 was EUR 1 = HRK 7.530 (2010: EUR 1 = HRK 7.385).

(dd) Comparative financial information

In order to achieve consistency with current year disclosures, the Group and the Company made certain modifications of comparative financial information, as explained below:

- Foreign exchange losses on translation of monetary assets and liabilities other than financial investments for the Group and the Company in the amount of HRK 601 thousand and HRK 94 thousand respectively, which have been included as part of foreign exchange gains within financial income for the year ended 31 December 2010, were reclassified to other operating income and netted of against net foreign exchange gain on translation of monetary assets and liabilities other than financial investments.

4 Accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (Note 42) and insurance risk management (Note 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 provisions represent the major source of uncertainty of 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.

4.1. Key sources of estimation uncertainty

Estimation of uncertainty in relation to insurance contract provisions

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

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

Major assumptions in calculating the life assurance provision are set out in Note 5 Insurance risk management, whilst insurance contract provisions are analysed in Note 24.

Losses from impairment of loans and receivables

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3(f) on impairment of financial assets.

The need for impairment is assessed individually for each exposure based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral.

Determining fair values

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(f). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Estimation of uncertainty in relation to court cases

A significant source of estimation uncertainty stems from court cases. At 31 December 2011, the Group was involved in 1,162 (2010: 1,245) court cases for which HRK 58,050 thousand (2010: HRK 51,900 thousand) was provided as part of the claims reserve for reported but not yet settled claims. At 31 December 2011, the Group was involved in one non-insurance court cases for which HRK 500 thousand (2010: HRK 500 thousand) was provided as provision for non-insurance related legal claims. The management believes that the related provisions are sufficient.

4 Accounting estimates and judgements (continued)

4.1. Key sources of estimation uncertainty (continued)

Tax

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

Regulatory requirements

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

Joint liability

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

4.2. Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances. In classifying financial assets as "trading", the Group has determined that it meets the description of trading assets set out in accounting policy 3 (f) "*Financial assets at fair value through profit or loss*". In designating financial assets 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 3 (f). Reclassification of financial assets and financial liabilities at fair value through profit or loss is allowed in certain rare circumstances. Held-to-maturity investments can be classified as such only if the Group has the positive intention and the ability to hold these investments to maturity.

In November 2011 the Group reclassified available-for-sale financial assets as held-to-maturity investments. The Group has the intent and ability to hold the reclassified assets to maturity.

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 3 (f). The Group measures fair values using the fair value hierarchy as discussed in Note 42 on financial risk management.

Classification of products

The Group's accounting policy on classification of contracts as insurance or investment contracts is disclosed in accounting policy 3 (q). At the reporting date, the Group had no insurance products which would be classified as investment contracts.

Classification of property between investment property and owner-used property

The Group classifies as investment property all property that is not used in the performance of its own activities but is held to earn rental income. No independent valuation of the Group's and Company's investment property was made at the reporting date. Management believes that the fair value of investment property is not materially different from its carrying amount.

4 Accounting estimates and judgements (continued)

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

Allocation of indirect expenses between life and non-life

The allocation of expenses between life and non-life insurance segments is described in accounting policy 3 (n).

Useful economic life of equipment and intangible assets

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

Impairment allowance for insurance receivables

Insurance receivables are evaluated for impairment at each reporting date in order to identify potential impairment allowance, on the basis of best estimate of the recoverability of these assets. Each receivable is assessed on its merits based on the expected amount and date of collection and possible collaterals. The management believes that insurance receivables are recoverable.

Goodwill

In accordance with IFRS 3 "*Business Combinations*" the Group discontinued to amortise goodwill from 1 January 2005. At the beginning of 2005 the Group eliminated the carrying amount of the related accumulated amortisation against the gross value of goodwill. Goodwill is tested for impairment in accordance with IAS 36 "*Impairment of Assets*".

As a result of annual impairment test, the Group has recognised impairment loss for the year ended 31 December 2011 in the amount of HRK 3,838 thousand. Impairment loss is recognised in profit or loss under Administrative expenses (Note 36).

Deferred acquisition costs

Deferred acquisition costs are assessed at each reporting date for recoverability. The calculation is based on the Group's assumptions for allocation of acquisition costs over the duration of the related insurance contract. Management believes that deferred acquisition costs are recoverable during the remaining duration of insurance contracts active at the reporting date.

Investment in subsidiaries and associates

Recognition of impairment allowance against investment in subsidiaries and associates is based on the best estimate of the management regarding their recoverable amount.

Impairment of available-for-sale investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. The impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

In 2011, as a result of impairment test, the Group recognised impairment loss in the amount of HRK 5,455 thousand (2010: HRK 613 thousand).

5 Insurance risk management

The Group is exposed to insurance risk arising from a wide range of life and non-life products offered to customers: participating traditional life products, unit-linked products, index-linked products and all lines of non-life products (property, accident and health, motor vehicle, third party liability, marine 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 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 expenses and incurred losses will be higher than the premium received. Reserve risk represents the risk that the absolute level of the technical provisions is misestimated or that the actual claims will fluctuate around the statistical mean value.

Non-life underwriting risk includes also catastrophe risk, which stems from irregular events that are not sufficiently covered by premium and reserve risk. Underwriting risk components of the life business include biometric risk (comprising mortality, morbidity and disability) and lapse risk. Lapse risk relates to unanticipated higher or lower rates of policy lapses, terminations, changes to pay 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. The most of the non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

For the non life business, the Group buys non-proportional reinsurance treaty to reduce the net exposure for an individual risk to amount of EUR 75 thousand for casco, a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure for an individual risk to amount of EUR 250 thousand (effectively EUR 125 thousand) for motor third party liability, EUR 150 thousand for property and EUR 100 thousand (effectively EUR 50 thousand) for personal accident.

For life business the Group has proportional treaty for part of savings products and non-proportional treaty for the policies which include death risk. The combination of both treaties reduces net exposure to 30 tsd EUR sum at risk.

Ceded reinsurance contains credit risk and such reinsurance recoverables are reported after deductions for known uncollectible items. The Group monitors the financial condition of reinsurers and enters into reinsurance agreements with mostly A graded reinsurers.

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 3 (y) and Note 7.

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 significantly impact 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 the Group are primarily located in the Republic of Croatia.

Non life insurance

Within non-life insurance, the 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 earthquake, flood or storm 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.

Life assurance

The management believes that for life insurance contracts covering the risk of death there is no significant geographic concentration of risk, although the concentration of the value at risk can affect the ratio of insurance payments on the portfolio level. Value at risk for life assurance are as follows:

Line of insurance	Value at risk			
	2011		2010	
	HRK'000	%	HRK'000	%
Life assurance – traditional products	3,044,851	46.3%	3,296,341	45.7%
Unit-linked and index-linked products	200,644	3.1%	239,326	3.3%
Supplementary risks to life assurance	3,330,407	50.6%	3,683,032	51.0%
As at 31 December	<u>6,575,902</u>	<u>100.00%</u>	<u>7,218,699</u>	<u>100.00%</u>

5 Insurance risk management (continued)

Concentration of insurance risk (continued)

Life assurance (continued)

Table for long-term insurance stated below shows risk concentration through nine insurance classes grouped by sum insured per policy.

Sum insured per policy at 31 December 2011

In HRK	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 40,000	275,243	6.5%	202,049	6.8%
40,001-60,000	421,328	10.2%	297,802	10.0%
60,001-80,000	806,321	19.2%	628,730	21.1%
80,001-100,000	542,404	12.9%	368,370	12.4%
100,001-125,000	684,518	16.3%	509,285	17.1%
125,001-150,000	336,793	8.0%	225,569	7.6%
150,001-250,000	823,372	19.6%	559,653	18.8%
250,001-500,000	269,797	6.5%	165,027	5.5%
> 500,001	32,354	0.8%	20,204	0.7%
As at 31 December 2011	4,192,130	100.0%	2,976,689	100.0%

Sum insured per policy at 31 December 2010

In HRK	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 40,000	307,996	7.0%	227,553	7.4%
40.001-60.000	465,393	10.6%	330,925	10.7%
60.001-80.000	853,748	19.5%	648,793	21.1%
80.001-100.000	574,336	13.1%	386,135	12.5%
100.001-125.000	691,329	15.8%	506,598	16.4%
125.001-150.000	531,036	12.1%	386,100	12.5%
150.001-250.000	668,200	15.3%	422,122	13.8%
250.001-500.000	250,514	5.8%	152,087	4.9%
> 500.001	32,247	0.8%	19,959	0.7%
As at 31 December 2010	4,374,799	100.0%	3,080,272	100.0%

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 notified outstanding claims (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. Case reserves are reviewed regularly and are updated as and when new information arises.

Reinsurers' share is determined through individual calculation based on the reinsurance contract valid at the moment when the claim occurred.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are assessed by the Group's actuaries using statistical techniques.

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;
- 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 the most influence on the level of provisions.

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 or are based on actuarial judgment.

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

Non-life insurance (continued)

Discounting

Non-life claims provisions are not discounted.

In 2011 there have been no major changes in assumptions used to measure non-life insurance assets and liabilities.

Life assurance

The life assurance provision is calculated by a prospective net premium method using the same statistical data and interest rates used to calculate premium rates (in accordance with relevant national legislation), if the guidelines issued by HANFA do not specify otherwise.

The guaranteed technical rate of interest included in policies varies from 2.5% to 6% according to the actual technical rate used in premium determination.

The principal assumptions underlying the calculation of the significant components of the life assurance provision are stated in the table below.

The Group elects to use Republic of Croatia mortality tables (MT RH) from 1980-82, 1989-91 and from 2000-02. The use of the 1980-82 and 1989-91 mortality tables results in a higher life assurance provision than would be calculated if the 2000-02 mortality tables were utilised in the calculation of whole portfolio.

The Group uses the maximum rate for discounting of technical provisions to 3.3% in order to comply with the regulatory requirements.

Policyholder bonuses

Policyholders or beneficiaries of endowment policies (C/C03, E, VF, CE, B, BR, AUR20, AUR21, A11, A12, AWS, A07, DJ, C11, E11, VF11, CE-N, B11, CE-N11, A2011, BR11 and DJ11 tariffs) are entitled to a share in the profits of the Group realised through the management of life assurance funds. The entitlement is calculated following the expiry of the third year of insurance for policies with regular payment and following the expiry of the first year of insurance for policies with single payment. Entitlements are based on investment returns on life assurance assets achieved for the year. The level of the profit entitlement is determined by management.

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

Principal assumptions for life assurance business

Description	Product	Rates of interest for calculating reserve	Mortality tables
Endowment	AWS/CO1	3,00%	MT HR 1980-82
Endowment	C03	3,00%	MT HR 1980-82; MT HR 1989-91
Endowment	B/A07/DJ	3,00%	MT HR 1989-91
Endowment	AURDC	3,30%	MT HR 2000-02
Endowment	CE-N	3,00%	MT HR 2000-02
Endowment	B11/A2011/DJ11/CE-N11	2,50%	MT HR 2000-02
Endowment	C/CE	3,00%	MT HR 2000-02
Endowment	C11/CE11	2,50%	MT HR 2000-02
Endowment	A11/A12/AUR20/AUR21	3,30%	MT HR 2000-02
Joint Life	AUR02	3,30%	MT HR 1980-82
Term	IK/IKD	3,00%	MT HR 1989-91
Term	IK11	2,50%	MT HR 2000-02
Term	IKE/IKE-B06	3,00%	MT HR 2000-02
Term	IKD11/IKE11	2,50%	MT HR 2000-02
Term	IK-F	3,00%	MT HR 2000-02
Term	IK-F11	2,50%	MT HR 2000-02
Term	POS	3,30%	MT HR 2000-02
Pure endowment	BR	3,00%	MT HR 1980-82
Pure endowment	BR11	2,50%	MT HR 2000-02
Unit linked	UL/ULS/FI/UL-07	-	MT HR 1980-82
Term fix	E/VF1	3,00%	MT HR 2000-02
Term fix	E11/VF11	2,50%	MT HR 2000-02
Index linked	IL	-	MT HR 1989-91
Index linked	EB	-	MT HR 2000-02
Index linked	EG	-	MT HR 2000-02

7 Liability adequacy test

Life assurance

In 2011 there have been no major changes in assumptions used to measure life assurance assets and liabilities in relation to prior years

The life assurance provision is tested at each reporting date against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, policyholder bonuses, expenses and exercise of policyholder options. For this purpose the Group uses the Liability adequacy test (LAT) model implemented in Prophet software. No additional liabilities are established as a result of the liability adequacy test.

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 estimates 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 the 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. 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 amended by the Group based on a statistical investigation of the Group's mortality experience.

Persistency

Future contractual premiums are included without any allowance for premium indexation. Estimates for lapses and surrenders are estimated based on the Group's past experience with insurance policies (split by type and policy durations). The Group regularly investigates its actual persistency rates by product type and duration and amends its assumptions accordingly.

Expenses

Estimates for future renewal and maintenance expenses included in the liability adequacy test are derived from the Group's current experience.

7 Liability adequacy test (continued)

Life assurance (continued)

Expected investment return and discount rate

Future investment returns are calculated using the risk free rate which is Croatia Government Bonds 7 year generic bid yield (function in Bloomberg HRGG7Y). The projected risk free rate was 6.7%.

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 the liability adequacy takes into account future discretionary bonuses, calculated as a fixed percentage of the excess of the estimated investment return over the guaranteed technical interest rate on individual policies. The percentage applied is consistent with the Group's current business practice for bonus allocation.

Non-life insurance

Contrary to life assurance, 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. It is performed 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.

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

A provision of HRK 2,200 thousand has been established as of 31 December 2011 (2010: HRK 2,100 thousand) as a result of the liability adequacy test and is disclosed under the unexpired risk reserve.

8 The sensitivity of Liability adequacy test's future cash flows to changes in significant variables

Profit or loss and insurance liabilities are mainly sensitive to changes in mortality, lapse rate, expense rate, discount rates, and investment return rates which are estimated for calculating the adequate value of insurance liabilities during the liability adequacy test.

The Group has estimated the impact of changes in key variables that may have a material effect on the LAT future cash flows at the end of the year.

Life assurance

	LAT future cash flow -modelled HRK'000
Base run	632,730
Interest rates (discounting and investment return) –100bp	654,694
Mortality +10%	635,541
Policy maintenance expenses +10%	647,012

The portfolio modelled represents 96.4% of in force life assurance provision (HRK 796,043 thousand life assurance provision together with profit participation reserve modelled). The rest of the portfolio was not modelled since it is similar to the modelled part.

Base run represents LAT future cash flows calculated using the assumptions described under note 7 during liability adequacy testing.

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

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

The sensitivity was calculated for an unfavourable direction of movement, therefore the sensitivity to changes in mortality was calculated by estimating the effect on LAT future cash flows of an increase of mortality for life insurance products by 10%. The sensitivity to changes in expense rate was calculated by estimating the effect on LAT future cash flows of a 10% increase in policy maintenance expenses. The sensitivity to changes in interest rates was calculated by estimating the effect on LAT future cash flows of a 100bp decrease in the interest rates.

The profit or loss and insurance liabilities (as evidenced by LAT cash flow above) are mostly influenced by a decrease in the interest rates and increase in policy maintenance expenses.

Non-life insurance

In non-life insurance, the insurance variables which would have the greatest impact on insurance liabilities relate to 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.

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 insurance, mainly motor, property, liability, marine, transport, health and accident insurance. Contracts may be concluded for a fixed term of one year or on a continuous basis with either party having the option to cancel at 3 months' notice. The Group is therefore generally able to re-price the risk by revising the premium at intervals of not more than one year. It also has the ability to impose deductibles and reject fraudulent claims.

Future insurance claims are the main source of uncertainty which influences the amount and the timing of future cash flows.

The amount of particular claim payments is limited by the sum insured which is established in the insurance policy.

The other significant source of uncertainty connected with non-life insurance arises from legislative regulations which entitle the policyholder 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 feature is particularly significant in case of permanent disability arising from accident insurance, because of the difficulty in estimating the period between occurrence and confirmation of permanent effects.

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 motor third party liability insurance (MTPL) and motor (casco) insurance. MTPL insurance covers bodily injury claims and property claims in the Republic of Croatia as well as claims caused abroad by motorists insured under the Green Card system.

Material 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 influence court practice.

MTPL is regulated by the Law on Obligatory Traffic Insurance. Minimum sums insured are regulated by legislation. Policyholders are entitled to a no-claims bonus on renewal of their policy where the conditions are fulfilled.

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

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

Non-life insurance contracts (continued)

Property insurance

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

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

Liability insurance

This covers all types of liability and includes commercial liability, product liability and professional indemnity as well as personal liability. All liability covers are written on a “loss occurrence basis”.

Accident insurance

Accident insurance is traditionally sold as an add-on to life products or to MTPL products offered by the Group, but are also usually sold as a stand alone product

Life assurance contracts

Bonuses

Around 80% of the Group’s traditional life insurance 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 Management Board in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are guaranteed.

Premiums

Premiums may be payable in regular instalments or as a single premium at inception of the policy. Some 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 are not increased by inflation.

Term life insurance products

Traditional term life insurance products comprise risks of death. The premium is paid regularly or as a single premium. Policies offer a fixed sum insured for death or sum insured which is decreasing over time. Death benefits are paid only if the policyholder dies during the term of insurance.

Endowment products

These are traditional life insurance products providing long term financial protection. Capital life insurance products for regular or single premium offer cover for risks of death, endowment, and waiver of premium in case of permanent work inability. Accident can be added as a rider to the main endowment coverage. Insurance benefits are usually paid in a lump-sum.

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)

Pure endowments

These are also traditional life insurance products providing life-long financial protection at expiry. The premium under this product is paid annually or monthly and it covers the risk of endowment and accident rider.

Unit-linked life assurance

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

Index-linked life assurance

Index-linked life assurance is a single premium product that combines insurance for death risk and savings with a guaranteed maturity value. The savings part is invested into a structured note with a guaranteed maturity value (guaranteed by the note issuer). Policyholders have therefore guaranteed the value at policy maturity, however the amount of surrender value is not guaranteed.

10 Segment reporting

Statement of financial position by business segment as at 31 December 2011

Group

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Assets					
Property and equipment	23,052	335	41,533	-	64,920
Investment property	2,829	-	24,274	-	27,103
Intangible assets					
Deferred acquisition costs	19,156	335	-	-	19,491
Other intangible assets	9,320	3,953	-	-	13,273
Investments in subsidiaries and associates	1,550	50	6	(1,600)	6
Financial assets at fair value through profit or loss	45,260	79,544	-	-	124,804
Available-for-sale financial assets	173,946	340,550	-	-	514,496
Held-to-maturity investments	45,154	482,618	-	-	527,772
Loans and receivables	98,283	58,069	-	(6,000)	150,352
Reinsurers' share of insurance contract provisions	139,836	247,051	-	-	386,887
Deferred tax asset	557	4,508	-	-	5,065
Inventories	140	-	32	-	172
Insurance and other receivables	134,619	106,572	114	(1,001)	240,304
Current income tax prepayment	-	-	72	-	72
Assets held for sale	26,605	-	-	-	26,605
Cash and cash equivalents	2,612	1,049	125	-	3,786
Total assets	722,919	1,324,634	66,156	(8,601)	2,105,108
Shareholders' equity					
Share capital	101,491	134,304	1,600	(1,600)	235,795
Share premium	140,330	28,574	-	-	168,904
Statutory reserve	-	1,463	-	-	1,463
Fair value reserve	(2,228)	(18,032)	-	-	(20,260)
(Accumulated losses)/retained earnings	(96,629)	(20,721)	1,025	-	(116,325)
Total equity attributable to equity holders of the Company	142,964	125,588	2,625	(1,600)	269,577
Liabilities					
Insurance contract provisions	371,435	875,241	-	-	1,246,676
Discretionary profit participation provision	-	8,304	-	-	8,304
Subordinated loan	15,061	-	-	-	15,061
Borrowings	-	-	61,861	(6,000)	55,861
Deferred tax liability	-	-	-	-	-
Provisions for liabilities and charges	925	-	-	-	925
Current tax liability	-	-	262	-	262
Insurance and other payables and deferred income	192,534	315,501	1,408	(1,001)	508,442
Total liabilities	579,955	1,199,046	63,531	(7,001)	1,835,531
Total liabilities and equity	722,919	1,324,634	66,156	(8,601)	2,105,108

10 Segment reporting (continued)

Statement of financial position by business segment as at 31 December 2010

Group

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Assets					
Property and equipment	45,709	4,339	48,804	(290)	98,562
Investment property	27,624	-	18,786	(140)	46,270
Intangible assets					
Deferred acquisition costs	32,412	384	-	-	32,796
Other intangible assets	18,645	4,519	-	-	23,164
Investments in subsidiaries and associates	1,652	50	6	(1,702)	6
Financial assets at fair value through profit or loss	13,090	46,827	-	-	59,917
Available-for-sale financial assets	44,741	429,464	-	-	474,205
Held-to-maturity investments	13,245	213,116	-	-	226,361
Loans and receivables	97,744	146,663	-	(6,000)	238,407
Reinsurers' share of insurance contract provisions	112,162	215,879	-	-	328,041
Deferred tax asset	2,000	246	-	-	2,246
Inventories	160	-	64	-	224
Insurance and other receivables	182,342	74,715	341	(4,006)	253,392
Current income tax prepayment	71	-	-	-	71
Assets held for sale	-	-	241	-	241
Cash and cash equivalents	2,539	10,970	58	-	13,567
Total assets	594,136	1,147,172	68,300	(12,138)	1,797,470
Shareholders' equity					
Share capital	79,311	40,816	1,600	(1,620)	120,107
Share premium	330	-	-	-	330
Statutory reserve	-	1,463	-	-	1,463
Fair value reserve	59	(983)	-	-	(924)
(Accumulated losses)/retained earnings	(34,094)	8,877	(169)	(430)	(25,816)
Total equity attributable to equity holders of the Company	45,606	50,173	1,431	(2,050)	95,160
Liabilities					
Insurance contract provisions	377,940	803,707	-	-	1,181,647
Discretionary profit participation provision	-	9,335	-	-	9,335
Subordinated loan	14,770	-	-	-	14,770
Borrowings	-	-	61,662	(6,000)	55,662
Deferred tax liability	15	-	-	-	15
Provisions for liabilities and charges	1,500	-	-	-	1,500
Current tax liability	-	-	14	-	14
Insurance and other payables and deferred income	154,305	283,957	5,193	(4,088)	439,367
Total liabilities	548,530	1,096,999	66,869	(10,088)	1,702,310
Total liabilities and equity	594,136	1,147,172	68,300	(12,138)	1,797,470

10 Segment reporting (continued)

Statement of financial position by business segment as at 31 December 2011

Company

	Non-life HRK'000	Life HRK'000	Total HRK'000
Assets			
Property and equipment	23,052	335	23,387
Investment property	2,829	-	2,829
Intangible assets			
Deferred acquisition costs	19,156	335	19,491
Other intangible assets	9,320	3,953	13,273
Investments in subsidiaries and associates	1,550	50	1,600
Financial assets at fair value through profit or loss	45,260	79,544	124,804
Available-for-sale financial assets	173,946	340,550	514,496
Held-to-maturity investments	45,154	482,618	527,772
Loans and receivables	98,283	58,069	156,352
Reinsurers' share of insurance contract provisions	139,836	247,051	386,887
Deferred tax asset	557	4,508	5,065
Inventories	140	-	140
Insurance and other receivables	134,619	106,572	241,191
Assets held for sale	26,605	-	26,605
Cash and cash equivalents	2,612	1,049	3,661
	<hr/>	<hr/>	<hr/>
Total assets	722,919	1,324,634	2,047,553
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Shareholders' equity			
Share capital	101,491	134,304	235,795
Share premium	140,330	28,574	168,904
Statutory reserve	-	1,463	1,463
Fair value reserve	(2,228)	(18,032)	(20,260)
Accumulated losses	(96,629)	(20,721)	(117,350)
	<hr/>	<hr/>	<hr/>
Total equity attributable to equity holders of the Company	142,964	125,588	268,552
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Insurance contract provisions	371,435	875,241	1,246,676
Discretionary profit participation provision	-	8,304	8,304
Subordinated loan	15,061	-	15,061
Provisions for liabilities and charges	925	-	925
Insurance and other payables and deferred income	192,534	315,501	508,035
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Total liabilities	579,955	1,199,046	1,779,001
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and equity	722,919	1,324,634	2,047,553
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10 Segment reporting (continued)

Statement of financial position by business segment as at 31 December 2010

Company

	Non-life HRK'000	Life HRK'000	Total HRK'000
Assets			
Property and equipment	45,709	4,339	50,048
Investment property	27,624	-	27,624
Intangible assets			
Deferred acquisition costs	32,412	384	32,796
Other intangible assets	18,645	4,519	23,164
Investments in subsidiaries and associates	1,652	50	1,702
Financial assets at fair value through profit or loss	13,090	46,827	59,917
Available-for-sale financial assets	44,741	429,464	474,205
Held-to-maturity investments	13,245	213,116	226,361
Loans and receivables	97,744	146,663	244,407
Reinsurers' share of insurance contract provisions	112,162	215,879	328,041
Deferred tax asset	2,000	246	2,246
Inventories	160	-	160
Insurance and other receivables	181,920	74,715	256,635
Cash and cash equivalents	2,533	10,970	13,503
	<hr/>	<hr/>	<hr/>
Total assets	593,637	1,147,172	1,740,809
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Shareholders' equity			
Share capital	79,291	40,816	120,107
Share premium	330	-	330
Statutory reserve	-	1,463	1,463
Fair value reserve	59	(983)	(924)
(Accumulated losses)/retained earnings	(34,095)	8,877	(25,218)
	<hr/>	<hr/>	<hr/>
Total equity attributable to equity holders of the Company	45,585	50,173	95,758
	<hr/>	<hr/>	<hr/>
Liabilities			
Insurance contract provisions	377,940	803,707	1,181,647
Discretionary profit participation provision	-	9,335	9,335
Subordinated loan	14,770	-	14,770
Deferred tax liability	15	-	15
Provisions for liabilities and charges	1,500	-	1,500
Insurance and other payables and deferred income	153,827	283,957	437,784
	<hr/>	<hr/>	<hr/>
Total liabilities	548,052	1,096,999	1,645,051
	<hr/>	<hr/>	<hr/>
Total liabilities and equity	593,637	1,147,172	1,740,809
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10 Segment reporting (continued)

Consolidated statement of comprehensive income by business segment for the year ended 31 December 2011

Group

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	251,117	186,845	-	(74)	437,888
Written premiums ceded to reinsurers	(125,464)	(59,070)	-	-	(184,534)
Net premiums written	125,653	127,775	-	(74)	253,354
Change in the gross provision for unearned premiums	18,530	354	-	-	18,884
Reinsurers' share of change in the provision for unearned premiums	(1,348)	838	-	-	(510)
Net earned premiums	142,835	128,967	-	(74)	271,728
Fees and commission income	42,341	11,732	-	-	54,073
Financial income	17,410	61,200	8,155	(6,975)	79,790
Other operating income	5,724	212	2,687	(1,324)	7,299
Net income	208,310	202,111	10,842	(8,373)	412,890
Claims and benefits incurred	(168,161)	(157,449)	-	-	(325,610)
Reinsurers' share of claims and benefits incurred	73,557	51,296	-	-	124,853
Net policyholder claims and benefits incurred	(94,604)	(106,153)	-	-	(200,757)
Acquisition costs	(36,159)	(31,071)	-	-	(67,230)
Administrative expenses	(83,145)	(46,755)	(5,420)	8,441	(126,879)
Other operating expenses	(30,814)	(13,416)	-	-	(44,230)
Financial expenses	(24,122)	(34,314)	(3,893)	360	(61,969)
(Loss)/profit before income tax	(60,534)	(29,598)	1,529	428	(88,175)
Income tax expense	(2,000)	-	(334)	-	(2,334)
(Loss)/profit for the year	(62,534)	(29,598)	1,195	428	(90,509)
Other comprehensive income for the year, net of income tax					
Net change in fair value of available-for-sale financial assets, net of deferred tax	(2,287)	(17,049)	-	-	(19,336)
Total comprehensive income for the year	(64,821)	(46,647)	1,195	428	(109,845)

10 Segment reporting (continued)

Statement of comprehensive income by business segment for the year ended 31 December 2010

Group (continued)

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	285,404	211,394	-	(87)	496,711
Written premiums ceded to reinsurers	(124,293)	(57,135)	-	-	(181,428)
Net premiums written	161,111	154,259	-	(87)	315,283
Change in the gross provision for unearned premiums	8,724	84	-	-	8,808
Reinsurers' share of change in the provision for unearned premiums	30,427	-	-	-	30,427
Net earned premiums	200,262	154,343	-	(87)	354,518
Fees and commission income	24,277	12,364	-	-	36,641
Financial income	14,376	62,137	7,565	(6,524)	77,554
Other operating income	3,384	579	2,701	(2,596)	4,068
Net income	242,299	229,423	10,266	(9,207)	472,781
Claims and benefits incurred	(162,059)	(165,345)	-	489	(326,915)
Reinsurers' share of claims and benefits incurred	39,635	49,635	-	-	89,270
Net policyholder claims and benefits incurred	(122,424)	(115,710)	-	489	(237,645)
Acquisition costs	(40,173)	(39,520)	-	-	(79,693)
Administrative expenses	(66,937)	(56,411)	(6,162)	8,379	(121,131)
Other operating expenses	(19,189)	(6,221)	-	-	(25,410)
Financial expenses	(8,913)	(1,861)	(3,714)	339	(14,149)
(Loss)/profit before income tax	(15,337)	9,700	390	-	(5,247)
Income tax expense	-	-	(82)	-	(82)
(Loss)/profit for the year	(15,337)	9,700	308	-	(5,329)
Other comprehensive income for the year, net of income tax					
Net change in fair value of available-for-sale financial assets, net of deferred tax	(10)	(1,804)	-	-	(1,814)
Total comprehensive income for the year	(15,347)	7,896	308	-	(7,143)

10 Segment reporting (continued)

Statement of comprehensive income by business segment for the year ended 31 December 2011

Company

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	251,117	186,845	437,962
Written premiums ceded to reinsurers	(125,464)	(59,070)	(184,534)
Net premiums written	125,653	127,775	253,428
Change in the gross provision for unearned premiums	18,530	354	18,884
Reinsurers' share of change in the provision for unearned premiums	(1,348)	838	(510)
Net earned premiums	142,835	128,967	271,802
Fees and commission income	42,341	11,732	54,073
Financial income	16,516	61,200	77,716
Other operating income	6,618	212	6,830
Net income	208,310	202,111	410,421
Claims and benefits incurred	(168,161)	(157,449)	(325,610)
Reinsurers' share of claims and benefits incurred	73,557	51,296	124,853
Net policyholder claims and benefits incurred	(94,604)	(106,153)	(200,757)
Acquisition costs	(36,159)	(31,071)	(67,230)
Administrative expenses	(83,145)	(46,755)	(129,900)
Other operating expenses	(30,814)	(13,416)	(44,230)
Financial expenses	(24,122)	(34,314)	(58,436)
(Loss)/profit before income tax	(60,534)	(29,598)	(90,132)
Income tax expense	(2,000)	-	(2,000)
(Loss)/profit for the year	(62,534)	(29,598)	(92,132)
Other comprehensive income for the year, net of income tax			
Net change in fair value of available-for-sale financial assets, net of deferred tax	(2,287)	(17,049)	(19,336)
Total comprehensive income for the year	(64,821)	(46,647)	(111,468)

10 Segment reporting (continued)

Statement of comprehensive income by business segment for the year ended 31 December 2010

Company

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	285,404	211,394	496,798
Written premiums ceded to reinsurers	(124,293)	(57,135)	(181,428)
Net premiums written	161,111	154,259	315,370
Change in the gross provision for unearned premiums	8,724	84	8,808
Reinsurers' share of change in the provision for unearned premiums	30,427	-	30,427
Net earned premiums	200,262	154,343	354,605
Fees and commission income	24,277	12,364	36,641
Financial income	13,869	62,137	76,006
Other operating income	2,651	579	3,230
Net income	241,059	229,423	470,482
Claims and benefits incurred	(162,059)	(165,345)	(327,404)
Reinsurers' share of claims and benefits incurred	39,635	49,635	89,270
Net policyholder claims and benefits incurred	(122,424)	(115,710)	(238,134)
Acquisition costs	(40,173)	(39,520)	(79,693)
Administrative expenses	(65,072)	(56,411)	(121,483)
Other operating expenses	(19,159)	(6,221)	(25,380)
Financial expenses	(8,929)	(1,861)	(10,790)
(Loss)/profit before income tax	(14,698)	9,700	(4,998)
Income tax expense	-	-	-
(Loss)/profit for the year	(14,698)	9,700	(4,998)
Other comprehensive income for the year, net of income tax			
Net change in fair value of available-for-sale financial assets, net of deferred tax	(10)	(1,804)	(1,814)
Total comprehensive income for the year	(14,708)	7,896	(6,812)

10 Segment reporting (continued)

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 Investment property. Note 9 of these financial statements provides further information about the significant terms and conditions of insurance products.

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

The main products and services offered by the reported business segments include:

Non-life:

- Property and liability
- Motor third party liability
- Motor casco
- Accident and health
- Marine and transport
- Loss adjusting services

Life:

- Endowment
- Term insurance
- Pure endowment
- Unit linked
- Index-linked

Investment property:

- Rent of business premises

Geographical segment

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

11 Property and equipment Group

	Land and buildings HRK'000	Land and buildings under construction HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Leasehold improvement HRK'000	Total HRK'000
Cost						
Balance at 1 January 2010	85,410	25,211	5,713	32,722	6,657	155,713
Additions	530	13,966	1,539	1,448	640	18,123
Disposals	-	-	(1,514)	(532)	(494)	(2,540)
Transfer into use	9,716	(9,716)	-	-	-	-
Reclassifications to investment property (Note 12)	-	(27,772)	-	-	-	(27,772)
Reclassifications from investment property (Note 12)	1,348	-	-	-	-	1,348
Balance at 31 December 2010	97,004	1,689	5,738	33,638	6,803	144,872
Balance at 1 January 2011	97,004	1,689	5,738	33,638	6,803	144,872
Additions	288	6	1,988	1,031	52	3,365
Disposals	(30,286)	-	(781)	-	-	(31,067)
Reclassification to investment property (Note 12)	(6,812)	-	-	-	-	(6,812)
Reclassifications to other intangible assets (Note 14)	-	-	-	(1,139)	-	(1,139)
Balance at 31 December 2011	60,194	1,695	6,945	33,530	6,855	109,219
Depreciation and impairment losses						
Balance at 1 January 2010	9,964	-	2,162	26,897	2,718	41,741
Depreciation charge for the year	1,991	-	1,022	2,141	624	5,778
Disposals	-	-	(796)	(343)	(182)	(1,321)
Reclassifications from investment property (Note 12)	112	-	-	-	-	112
Balance at 31 December 2010	12,067	-	2,388	28,695	3,160	46,310
Balance at 1 January 2011	12,067	-	2,388	28,695	3,160	46,310
Depreciation charge for the year	1,793	-	1,111	1,986	631	5,521
Disposals	(4,721)	-	(452)	(15)	-	(5,188)
Write off of depreciation	(458)	-	-	-	-	(458)
Reclassification to investment property (Note 12)	(752)	-	-	-	-	(752)
Reclassifications to other intangible assets (Note 14)	-	-	-	(1,134)	-	(1,134)
Balance at 31 December 2011	7,929	-	3,047	29,532	3,791	44,299
Carrying amounts						
At 1 January 2010	75,446	25,211	3,551	5,825	3,939	113,972
At 31 December 2010	84,937	1,689	3,350	4,943	3,643	98,562
At 1 January 2011	84,937	1,689	3,350	4,943	3,643	98,562
At 31 December 2011	52,265	1,695	3,898	3,998	3,064	64,920

Included within land and buildings is non-depreciable land with a carrying amount of HRK 9,024 thousand (2010: HRK 10,661 thousand).

Land and buildings with a carrying amount of HRK 40,049 thousand (2010: HRK 47,093 thousand) are pledged as collateral for borrowings of the Group (Note 27).

In 2011, the Group changed the use of business premises with carrying amount of HRK 6,060 thousand from owner-occupied to investment property and reclassified these premises as such. In addition, the Group reclassified computer software with carrying amount of HRK 5 thousand from equipment and furniture to other intangible assets under computer software.

The depreciation charge is recognised in profit or loss under "Administrative expenses" (Note 36).

11 Property and equipment (continued)

Company

	Land and buildings HRK'000	Land and buildings under construction HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Leasehold improvement HRK'000	Total HRK'000
Cost						
Balance at 1 January 2010	32,984	25,211	5,415	27,570	5,576	96,756
Additions	530	13,966	1,539	1,386	640	18,061
Disposals	-	-	(1,243)	(82)	-	(1,325)
Transfer into use	9,716	(9,716)	-	-	-	-
Reclassifications to investment property (Note 12)	-	(27,772)	-	-	-	(27,772)
Balance at 31 December 2010	43,230	1,689	5,711	28,874	6,216	85,720
Balance at 1 January 2011	43,230	1,689	5,711	28,874	6,216	85,720
Additions	-	6	1,988	1,025	52	3,071
Disposals	(30,286)	-	(754)	-	-	(31,040)
Reclassifications to other intangible assets (Note 14)	-	-	-	(1,139)	-	(1,139)
Balance at 31 December 2011	12,944	1,695	6,945	28,760	6,268	56,612
Depreciation and impairment losses						
Balance at 1 January 2010	5,409	-	2,084	22,303	2,331	32,127
Depreciation charge for the year	867	-	1,017	1,906	520	4,310
Disposals	-	-	(723)	(42)	-	(765)
Balance at 31 December 2010	6,276	-	2,378	24,167	2,851	35,672
Balance at 1 January 2011	6,276	-	2,378	24,167	2,851	35,672
Depreciation charge for the year	789	-	1,111	1,884	524	4,308
Disposals	(4,721)	-	(442)	-	-	(5,163)
Write off of depreciation	(458)	-	-	-	-	(458)
Reclassifications to other intangible assets (Note 14)	-	-	-	(1,134)	-	(1,134)
Balance at 31 December 2011	1,886	-	3,047	24,917	3,375	33,225
Carrying amounts						
At 1 January 2010	27,575	25,211	3,331	5,267	3,245	64,629
At 31 December 2010	36,954	1,689	3,333	4,707	3,365	50,048
At 1 January 2011	36,954	1,689	3,333	4,707	3,365	50,048
At 31 December 2011	11,058	1,695	3,898	3,843	2,893	23,387

Included within land and buildings is non-depreciable land with a carrying amount of HRK 1,954 thousand (2010: HRK 2,358 thousand).

In 2011 the Company reclassified computer software with carrying amount of HRK 5 thousand from equipment and furniture to other intangible assets under computer software.

The depreciation charge is recognised in profit or loss under "Administrative expenses" (Note 36).

12 Investment property

	Group	Company
	HRK'000	HRK'000
Cost		
Balance at 1 January 2010	22,567	-
Additions	1,395	1,381
Disposals	(1,381)	(1,381)
Reclassifications from property and equipment (Note 11)	27,772	27,772
Reclassifications to property and equipment (Note 11)	(1,348)	-
Reclassification to assets held for sale (Note 20)	(259)	-
Balance at 31 December 2010	48,746	27,772
Balance at 1 January 2011	48,746	27,772
Additions	2,969	2,829
Disposals	(1,167)	(1,167)
Reclassifications from property and equipment (Note 11)	6,812	-
Reclassification to assets held for sale (Note 20)	(26,605)	(26,605)
Balance at 31 December 2011	30,755	2,829
Depreciation and impairment losses		
Balance at 1 January 2010	2,006	-
Depreciation charge for the year	600	148
Reclassifications to property and equipment (Note 11)	(112)	-
Reclassification to assets held for sale (Note 20)	(18)	-
Balance at 31 December 2010	2,476	148
Balance at 1 January 2011	2,476	148
Depreciation charge for the year	572	-
Disposal	(148)	(148)
Reclassifications from property and equipment (Note 11)	752	-
Balance at 31 December 2011	3,652	-
Carrying amounts		
At 1 January 2010	20,561	-
At 31 December 2010	46,270	27,624
At 1 January 2011	46,270	27,624
At 31 December 2011	27,103	2,829

Investment property of the Group with a carrying amount of HRK 24,275 thousand (2010: HRK 18,787 thousand) is pledged as collateral for borrowings of the Group (Note 27).

The Group entered into operating leases for all of its investment properties. The rental income arising during the year amounted to HRK 2,433 thousand (2010: HRK 1,886 thousand) and is recognised in profit or loss within "Financial income" (Note 32).

Direct operating expenses (including repairs and maintenance) arising from investment property during the year amounted to HRK 590 thousand (2010: HRK 435 thousand) are recognised in profit or loss within "Administrative expenses" (Note 36).

In 2011, the Group changed the use of business premises with carrying amount of HRK 6,060 thousand from owner-occupied to investment property and reclassified these premises as such. In addition, the Group reclassified investment property with carrying amount of HRK 26,605 thousand to assets held for sale as it is expected that the asset will be recovered primarily through sale of property.

During 2011, the Group transferred from investment property a property which is held for sale, whose carrying amount was HRK 26,605 thousand.

The depreciation charge is recognised in profit or loss under "Financial expenses" (Note 38).

13 Deferred acquisition costs

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

An analysis of deferred costs is shown below:

Group and Company

	Non-life		Life rider		Total	
	2011 HRK'000	2010 HRK'000	2011 HRK'000	2010 HRK'000	2011 HRK'000	2010 HRK'000
Balance at 1 January	32,412	37,879	384	404	32,796	38,283
Net change (Note 35)	(13,256)	(5,467)	(49)	(20)	(13,305)	(5,487)
Balance at 31 December	19,156	32,412	335	384	19,491	32,796

For segment reporting purposes, life rider business is classified as life assurance business.

14 Other intangible assets

Group

	Goodwill HRK'000	Acquired value of in- force business HRK'000	Computer software HRK'000	Computer software under development HRK'000	Other HRK'000	Total HRK'000
Cost						
Balance at 1 January 2010	7,390	3,450	22,628	6,035	-	39,503
Additions	-	-	1,784	3,397	-	5,181
Transfer into use	-	-	770	(770)	-	-
Balance at 31 December 2010	7,390	3,450	25,182	8,662	-	44,684
Balance at 1 January 2011	7,390	3,450	25,182	8,662	-	44,684
Additions	-	-	1,450	1,015	62	2,527
Transfer into use	-	-	827	(827)	-	-
Reclassification from property and equipment (Note 11)	-	-	1,139	-	-	1,139
Balance at 31 December 2011	7,390	3,450	28,598	8,850	62	48,350
Amortisation and impairment losses						
Balance at 1 January 2010	-	1,380	16,918	-	-	18,298
Amortisation for the year	-	345	2,877	-	-	3,222
Balance at 31 December 2010	-	1,725	19,795	-	-	21,520
Balance at 1 January 2011	-	1,725	19,795	-	-	21,520
Amortisation for the year	-	345	2,840	-	-	3,185
Reclassification from property and equipment (Note 11)	-	-	1,134	-	-	1,134
Impairment loss (Note 36)	3,838	-	-	5,400	-	9,238
Balance at 31 December 2011	3,838	2,070	23,769	5,400	-	35,077
Carrying amounts						
At 1 January 2010	7,390	2,070	5,710	6,035	-	21,205
At 31 December 2010	7,390	1,725	5,387	8,662	-	23,164
At 1 January 2011	7,390	1,725	5,387	8,662	-	23,164
At 31 December 2011	3,552	1,380	4,829	3,450	62	13,273

The Group reclassified computer software with carrying amount of HRK 5 thousand from equipment and furniture to other intangible assets under computer software.

The amortisation charge is recognised in profit or loss under “Administrative expenses” (Note 36).

14 Other intangible assets (continued)

Company

	Goodwill HRK'000	Acquired value of in- force business HRK'000	Computer software HRK'000	Computer software under development HRK'000	Other HRK'000	Total HRK'000
Cost						
Balance at 1 January 2010	7,390	3,450	22,552	6,035	-	39,427
Additions	-	-	1,810	3,397	-	5,207
Transfer into use	-	-	770	(770)	-	-
Balance at 31 December 2010	7,390	3,450	25,132	8,662	-	44,634
Balance at 1 January 2011	7,390	3,450	25,132	8,662	-	44,634
Additions	-	-	1,450	1,015	62	2,527
Transfer into use	-	-	827	(827)	-	-
Reclassification from property and equipment (Note 11)	-	-	1,139	-	-	1,139
Balance at 31 December 2011	7,390	3,450	28,548	8,850	62	48,300
Amortisation and impairment losses						
Balance at 1 January 2010	-	1,380	16,868	-	-	18,248
Amortisation for the year	-	345	2,877	-	-	3,222
Balance at 31 December 2010	-	1,725	19,745	-	-	21,470
Balance at 1 January 2011	-	1,725	19,745	-	-	21,470
Amortisation for the year	-	345	2,840	-	-	3,185
Reclassification from property and equipment (Note 11)	-	-	1,134	-	-	1,134
Impairment loss (Note 36)	3,838	-	-	5,400	-	9,238
Balance at 31 December 2011	3,838	2,070	23,719	5,400	-	35,027
Carrying amounts						
At 1 January 2010	7,390	2,070	5,684	6,035	-	21,179
At 31 December 2010	7,390	1,725	5,387	8,662	-	23,164
At 1 January 2011	7,390	1,725	5,387	8,662	-	23,164
At 31 December 2011	3,552	1,380	4,829	3,450	62	13,273

The Company reclassified computer software with carrying amount of HRK 5 thousand from equipment and furniture to other intangible assets under computer software.

The amortisation charge is recognised in profit or loss under "Administrative expenses" (Note 36).

15 Investments in subsidiaries and associates

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Group ownership at 31 December 2011	Group ownership at 31 December 2010
Kvarner Wiener Städtische nekretnine d.o.o.	Property management	Croatia	100%	100%
S.O.S. Expert d.o.o.	Claims adjusting	Croatia	-	100%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

All subsidiaries are fully consolidated in the Group financial statements.

b) Investments in subsidiaries and associates are as follows:

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Kvarner Wiener Städtische nekretnine d.o.o.	-	-	1,600	1,600
S.O.S. Expert d.o.o.	-	-	-	102
Vile Baredine (30%)	6	6	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>6</u>	<u>6</u>	<u>1,600</u>	<u>1,702</u>

In the unconsolidated financial statements the investment in Kvarner Wiener Städtische nekretnine d.o.o. is carried within the non-life segment in 2011 and 2010 apart from HRK 50 thousand which are carried within life assurance segment. In 2010, S.O.S. Expert d.o.o. was carried within non-life segment.

c) The Group's share in associates is analysed as follows:

	Vile Baredina 2011 HRK'000	Vile Baredina 2010 HRK'000
Current assets	18	4
Non-current assets	1,508	396
Current liabilities	(1,655)	(427)
Non-current liabilities	-	-
	<u> </u>	<u> </u>
Net assets	<u>(129)</u>	<u>(27)</u>
	<u> </u>	<u> </u>
Share of associates' revenue and profit	<u>(12)</u>	<u>(10)</u>

15 Investments in subsidiaries and associates (continued)

d) Disposal of subsidiary S.O.S. Expert d.o.o.

As of 27 September 2011, based on a decision of the Management Board, the Company disposed of its fully owned subsidiary S.O.S. Expert d.o.o.

The assets and liabilities disposed of by the Group are recognised at the carrying amounts recognised prior the disposal in the financial statements of S.O.S. Expert as of 31 August 2011.

	Disposal 2011 HRK'000
Cash and cash equivalents	14
Net other assets	-
	14
The Group share of net identifiable assets	14
Loss on disposal (Note 38)	(88)
	(74)
Consideration received	14
Cash and cash equivalents disposed	(14)
	-
Disposal of subsidiary, net of cash disposed	-
	-

16 Financial investments

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Financial assets at fair value through profit or loss	124,804	59,917	124,804	59,917
Available-for-sale financial assets	514,496	474,205	514,496	474,205
Held-to-maturity investments	527,772	226,361	527,772	226,361
Loans and receivables	150,352	238,407	156,352	244,407
	1,317,424	998,890	1,323,424	1,004,890

Financial assets at fair value through profit or loss

As at 31 December 2011 there were no past due financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss include investments backing index-linked and unit-linked products in the amount of HRK 45,119 thousand (2010: HRK 32,650 thousand), which are designated at fair value through profit or loss.

Available-for-sale financial assets

As at 31 December 2011 there were no past due available-for-sale financial assets.

In 2011, the Group recognised an impairment loss on equity securities available for sale through profit or loss, which increased the loss before tax by HRK 5,455 thousand (2010: HRK 613 thousand), of which HRK 54 thousand relates to equity securities which became impaired in 2011 and the remaining amount of impairment loss relates to securities which were already impaired in prior periods.

Held-to-maturity investments

As at 31 December 2011 there were no past due held-to-maturity investments.

Loans and receivables

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

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Loans to customers	98,381	109,479	104,381	115,479
Impairment allowance on loans to customers	(21,465)	(4,826)	(21,465)	(4,826)
Loans to customers, net of impairment allowance	76,916	104,653	82,916	110,653
Deposits with banks	73,436	133,754	73,436	133,754
	150,352	238,407	156,352	244,407

16 Financial investments (continued)

Loans and receivables (continued)

Loans and receivables are analysed as shown below:

	Group	Group	Company	Company
	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
Not due and not impaired	99,807	201,634	104,807	207,634
Due but not impaired	5,350	18,251	6,350	18,251
Due and impaired	66,660	23,348	66,660	23,348
Impairment	(21,465)	(4,826)	(21,465)	(4,826)
	150,352	238,407	156,352	244,407

Out of the Company's past due but not impaired loans of HRK 6,350 thousand (2010: HRK 18,251 thousand), HRK 3,345 thousand (2010: HRK 8,457 thousand) is secured by mortgages on real estate, HRK 1 thousand (2010: HRK 54 thousand) is secured by the redemption value of life assurance policies, HRK 3,000 thousand (2010: HRK 3,922 thousand) is secured by bank guarantee.

Out of past due and impaired loans of HRK 66,660 thousand (2010: 23,348 thousand), HRK 56,002 thousand (2010: HRK 22,798 thousand) is secured by mortgages on real estate, HRK 42 thousand (2010: -) is secured by the redemption value of life assurance policies, HRK 2,415 thousand (2010: -) is secured by bank guarantee, HRK 5,271 thousand (2010: -) is secured by shares of Credo bank and HRK 2,930 thousand (2010: HRK 550 thousand) is not secured.

In 2011 and 2010 there was no interest income recognised on impaired loans.

The movement in impairment allowance for loans to customers during the year was as follows:

	Group	Group	Company	Company
	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	4,826	2,508	4,826	2,508
Impairment losses	16,701	2,318	16,701	2,318
Collection of amounts previously provided	(62)	-	(62)	-
Balance at 31 December	21,465	4,826	21,465	4,826

The impairment losses are recognised under "Financial expenses" in profit or loss (Note 38) and collection of amounts previously provided for are recognised under "Financial income" in profit or loss (Note 32).

16 Financial investments (continued)

Group	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Held-to- maturity investments	Loans and receivables	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
2011					
Listed	-	5,637	-	-	5,637
Unlisted	90	-	-	-	90
Equity securities	90	5,637	-	-	5,727
Bonds - Government of Republic of Croatia	-	456,322	525,517	-	981,839
Municipal bonds – domestic	-	1,145	2,255	-	3,400
Corporate bonds – domestic	-	22,649	-	-	22,649
Corporate bonds – foreign	15,685	-	-	-	15,685
Corporate bonds – assets backing index-linked products, foreign	22,765	-	-	-	22,765
Debt securities – fixed rate, listed	38,450	480,116	527,772	-	1,046,338
Investment funds – open ended, quoted	63,910	28,743	-	-	92,653
Investment funds – assets backing unit-linked products, foreign	22,354	-	-	-	22,354
Investment funds	86,264	28,743	-	-	115,007
Deposits with banks	-	-	-	73,436	73,436
Loans to customers	-	-	-	76,916	76,916
Loans and receivables	-	-	-	150,352	150,352
	124,804	514,496	527,772	150,352	1,317,424
2010					
Listed	-	10,241	-	-	10,241
Unlisted	90	10,106	-	-	10,196
Equity securities	90	20,347	-	-	20,437
Bonds - Government of Republic of Croatia	-	419,870	223,932	-	643,802
Municipal bonds – domestic	-	1,249	2,429	-	3,678
Corporate bonds – domestic	-	10,020	-	-	10,020
Corporate bonds – foreign	7,557	-	-	-	7,557
Corporate bonds – assets backing index-linked products, foreign	15,238	-	-	-	15,238
Debt securities – fixed rate, listed	22,795	431,139	226,361	-	680,295
Investment funds – open ended, quoted	19,620	22,719	-	-	42,339
Investment funds – assets backing unit-linked products	17,412	-	-	-	17,412
Investments funds	37,032	22,719	-	-	59,751
Deposits with banks	-	-	-	133,754	133,754
Loans to customers	-	-	-	104,653	104,653
Loans and receivables	-	-	-	238,407	238,407
	59,917	474,205	226,361	238,407	998,890

16 Financial investments (continued)

Company	Financial assets at fair value through profit or loss HRK'000	Available- for-sale financial assets HRK'000	Held-to- maturity investments HRK'000	Loans and receivables HRK'000	Total HRK'000
2011					
Listed	-	5,637	-	-	5,637
Unlisted	90	-	-	-	90
Equity securities	90	5,637	-	-	5,727
Bonds - Government of Republic of Croatia	-	456,322	525,517	-	981,839
Municipal bonds – domestic	-	1,145	2,255	-	3,400
Corporate bonds – domestic	-	22,649	-	-	22,649
Corporate bonds – foreign	15,685	-	-	-	15,685
Corporate bonds – assets backing index-linked products, foreign	22,765	-	-	-	22,765
Debt securities – fixed rate, listed	38,450	480,116	527,772	-	1,046,338
Investment funds – open ended, quoted	63,910	28,743	-	-	92,653
Investment funds – assets backing unit-linked products, foreign	22,354	-	-	-	22,354
Investment funds	86,264	28,743	-	-	115,007
Deposits with banks	-	-	-	73,436	73,436
Loans to customers	-	-	-	82,916	82,916
Loans and receivables	-	-	-	156,352	156,352
	124,804	514,496	527,772	156,352	1,323,424
2010					
Listed	-	10,241	-	-	10,241
Unlisted	90	10,106	-	-	10,196
Equity securities	90	20,347	-	-	20,437
Bonds - Government of Republic of Croatia	-	419,870	223,932	-	643,802
Municipal bonds – domestic	-	1,249	2,429	-	3,678
Corporate bonds – domestic	-	10,020	-	-	10,020
Corporate bonds – foreign	7,557	-	-	-	7,557
Corporate bonds – assets backing index-linked products, foreign	15,238	-	-	-	15,238
Debt securities – fixed rate, listed	22,795	431,139	226,361	-	680,295
Investment funds – open ended, quoted	19,620	22,719	-	-	42,339
Investment funds – assets backing unit-linked products	17,412	-	-	-	17,412
Investments funds	37,032	22,719	-	-	59,751
Deposits with banks	-	-	-	133,754	133,754
Loans to customers	-	-	-	110,653	110,653
Loans and receivables	-	-	-	244,407	244,407
	59,917	474,205	226,361	244,407	1,004,890

16 Financial investments (continued)

Reclassification of financial assets

Based on the Management Board's decision, and pursuant to International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*, paragraph 50, effective 1 July 2008, the Group and the Company reclassified financial assets from a category at fair value through profit or loss into financial assets available for sale, in an amount of HRK 8,337 thousand, representing their fair value on 24 February 2009. Following this reclassification, any further gains and losses which would previously have been recognised in income are recognised in other comprehensive income (prior to any impairment effects). Had the assets not been reclassified, the Group's and the Company's loss before tax for 2009 would have been lower by HRK 91 thousand (before impairment effects). There was no effect on equity.

In addition, on 2 November 2011 upon decision of the Management Board, based on paragraph 54 of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*, the Group and the Company reclassified available-for-sale financial assets with a carrying value of HRK 296,041 thousand as held-to-maturity investments. After reclassification the assets are measured at amortised cost and no further gains and losses from changes in fair value are recognised. The average effective interest rate on reclassified investments on the date of reclassification was 6.80%. Up to the date of reclassification the Company recognised a loss on changes in fair value net of income tax of HRK 8,764 thousand in other comprehensive income in respect of reclassified financial assets. Had there not been any asset reclassification, the Group and the Company would have recognised HRK 13,242 thousand loss net of income tax on the change in fair value of the underlying assets in other comprehensive income in 2011. The Group and the Company has the intent and ability to hold the reclassified assets to maturity.

Net book values of reclassified assets at the reclassification date and their fair values at 31 December 2011 were as follows:

Group and Company	At the reclassification date		31 December 2011	
	Book value HRK '000	Fair value HRK '000	Book value HRK '000	Fair value HRK '000
<i>Financial assets at fair value through profit and loss reclassified to financial assets available for sale reclassified on 24 February 2009</i>				
Debt securities	8,337	8,337	1,050	1,050
<i>Financial assets available-for-sale reclassified to financial assets held-to- maturity reclassified on 2 November 2011</i>				
Debt securities	296,041	296,041	297,638	293,095

16 Financial investments (continued)

Reclassification of financial assets (continued)

Following table shows amounts recognised in profit or loss and in other comprehensive income during 2011 and 2010 from reclassified financial assets:

Group and Company	2011		2010	
	Profit or loss HRK '000	Other comprehensive income HRK '000	Profit or loss HRK '000	Other comprehensive income HRK '000
<i>Financial assets at fair value through profit and loss reclassified to financial assets available for sale reclassified on 24 February 2009</i>				
Interest income	275	-	719	-
Premium discount	120	-	250	-
Realised gain	17	-	196	-
Change in fair value reserve, net of income tax	-	(42)	-	(326)
<i>Financial assets available-for-sale reclassified to held-to-maturity investments on 2 November 2011</i>				
Exchange rate differences	1,536	-	-	-
Interest income	3,219	-	-	-
Premium discount	60	-	-	-
Amortisation of fair value reserve	(276)	(221)	-	-
	<u>4,951</u>	<u>(263)</u>	<u>1,165</u>	<u>(326)</u>

Following table shows amounts which would have been recognised in the profit or loss and other comprehensive income during 2011 from reclassified financial assets if reclassification was not performed:

Group and Company	2011		2010	
	Profit or loss HRK '000	Other comprehensive income HRK '000	Profit or loss HRK '000	Other comprehensive income HRK '000
<i>Financial assets at fair value through profit and loss reclassified to financial assets available for sale reclassified on 24 February 2009</i>				
Interest income	275	-	719	-
Premium discount	120	-	250	-
Realised gains	17	-	196	-
Unrealised losses	(52)	-	(408)	-
<i>Financial assets available-for-sale reclassified to held-to-maturity investments as at 2 November 2011</i>				
Exchange rate differences	1,472	-	-	-
Interest income	3,219	-	-	-
Premium discount	(101)	-	-	-
Change in fair value reserve, net of income tax	-	(13,242)	-	-
	<u>4,950</u>	<u>(13,242)</u>	<u>757</u>	<u>-</u>

17 Reinsurers' share of insurance contracts provisions

Group and Company

	<i>Note</i>	2011 HRK'000	2010 HRK'000
Non-life			
Reinsurance share in provision for unearned premiums	24 a)	57,249	58,597
Reinsurance share in notified outstanding claims reserve	24 b)	58,304	37,704
Reinsurance share in incurred but not reported claims reserve	24 c)	24,283	15,861
Total Non-life		139,836	112,162
Life			
Reinsurance share in provision for unearned premiums	24 a)	838	-
Reinsurance share in notified outstanding claims reserve	24 b)	1,118	1,452
Reinsurance share in incurred but not reported claims reserve	24 c)	1,171	-
Reinsurance share in life assurance provision	24 e)	243,924	214,427
Total Life		247,051	215,879
Total reinsurers' share of insurance contracts provisions		386,887	328,041

Reinsurers' share in technical provisions represents expected future claims that will be charged to reinsurers, and reinsurers' share in unearned premium.

Premiums ceded to reinsurance do not relieve the Group from its direct obligations towards policyholders. Accordingly, the Group incurs a credit risk up to the extent that the reinsurer would not be able to settle its liability under the reinsurance agreement.

18 Deferred tax asset/liability

Deferred tax asset	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
	Balance at 1 January	2,246	2,000	2,246
Recognised in profit or loss (Note 39)	(2,000)	-	(2,000)	-
Recognised in other comprehensive income (Note 22 d)	4,819	246	4,819	246
Balance at 31 December	5,065	2,246	5,065	2,246
Deferred tax liability				
	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
As at 1 January	15	222	15	222
Recognised in other comprehensive income (Note 22 d)	(15)	(207)	(15)	(207)
As at 31 December	-	15	-	15

19 Insurance and other receivables

	Group	Group	Company	Company
	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
Insurance receivables				
- from policyholders	106,493	114,504	106,493	114,504
- from agents	852	2,587	852	2,587
- from recourses	28,713	24,061	28,713	24,061
- from other	20,706	16,626	20,706	16,626
Receivables from reinsurance				
- for claims recoveries	36,314	27,542	36,314	27,542
- for reinsurance commission	34,405	32,787	34,405	32,787
- for reinsurance deposits	31,902	48,816	31,902	48,816
Other receivables				
- accrued interest	37,189	22,907	37,309	23,074
- other	22,597	112	23,199	662
Prepaid expenses	4,367	5,764	4,367	8,260
Impairment allowance				
- for receivables from policyholders	(45,249)	(35,506)	(45,249)	(35,506)
- for recourse receivables	(934)	(1,015)	(934)	(1,015)
- for accrued interest	(17,670)	(5,511)	(17,670)	(5,511)
- for other receivables	(19,381)	(282)	(19,216)	(252)
Total insurance and other receivables	240,304	253,392	241,191	256,635

Impairment losses related to insurance receivables are recognised based on internal analysis of uncollected premiums.

Other receivables include claims on deposit at Credo banka d.d. in a receivership in the amount of HRK 22,474 thousand. As of 31 December 2011 the Group recognised impairment allowance on the deposit in the amount of HRK 19,103 thousand within financial expenses (Note 38) resulting with the carrying amount of HRK 3,371 thousand. In addition, the Company has written off interest receivables on deposit in the amount of HRK 759 thousand within financial income. In 2011 no interest income from this deposit was recognised.

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

	Group	Group	Company	Company
	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
Not due and not impaired	31,903	39,483	31,975	39,554
Due but not impaired	205,030	213,909	205,845	217,081
Due and impaired	86,605	42,314	86,440	42,284
Impaired	(83,234)	(42,314)	(83,069)	(42,284)
	240,304	253,392	241,191	256,635

19 Insurance and other receivables (continued)

The movement in impairment allowance for receivables from policyholders during the year was as follows:

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Balance at 1 January	<u>35,506</u>	<u>17,469</u>	<u>35,506</u>	<u>17,469</u>
Increase in provisions	35,603	24,460	35,603	24,460
Decrease in provisions	<u>(25,860)</u>	<u>(6,423)</u>	<u>(25,860)</u>	<u>(6,423)</u>
Impairment losses	<u>9,743</u>	<u>18,037</u>	<u>9,743</u>	<u>18,037</u>
Balance at 31 December	<u><u>45,249</u></u>	<u><u>35,506</u></u>	<u><u>45,249</u></u>	<u><u>35,506</u></u>

Impairment losses for insurance receivables are netted against gross premiums written.

The movement in impairment allowance for recourse receivables during the year was as follows:

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Balance at 1 January	<u>1,015</u>	<u>1,108</u>	<u>1,015</u>	<u>1,108</u>
Decrease in provisions	<u>(81)</u>	<u>(93)</u>	<u>(81)</u>	<u>(93)</u>
Balance at 31 December	<u><u>934</u></u>	<u><u>1,015</u></u>	<u><u>934</u></u>	<u><u>1,015</u></u>

Decrease in provision for recourse receivables is recognised in profit or loss under “Other operating income” (Note 33).

The movement in impairment allowance for accrued interest during the year was as follows:

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Balance at 1 January	<u>5,511</u>	<u>586</u>	<u>5,511</u>	<u>586</u>
Increase in provisions	12,316	5,434	12,316	5,434
Decrease in provisions	<u>(11)</u>	<u>(509)</u>	<u>(11)</u>	<u>(509)</u>
Net impairment losses	<u>12,305</u>	<u>4,925</u>	<u>12,305</u>	<u>4,925</u>
Write off of provisions	<u>(146)</u>	<u>-</u>	<u>(146)</u>	<u>-</u>
Balance at 31 December	<u><u>17,670</u></u>	<u><u>5,511</u></u>	<u><u>17,670</u></u>	<u><u>5,511</u></u>

Net impairment losses for accrued interest are recognised in profit or loss within “Financial expenses” (Note 38).

19 Insurance and other receivables (continued)

The movement in impairment allowance for other receivables during the year was as follows:

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Balance at 1 January	282	266	252	252
Increase in provisions	19,103	30	19,103	-
Decrease in provisions	(4)	(14)	(139)	-
Impairment losses	19,099	16	18,964	-
Balance at 31 December	19,381	282	19,216	252

In 2011 increase in provisions for other receivables is recognised in profit or loss within “Financial expenses” (Note 38) while in 2010 is recognised in profit or loss within “Other operating expenses” (Note 37). Decrease in provisions is recognised in profit or loss within “Other operating income” (Note 33).

20 Assets held for sale

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Property	26,605	241	26,605	-

During 2011, the Group transferred from investment property a property which is held for sale, whose carrying amount was HRK 26,605 thousand. The property held for sale is not depreciated.

21 Cash and cash equivalents

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Cash at bank	3,786	13,565	3,661	13,503
Cash in hand	-	2	-	-
Total cash and cash equivalents	3,786	13,567	3,661	13,503

22 Share capital

a) Ordinary shares

	31 December 2011	31 December 2010
	HRK'000	HRK'000
<i>Authorised, issued and fully paid</i>		
374,278 (2010: 190,647) ordinary shares of HRK 630	235,795	120,107
	<u> </u>	<u> </u>

The share capital of the Company is denominated in Croatian kuna. The nominal value of each share issued is HRK 630.

During 2011, the Company had share issues as summarised in the following table. All new shares were fully paid by the majority shareholder, Vienna Insurance Group AG Wiener Versicherung Gruppe.

Date of General Assembly	Number of shares issued	Nominal value of share in HRK	Price per share in HRK	Share capital			Share premium		
				Life	Non-life	Total	Life	Non-life	Total
				in HRK '000			in HRK 000		
29 March 2011	35,238	630	630	-	22,200	22,200	-	-	-
15 November 2011	63,493	630	1,766	40,001	-	40,001	22,128	50,000	72,128
9 December 2011	84,900	630	1,766	53,487	-	53,487	6,446	90,000	96,446
Total	<u>183,631</u>			<u>93,488</u>	<u>22,200</u>	<u>115,688</u>	<u>28,574</u>	<u>140,000</u>	<u>168,574</u>

The shareholders of the Company at year end are as follows:

	2011	2010
	% ownership	% ownership
Vienna Insurance Group AG Wiener Versicherung Gruppe	99.2	98.7
Minority shareholders	0.8	1.3
	<u> </u>	<u> </u>
	100.0	100.0
	<u> </u>	<u> </u>

The parent company and the ultimate parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe.

b) Share premium

The share premium reserve represents the accumulated positive difference between the nominal value and the amount received upon issue of share capital.

22 Share capital (continued)

c) Legal reserve

The legal reserve represents accumulated appropriations from retained earnings in accordance with the previous Insurance Law, which required a minimum of one third of the Company's net profit to be transferred to a non-distributable legal reserve. 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.

d) Fair value reserve

Fair value reserve contains unrealised gains and losses from change in fair value of financial assets available-for-sale, net of 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 and Company	<i>Note</i>	2011 HRK'000	2010 HRK'000
Gross fair value reserve at January 1		(1,155)	1,112
Deferred tax		231	(222)
Balance at January 1		(924)	890
Net (losses)/gains from change in fair value of available-for-sale financial assets		(24,044)	6,979
Differed tax on net gains from change in fair value of available-for-sale financial assets		4,809	(1,396)
Impairment losses on available-for-sale financial assets – transfer to profit or loss		39	-
Deferred tax on impairment losses on available-for-sale financial assets - transfer to profit or loss		(8)	-
Net gains on disposal of available-for-sale financial assets - transfer to profit or loss	32	-	(9,246)
Net losses on disposal of available-for-sale financial assets - transfer to profit or loss	38	(165)	-
Deferred tax on net losses transferred to profit or loss on disposal of available-for-sale financial assets - transfer to profit or loss		33	1,849
Gross fair value reserve at December 31		(25,325)	(1,155)
Deferred tax		5,065	231
Balance at December 31		(20,260)	(924)

22 Share capital (continued)

e) Capital management

Externally imposed capital requirements are set and regulated by the Croatian Financial Services Supervisory Agency (HANFA) and EU directives. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Group to maintain satisfactory capital ratios in order to support its business objectives and maximise shareholders value.

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Group's activities.

	2011	2011	2011	2010	2010	2010
	Non-life	Life	Total	Non-life	Life	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Solvency margin	39,525	36,836	76,151	43,777	35,825	79,602
Min. Founding capital (FC)	22,500	22,500	45,000	22,500	22,500	45,000
Guarantee capital (GC)	148,705	121,635	270,340	41,651	35,954	77,605
Capital	147,065	118,080	265,145	39,909	35,904	75,813
GC >= min FC	YES	YES	YES	YES	YES	YES
Capital >= Solvency margin	YES	YES	YES	NO	YES	NO

As shown in the table above, as at 31 December 2011 regulatory requirements for non-life business and life assurance business were fulfilled. The capital of both non-life insurance and life assurance business were higher than the required solvency margin by HRK 107.6 million and HRK 84.9 million respectively. As of 31 December 2010 the capital of non-life business was by HRK 3.9 million lower than required solvency margin of non-life, which represented a non-compliance with required statutory solvency requirement.

An analysis of capital is given below

	2011	2011	2011	2010	2010	2010
	Non-life	Life	Total	Non-life	Life	Total
	HRK '000	HRK '000	HRK'000	HRK '000	HRK '000	HRK '000
Tier 1 capital						
Share capital, paid in	101,491	134,304	235,795	79,291	40,816	120,107
Reserves not related to liabilities from insurance	140,330	30,037	170,367	330	1,463	1,793
Retained earnings after paid dividends	-	8,877	8,877	-	-	-
Intangible assets	(9,320)	(3,953)	(13,273)	(18,645)	(4,519)	(23,164)
Accumulated losses including loss for the year	(96,629)	(29,598)	(126,227)	(34,095)	(823)	(34,918)
Basic capital	135,872	139,667	275,539	26,881	36,937	63,818
Tier 2 capital						
Subordinated loan	15,061	-	15,061	14,770	-	14,770
Fair value reserve	(2,228)	(18,032)	(20,260)	-	(983)	(983)
Supplementary capital	12,833	(18,032)	(5,199)	14,770	(983)	13,787
Guarantee capital	148,705	121,635	270,340	41,651	35,954	77,605
Deductions	(1,640)	(3,555)	(5,195)	(1,742)	(50)	(1,792)
Capital	147,065	118,080	265,145	39,909	35,904	75,813

23 Basic and diluted loss per share

For the purposes of calculating loss per share, loss is calculated as the loss for the year attributable to equity holders of the Company. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic and diluted earnings per share was 230,838 (2010: 190,647). Given that there are no options, convertible bonds or similar instruments, the diluted loss per share is the same as the basic loss per share.

	Group 2011 HRK'000	Group 2010 HRK'000
Loss attributable to ordinary shareholders for earnings per share	(90,509)	(5,329)
	<u> </u>	<u> </u>
	31 December 2011 No of shares	31 December 2010 No of shares
Weighted average number of ordinary shares at 31 December	230,838	190,647
	<u> </u>	<u> </u>

24 Insurance contract provisions

Group and Company

	2011 HRK'000	2010 HRK'000
<i>Non-life business</i>		
Provision for unearned premiums	127,712	146,242
Notified outstanding claims reserve	144,814	127,918
Incurred but not reported claims reserve	96,709	101,680
Unexpired risk provision	2,200	2,100
	<u> </u>	<u> </u>
Total Non-life business	371,435	377,940
	<u> </u>	<u> </u>
<i>Life assurance business</i>		
Provision for unearned premiums	2,463	2,817
Notified outstanding claims reserve	7,895	7,252
Incurred but not reported claims reserve	2,259	2,216
Life assurance provision for traditional products	817,505	758,772
Life assurance provision for unit-linked and index-linked	45,119	32,650
	<u> </u>	<u> </u>
Total Life assurance business	875,241	803,707
	<u> </u>	<u> </u>
Total insurance contracts provisions	1,246,676	1,181,647
	<u> </u>	<u> </u>

24 Insurance contract provisions (continued)

a) Analysis of movement on provision for unearned premium

Group

	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000
<i>Non-life business</i>						
Balance at 1 January	146,242	58,597	87,645	154,966	28,170	126,796
Premiums written during the year	251,043	125,464	125,579	285,317	124,293	161,024
Less: premiums earned during the year	(269,573)	(126,812)	(142,761)	(294,041)	(93,866)	(200,175)
Balance at 31 December	<u>127,712</u>	<u>57,249</u>	<u>70,463</u>	<u>146,242</u>	<u>58,597</u>	<u>87,645</u>
<i>Life assurance business</i>						
Balance at 1 January	2,817	-	2,817	2,901	-	2,901
Premiums written during the year	9,921	6,001	3,920	10,812	206	10,606
Less: premiums earned during the year	(10,275)	(5,163)	(5,112)	(10,896)	(206)	(10,690)
Balance at 31 December	<u>2,463</u>	<u>838</u>	<u>1,625</u>	<u>2,817</u>	<u>-</u>	<u>2,817</u>

Company

	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000
<i>Non-life business</i>						
Balance at 1 January	146,242	58,597	87,645	154,966	28,170	126,796
Premiums written during the year	251,117	125,464	125,653	285,404	124,293	161,111
Less: premiums earned during the year	(269,647)	(126,812)	(142,835)	(294,128)	(93,866)	(200,262)
Balance at 31 December	<u>127,712</u>	<u>57,249</u>	<u>70,463</u>	<u>146,242</u>	<u>58,597</u>	<u>87,645</u>
<i>Life assurance business</i>						
Balance at 1 January	2,817	-	2,817	2,901	-	2,901
Premiums written during the year	9,921	6,001	3,920	10,812	206	10,606
Less: premiums earned during the year	(10,275)	(5,163)	(5,112)	(10,896)	(206)	(10,690)
Balance at 31 December	<u>2,463</u>	<u>838</u>	<u>1,625</u>	<u>2,817</u>	<u>-</u>	<u>2,817</u>

24 Insurance contract provisions (continued)

b) Analysis of movements in notified outstanding claims reserve

Group

	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000
<i>Non-life business</i>						
Balance at 1 January	127,918	37,704	90,214	109,376	25,534	83,842
Current year claims	143,006	43,388	99,618	160,205	36,778	123,427
Change in previous year claims	30,026	21,747	8,279	3,634	(436)	4,070
Claims paid	(156,136)	(44,535)	(111,601)	(145,297)	(24,172)	(121,125)
Balance at 31 December	<u>144,814</u>	<u>58,304</u>	<u>86,510</u>	<u>127,918</u>	<u>37,704</u>	<u>90,214</u>
<i>Life assurance business</i>						
Balance at 1 January	7,252	1,452	5,800	5,458	966	4,492
Current year claims	87,279	20,161	67,118	73,675	15,106	58,569
Change in previous year claims	(44)	467	(511)	8	11	(3)
Claims paid	(86,592)	(20,962)	(65,630)	(71,889)	(14,631)	(57,258)
Balance at 31 December	<u>7,895</u>	<u>1,118</u>	<u>6,777</u>	<u>7,252</u>	<u>1,452</u>	<u>5,800</u>

Company

	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000
<i>Non-life business</i>						
Balance at 1 January	127,918	37,704	90,214	109,376	25,534	83,842
Current year claims	143,006	43,388	99,618	160,678	36,778	123,900
Change in previous year claims	30,026	21,747	8,279	3,650	(436)	4,086
Claims paid	(156,136)	(44,535)	(111,601)	(145,786)	(24,172)	(121,614)
Balance at 31 December	<u>144,814</u>	<u>58,304</u>	<u>86,510</u>	<u>127,918</u>	<u>37,704</u>	<u>90,214</u>
<i>Life assurance business</i>						
Balance at 1 January	7,252	1,452	5,800	5,458	966	4,492
Current year claims	87,279	20,161	67,118	73,675	15,106	58,569
Change in previous year claims	(44)	467	(511)	8	11	(3)
Claims paid	(86,592)	(20,962)	(65,630)	(71,889)	(14,631)	(57,258)
Balance at 31 December	<u>7,895</u>	<u>1,118</u>	<u>6,777</u>	<u>7,252</u>	<u>1,452</u>	<u>5,800</u>

24 Insurance contract provisions (continued)

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

Group and Company

	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000
<i>Non-life business</i>						
Balance at 1 January	101,680	15,861	85,819	102,736	12,568	90,168
Additions recognised during the year	22,200	13,909	8,291	32,935	8,064	24,871
Transfer to claims reported provision	(27,171)	(5,487)	(21,684)	(33,991)	(4,771)	(29,220)
Balance at 31 December	96,709	24,283	72,426	101,680	15,861	85,819
<i>Life assurance business</i>						
Balance at 1 January	2,216	-	2,216	2,192	-	2,192
Additions recognised during the year	3,685	1,171	2,514	2,589	-	2,589
Transfer to claims reported provision	(3,642)	-	(3,642)	(2,565)	-	(2,565)
Balance at 31 December	2,259	1,171	1,088	2,216	-	2,216

d) Analysis of movements in unexpired risk provision

Group and Company

	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000
Balance as at 1 January	2,100	-	2,100	3,120	-	3,120
Release	(2,100)	-	(2,100)	(3,120)	-	(3,120)
Increase	2,200	-	2,200	2,100	-	2,100
Balance at 31 December	2,200	-	2,200	2,100	-	2,100

24 Insurance contract provisions (continued)

e) Life assurance provisions

Group and Company

	2011	2011	2011	2010	2010	2010
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	758,772	214,427	544,345	677,201	179,909	497,292
Premium allocation	107,871	39,037	68,834	116,672	38,956	77,716
Release of liabilities due to benefits paid, surrenders and other terminations	(94,711)	(23,764)	(70,947)	(69,148)	(14,706)	(54,442)
Unwinding of discount/accretion interest	24,570	7,328	17,242	21,007	5,892	15,115
Change in Zillmer adjustment	9,446	3,850	5,596	5,235	1,693	3,542
Change in provision for unearned premium	(3,379)	(1,282)	(2,097)	1,722	1,103	619
Change in negative provisions	(832)	(377)	(455)	(1,497)	(712)	(785)
Advance payments	-	-	-	934	-	934
Change in mortality tables	-	-	-	(1,467)	-	(1,467)
Foreign currency translations	15,768	4,705	11,063	8,113	2,292	5,821
Balance at 31 December	817,505	243,924	573,581	758,772	214,427	544,345

f) Life assurance provision for unit-linked and index-linked

Group and Company

	2011	2011	2011	2010	2010	2010
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	32,650	-	32,650	21,455	-	21,455
Premium allocation	12,242	-	12,242	9,280	-	9,280
Unrealised (losses)/gains on funds where policyholder investments were allocated	(643)	-	(643)	1,565	-	1,565
Foreign currency translations	870	-	870	350	-	350
Balance at 31 December	45,119	-	45,119	32,650	-	32,650

24 Insurance contract provisions (continued)

g) Development of claims reported by policyholders at 31 December 2011

Group and Company

	Prior to 2006	2006	2007	2008	2009	2010	2011	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Estimate of cumulative claims at the end of underwriting year	303,273	133,586	188,625	203,345	210,213	204,298	186,754	
One year later	310,114	130,962	182,076	203,103	201,087	189,350		
Two years later	314,227	127,809	178,663	188,454	192,499			
Three years later	318,756	124,030	173,542	191,992				
Four years later	318,846	123,135	199,274					
Five years later	323,325	123,921						
Six years later	320,289							
Current estimate of cumulative claims	320,289	123,921	199,274	191,992	192,499	189,350	186,754	1,404,079
Cumulative payments	309,320	113,634	163,695	172,595	165,765	151,275	101,708	1,177,992
Amount recognised in the current year statement of financial position	10,969	10,287	35,579	19,397	26,734	38,075	85,046	226,087
Unsettled claims at 31 December 2011 on policies transferred in at 30 December 2005 on merger with Aurum	10,756	428	-	-	-	-	-	11,184
Claims handling costs and recourses	-	-	-	-	-	-	14,406	14,406
Total value recognised in the current year statement of financial position	21,725	10,715	35,579	19,397	26,734	38,075	99,452	251,677

This historical data in respect of unsettled claims transferred in upon merger with Aurum is insufficient to enable the presentation of their development over a seven year period in the form set out above.

24 Insurance contract provisions (continued)

h) Remaining maturities of insurance contracts provisions

Group and Company

2011

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	Between 10 and 15 years HRK'000	Between 15 and 20 years HRK'000	More than 20 years HRK'000	Total HRK'000
Provision for unearned premiums	130,175	-	-	-	-	-	130,175
Notified outstanding claims reserve and Incurred but not reported claims reserve	81,328	170,349	-	-	-	-	251,677
Unexpired risk provision	2,200	-	-	-	-	-	2,200
Life assurance provision and provision for unit and index linked	18,413	170,380	284,045	180,259	152,129	57,398	862,624
Insurance contracts provisions	232,116	340,729	284,045	180,259	152,129	57,398	1,246,676

2010

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	Between 10 and 15 years HRK'000	Between 15 and 20 years HRK'000	More than 20 years HRK'000	Total HRK'000
Provision for unearned premiums	149,059	-	-	-	-	-	149,059
Notified outstanding claims reserve and Incurred but not reported claims reserve	72,329	166,737	-	-	-	-	239,066
Unexpired risk provision	2,100	-	-	-	-	-	2,100
Life assurance provision and provision for unit and index linked	22,757	138,149	238,894	169,447	159,780	62,395	791,422
Insurance contracts provisions	246,245	304,886	238,894	169,447	159,780	62,395	1,181,647

24 Insurance contract provisions (continued)

i) Structure of assets used for backing life assurance provision

Group and Company

	31 December 2011 HRK '000	31 December 2010 HRK '000
Assets used for backing life assurance provision		
Debt securities issued by Republic of Croatia	557,781	456,280
Municipal bonds	3,400	3,679
Bonds and other debt securities traded on regulated stock exchange in Croatia	11,581	4,054
Equities traded on regulated stock exchange in Croatia	469	481
Shares and equities of investment funds registered in Croatia	22,266	13,378
Advances and loans in the amount of insurance redemption value based on life insurance contract	13,903	13,716
Deposits with banks domiciled in Croatia	25,431	67,167
Loans secured by guarantees issued by banks domiciled in Croatia	2,164	8,412
Balances on giro account of the Company	60	33
	<hr/>	<hr/>
Total assets used for backing life assurance provision	637,055	567,200
	<hr/> <hr/>	<hr/> <hr/>

	31 December 2011 HRK '000	31 December 2010 HRK '000
Life assurance provision, net of reinsurance and Discretionary profit participation provision	581,885	553,680
Claims provision for risks for which it is necessary to create life assurance provision, net of reinsurance	5,294	4,187
	<hr/>	<hr/>
Requested coverage of life assurance provision	587,179	557,867
	<hr/> <hr/>	<hr/> <hr/>
Assets used for cover of life assurance provision	637,055	567,200
Requested coverage of life assurance provision	587,179	557,867
	<hr/> <hr/>	<hr/> <hr/>
Excess of coverage	49,876	9,333
	<hr/> <hr/>	<hr/> <hr/>

24 Insurance contract provisions (continued)

i) Structure of assets used for backing life assurance provision (continued)

The following table analyses the financial assets used for backing life assurance provision into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date and the estimated remaining contractual maturities if life assurance provision and claims provision for which coverage is requested

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	More than 10 years HRK'000	Total HRK'000
2011					
Asset backing life assurance provision	88,494	163,972	323,762	60,827	637,055
Life assurance provision	(13,018)	(130,691)	(202,898)	(235,278)	(581,885)
Claims provision	(3,823)	(1,471)	-	-	(5,294)
Maturity gap	71,653	31,810	120,864	(174,451)	49,876
2010					
Asset backing life assurance provision	78,217	180,661	303,256	5,066	567,200
Life assurance provision	(22,120)	(101,692)	(173,232)	(256,636)	(553,680)
Claims provision	(2,854)	(1,333)	-	-	(4,187)
Maturity gap	53,243	77,636	130,024	(251,570)	9,333

As of 31 December 2011, 39.0% of total assets used for backing life assurance provision are classified as financial assets available for sale, which enables the Group to dispose of these assets easily to meet insurance contracts liabilities when needed. 52.6% of assets used for backing life assurance provision are classified as held-to-maturity investments and 8.4% as loans and receivables.

The following table analyses the financial asset used for backing life assurance provision into relevant groupings based on the currency in which is denominated. Whole life assurance provision is denominated in EURO.

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
2011					
Asset backing life assurance provision	55,427	534,949	590,376	46,679	637,055
2010					
Asset backing life assurance provision	2,213	528,245	530,458	36,742	567,200

In 2011, the Company achieved an annual return on investments from life assurance provision in amount of 7.16% (2010: 8.15%). Weighted average yield for the three-year period from 2009 to 2011 was 6.89% (2010: three year period from 2008 to 2010: 5.92%).

Valuation of financial assets is described in accounting policy Note 3 (f).

24 Insurance contract provisions (continued)

j) Structure of assets used for backing technical provisions other than life assurance provision

Group and Company

	31 December 2011 HRK '000	31 December 2010 HRK '000
Assets used for backing technical provisions		
Securities issued by Republic of Croatia	197,138	37,144
Bonds and other debt securities traded on regulated stock exchange in Croatia	10,018	4,970
Equities traded on regulated stock exchange in Croatia	1,095	2,561
Equities not traded on stock exchange if issued by legal entity domiciled in Croatia	-	2,246
Shares of companies domiciled in Croatia	90	90
Shares and equities of investment funds registered in Croatia	50,782	18,471
Loans with a pledge over a real estate	9,774	26,597
Loans and deposits to banks domiciled in Croatia (same bank or group of related banks at most 5 %)	28,663	10,514
Loans secured by guarantees issued by banks domiciled in Croatia	-	3,000
Balances on giro account of the Company	2,611	2,534
	<hr/>	<hr/>
Total assets used for backing technical provisions other than life assurance provision	300,171	108,127
	<hr/> <hr/>	<hr/> <hr/>

	31 December 2011 HRK '000	31 December 2010 HRK '000
Provision for unearned premiums, net of reinsurance	72,088	90,462
Claims provision, net of reinsurance	161,507	179,862
Other provisions	2,200	2,100
	<hr/>	<hr/>
Requested coverage of technical provisions other than life assurance provision	235,795	272,424
	<hr/> <hr/>	<hr/> <hr/>
Assets for the coverage of technical provisions other than life assurance provision	300,171	108,127
Coverage of technical provisions other than life assurance provision	235,795	272,424
	<hr/>	<hr/>
Excess/(shortage) of coverage	64,376	(164,297)
	<hr/> <hr/>	<hr/> <hr/>

24 Insurance contract provisions (continued)

j) Structure of assets used for backing technical provisions (continued)

The following table analyses the financial assets used for backing technical provisions into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date and the estimated remaining contractual maturities of technical provisions for which coverage is requested:

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	More than 10 years HRK'000	Total HRK'000
2011					
Asset backing technical provisions	181,540	43,465	75,076	90	300,171
Provision for unearned premium, net of reinsurance	(72,088)	-	-	-	(72,088)
Claims provision, net of reinsurance	(45,656)	(115,851)	-	-	(161,507)
Other provisions	(2,200)	-	-	-	(2,200)
Maturity gap	61,596	(72,386)	75,076	90	64,376
2010					
Asset backing technical provisions	58,007	26,220	23,900	-	108,127
Provision for unearned premium, net of reinsurance	(90,462)	-	-	-	(90,462)
Claims provision, net of reinsurance	(54,078)	(125,784)	-	-	(179,862)
Other provisions	(2,100)	-	-	-	(2,100)
Maturity gap	(88,633)	(99,564)	23,900	-	(164,297)

As of 31 December 2011, 56.2% of total assets used for backing technical provisions are classified as financial assets available for sale and 15.5% as financial assets at fair value through profit or loss, which enables the Group to dispose of these assets easily to meet insurance contracts liabilities when needed. 28.3% of assets used for backing technical provision are classified as held-to-maturity investments.

The following table analyses the financial assets used for backing technical provisions and technical provisions into relevant groupings based on the currency in which are denominated.

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	HRK HRK'000	Total HRK'000
2011						
Asset backing technical provision	9,882	10,197	20,079	-	280,092	300,171
Provision for unearned premium, net of reinsurance	-	(1,626)	(1,626)	-	(70,462)	(72,088)
Claims provision, net of reinsurance	-	(2,571)	(2,571)	-	(158,936)	(161,507)
Other provisions	-	-	-	-	(2,200)	(2,200)
	9,882	6,000	15,882	-	48,494	64,376
2010						
Asset backing technical provision	9,564	20,142	29,706	-	78,421	108,127
Provision for unearned premium, net of reinsurance	-	(2,817)	(2,817)	-	(87,645)	(90,462)
Claims provision, net of reinsurance	-	(3,829)	(3,829)	-	(176,033)	(179,862)
Other provisions	-	-	-	-	(2,100)	(2,100)
	9,564	13,496	23,060	-	(187,357)	(164,297)

25 Discretionary profit participation provision

Group and Company

	2011 HRK'000	2010 HRK'000
Balance at 1 January	9,335	10,463
Funds released during the year due to surrenders and benefits	(1,031)	(1,128)
Balance at 31 December	8,304	9,335

26 Subordinated loan

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Subordinated loan	15,061	14,770	15,061	14,770

Subordinated loan was received from Vienna Insurance Group Wiener Versicherung Gruppe AG (former Vienna Insurance Group Wiener Städtische AG), parent company of the Group, in December 2009. Subordinated loan bears a fixed interest rate of 8% per annum (2010: 6% p.a.) and, originally, had five year maturity. During 2010, five year maturity was changed to unlimited maturity. Payment of this loan is subordinated to all other liabilities of the Group.

27 Borrowings

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Borrowings	55,861	55,662	-	-

Borrower	Currency	Contracted principal in currency	Interest rate	Maturity	Outstanding amount Group 2011 HRK'000	Outstanding amount Group 2010 HRK'000
Vienna Insurance Group	EUR	8,000,000	5%, fixed	30 June 2019	-	42,481
LVP Holding GmbH	EUR	5,756,129	5%, fixed	31 December 2015	43,346	-
OTP Bank NYRT	EUR	1,000,000	1.80% 3 month EURIBOR +	31 December 2016	3,765	4,431
OTP banka d.d.	HRK	12,500,000	6.50%	21 December 2017	8,750	8,750
					55,861	55,662

As at 20 December 2011, loan granted by Vienna Insurance Group was transferred to LVP Holding GmbH. Under the new terms of borrowing, repayment of principal was changed from repayment in instalments to bullet repayment. Interest continues to be payable on a semi-annual basis

Loans granted by LVP Holding GmbH and OTP banka NYRT are secured with the property of Kvarner Wiener Städtische nekretnine d.o.o., and loans granted by OTP banka d.d. are secured with deposit of Kvarner Vienna Insurance Group d.d. in the amount of HRK 7,500 thousand.

28 Provisions for liabilities and charges

Group and Company

	Legal provisions HRK'000	Jubilee awards HRK'000	Total HRK'000
Balance at 1 January 2010	500	1,000	1,500
Increase of provision	-	-	-
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	500	1,000	1,500
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Balance at 1 January 2011	500	1,000	1,500
Release of provision	-	(1,000)	(1,000)
Increase of provision	-	425	425
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	500	425	925
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

29 Insurance and other payables and deferred income

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Direct insurance contract payables				
- to policyholders	3,912	4,405	3,912	4,405
- to agents, brokers and intermediaries	1,447	2,358	1,447	2,358
Reinsurance contract payables	138,015	138,143	138,015	138,143
Reinsurance commission deferral	-	1,912	-	1,912
Deposits retained from reinsurance business	292,045	247,694	292,045	247,694
Trade creditors	6,217	8,988	5,992	9,383
Liabilities for salaries	6,171	6,443	6,149	6,380
Interest payable on borrowings	3	1,062	-	-
Commission expense accrual	3,634	2,120	3,634	2,120
Other payables and accrued expenses	22,682	5,223	22,525	4,370
Deferred income from recourses	27,779	17,662	27,779	17,662
Other deferred income	6,537	3,357	6,537	3,357
	<hr/>	<hr/>	<hr/>	<hr/>
Total insurance and other payables and deferred income	508,442	439,367	508,035	437,784
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Group retains deposits from reinsurance business arising from the quota share reinsurance treaties for life assurance with the related company and Motor Third Party Liability and Personal Accident insurance with a parent company. In accordance with the reinsurance treaties, applicable from 1 January 2002 for life assurance, from 1 January 2010 for Motor Third Party Liability insurance and from 1 January 2011 for Personal Accident insurance, the reinsurance deposit is retained and the Group invests the funds. Deposit retained from reinsurance business of life assurance bears a 3% fixed interest rate per annum, while for Motor Third Party Liability and Personal Accident insurance from 1 January 2011 interest rate is determined quarterly as average of the BID and ASK of the 3 month ZIBOR at beginning of the period of account + 0,5 pp (deposit retained for Motor Third Party Liability insurance from underwriting year 2010 bears fixed interest rate of 1.5% per annum).

30 Premiums

	Group	Group	Company	Company
	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non-life insurance</i>				
Gross premium written	251,043	285,317	251,117	285,404
Reinsurance business assumed	(125,464)	(124,293)	(125,464)	(124,293)
Change in unearned premiums, gross	18,530	8,724	18,530	8,724
Change in unearned premiums, reinsurance share	(1,348)	30,427	(1,348)	30,427
Total premium income net, (earned) from non-life insurance	142,761	200,175	142,835	200,262
<i>Life assurance</i>				
Gross premium written	186,845	211,394	186,845	211,394
Reinsurance business assumed	(59,070)	(57,135)	(59,070)	(57,135)
Change in unearned premiums, gross	354	84	354	84
Change in unearned premiums, reinsurance share	838	-	838	-
Total premium income net, (earned) from life assurance	128,967	154,343	128,967	154,343
Total premiums	271,728	354,518	271,802	354,605

Gross premiums written for the Group and the Company for life assurance business include premiums of HRK 13.35 million (2010: HRK 15.37 million) in respect of unit-linked products and premiums of HRK 6.90 million in respect of index-linked products (2010: HRK 3.57 million).

30 Premiums (continued)

Analysis by class of business

An analysis of written premiums and claims incurred by class of business is set out below. Gross premiums written are stated after adjusting for the net increase in provisions for premium debtors and related write-offs of HRK 9.7 million (2010: HRK 18.0 million) for the Group and Company:

Group

	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition and administrative expenses HRK'000	Reinsurance balance HRK'000
2011					
<i>Non-life insurance business</i>					
Motor (third party)	106,757	115,156	(57,909)	(39,338)	(3,708)
Motor (other classes)	28,051	33,265	(30,746)	(13,806)	(1,684)
Property	63,118	66,719	(19,241)	(35,801)	(23,948)
Personal lines	15,358	17,611	(6,898)	(9,394)	(380)
Other	37,759	36,822	(53,367)	(17,944)	18,806
Total non-life	<u>251,043</u>	<u>269,573</u>	<u>(168,161)</u>	<u>(116,283)</u>	<u>(10,914)</u>
<i>Life assurance business</i>					
Periodic premiums	162,416	162,526	(136,292)	(66,143)	5,029
Single premiums	14,508	14,508	(17,524)	(5,944)	-
Individual premiums	176,924	177,034	(153,816)	(72,087)	5,029
Life rider products	9,921	10,165	(3,633)	(5,739)	(233)
Total life	<u>186,845</u>	<u>187,199</u>	<u>(157,449)</u>	<u>(77,826)</u>	<u>4,796</u>
Thereof unit linked and index linked	20,250	20,250	(16,511)	(6,553)	-
Grand total	<u><u>437,888</u></u>	<u><u>456,772</u></u>	<u><u>(325,610)</u></u>	<u><u>(194,109)</u></u>	<u><u>(6,118)</u></u>
2010					
<i>Non-life insurance business</i>					
Motor (third party)	125,214	128,948	(62,376)	(35,230)	(8,390)
Motor (other classes)	38,633	42,129	(35,959)	(15,937)	(2,000)
Property	70,522	69,978	(30,972)	(27,214)	(12,923)
Personal lines	18,165	19,325	(8,729)	(11,600)	(213)
Other	32,783	33,661	(23,534)	(14,912)	(6,428)
Total non-life	<u>285,317</u>	<u>294,041</u>	<u>(161,570)</u>	<u>(104,893)</u>	<u>(29,954)</u>
<i>Life assurance business</i>					
Periodic premiums	176,443	176,373	(136,495)	(79,245)	5,069
Single premiums	24,139	24,139	(25,309)	(10,087)	-
Individual premiums	200,582	200,512	(161,804)	(89,332)	5,069
Life rider products	10,812	10,966	(3,541)	(6,599)	(205)
Total life	<u>211,394</u>	<u>211,478</u>	<u>(165,345)</u>	<u>(95,931)</u>	<u>4,864</u>
Thereof unit linked and index linked	18,941	18,941	(12,877)	(9,882)	-
Grand total	<u><u>496,711</u></u>	<u><u>505,519</u></u>	<u><u>(326,915)</u></u>	<u><u>(200,824)</u></u>	<u><u>(25,090)</u></u>

30 Premiums (continued)

Analysis by class of business (continued)

Company

	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition and administrative expenses HRK'000	Reinsurance balance HRK'000
2011					
<i>Non-life insurance business</i>					
Motor (third party)	106,759	115,158	(57,909)	(39,803)	(3,708)
Motor (other classes)	28,051	33,267	(30,746)	(14,218)	(1,684)
Property	63,190	66,789	(19,241)	(37,008)	(23,948)
Personal lines	15,358	17,611	(6,898)	(9,702)	(380)
Other	37,759	36,822	(53,367)	(18,573)	18,806
Total non-life	<u>251,117</u>	<u>269,647</u>	<u>(168,161)</u>	<u>(119,304)</u>	<u>(10,914)</u>
<i>Life assurance business</i>					
Periodic premiums	162,416	162,526	(136,292)	(66,143)	5,029
Single premiums	14,508	14,508	(17,524)	(5,944)	-
Individual premiums	176,924	177,034	(153,816)	(72,087)	5,029
Life rider products	9,921	10,165	(3,633)	(5,739)	(233)
Total life	<u>186,845</u>	<u>187,199</u>	<u>(157,449)</u>	<u>(77,826)</u>	<u>4,796</u>
Thereof unit linked and index linked	<u>20,250</u>	<u>20,250</u>	<u>(16,511)</u>	<u>(6,553)</u>	<u>-</u>
Grand total	<u>437,962</u>	<u>456,846</u>	<u>(325,610)</u>	<u>(197,130)</u>	<u>(6,118)</u>
2010					
<i>Non-life insurance business</i>					
Motor (third party)	125,217	128,963	(62,530)	(35,338)	(8,390)
Motor (other classes)	38,635	42,130	(36,096)	(15,989)	(2,000)
Property	70,605	70,048	(31,111)	(27,318)	(12,923)
Personal lines	18,165	19,325	(8,729)	(11,632)	(213)
Other	32,782	33,662	(23,593)	(14,968)	(6,428)
Total non-life	<u>285,404</u>	<u>294,128</u>	<u>(162,059)</u>	<u>(105,245)</u>	<u>(29,954)</u>
<i>Life assurance business</i>					
Periodic premiums	176,443	176,373	(136,495)	(79,245)	5,069
Single premiums	24,139	24,139	(25,309)	(10,087)	-
Individual premiums	200,582	200,512	(161,804)	(89,332)	5,069
Life rider products	10,812	10,966	(3,541)	(6,599)	(205)
Total life	<u>211,394</u>	<u>211,478</u>	<u>(165,345)</u>	<u>(95,931)</u>	<u>4,864</u>
Thereof unit linked and index linked	<u>18,941</u>	<u>18,941</u>	<u>(12,877)</u>	<u>(9,882)</u>	<u>-</u>
Grand total	<u>496,798</u>	<u>505,606</u>	<u>(327,404)</u>	<u>(201,176)</u>	<u>(25,090)</u>

31 Fees and commission income

Group and Company

	2011 HRK'000	2010 HRK'000
Reinsurance commission	52,256	34,181
Profit reinsurance commission	1,817	2,460
	<u>54,073</u>	<u>36,641</u>

32 Financial income

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Interest income:				
- Available-for-sale financial assets	28,408	20,152	28,408	20,152
- Held-to-maturity investments	15,163	11,995	15,163	11,995
- Loans and receivables	16,447	20,668	16,807	21,006
Dividend income	172	196	172	196
Rental income from investment property	2,433	1,886	-	-
Net gain on remeasurement of assets at fair value through profit and loss	306	2,573	306	2,573
Net realised gain on assets at fair value through profit and loss	475	840	475	840
Net realised gain on assets available for sale	-	9,246	-	9,246
Foreign exchange translation gain				
- Fair value through profit or loss	100	17	100	17
- Available-for-sale financial assets	7,043	4,812	7,043	4,812
- Held-to-maturity investments	5,976	2,385	5,976	2,385
- Loans and receivables	2,780	1,354	2,780	1,354
Collection of amounts previously provided for loans to customers impairment allowance	62	-	62	-
Other financial income	425	1,430	424	1,430
	<u>79,790</u>	<u>77,554</u>	<u>77,716</u>	<u>76,006</u>

Group

	Non-life 2011 HRK'000	Life 2011 HRK'000	Investment property 2011 HRK'000	Total 2011 HRK'000	Non-life 2010 HRK'000	Life 2010 HRK'000	Investment property 2010 HRK'000	Total 2010 HRK'000
Financial income								
Income from assets backing equity	9,386	2,052	2,433	13,871	2,322	3,295	1,886	7,503
Income from assets backing life assurance provision	-	59,029	-	59,029	-	56,874	-	56,874
Income from assets backing other technical provisions	6,771	-	-	6,771	11,209	-	-	11,209
Income from assets backing index-linked products	-	119	-	119	-	1,968	-	1,968
	<u>16,157</u>	<u>61,200</u>	<u>2,433</u>	<u>79,790</u>	<u>13,531</u>	<u>62,137</u>	<u>1,886</u>	<u>77,554</u>

32 Financial income (continued)

Company

	Non-life 2011 HRK'000	Life 2011 HRK'000	Total 2011 HRK'000	Non-life 2010 HRK'000	Life 2010 HRK'000	Total 2010 HRK'000
Financial income						
Income from assets backing equity	9,745	2,052	11,797	2,321	3,295	5,616
Income from assets backing life assurance provision	-	59,029	59,029	-	56,874	56,874
Income from assets backing other technical provisions	6,771	-	6,771	11,548	-	11,548
Income from assets backing index-linked products	-	119	119	-	1,968	1,968
	<u>16,516</u>	<u>61,200</u>	<u>77,716</u>	<u>13,869</u>	<u>62,137</u>	<u>76,006</u>

33 Other operating income

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Income from sale of equipment and vehicles	112	-	112	-
Income from sale of land and buildings	2,369	-	2,369	-
Income from service claims	432	410	432	410
Net foreign exchange gain on translation of monetary assets and liabilities other than financial investments	46	434	940	941
Collection of previously written off receivables	1,741	12	1,741	12
Decrease in provisions for recourse receivables	81	93	81	93
Decrease in provision for other receivables	4	14	139	-
Other operating income	<u>2,514</u>	<u>3,105</u>	<u>1,016</u>	<u>1,774</u>
	<u>7,299</u>	<u>4,068</u>	<u>6,830</u>	<u>3,230</u>

34 Net policyholders claims and benefits accrued

	Group	Group	Company	Company
	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non-life insurance</i>				
Claims paid				
Gross amount	(156,136)	(145,297)	(156,136)	(145,786)
Reinsurers' share	44,535	24,172	44,535	24,172
Change in notified outstanding claims reserve				
Gross amount	(16,896)	(18,542)	(16,896)	(18,542)
Reinsurers' share	20,600	12,170	20,600	12,170
Change in incurred but not reported claims reserve				
Gross amount	4,971	1,056	4,971	1,056
Reinsurers' share	8,422	3,293	8,422	3,293
Change in unexpired risk provision, gross and net	(100)	1,020	(100)	1,020
Change in other technical provisions, gross and net	-	193	-	193
	<hr/>	<hr/>	<hr/>	<hr/>
Total gross claims incurred from non-life insurance	(168,161)	(161,570)	(168,161)	(162,059)
Total reinsurance share in claims incurred from non-life insurance	73,557	39,635	73,557	39,635
	<hr/>	<hr/>	<hr/>	<hr/>
Total net claims incurred from non-life insurance	(94,604)	(121,935)	(94,604)	(122,424)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Life assurance</i>				
Claims paid (benefits and surrenders)				
Gross amount	(86,592)	(71,889)	(86,592)	(71,889)
Reinsurers' share	20,962	14,631	20,962	14,631
Change in life assurance provision				
Gross amount	(58,733)	(81,571)	(58,733)	(81,571)
Reinsurers' share	29,497	34,518	29,497	34,518
Change in life assurance provision for unit linked products, gross and net	(12,469)	(11,195)	(12,469)	(11,195)
Change in notified outstanding claims reserve				
Gross amount	(643)	(1,794)	(643)	(1,794)
Reinsurers' share	(334)	486	(334)	486
Change in incurred but not reported claims reserve, gross and net				
Gross amount	(43)	(24)	(43)	(24)
Reinsurers' share	1,171	-	1,171	-
Change in discretionary profit participation provision, gross and net	1,031	1,128	1,031	1,128
	<hr/>	<hr/>	<hr/>	<hr/>
Total gross claims incurred from life assurance	(157,449)	(165,345)	(157,449)	(165,345)
Total reinsurance share in claims incurred from life assurance	51,296	49,635	51,296	49,635
	<hr/>	<hr/>	<hr/>	<hr/>
Total net claims incurred from life assurance	(106,153)	(115,710)	(106,153)	(115,710)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total gross claims incurred	(325,610)	(326,915)	(325,610)	(327,404)
Total reinsurance share in claims incurred	124,853	89,270	124,853	89,270
	<hr/>	<hr/>	<hr/>	<hr/>
Total	(200,757)	(237,645)	(200,757)	(238,134)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

34 Net policyholders claims and benefits accrued (continued)

The table below presents claims ratio, costs ratio and combined 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.

An analysis of claims ratio, costs ratio and combined ratio

2011	Claims ratio	Costs ratio	Combined ratio
Accident	38.41%	26.35%	64.76%
Health insurance	763.97%	29.21%	793.18%
Motor hull	86.20%	41.97%	128.17%
Marine hull	-	30.03%	30.03%
Transport	355.91%	83.37%	439.28%
Property fire	23.96%	21.30%	45.26%
Other property	18.35%	43.15%	61.50%
Motor third party liability	36.60%	35.99%	72.60%
Marine liability	47.28%	10.60%	57.88%
General liability	-	10.38%	10.38%
Credit insurance	25.79%	46.51%	72.30%
Guarantee insurance	46.91%	18.10%	65.02%
Financial losses	1523.09%	14.05%	1537.15%
Legal fees insurance	489.85%	16.59%	506.44%
Travel insurance	13.23%	13.23%	26.46%
Total non-life	60.07%	26.57%	86.64%
2010			
Accident	44.52%	45.19%	89.71%
Health insurance	88.87%	41.98%	130.85%
Motor hull	93.08%	31.84%	124.92%
Marine hull	69.52%	85.15%	154.67%
Transport	22.01%	30.01%	52.02%
Property fire	20.35%	20.28%	40.63%
Other property	31.12%	20.15%	51.27%
Motor third party liability	64.08%	25.76%	89.84%
Marine liability	25.92%	43.49%	69.41%
General liability	60.34%	15.10%	75.44%
Credit insurance	71.94%	8.50%	80.44%
Guarantee insurance	(10.67%)	8.50%	(2.17%)
Financial losses	26.77%	5.37%	32.14%
Legal fees insurance	-	21.22%	21.22%
Travel insurance	86.34%	66.14%	152.48%
Total non-life	57.85%	28.30%	86.15%

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 132/10) as follows:

Claims ratio = (claims paid + change in claims reserves) / (gross written premiums + change in gross unearned premium)

Costs ratio = (administration costs – reinsurance commission + acquisition costs – change in deferred acquisition costs) / (gross written premium)

Combined ratio = Combined ratio = claims ratio + costs ratio

35 Acquisition costs

Group and Company

	2011	2010
	HRK'000	HRK'000
<i>Non-life</i>		
Commission expenses	20,113	21,325
Other acquisition costs	2,790	13,381
Changes in deferred acquisition costs (Note 13)	13,256	5,467
	<hr/>	<hr/>
Total acquisition costs, non-life	36,159	40,173
	<hr/>	<hr/>
<i>Life</i>		
Commission expenses	22,892	32,955
Other acquisition costs	8,130	6,545
Changes in deferred acquisition costs (Note 13)	49	20
	<hr/>	<hr/>
Total acquisition costs, life	31,071	39,520
	<hr/>	<hr/>
	67,230	79,693
	<hr/> <hr/>	<hr/> <hr/>

Included within acquisition costs are internal sales staff costs amounting to HRK 11.1 million (2010: HRK 12.2 million).

Analysis by class of business

Group and Company

	2011	2010
	HRK'000	HRK'000
<i>Non life assurance business</i>		
Accident	2,869	5,470
Health	47	49
Motor hull	5,066	6,413
Air hull	8	(4)
Marine hull	2,465	2,594
Transport	162	115
Property fire	5,034	4,217
Other property	5,179	3,977
Motor third party liability	13,423	15,363
Air liability	1	(2)
Marine liability	352	110
General liability	806	922
Credit insurance	11	24
Guarantee insurance	2	(1)
Financial losses	223	146
Legal fees insurance	2	6
Travel insurance	509	774
	<hr/>	<hr/>
Total non-life	36,159	40,173
	<hr/>	<hr/>
<i>Life assurance business</i>		
Life products	25,857	30,853
Life rider products	2,166	2,203
Index linked and unit linked	3,048	6,464
	<hr/>	<hr/>
Total life	31,071	39,520
	<hr/>	<hr/>
Total non-life and life	67,230	79,693
	<hr/> <hr/>	<hr/> <hr/>

36 Administrative expenses

	Group	Group	Company	Company
	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
Depreciation	5,521	5,778	4,308	4,310
Amortisation	3,185	3,222	3,185	3,222
Impairment of goodwill	3,838	-	3,838	-
Impairment of other intangible assets	5,400	-	5,400	-
Personnel expenses	63,900	65,441	63,264	63,863
Goods and services	24,440	20,828	21,253	18,516
Office premises rental expenses	6,617	8,073	14,964	14,228
Audit fees	803	656	803	549
Lawyer fees	1,111	587	1,111	501
Intellectual services	284	192	284	146
Other costs	11,780	16,354	11,490	16,148
	<u>126,879</u>	<u>121,131</u>	<u>129,900</u>	<u>121,483</u>

In 2011, the average number of employees of the Group was 639 (2010: 652) and of the Company was 636 (2010: 645). In 2011, the Group paid pension contributions of HRK 12.60 million (2010: HRK 13.35 million) into obligatory pension funds.

Analysis by class of business	Group	Group	Company	Company
	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non life assurance business</i>				
Accident	6,525	6,130	6,833	6,163
Health	61	77	64	78
Motor hull	8,740	9,524	9,152	9,576
Air hull	4	4	4	4
Marine hull	6,379	5,364	6,680	5,393
Transport	734	473	769	476
Property fire	12,818	9,510	13,423	9,562
Other property	12,770	9,511	13,372	9,563
Motor third party liability	25,915	19,865	26,380	19,974
Air liability	6	2	6	2
Marine liability	1,033	389	1,082	391
General liability	2,998	1,984	3,140	1,995
Credit insurance	18	21	18	21
Guarantee insurance	9	6	9	5
Financial losses	687	509	719	512
Legal fees insurance	5	6	5	5
Travel insurance	1,422	1,345	1,489	1,352
Total non-life	<u>80,124</u>	<u>64,720</u>	<u>83,145</u>	<u>65,072</u>
<i>Life assurance business</i>				
Life products	39,677	48,596	39,677	48,596
Life rider products	3,573	4,397	3,573	4,397
Index linked and unit linked	3,505	3,418	3,505	3,418
Total life	<u>46,755</u>	<u>56,411</u>	<u>46,755</u>	<u>56,411</u>
Total non-life and life	<u>126,879</u>	<u>121,131</u>	<u>129,900</u>	<u>121,483</u>

37 Other operating expenses

	Group	Group	Company	Company
	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
Impairment of other receivables	-	30	-	-
Fire brigade contributions	1,476	1,515	1,476	1,515
Technical interest rate payable on deposit retained from reinsurance	7,883	6,149	7,883	6,149
Other technical charges	15,768	4,607	15,768	4,607
Guarantee fund	10,752	3,100	10,752	3,100
Prevention costs	1,270	1,595	1,270	1,595
Compulsory motor third party liability insurance contribution to the Croatian health fund	7,081	8,414	7,081	8,414
	<u>44,230</u>	<u>25,410</u>	<u>44,230</u>	<u>25,380</u>

38 Financial expenses

	Group	Group	Company	Company
	2011	2010	2011	2010
	HRK'000	HRK'000	HRK'000	HRK'000
Interest expense	3,855	3,965	1,175	1,028
Depreciation of investment property	572	600	-	148
Net realised loss on financial assets available-for-sale	165	-	165	-
Realised loss on sale of subsidiary	88	-	88	-
Impairment of available-for-sale securities	5,455	613	5,455	613
Impairment of loans to customers	16,701	2,318	16,701	2,318
Impairment of deposits with banks	19,103	-	19,103	-
Impairment of accrued interest	12,305	4,925	12,305	4,925
Loss from sale of investment property	64	10	64	10
Charges	3,661	1,718	3,380	1,748
	<u>61,969</u>	<u>14,149</u>	<u>58,436</u>	<u>10,790</u>

Group

	Non-life	Life	Investment property	Total	Non-life	Life	Investment property	Total
	2011	2011	2011	2011	2010	2010	2010	2010
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Expenses from assets backing share capital	22,800	25,040	3,533	51,373	1,932	-	3,375	5,307
Expenses from assets backing life assurance provision	-	9,274	-	9,274	-	1,861	-	1,861
Expenses from assets backing other technical provisions	1,322	-	-	1,322	6,981	-	-	6,981
	<u>24,122</u>	<u>34,314</u>	<u>3,533</u>	<u>61,969</u>	<u>8,913</u>	<u>1,861</u>	<u>3,375</u>	<u>14,149</u>

38 Financial expenses (continued)

Company	Non-life	Life	Total	Non-life	Life	Total
	2011	2011	2011	2010	2010	2010
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Expenses from assets backing share capital	22,077	25,040	47,117	1,948	-	1,948
Expenses from assets backing life assurance provision	-	9,274	9,274	-	1,861	1,861
Expenses from assets backing other technical provisions	2,045	-	2,045	6,981	-	6,981
	<u>24,122</u>	<u>34,314</u>	<u>58,436</u>	<u>8,929</u>	<u>1,861</u>	<u>10,790</u>

39 Income taxes

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Current tax expense				
Current income tax	334	82	-	-
Deferred income tax	2,000	-	2,000	-
	<u>2,334</u>	<u>82</u>	<u>2,000</u>	<u>-</u>
Total income tax expense	<u>2,334</u>	<u>82</u>	<u>2,000</u>	<u>-</u>

a. Reconciliation of accounting profit for the period to income tax expense

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Accounting loss for the period before income taxes	<u>(88,175)</u>	<u>(5,247)</u>	<u>(90,132)</u>	<u>(4,998)</u>
Income tax at 20% (2010: 20%)	17,635	1,049	18,026	1,000
Tax effect of:				
Non-deductible expenses	(12,358)	(1,548)	(12,329)	(1,573)
Tax exempt income	4,156	1,140	4,156	1,138
Reversal of previously recognised deferred tax asset on tax losses	(2,000)	-	(2,000)	-
Tax loss unavailable for Group tax relief	86	-	-	-
Unrecognised portion of temporary differences and tax losses arising during the period	<u>(9,853)</u>	<u>(723)</u>	<u>(9,853)</u>	<u>(565)</u>
Total income tax expense	<u>(2,334)</u>	<u>(82)</u>	<u>(2,000)</u>	<u>-</u>

39 Income taxes (continued)

b. The movement in unused tax losses is as follows:

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
<i>At income tax rate of 20%</i>				
Unused tax losses brought forward	(6,654)	(23,951)	(6,496)	(23,951)
Expired losses brought forward	-	18,020	-	18,020
Tax losses generated during period	(9,853)	(723)	(9,853)	(565)
Unused tax losses carried forward	(16,507)	(6,654)	(16,349)	(6,349)

c. Tax losses brought forward

The potential deferred tax asset, arising from tax losses, of HRK 16.4 million for the Group and HRK 16.8 million for the Company (at the income tax rate of 20%) are available for offset against future profits. A tax loss may be carried forward for five years subsequent to the year in which it was incurred. The availability of tax losses against future periods, subject to review by the Ministry of Finance, is as follows:

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
<i>At income tax rate of 20%</i>				
No more than 1 year	-	-	-	-
No more than 2 years	-	-	-	-
No more than 3 years	(5,931)	-	(5,931)	-
No more than 4 years	(723)	(5,931)	(565)	(5,931)
No more than 5 years	(9,853)	(723)	(9,853)	(565)
Total potential benefit of tax losses carried forward*	(16,507)	(6,654)	(16,349)	(6,496)
Unrecognised benefit of tax loss carried forward	(16,507)	(4,654)	(16,349)	(4,496)
Deferred tax asset recognized in the statement of financial position	-	2,000	-	2,000

40 Operating leases

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

During the year ended 31 December 2011, HRK 7.5 million was recognised as an expense in the Group's profit or loss (2010: HRK 10.0 million) and HRK 15.9 million was recognised in the Company's profit or loss (2010: HRK 15.7 million) in respect of operating leases.

41 Related parties

The Company is the parent of the Kvarner Vienna Insurance Group. The key shareholder of the Company is Vienna Insurance Group Wiener Versicherung Gruppe AG (former Vienna Insurance Group Wiener Städtische AG) with a holding of 99.2% (2010: 98.7%) of the Company's shares at year end. The remaining 0.8% (2010: 1.3%) of the shares are held by minority shareholders. The Company considers that it has an immediate related party relationship with the ultimate parents of its key shareholders, and their subsidiaries; its subsidiaries and associates; 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.

Parent company

The Group has subordinated debt obtained from the parent company in the amount of HRK 15.1 million as of 31 December 2011 (2010: HRK 14.8 million) which bears 8% interest per annum (2010: 6% interest per annum). In addition, the Group had borrowings of HRK 42.5 million from the ultimate parent company as at 31 December 2010 and until 20 December 2011, when the borrowing was transferred to other related company LVB Holding GmbH. As a result, the Group recorded HRK 3.14 million (2010: HRK 3.17 million) of interest expenses in relation to obtained borrowings and subordinated debt. In addition, significant portion of the Group's reinsurance is ceded to the ultimate parent company.

Related companies

In addition to parent company, the Group cedes reinsurance to other related companies, VIG Re, DONAU and Wiener Städtische Versicherung AG, which gave rise to reinsurance premiums and recoveries during the year as well as receivable and payable balances at the end of the year, as follows:

Group and Company	2011	2010
	HRK'000	HRK'000
Premium ceded:		
Reinsurance premiums payable at beginning of the year	(82,866)	(98,156)
Reinsurance premiums ceded during the year	(226,556)	(156,598)
Reinsurance premiums paid during the year	167,266	171,888
	<u> </u>	<u> </u>
Reinsurance premiums payable at the end of the year	(142,156)	(82,866)
	<u> </u>	<u> </u>
Reinsurance recoveries:		
At the beginning of the year	24,694	18,427
Invoiced during the year	58,108	34,248
Received during the year	(46,384)	(27,981)
	<u> </u>	<u> </u>
Outstanding at the end of the year	36,418	24,694
	<u> </u>	<u> </u>
Reinsurance commission:		
At the beginning of the year	25,369	21,043
Invoiced during the year	57,592	35,461
Received during the year	(48,779)	(31,135)
	<u> </u>	<u> </u>
Outstanding at the end of the year	34,182	25,369
	<u> </u>	<u> </u>
Receivables from deposit retained from reinsurance business	31,902	48,816
	<u> </u>	<u> </u>
Deposit retained from reinsurance business	(292,045)	(247,694)
	<u> </u>	<u> </u>
Accrued interest on deposit retained from reinsurance business	7,234	5,563
	<u> </u>	<u> </u>

41 Related parties (continued)

Related companies (continued)

During 2011 the Company sold shares of related company Erste osiguranje Vienna Insurance Group d.d. to Helios Vienna Insurance Group d.d. other related company in the amount of HRK 10,106 thousand what represents 5% shareholding in Erste osiguranje Vienna Insurance Group as of 31 December 2011.

During 2011 the Company sold buildings to Erste osiguranje Vienna Insurance Group d.d. with the carrying amount of HRK 8,819 thousand, and realised HRK 2,334 thousand gain on disposal.

As of 20 December 2011, borrowings obtained from the parent company was transferred to other related company, LVB Holding GmbH, Austria. Under the new terms of borrowing, the repayment of principal was changed from repayment in instalments to bullet repayment. Interest continues to be payable on semi-annual basis at unchanged interest rate of 5% per annum, fixed. Final maturity of borrowing was rescheduled from 30 June 2019 to 31 December 2015.

Subsidiaries

During 2010 the Company charged to Kvarner Wiener Städtische nekretnine d.o.o. ("KWSN") property insurance gross written premium of HRK 74 thousand (2010: HRK 74 thousand). In the same period the Company incurred HRK 8.46 million (2010: HRK 8.26 million) of rent expense from Kvarner Wiener Städtische nekretnine d.o.o.

The Company grants short term loans to KWSN at interest rate of 6% which at 31 December 2011 amounted to HRK 6,000 thousand (2010: HRK 6,000 thousand)..

As explained in Note 15 d), the Company was parent of S.O.S. Expert d.o.o. („S.O.S.“) until 27 September 2011 when it was disposed of to other related company, LVB Holding GmbH, on which the Company realised loss on disposal of HRK 88 thousand. During 2010, S.O.S. provided loss adjusting services to the Company in the amount of HRK 428 thousand and has contracted insurance policy with the Company in the amount of HRK 13 thousand. During 2011 the Company sold buildings to S.O.S. with the carrying amount of HRK 16,746 thousand and realised gain on disposal of HRK 35 thousand.

In 2011 there was no dividend paid by Kvarner Wiener Städtische nekretnine d.o.o. and S.O.S. Expert d.o.o. to the Company (2010: nil).

Associate

Vile Baredina are associate company of KWSN. The Company granted loan to Vile Baredine which become due on 31 December 2010. Loan receivable is sued and is subject to penalty interest of 15%. KWSN rents office premises to Vile Baredina. Total impairment loss recognised by the Group in respect of loan and accrued interest in 2011 amounted to HRK 634 thousand and in respect of other receivables amounted to HRK 58 thousand.

Key management personnel

Included in key management personnel are Management and Supervisory Board members. The remuneration of the Management Board amounted to HRK 2.1 million (2010: HRK 3.1 million), and comprises the total gross amount of their compensation including short-term and long-term benefits, such as basic pay and bonuses, benefits in kind, pension and other retirement benefits, and life assurance.

41 Related parties (continued)

Group 2011	Assets	Liabilities	Income	Expense
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Key management personnel (including remuneration)</i>	-	161	-	2,060
<i>Parent company</i>				
Vienna Insurance Group Wiener Versicherung Gruppe AG	11,530	167,760	7,280	11,014
<i>Associates</i>				
Vile Baredine	935	-	189	692
<i>Related companies</i>				
LVP Holding GmbH	-	43,346	-	-
Wiener Staetische Versicherung AG	1,415	6,694	10,700	6,045
VIG Re	40,497	276,249	1,040	15,540
DONAU	-	-	607	744
Erste Osiguranje Vienna Insurance Group d.d.	-	6	2,334	337
Helios Vienna Insurance Group d.d.	-	-	65	50
	<u>54,377</u>	<u>494,216</u>	<u>22,215</u>	<u>36,482</u>
	<u><u>54,377</u></u>	<u><u>494,216</u></u>	<u><u>22,215</u></u>	<u><u>36,482</u></u>
Company 2011	Assets	Liabilities	Income	Expense
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Key management personnel (including remuneration)</i>	-	131	-	1,702
<i>Parent company</i>				
Vienna Insurance Group Wiener Versicherung Gruppe AG	11,530	167,760	5,321	11,014
<i>Associates</i>				
Vile Baredine	935	-	189	634
<i>Subsidiaries</i>				
Kvarner Wiener Staetische nekretnine d.o.o.	8,550	51	434	8,367
S.O.S. Expert (former subsidiary)	-	-	35	88
<i>Related companies</i>				
Wiener Staetische Versicherung AG	1,415	6,694	10,700	6,045
VIG Re	40,497	276,249	1,040	15,540
DONAU	-	-	607	744
Erste Osiguranje Vienna Insurance Group d.d.	-	6	2,334	337
Helios Vienna Insurance Group d.d.	-	-	65	50
	<u>62,927</u>	<u>450,891</u>	<u>20,725</u>	<u>44,561</u>
	<u><u>62,927</u></u>	<u><u>450,891</u></u>	<u><u>20,725</u></u>	<u><u>44,561</u></u>

41 Related parties (continued)

Group 2010	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel (including remuneration)</i>	-	253	-	3,117
<i>Parent company</i>				
Vienna Insurance Group Wiener Versicherung Gruppe AG	-	45,496	51,365	52,944
<i>Associates</i>				
Vile Baredine	1,297	-	99	-
<i>Related companies</i>				
Wiener Staetdtische Versicherung AG	5,697	15,216	12,865	21,834
VIG Re	75,704	82,480	81,391	89,906
DONAU	36	376	174	565
Erste Osiguranje Vienna Insurance Group d.d.	-	6	-	66
Helios Vienna Insurance Group d.d.	282	7	319	53
	<u>83,016</u>	<u>143,834</u>	<u>146,213</u>	<u>168,485</u>

Company 2010	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel (including remuneration)</i>	-	226	-	2,746
<i>Parent company</i>				
Vienna Insurance Group Wiener Versicherung Gruppe AG	-	1,953	49,224	52,944
<i>Associates</i>				
Vile Baredine	1,291	-	87	-
<i>Subsidiaries</i>				
Kvarner Wiener Staetdtische nekretnine d.o.o.	10,760	62	412	8,320
S.O.S. Expert d.o.o.	568	318	13	428
<i>Related companies</i>				
Wiener Staetdtische Versicherung AG	5,697	15,216	12,865	21,834
VIG Re	75,704	82,480	81,391	89,906
DONAU	36	376	174	565
Erste Osiguranje Vienna Insurance Group d.d.	-	6	-	66
Helios Vienna Insurance Group d.d.	282	7	319	53
	<u>94,338</u>	<u>100,644</u>	<u>144,485</u>	<u>176,862</u>

42 Financial Risk Management

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

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 includes three types of risk:

- 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.
- currency risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

Asset and liability matching

The Group 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. Management 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 business segment, which represents the investment strategies used to profitably fund its liabilities within acceptable levels of risk. These strategies include objectives for effective duration, liquidity, asset sector concentration and credit risk 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 and debt obligations. 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 reprice at different times or in different 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 all of the Group's interest earning investments and majority of interest bearing liabilities bear fixed interest rates at the reporting date.

42 Financial risk management (continued)

Interest rate risk (continued)

Deposits retained from reinsurance bear both variable and fixed interest rates.

Interest rate changes do not influence the level of non-life provisions, other than for motor third party annuities, which are not significant at the date of financial position. 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.

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 the investment portfolio and insurance reserves, are periodically reviewed. 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.

The Group is presently contractually committed to accrue interest at rates of 2.5% to 6% per annum on premiums paid under life assurance policies for distribution to policyholders upon maturity of such policies, and is not able currently to hedge the future interest rate on assets invested to meet those future liabilities. Currently, market interest rates and rates on return that the Group earns by investing its long term funds are higher.

Note 43 discloses the effective interest rates and reprising analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities within scope of IAS 39 at 31 December 2011 and 31 December 2010.

Since all interest earning assets on 31 December 2011 and majority of interest earning assets on 31 December 2010, and majority of interest bearing liabilities on those dates, had fixed interest rate, there would be no direct effect on the Group's profit or loss. Indirect effect would be reflected in the change of fair value of debt securities at fair value through profit or loss, therefore there are no disclosures on interest rate sensitivity analysis.

42 Financial risk management (continued)

Price risk

The Group's portfolio of marketable equity securities carried in the statement of financial position at fair value gives exposure to 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 objective is to earn competitive returns by investing in a diverse portfolio of 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 and Company	Impact on profit or	Impact on other	Impact on profit or	Impact on other
	loss after tax	comprehensive	loss after tax	comprehensive
	2011	income after tax	2010	income after tax
	HRK'000	HRK'000	HRK'000	HRK'000
Change in price by $\pm 1\%$	690/(690)	275/(275)	296/(296)	264/(264)
Change in price by $\pm 3\%$	2,070/(2,070)	825/(825)	889/(889)	791/(791)
Change in price by $\pm 5\%$	3,451/(3,451)	1,375/(1,375)	1,481/(1,481)	1,318/(1,318)

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, calculation of related technical provisions and settlement of claims on insurance policies linked to foreign currency. The currency giving rise to this risk is 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 the life assurance provision are mostly linked to Euro, as most of the life assurance provision is denominated in Euro.

Note 45 discloses the currency analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities as at 31 December 2011 and 31 December 2010.

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.

All the Group's assets and liabilities are denominated either in HRK or EUR. The EUR/HRK rate is targeted in an interval of between 7.30 HRK for 1 EUR and 7.60 HRK for 1 EUR. The EUR/HRK rate has most of the time in the past been within that interval.

42 Financial risk management (continued)

Foreign exchange risk (continued)

Group	Impact on profit or	Impact on other	Impact on profit or	Impact on other
	loss after tax	comprehensive	loss after tax	comprehensive
EUR / HRK rate	2011	2011	2010	2010
	HRK'000	HRK'000	HRK'000	HRK'000
Change in fx rate by + 1%	1,018/(1,018)	139/(139)	2,596/(2,596)	93/(93)
Change in fx rate by + 2%	2,036/(2,036)	278/(278)	5,191/(5,191)	186/(186)

Company	Impact on profit or	Impact on other	Impact on profit or	Impact on other
	loss after tax	comprehensive	loss after tax	comprehensive
EUR / HRK rate	2011	2011	2010	2010
	HRK'000	HRK'000	HRK'000	HRK'000
Change in fx rate by + 1%	1,465/(1,465)	139/(139)	3,073/(3,073)	93/(93)
Change in fx rate by + 2%	2,929/(2,929)	278/(278)	6,147/(6,147)	186/(186)

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 deposits with banks and other investments are subject to credit risk. 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.

Maximum exposure to credit risk at the reporting date

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Cash at bank	3,786	13,565	3,661	13,503
Debt securities	1,046,338	680,295	1,046,338	680,295
Deposits with banks	73,436	133,754	73,436	133,754
Loans to customers	76,916	104,653	82,916	110,653
Current income tax prepayment	72	71	-	-
Insurance and other receivables	240,304	253,392	241,191	256,635
	<u>1,440,852</u>	<u>1,185,730</u>	<u>1,447,542</u>	<u>1,194,840</u>

42 Financial risk management (continued)

Credit risk (continued)

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

	Group 2011 HRK'000	Group 2010 HRK'000	Company 2011 HRK'000	Company 2010 HRK'000
Government bonds	981,839	643,802	981,839	643,802
Accrued interest thereon	16,013	10,710	16,013	10,710
Current income tax prepayment	72	71	-	-
Current tax liability	(262)	(14)	-	-
	<u>997,662</u>	<u>654,569</u>	<u>997,852</u>	<u>654,512</u>

The total exposure to Croatian state risk represents 47% of the total assets of the Group (2010: 36%) and 49% of the total assets of the Company (2010: 38%).

The table below provides information regarding the credit risk exposure of the Group by classifying assets according to the Group's credit ratings of counterparties.

	AAA - A HRK'000	BBB - B HRK'000	Not rated HRK'000	Total HRK'000
Group 2011				
Financial assets at fair value through profit or loss				
Debt securities	2,502	13,183	-	15,685
Debt securities – assets backing index-linked products	22,394	371	-	22,765
Available-for-sale investments				
Debt securities	-	456,322	23,794	480,116
Held-to-maturity investments				
Debt securities	-	525,517	2,255	527,772
Loans and receivables				
Deposits with banks	-	-	73,436	73,436
Loans to customers	-	-	76,916	76,916
Insurance and other receivables	102,616	15,942	121,746	240,304
Current income tax prepayment	-	72	-	72
Cash at bank	-	-	3,786	3,786
	<u>127, 512</u>	<u>1,011,407</u>	<u>301,933</u>	<u>1,440,852</u>
Group 2010				
Financial assets at fair value through profit or loss				
Debt securities	7,557	-	-	7,557
Debt securities – assets backing index-linked products	15,238	-	-	15,238
Available-for-sale investments				
Debt securities	-	419,870	11,269	431,139
Held-to-maturity investments				
Debt securities	-	223,932	2,429	226,361
Loans and receivables				
Deposits with banks	-	-	133,754	133,754
Loans to customers	-	-	104,653	104,653
Insurance and other receivables	136,374	10,732	106,286	253,392
Current income tax prepayment	-	71	-	71
Cash at bank	-	-	13,567	13,567
	<u>159,169</u>	<u>654,605</u>	<u>371,958</u>	<u>1,185,732</u>

42 Financial risk management (continued)

Credit risk (continued)

	AAA – A HRK'000	BBB – B HRK'000	Not rated HRK'000	Total HRK'000
Company 2011				
Financial assets at fair value through profit or loss				
Debt securities	2,502	13,183	-	15,685
Debt securities – assets backing index-linked products	22,394	371	-	22,765
Available-for-sale investments				
Debt securities	-	456,322	23,794	480,116
Held-to-maturity investments				
Debt securities	-	525,517	2,255	527,772
Loans and receivables				
Deposits with banks	-	-	73,436	73,436
Loans to customers	-	-	82,916	82,916
Insurance and other receivables	102,616	16,014	122,561	241,191
Cash in bank	-	-	3,661	3,661
	<u>127,512</u>	<u>1,011,407</u>	<u>308,623</u>	<u>1,447,542</u>
Total exposure to credit risk	<u>127,512</u>	<u>1,011,407</u>	<u>308,623</u>	<u>1,447,542</u>
Company 2010				
Financial assets at fair value through profit or loss				
Debt securities	7,557	-	-	7,557
Debt securities – assets backing index-linked products	15,238	-	-	15,238
Available-for-sale investments				
Debt securities	-	419,870	11,269	431,139
Held-to-maturity investments				
Debt securities	-	223,932	2,429	226,361
Loans and receivables				
Deposits with banks	-	-	133,754	133,754
Loans to customers	-	-	110,653	110,653
Insurance and other receivables	136,374	10,732	109,529	256,635
Cash in bank	-	-	13,503	13,503
	<u>159,169</u>	<u>654,534</u>	<u>381,137</u>	<u>1,194,840</u>
Total exposure to credit risk	<u>159,169</u>	<u>654,534</u>	<u>381,137</u>	<u>1,194,840</u>

42 Financial risk management (continued)

Credit risk (continued)

To mitigate the risk of reinsurance counterparties not paying amounts due, business and financial standards for reinsurers and broker approvals are established, incorporating ratings by major rating agencies and considering current market information (Standard&Poor's and A.M. Best).

Reinsurers as of 31 December 2011	Credit rating (Standard&Poor's)
American Agricultural Insurance Company	A-
ACE Tempest Re Europe	AA-
Allianz Global Corporate & Specialty (France)	AA
AIG / Chartis Europe S. A.	A-
CCR / Caisse Centrale de Reassurance	AAA
Chevanstell Limited	Not rated
SCOR Deutschland Rückversicherungs Aktiengesellschaft	A
DONAU Allgemeine Versicherungs-Aktiengesellschaft	A+
Glacier Reinsurance AG	Not rated
Hannover Rückversicherungs-AG	AA-
Helvetia Schweizerische Versicherungsgesellschaft AG	A-
Korean Reinsurance Co.	A-
Liberty Mutual Insurance Europe Ltd.	A-
Mapfre Re, Compania de Reaseguros, S.A.	AA-
Mutuelle Centrale de Reassurance	Not rated
Münchener Rückversicherungsgesellschaft	AA-
New Reinsurance Company	AA-
Odyssey America Reinsurance Corporation	A-
Partner Reinsurance Europe Ltd.	AA-
Polish Re / Polskie Towarzystwo Reasekuracyjne S.A.	BBB+
R + V Versicherung AG	AA-
Sava / Pozavarovalnica Sava, d.d.	A-
SCOR Global P&C	A
Sirius International Insurance Corporation	A-
Swiss Re Europe S.A.	AA-
Toa Reinsurance Company Limited	A+
Transatlantic Reinsurance Company Ltd.	A+
VIG Holding	A+
VIG Re zajistovna a.s.	A+
Wiener Städtische Versicherung AG Vienna Insurance Group	A+
XL Re Europe Limited	A
CNA Insurance Co. Ltd.	A-
Lloyds	A+

42 Financial risk management (continued)

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 to meet legal requirements.

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

Note 43 discloses the maturity analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities.

Note 24 discloses the maturity analysis of the Group's and the Company's technical provisions.

Fair values

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Financial assets at fair value through profit or loss and financial assets available for sale are measured at fair value based on quoted bid prices at the reporting date.

Loans and receivables are measured at amortised cost less impairment. Market value of loans and receivables with residual maturities of less than 12 months approximates book value due to short remaining maturities.

The market value of held-to-maturity assets is estimated to be HRK 19.1 million lower than the carrying amount (2010: HRK 5.4 million lower).

Hierarchy of fair values

The Group and the Company measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted price (unadjusted) in an active market;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the financial assets, either directly (for example prices) or indirectly (for example derived from prices);
- Level 3: inputs for assets are not based on observable market data (for example valuation techniques using significant unobservable inputs).

42 Financial risk management (continued)

Hierarchy of fair values (continued)

Group and Company

31 December 2011	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Financial assets at fair value through profit or loss				
Debt securities	15,685	-	-	15,685
Debt securities – assets backing index-linked products	22,765	-	-	22,765
Investment funds	63,910	-	-	63,910
Investment funds – assets backing unit-linked products	22,354	-	-	22,354
Available-for-sale financial assets				
Debt securities	303,813	176,303	-	480,116
Equity securities	5,637	-	-	5,637
Investment funds	28,743	-	-	28,743
Total financial assets	462,907	176,303	-	639,210
31 December 2010				
Financial assets at fair value through profit or loss				
Debt securities	7,557	-	-	7,557
Debt securities – assets backing index-linked products	15,238	-	-	15,238
Investment funds	19,620	-	-	19,620
Investment funds – assets backing unit-linked products	17,412	-	-	17,412
Available-for-sale financial assets				
Debt securities	420,865	10,274	-	431,139
Equity securities	10,241	-	-	10,241
Investment funds	22,719	-	-	22,719
Total financial assets	513,652	10,274	-	523,926

In both 2011 and 2010 there were no significant transfers between Level 1 and Level 2 of the fair value hierarchy and there were no any transfers to or from Level 3.

43 Maturity analyses

The tables below analyses the financial assets and liabilities within the scope of IAS 39 of the Group and the Company at 31 December 2011 and 31 December 2010 into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date, except for non-monetary financial assets at fair value through profit or loss which are classified as short term and non-monetary financial assets available for sale carried at cost which are classified as long term. The estimated remaining contractual maturities of insurance provisions are analysed in Note 24 h).

Group - 2011

	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						
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	15,685	15,685
Debt securities – assets backing index-linked products	-	-	-	-	22,765	22,765
Equity securities	-	-	-	-	90	90
Investment funds	63,910	-	-	-	-	63,910
Investment funds – assets backing unit-linked products	-	-	-	-	22,354	22,354
Available-for-sale investments						
Debt securities	127,336	79,369	9,735	72,808	190,868	480,116
Equity securities	5,637	-	-	-	-	5,637
Investment funds	28,743	-	-	-	-	28,743
Held-to-maturity investments						
Debt securities	-	-	-	114,018	413,754	527,772
Loans and receivables						
Deposits with banks	18,507	45,516	-	9,413	-	73,436
Loans to customers	59,954	3,501	2,602	2,955	7,904	76,916
Insurance and other receivables	188,076	44,996	1,868	997	-	235,937
Cash and cash equivalents	3,786	-	-	-	-	3,786
Total financial assets	495,949	173,382	14,205	200,191	673,420	1,557,147
Financial liabilities						
Subordinated loan	-	-	-	-	15,061	15,061
Borrowings	2,309	3,393	4,676	54,567	1,329	66,274
Insurance and other payables	178,463	40,716	13,507	44,340	197,100	474,126
Total financial liabilities	180,772	44,109	18,183	98,907	213,490	555,461

43 Maturity analysis (continued)

Group - 2010

	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						
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	7,557	7,557
Debt securities – assets backing index-linked products	-	-	-	-	15,238	15,238
Equity securities	-	-	-	-	90	90
Investment funds	19,620	-	-	-	-	19,620
Investment funds – assets backing unit-linked products	-	-	-	-	17,412	17,412
Available-for-sale investments						
Debt securities	1,965	-	49,059	21,976	358,139	431,139
Equity securities	10,241	-	-	-	10,106	20,347
Investment funds	22,719	-	-	-	-	22,719
Held-to-maturity investments						
Debt securities	-	-	-	109,806	116,555	226,361
Loans and receivables						
Deposits with banks	91,537	24,362	6,408	11,447	-	133,754
Loans to customers	44,802	35,932	7,648	8,367	7,904	104,653
Insurance and other receivables	204,536	38,643	4,052	397	-	247,628
Cash and cash equivalents	13,567	-	-	-	-	13,567
	<u>408,987</u>	<u>98,937</u>	<u>67,167</u>	<u>151,993</u>	<u>533,001</u>	<u>1,260,085</u>
Total financial assets						
Financial liabilities						
Subordinated loan	-	-	-	-	14,770	14,770
Borrowings	6,337	5,369	8,620	25,101	24,240	69,667
Insurance and other payables	150,732	44,273	6,732	41,482	175,129	418,348
	<u>157,069</u>	<u>49,642</u>	<u>15,352</u>	<u>66,583</u>	<u>214,139</u>	<u>502,785</u>
Total financial liabilities						

43 Maturity analysis (continued)

Company – 2011

	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						
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	15,685	15,685
Debt securities – assets backing index-linked products	-	-	-	-	22,765	22,765
Equity securities	-	-	-	-	90	90
Investment funds	63,910	-	-	-	-	63,910
Investment funds – assets backing unit-linked products	-	-	-	-	22,354	22,354
Available-for-sale investments						
Debt securities	127,336	79,369	9,735	72,808	190,868	480,116
Equity securities	5,637	-	-	-	-	5,637
Investment funds	28,743	-	-	-	-	28,743
Held-to-maturity investments						
Debt securities	-	-	-	114,018	413,754	527,772
Loans and receivables						
Deposits with banks	18,507	45,516	-	9,413	-	73,436
Loans to customers	61,954	7,501	2,602	2,955	7,904	82,916
Insurance and other receivables	188,963	44,996	1,868	997	-	236,824
Cash and cash equivalents	3,661	-	-	-	-	3,661
Total financial assets	498,711	177,382	14,205	200,191	673,420	1,563,909
Financial liabilities						
Subordinated loan	-	-	-	-	15,061	15,061
Insurance and other payables	178,056	40,716	13,507	44,340	197,100	473,719
Total financial liabilities	178,056	40,716	13,507	44,340	212,161	488,780

43 Maturity analysis (continued)

Company – 2010

	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						
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	7,557	7,557
Debt securities – assets backing index-linked products	-	-	-	-	15,238	15,238
Equity securities	-	-	-	-	90	90
Investment funds	19,620	-	-	-	-	19,620
Investment funds – assets backing unit-linked products	-	-	-	-	17,412	17,412
Available-for-sale investments						
Debt securities	1,965	-	49,059	21,976	358,139	431,139
Equity securities	10,241	-	-	-	10,106	20,347
Investment funds	22,719	-	-	-	-	22,719
Held-to-maturity investments						
Debt securities	-	-	-	109,806	116,555	226,361
Loans and receivables						
Deposits with banks	91,537	24,362	6,408	11,447	-	133,754
Loans to customers	45,802	40,932	7,648	8,367	7,904	110,653
Insurance and other receivables	205,283	38,643	4,052	397	-	248,375
Cash and cash equivalents	13,503	-	-	-	-	13,503
Total financial assets	410,670	103,937	67,167	151,993	533,001	1,266,768
Financial liabilities						
Subordinated loan	-	-	-	-	14,770	14,770
Insurance and other payables	149,149	44,273	6,732	41,482	175,129	416,765
Total financial liabilities	149,149	44,273	6,732	41,482	189,899	431,535

44 Interest rate repricing analysis

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

The tables are management's estimate of the interest rate risk for the Group and the Company as at 31 December 2011 and 31 December 2010 and are not necessarily indicative of the positions at other times but, taking into account the interest rate assumptions on which the calculation of the mathematical reserve is based (Note 6), 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 – 2011

	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									
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	-	15,685	15,685	-
Debt securities – assets backing index-linked products	n/a	-	-	-	-	-	22,765	22,765	-
Equity securities	n/a	-	-	-	-	-	90	90	-
Investment funds	n/a	-	-	-	-	-	63,910	63,910	-
Investment funds – assets backing unit-linked products	n/a	-	-	-	-	-	22,354	22,354	-
Available-for-sale investments									
Debt securities	6.07	137,354	79,369	9,735	62,790	190,868	-	480,116	470,098
Equity securities	n/a	-	-	-	-	-	5,637	5,637	-
Investment funds	n/a	-	-	-	-	-	28,743	28,743	-
Held-to-maturity investments									
Debt securities	6.03	-	-	-	114,018	413,754	-	527,772	527,772
Loans and receivables									
Deposits with banks	5.43	18,507	45,516	-	9,413	-	-	73,436	73,436
Loans to customers	11.33	59,954	3,501	2,602	2,955	7,904	-	76,916	76,916
Insurance and other receivables	n/a	-	-	-	-	-	235,937	235,937	-
Cash and cash equivalents	0.38	3,786	-	-	-	-	-	3,786	-
Total financial assets		219,601	128,386	12,337	189,176	612,526	395,121	1,557,147	1,148,222
Financial liabilities									
Subordinated loan	8	-	-	-	-	15,061	-	15,061	15,061
Borrowings	5.13	6,392	2,577	3,821	52,155	1,329	-	66,274	61,374
Insurance and other payables	3.93	35,776	4,511	12,153	38,025	197,099	186,562	474,126	258,088
Total financial liabilities		42,168	7,088	15,974	90,180	213,489	186,562	555,461	334,523

44 Interest rate repricing analysis (continued)

Group – 2010

	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									
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	-	7,557	7,557	-
Debt securities – assets backing index-linked products	n/a	-	-	-	-	-	15,238	15,238	-
Equity securities	n/a	-	-	-	-	-	90	90	-
Investment funds	n/a	-	-	-	-	-	19,620	19,620	-
Investment funds – assets backing unit-linked products	n/a	-	-	-	-	-	17,412	17,412	-
Available-for-sale investments									
Debt securities	6.04	6,935	-	44,089	21,976	358,139	-	431,139	426,169
Equity securities	n/a	-	-	-	-	-	20,347	20,347	-
Investment funds	n/a	-	-	-	-	-	22,719	22,719	-
Held-to-maturity investments									
Debt securities	5.03	-	-	-	109,806	116,555	-	226,361	226,361
Loans and receivables									
Deposits with banks	6.10	91,537	24,362	6,408	11,447	-	-	133,754	133,754
Loans to customers	8.64	44,802	35,932	7,648	8,367	7,904	-	104,653	104,653
Insurance and other receivables	n/a	-	-	-	-	-	247,628	247,628	-
Cash and cash equivalents	0.21	13,565	-	-	-	-	2	13,567	-
Total financial assets		156,839	60,294	58,145	151,596	482,598	350,613	1,260,085	890,837
Financial liabilities									
Subordinated loan	6.00	-	-	-	-	14,770	-	14,770	14,770
Borrowings	5.27	11,587	4,494	7,654	22,476	23,456	-	69,667	64,281
Insurance and other payables	2.25	8,831	15,507	6,732	41,481	175,129	170,668	418,348	247,694
Total financial liabilities		20,418	20,001	14,386	63,957	213,355	170,668	502,785	326,745

44 Interest rate repricing analysis (continued)

Company – 2011

	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									
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	-	15,685	15,685	-
Debt securities – assets backing index-linked products	n/a	-	-	-	-	-	22,765	22,765	-
Equity securities	n/a	-	-	-	-	-	90	90	-
Investment funds	n/a	-	-	-	-	-	63,910	63,910	-
Investment funds – assets backing unit-linked products	n/a	-	-	-	-	-	22,354	22,354	-
Available-for-sale investments									
Debt securities	6.07	137,354	79,369	9,735	62,790	190,868	-	480,116	470,098
Equity securities	n/a	-	-	-	-	-	5,637	5,637	-
Investment funds	n/a	-	-	-	-	-	28,743	28,743	-
Held-to-maturity investments									
Debt securities	6.03	-	-	-	114,018	413,754	-	527,772	527,772
Loans and receivables									
Deposits with banks	5.43	18,507	45,516	-	9,413	-	-	73,436	73,436
Loans to customers	11.33	61,954	7,501	2,602	2,955	7,904	-	82,916	82,916
Insurance and other receivables	n/a	-	-	-	-	-	236,824	236,824	-
Cash and cash equivalents	0.38	3,661	-	-	-	-	-	3,661	-
Total financial assets		221,476	132,386	12,337	189,176	612,526	396,008	1,563,909	1,154,222
Financial liabilities									
Subordinated loan	8	-	-	-	-	15,061	-	15,061	15,061
Insurance and other payables	3.93	36,038	4,511	12,153	38,025	197,099	185,893	473,719	258,088
Total financial liabilities		36,038	4,511	12,153	38,025	212,160	185,893	488,780	273,149

44 Interest rate repricing analysis (continued)

Company – 2010

	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									
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	-	7,557	7,557	-
Debt securities – assets backing index-linked products	n/a	-	-	-	-	-	15,238	15,238	-
Equity securities	n/a	-	-	-	-	-	90	90	-
Investment funds	n/a	-	-	-	-	-	19,620	19,620	-
Investment funds – assets backing unit-linked products	n/a	-	-	-	-	-	17,412	17,412	-
Available-for-sale investments									
Debt securities	6.04	6,935	-	44,089	21,976	358,139	-	431,139	426,169
Equity securities	n/a	-	-	-	-	-	20,347	20,347	-
Investment funds	n/a	-	-	-	-	-	22,719	22,719	-
Held-to-maturity investments									
Debt securities	5.03	-	-	-	109,806	116,555	-	226,361	226,361
Loans and receivables									
Deposits with banks	6.10	91,537	24,362	6,408	11,447	-	-	133,754	133,754
Loans to customers	8.64	45,802	40,932	7,648	8,367	7,904	-	110,653	110,653
Insurance and other receivables	n/a	-	-	-	-	-	248,375	248,375	-
Cash and cash equivalents	0.21	13,503	-	-	-	-	-	13,503	-
Total financial assets		157,777	65,294	58,145	151,596	482,598	351,358	1,266,768	896,937
Financial liabilities									
Subordinated loan	6.00	-	-	-	-	14,770	-	14,770	14,770
Insurance and other payables	2.25	8,845	15,507	6,732	41,481	175,129	169,071	416,765	247,694
Total financial liabilities		8,845	15,507	6,732	41,481	189,899	169,071	431,535	262,464

45 Currency risk analysis

The Group's and the Company's financial assets and financial liabilities within the scope of IAS 39 were denominated as follows as at 31 December 2011 and 31 December 2010.

Group - 2011

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
Financial assets					
Financial assets at fair value through profit or loss					
Debt securities	15,685	-	15,685	-	15,685
Debt securities – assets backing index-linked products	22,765	-	22,765	-	22,765
Equity securities	-	-	-	90	90
Investment funds	-	-	-	63,910	63,910
Investment funds – assets backing unit-linked products	-	22,354	22,354	-	22,354
Available-for-sale investments					
Debt securities	39,695	237,968	277,663	202,453	480,116
Equity securities	-	-	-	5,637	5,637
Investment funds	-	17,361	17,361	11,382	28,743
Held-to-maturity investments					
Debt securities	12,020	484,116	496,136	31,636	527,772
Loans and receivables					
Deposits with banks	16,224	19,799	36,023	37,413	73,436
Loans to customers	-	72,319	72,319	4,597	76,916
Insurance and other receivables	2,731	73,376	76,107	159,830	235,937
Cash and cash equivalents	192	-	192	3,594	3,786
Total financial assets	109,312	927,293	1,036,605	520,542	1,557,147
Financial liabilities					
Subordinated loan	15,061	-	15,061	-	15,061
Borrowings	55,831	-	55,831	10,443	66,274
Insurance and other payables	-	324,971	324,971	149,155	474,126
Total financial liabilities	70,892	324,971	395,863	159,598	555,461

45 Currency risk analysis (continued)

Group - 2010

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
Financial assets					
Financial assets at fair value through profit or loss					
Debt securities	7,557	-	7,557	-	7,557
Debt securities – assets backing index-linked products	15,238	-	15,238	-	15,238
Equity securities	-	-	-	90	90
Investment funds	-	3,000	3,000	16,620	19,620
Investment funds – assets backing unit-linked products		17,412	17,412	-	17,412
Available-for-sale investments					
Debt securities	-	359,448	359,448	71,691	431,139
Equity securities	-	-	-	20,347	20,347
Investment funds	-	11,620	11,620	11,099	22,719
Held-to-maturity investments					
Debt securities	11,778	214,583	226,361	-	226,361
Loans and receivables					
Deposits with banks	73,391	32,478	105,869	27,885	133,754
Loans to customers	-	97,371	97,371	7,282	104,653
Insurance and other receivables	964	72,555	73,519	174,109	247,628
Cash and cash equivalents	70	-	70	13,497	13,567
Total financial assets	108,998	808,467	917,465	342,620	1,260,085
Financial liabilities					
Subordinated loan	14,770	-	14,770	-	14,770
Borrowings	58,659	-	58,659	11,008	69,667
Insurance and other payables	-	281,591	281,591	136,757	418,348
Total financial liabilities	73,429	281,591	355,020	147,765	502,785

45 Currency risk analysis (continued)

Company – 2011

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
Financial assets					
Financial assets at fair value through profit or loss					
Equity securities	-	-	-	90	90
Debt securities – assets backing index- linked products	22,765	-	22,765	-	22,765
Debt securities	15,685	-	15,685	-	15,685
Investment funds	-	-	-	63,910	63,910
Investment funds – assets backing unit- linked products	-	22,354	22,354	-	22,354
Available-for-sale investments					
Debt securities	39,695	237,968	277,663	202,453	480,116
Equity securities	-	-	-	5,637	5,637
Investment funds	-	17,361	17,361	11,382	28,743
Held-to-maturity investments					
Debt securities	12,020	484,116	496,136	31,636	527,772
Loans and receivables					
Deposits with banks	16,224	19,799	36,023	37,413	73,436
Loans to customers	-	72,319	72,319	10,597	82,916
Insurance and other receivables	2,731	73,376	76,107	160,717	236,824
Cash and cash equivalents	192	-	192	3,469	3,661
Total financial assets	109,312	927,293	1,036,605	527,304	1,563,909
Financial liabilities					
Subordinated loan	15,061	-	15,061	-	15,061
Insurance and other payables	-	324,971	324,971	148,748	473,719
Total financial liabilities	15,061	324,971	340,032	148,748	488,780

45 Currency risk analysis (continued)

Company – 2010

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
Financial assets					
Financial assets at fair value through profit or loss					
Debt securities	7,557	-	7,557	-	7,557
Debt securities – assets backing index-linked products	15,238	-	15,238	-	15,238
Equity securities	-	-	-	90	90
Investment funds	-	3,000	3,000	16,620	19,620
Investment funds – assets backing unit-linked products		17,412	17,412	-	17,412
Available-for-sale investments					
Debt securities	-	359,448	359,448	71,691	431,139
Equity securities	-	-	-	20,347	20,347
Investment funds	-	11,620	11,620	11,099	22,719
Held-to-maturity investments					
Debt securities	11,778	214,583	226,361	-	226,361
Loans and receivables					
Deposits with banks	73,391	32,478	105,869	27,885	133,754
Loans to customers	-	97,371	97,371	13,282	110,653
Insurance and other receivables	964	72,555	73,519	174,856	248,375
Cash and cash equivalents	70	-	70	13,433	13,503
Total financial assets	108,998	808,467	917,465	349,303	1,266,768
Financial liabilities					
Subordinated loan	14,770	-	14,770	-	14,770
Insurance and other payables	-	280,529	280,529	136,236	416,765
Total financial liabilities	14,770	280,529	295,299	136,236	431,535

46 Contingent assets and liabilities

Off-balance sheet accounts

The Group had no off-balance sheet accounts as at 31 December 2011 (2010: -).

Capital liabilities

The Group had no capital liabilities as at 31 December 2011 (2010: -).

Litigations and claims

The Group is sued in several litigations (excluding court claims) for which provision was made in the financial statements when the management believes that is probable that the Group will lose the court case.

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

Unconsolidated statement of financial position (balance sheet) 31 December 2011

ASSETS				<i>in HRK</i>					
Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
001	002+003	A	RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID						
002		1	Called up capital						
003		2	Uncalled capital						
004	005+006	B	INTANGIBLE ASSETS	4,519,427	18,644,330	23,163,757	3,952,724	9,319,969	13,272,692
005		1	Goodwill		9,114,933	9,114,933		4,931,965	4,931,965
006		2	Other intangible assets	4,519,427	9,529,397	14,048,824	3,952,724	4,388,004	8,340,727
007	008+009+010	C	TANGIBLE ASSETS	4,339,052	45,870,736	50,209,787	335,290	23,192,327	23,527,617
008		1	Land and buildings intended for company business operations	4,339,052	34,305,206	38,644,258	335,290	12,418,020	12,753,310
009		2	Equipment		11,405,378	11,405,378		10,634,161	10,634,161
010		3	Other tangible assets and stock		160,152	160,152		140,147	140,147
011	012+013+017+036	D	INVESTMENTS	803,469,974	198,095,685	1,001,565,659	915,711,591	367,023,098	1,282,734,689
012		I	Investments in land and buildings not intended for company business operations		27,623,567	27,623,567		2,828,729	2,828,729
013	014+015+016	II	Investments in subsidiaries, associates and joint ventures	7,910,502	3,897,858	11,808,360	50,000	1,550,000	1,600,000
014		1	Shares and stakes in subsidiaries	7,860,502	2,245,858	10,106,360			
015		2	Shares and stakes in associates	50,000	1,652,000	1,702,000	50,000	1,550,000	1,600,000
016		3	Joint venture participation						
017	018+021+026+032	III	Other financial investments	795,559,472	166,574,260	962,133,732	915,661,591	362,644,369	1,278,305,960
018	019+020	1	Investments held-to-maturity	213,116,125	13,244,723	226,360,848	482,618,232	45,154,260	527,772,492
019		1.1	<i>Debt securities and other securities with fixed revenue</i>	213,116,125	13,244,723	226,360,848	482,618,232	45,154,260	527,772,492
020		1.2	<i>Other investments held to maturity</i>						
021	022+023+024+025	2	Investments available-for-sale	421,604,120	42,495,312	464,099,432	340,549,893	173,945,754	514,495,647
022		2.1	<i>Shares, stakes and other securities with variable revenue</i>	7,679,692	2,561,456	10,241,148	4,542,207	1,094,819	5,637,026
023		2.2	<i>Debt securities and other securities with fixed revenue</i>	396,676,603	34,463,000	431,139,603	312,875,449	167,240,490	480,115,939

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of financial position (balance sheet) 31 December 2011

ASSETS										in HRK
Position number	Sum elements	Position code	Position description	Previous business period			Current business period			
				Life	Non life	Total	Life	Non life	Total	
024		2.3	Investment fund units	17,247,825	5,470,856	22,718,681	23,132,237	5,610,445	28,742,682	
025		2.4	Other investments available for sale							
026	027+028+029+030+031	3	Investments at fair value through profit and loss account	14,176,671	13,090,000	27,266,671	34,424,597	45,261,206	79,685,803	
027		3.1	Shares, stakes and other securities with variable revenue		90,000	90,000		90,000	90,000	
028		3.2	Debt securities and other securities with fixed revenue	7,557,260		7,557,260	15,685,431		15,685,431	
029		3.3	Derivative financial instruments							
030		3.4	Investment fund units	6,619,411	13,000,000	19,619,411	18,739,166	45,171,206	63,910,372	
031		3.5	Other investments							
032	033+034+035	4	Deposits, loans and receivables	146,662,556	97,744,226	244,406,782	58,068,869	98,283,149	156,352,018	
033		4.1	Deposits with credit institutions (banks)	114,239,907	19,513,800	133,753,707	36,022,511	37,413,379	73,435,890	
034		4.2	Loans	22,855,414	78,230,426	101,085,841	11,825,432	60,869,770	72,695,202	
035		4.3	Other loans and receivables	9,567,234		9,567,234	10,220,926		10,220,926	
036		IV	Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)							
037		E	INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS	32,649,866		32,649,866	45,119,414		45,119,414	
038	039+040+041+042+043+044+045	F	REINSURANCE SHARE IN TECHNICAL PROVISIONS	215,879,281	112,161,783	328,041,064	247,050,119	139,835,614	386,885,733	
039		1	Unearned premiums, reinsurance share		58,597,247	58,597,247	837,540	57,248,463	58,086,003	
040		2	Mathematical provision, reinsurance share	214,427,084		214,427,084	243,923,804		243,923,804	
041		3	Provision for claims outstanding, reinsurance share	1,452,197	53,564,536	55,016,733	2,288,775	82,587,151	84,875,926	
042		4	Provisions for return of premiums depending and not depending on the result (bonuses and rebates), reinsurance share							
043		5	Equalisation provisions, reinsurance share							

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of financial position (balance sheet) 31 December 2011

ASSETS				in HRK					
Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
044		6	Other insurance technical provisions, reinsurance share						
045		7	Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share						
046	047+048	G	DEFERRED AND CURRENT TAX ASSET	245,866	2,000,000	2,245,866	4,508,104	556,977	5,065,082
047		1	Deferred tax asset	245,866	2,000,000	2,245,866	4,508,104	556,977	5,065,082
048		2	Current tax asset						
049	050+053+054	H	RECEIVABLES	71,279,827	181,289,429	252,569,256	103,758,643	204,690,590	308,449,233
050	051+052	1	Receivables from direct insurance business	2,586,759	78,998,719	81,585,478	852,150	61,244,509	62,096,659
051		1.1	<i>From policyholders</i>		78,998,719	78,998,719		61,244,509	61,244,509
052		1.2	<i>From insurance agents, or insurance brokers</i>	2,586,759		2,586,759	852,150		852,150
053		2	Receivables from co-insurance and reinsurance business	61,512,663	47,631,730	109,144,393	60,094,334	42,525,993	102,620,327
054	055+056+057	3	Other receivables	7,180,405	54,658,980	61,839,385	42,812,159	100,920,088	143,732,247
055		3.1	<i>Receivables from other insurance business</i>		39,629,495	39,629,495	89,350	48,395,746	48,485,096
056		3.2	<i>Receivables for return on investments</i>	5,341,086	3,801,791	9,142,877	19,882,800	3,131,606	23,014,406
057		3.3	<i>Other receivables</i>	1,839,319	11,227,694	13,067,013	22,840,009	49,392,736	72,232,745
058	059+063+064	I	OTHER ASSETS	10,969,581	2,533,538	13,503,119	1,049,333	29,216,620	30,265,953
059	060+061+062	1	Cash at bank and in hand	10,969,581	2,533,538	13,503,119	1,049,333	2,611,327	3,660,660
060		1.1	<i>Funds in the business account</i>	1,287,474	2,533,538	3,821,011	973,761	2,611,327	3,585,088
061		1.2	<i>Funds in the account of assets covering mathematical provision</i>	9,682,108		9,682,108	75,572		75,572
062		1.3	<i>Cash in hand</i>						
063		2	Long-term assets intended for sale and business cessation					26,605,293	26,605,293
064		3	Other						
065	066+067+068	J	PREPAYMENTS AND ACCRUED INCOME	3,819,047	33,041,987	36,861,034	3,147,166	19,457,219	22,604,386
066		1	Deferred interest and rent						
067		2	Deferred acquisition costs	384,033	26,705,291	27,089,324	335,016	19,156,730	19,491,746

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of financial position (balance sheet) 31 December 2011

ASSETS				in HRK					
Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
068		3	Other prepayments and accrued income	3,435,014	6,336,696	9,771,710	2,812,150	300,489	3,112,640
069	001+004+007+011 +037+038+046 +049+058+065	K	TOTAL ASSETS (A+B+C+D+E+F+G+H+I+J)	1,147,171,922	593,637,487	1,740,809,408	1,324,632,386	793,292,414	2,117,924,800
070		L	OFF BALANCE SHEET ITEMS						

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of financial position (balance sheet) 31 December 2011

EQUITY AND LIABILITIES

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
071	072+076+077+081+085+088	A	CAPITAL AND RESERVES	50,171,855	45,584,883	95,756,738	125,587,302	142,963,327	268,550,628
072	073+074+075	1	Subscribed capital	40,816,235	79,291,375	120,107,610	134,303,825	101,491,315	235,795,140
073		1,1	<i>Paid-up capital - ordinary shares</i>	40,816,235	79,291,375	120,107,610	134,303,825	101,491,315	235,795,140
074		1,2	<i>Paid-up capital - preference shares</i>			0			
075		1,3	<i>Called up capital</i>			0			
076		2	Issued shares premiums (capital reserves)		330,462	330,462	28,574,448	140,330,462	168,904,910
077	078+079+080	3	Revaluation reserve	-983,448	59,231	-924,217	-18,032,418	-2,227,910	-20,260,328
078		3,1	<i>Land and buildings</i>			0			
079		3,2	<i>Financial investments</i>	-983,448	59,231	-924,217	-18,032,418	-2,227,910	-20,260,328
080		3,3	<i>Other revaluation reserves</i>			0			
081	082+083+084	4	Reserves	1,462,698	0	1,462,698	1,462,698		1,462,698
082		4,1	<i>Legally stipulated reserves</i>	591,136		591,136	591,136		591,136
083		4,2	<i>Statutory reserve</i>	871,562		871,562	871,562		871,562
084		4,3	<i>Other reserve</i>			0			
085	086+087	5	Transferred (retained) profit or loss	-823,243	-19,398,404	-20,221,647	8,876,370	-34,096,185	-25,219,815
086		5,1	<i>Retained profit</i>			0	8,876,370		8,876,370
087		5,2	<i>Transferred loss (-)</i>	-823,243	-19,398,404	-20,221,647		-34,096,185	-34,096,185
088	089+090	6	Profit or loss of the current accounting period	9,699,613	-14,697,781	-4,998,167	-29,597,622	-62,534,355	-92,131,977
089		6,1	<i>Profit of the current accounting period</i>	9,699,613		9,699,613			
090		6,2	<i>Loss of the current accounting period (-)</i>		-14,697,781	-14,697,781	-29,597,622	-62,534,355	-92,131,977
091		B	SUBORDINATED LIABILITIES		14,770,340	14,770,340		15,060,840	15,060,840
092	093+094+095+096+097+098	C	TECHNICAL PROVISIONS	780,392,290	377,939,968	1,158,332,258	838,425,396	371,434,537	1,209,859,933

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of financial position (balance sheet) 31 December 2011

EQUITY AND LIABILITIES

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
093		1	Unearned premiums, gross amount	2,817,355	146,242,214	149,059,569	2,463,033	127,711,534	130,174,567
094		2	Mathematical provision, gross amount	768,106,982		768,106,982	825,808,706		825,808,706
095		3	Provision for claims outstanding, gross amount	9,467,953	229,597,754	239,065,707	10,153,656	241,523,003	251,676,660
096		4	Provisions for return of premiums depending and not depending on the result (bonuses and rebates), gross amount			0			
097		5	Equalisation provision, gross amount			0			
098		6	Other insurance technical provisions, gross amount		2,100,000	2,100,000		2,200,000	2,200,000
099		D	LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount	32,649,866		32,649,866	45,119,414		45,119,414
100	101+102	E	OTHER RESERVES	0	1,400,000	1,400,000		424,786	424,786
101		1	Provisions for pensions and similar liabilities		1,400,000	1,400,000		424,786	424,786
102		2	Other provisions			0			
103	104+105	F	DEFERRED AND CURRENT TAX LIABILITY	4	14,808	14,812			
104		1	Deferred tax liability	4	14,808	14,812			
105		2	Current tax liability			0			
106		G	DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE	214,427,084	33,266,998	247,694,082	249,311,842	42,733,171	292,045,013
107	108+109+110	H	FINANCIAL LIABILITIES	0	0	0		297,091	297,091
108		1	Liabilities on the basis of loans			0			
109		2	Liabilities on the basis of issued securities			0			
110		3	Other financial liabilities			0		297,091	297,091
111	112+113+114+115	I	OTHER LIABILITIES	69,508,502	95,531,561	165,040,063	65,090,645	183,026,564	248,117,210
112		1	Liabilities from direct insurance business	3,571,211	5,995,539	9,566,749	1,812,708	22,899,396	24,712,104
113		2	Liabilities from co-insurance and reinsurance business	63,207,374	74,935,374	138,142,748	63,204,254	74,810,359	138,014,613

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of financial position (balance sheet) 31 December 2011

EQUITY AND LIABILITIES

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
114		3	Liabilities for sale and ceased business						
115		4	Other liabilities	2,729,917	14,600,648	17,330,565	73,684	85,316,809	85,390,493
116	117+118	J	ACCRUED EXPENSES AND DEFERRED INCOME	22,320	25,128,929	25,151,249	1,097,785	37,352,100	38,449,885
117		1	Deferred reinsurance commission		1,911,801	1,911,801			
118		2	Other accrued expenses and deferred income	22,320	23,217,128	23,239,448	1,097,785	37,352,100	38,449,885
119	071+091+092+099+100+103+106+107+111+116	K	TOTAL LIABILITIES (A+B+C+D+E+F+G+H+I+J)	1,147,171,922	593,637,487	1,740,809,408	1,324,632,384	793,292,416	2,117,924,800
120		L	OFF BALANCE SHEET ITEMS						

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of comprehensive income (income statement) for period 01.01.2011.- 31.12.2011.

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
001	002+003 +004+00 5+006+0 07+008+ 009	I	Earned premiums (recognized in revenue)	154,342,757	200,262,088	354,604,845	128,967,550	142,834,587	271,802,137
002		1	Written gross premiums	211,394,452	300,026,270	511,420,722	186,845,248	261,250,283	448,095,530
003		2	Co-insurance premiums						
004		3	Value adjustment and charged adjustment of insurance/co-insurance premium value		-14,622,157	-14,622,157		-10,133,408	-10,133,408
005		4	Premiums ceded to reinsurance (-)	-57,135,271	124,292,344	-181,427,615	-59,069,560	-125,464,184	-184,533,743
006		5	Premiums ceded to co- insurance (-)						
007		6	Change in gross provisions for unearned premiums (+/-)	83,576	8,723,346	8,806,922	354,321	18,530,680	18,885,002
008		7	Change in provisions for unearned premiums, reinsurance share (+/-)		30,433,368	30,433,368	837,540	-1,348,784	-511,244
009		8	Change in provisions for unearned premiums, co-insurance share (+/-)		-6,396	-6,396			
010	011+012 +016+01 7+018+0 22+023	II	Income from investments	64,605,902	14,035,523	78,641,425	65,526,997	17,088,697	82,615,694
011		1	Income from subsidiaries, associates and joint ventures						
012	013+014 +015	2	Income from investment in land and buildings		-9,632	-9,632			
013		2,1	<i>Income from rent</i>						
014		2,2	<i>Income from increased value of land and buildings</i>						
015		2,3	<i>Income from sale of land and buildings</i>		-9,632	-9,632			
016		3	Interest income	41,630,188	12,359,261	53,989,448	46,074,789	14,406,784	60,481,573
017		4	Unrealized profits from investment valued at fair value through profit and loss account	2,572,987		2,572,987	3,176,173	108,826	3,284,999
018	019+020 +021	5	Profits from sale (realization) of financial investments	10,087,270	405,720	10,492,990	1,053,162	242,919	1,296,081
019		5,1	<i>Investment valued at fair value through profit and loss account</i>	746,038	167,638	913,676	854,475	217,662	1,072,137
020		5,2	<i>Investments available- for-sale</i>	9,311,302	238,082	9,549,384	175,086	25,257	200,343
021		5,3	<i>Other profits from sale of financial investments</i>	29,930		29,930	23,601		23,601
022		6	Net positive exchange rate differentials	10,019,511	788,936	10,808,447	14,978,457	2,008,766	16,987,223

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of comprehensive income (income statement) for period 01.01.2011.- 31.12.2011.

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
023		7	Other investment profits	295,946	491,237	787,184	244,416	321,401	565,818
024		III	Income from commissions and fees	12,363,585	24,276,999	36,640,583	11,732,129	42,340,462	54,072,592
025		IV	Other insurance-technical income, net of reinsurance	576,495	1,740,563	2,317,057	190,648	1,350,638	1,541,286
026		V	Other income	2,698	1,004,394	1,007,092	20,641	5,148,798	5,169,439
027	028+032	VI	Expenditures for insured events, net	-58,590,315	-123,637,538	-182,227,852	-65,478,907	-94,504,215	-159,983,122
028	029+030+031	1	Settled claims	-57,258,608	-121,614,368	-178,872,977	-65,629,782	-111,601,581	-177,231,363
029		1,1	Gross amount (-)	-71,889,194	-145,786,436	-217,675,629	-86,592,130	-156,135,668	-242,727,798
030		1,2	Co-insurer share (+)		2,574	2,574			
031		1,3	Reinsurer share(+)	14,630,585	24,169,493	38,800,079	20,962,348	44,534,087	65,496,435
032	033+034+035	2	Change in provisions for claims outstanding (+/-)	-1,331,706	-2,023,169	-3,354,876	150,875	17,097,366	17,248,241
033		2,1	Gross amount (-)	-1,817,768	-17,485,884	-19,303,652	-685,703	-11,925,249	-12,610,952
034		2,2	Co-insurer share (+)		192,172	192,172		-26,207	-26,207
035		2,3	Reinsurer share(+)	486,062	15,270,543	15,756,605	836,578	29,048,822	29,885,400
036	037+040	VII	Change in other technical provisions, net of reinsurance	-45,924,687	1,213,524	-44,711,163	-28,205,004	-100,000	-28,305,004
037	038+039	1	Change in mathematical provision (+/-)	-45,924,687		-45,924,687	-28,205,004		-28,205,004
038		1,1	Gross amount (-)	-80,443,180		-80,443,180	-57,701,724		-57,701,724
039		1,2	Reinsurer share(+)	34,518,493		34,518,493	29,496,720		29,496,720
040	041+042+043	2	Change in other technical provisions, net of reinsurance (+/-)		1,213,524	1,213,524		-100,000	-100,000
041		1,1	Gross amount (-)		1,213,524	1,213,524		-100,000	-100,000
042		1,2	Co-insurer share (+)						
043		1,3	Reinsurer share(+)						
044	045+046+047	VIII	Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)	-11,194,533		-11,194,533	-12,469,548		-12,469,548
045		1	Gross amount (-)	-11,194,533		-11,194,533	-12,469,548		-12,469,548
046		2	Co-insurer share (+)						
047		3	Reinsurer share(+)						

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of comprehensive income (income statement) for period 01.01.2011.- 31.12.2011.

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
048			Expenses for premium refund (bonuses and discounts), net of reinsurance						
049		1	Depending on the result (bonuses)						
050		2	Not depending on the result (rebates)						
051	052+056	X	Business expenditures (for business operations), net	-95,929,819	-102,784,730	-198,714,549	-77,824,953	-119,304,574	-197,129,527
052	053+054+055	1	Acquisition costs	-39,520,262	-37,712,984	-77,233,247	-31,070,995	-36,158,768	-67,229,763
053		1,1	Commission	-32,955,395	-21,324,597	-54,279,992	-22,892,320	-20,113,349	-43,005,669
054		1,2	Other acquisition costs	-6,544,945	-14,795,418	-21,340,363	-8,129,658	-8,496,858	-16,626,516
055		1,3	Change in deferred acquisition costs (+/-)	-19,922	-1,592,970	-1,612,892	-49,017	-7,548,561	-7,597,578
056	057+058+059	2	Administration costs	-56,409,557	-65,071,745	-121,481,302	-46,753,958	-83,145,807	-129,899,764
057		2,1	Depreciation of tangible assets	-3,808,420	-4,002,438	-7,810,859	-3,964,222	-9,071,035	-13,035,256
058		2,3,	Salaries, taxes and contributions to and from salaries	-29,738,422	-34,124,737	-63,863,159	-27,246,864	-33,873,088	-61,119,952
059		2,4,	Other administration costs	-22,862,715	-26,944,570	-49,807,285	-15,542,872	-40,201,684	-55,744,556
060	061+062+063+064+065+066+067	XI	Investment expenses	-4,329,892	-9,190,412	-13,520,304	-38,641,386	-24,575,174	-63,216,560
061		1	Depreciation (buildings not intended for business operations of the company)		-148,283	-148,283			
062		2	Interest		-1,027,883	-1,027,883		-1,174,850	-1,174,850
063		3	Investment value adjustment (reduction)	-319,412	-294,038	-613,449	-32,675,014	-20,900,796	-53,575,809
064		4	Losses from sale (realization) of financial assets	-364,784	-42,655	-407,438	-956,430	-116,552	-1,072,982
065		5	Adjustment of financial assets at fair value through profit and loss account				-2,979,413		-2,979,413
066		6	Net negative exchange rate differences	-2,105,413	-228,663	-2,334,076	-552,229	-481,676	-1,033,906
067		7	Other investment expenses	-1,540,283	-7,448,892	-8,989,175	-1,478,301	-1,901,300	-3,379,600
068	069+070	XII	Other technical expenses, net of reinsurance	-6,220,429	-21,152,303	-27,372,732	-13,415,789	-18,578,255	-31,994,044
069		1	Expenses for preventive operations		-1,595,425	-1,595,425		-1,269,614	-1,269,614
070		2	Other technical expenses of insurance	-6,220,429	-19,556,878	-25,777,307	-13,415,789	-17,308,641	-30,724,430
071		XIII	Other expenses including value adjustments	-2,148	-465,888	-468,036		-12,235,320	-12,235,320
072	001+010+024+025+026+027+036+044+048+051+060+068+071	XIV	Profit or loss of the accounting period before taxation (+/-)	9,699,613	-14,697,781	-4,998,167	-29,597,622	-60,534,355	-90,131,977

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of comprehensive income (income statement) for period 01.01.2011.- 31.12.2011.

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
073	074+075	XV	Profit or loss tax					-2,000,000	-2,000,000
074		1	Current tax expense						
075		2	Deferred tax expense (income)					-2,000,000	-2,000,000
076	072+073	XVI	Profit or loss of the accounting period after taxation (+/-)	9,699,613	-14,697,781	-4,998,167	-29,597,622	-62,534,355	-92,131,977
077		1	Attributable to owners of the parent						
078		2	Attributable to non-controlling interests						
079	001+010+024+025+026+075	XVII	TOTAL INCOME	231,891,436	241,319,566	473,211,002	206,437,966	206,763,182	413,201,148
080	027+036+044+048+051+060+068+071+074	XVIII	TOTAL EXPENDITURE	-222,191,823	-256,017,347	-478,209,170	-236,035,587	-269,297,537	-505,333,125
081	082+083+084+085+086+087+088+089	XIX	Other comprehensive income	-1,803,941	-9,658	-1,813,599	-17,048,970	-2,287,141	-19,336,111
082		1	Profits/losses on translation of financial statements on foreign operating activities						
083		2	Profits/losses on revaluation of financial assets available for sale	-1,803,941	-9,658	-1,813,599	-17,048,970	-2,287,141	-19,336,111
084		3	Profits/losses on revaluation of land and buildings intended for business activities of the company						
085		4	Profits/losses on revaluation of other tangible and (except land and real estate) intangible assets						
086		5	Effects from cash flow hedging instruments						
087		6	Actuarial profits/losses on defined benefit pension plans						
088		7	Share in other comprehensive income of associated companies						
089		8	Profit tax on other comprehensive income						
090	076+081	XX	Total comprehensive income	7,895,672	-14,707,439	-6,811,767	-46,646,592	-64,821,496	-111,468,088
091		1	Attributable to owners of the parent						
092		2	Attributable to non-controlling interests						
093		XXI	Reclassification adjustments						

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of cash flow (indirect method) for period 01.01.2011. - 31.12.20101.

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	1	CASH FLOW FROM OPERATING ACTIVITIES	-315,288,262	22,443,243
002	003+004	1	Cash flow before the change in assets and liabilities	-144,929,473	10,542,876
003		1.1	Profit/loss before taxation	-90,131,977	-4,998,167
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments	-54,797,496	15,541,043
005		1.2.1	<i>Depreciation of real estate and equipment</i>	4,306,374	4,589,097
006		1.2.2	<i>Depreciation of intangible assets</i>	3,185,560	3,221,763
007		1.2.3	<i>Value impairment and profits/losses on reduction to fair value</i>	-57,413,730	-1,959,538
008		1.2.4	<i>Interest expense</i>		
009		1.2.5	<i>Interest income</i>		
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>	-2,416,689	-10,289
012		1.2.8	<i>Other adjustments</i>	-2,459,011	9,700,010
013	014+015+...+03 0	2	Increase/decrease in assets and liabilities	-170,358,789	11,900,367
014		2.1	<i>Increase/decrease in investments available-for-sale</i>	-340,983,468	-247,097,163
015		2.2	<i>Increase/decrease in investment valued at fair value through profit and loss account</i>	-52,419,132	40,910,962
016		2.3	<i>Increase/decrease in deposits, loans and receivables</i>	133,794,355	114,476,380
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>	-12,469,548	-11,194,533
019		2.6	<i>Increase/decrease in reinsurance share in technical provisions</i>	-58,844,669	-80,894,242
020		2.7	<i>Increase/decrease in tax assets</i>	-2,819,216	-245,866
021		2.8	<i>Increase/decrease in receivables</i>	-55,879,976	-9,104,311
022		2.9	<i>Increase/decrease in other assets</i>		
023		2.10	<i>Increase/decrease in prepayments and accrued income</i>	14,256,648	4,756,416
024		2.11	<i>Increase/decrease in technical provisions</i>	51,527,674	89,726,385
025		2.12	<i>Increase decrease in life assurance technical provisions where the policyholder bears the investment risk</i>	12,469,548	11,194,533
026		2.13	<i>Increase/decrease in tax liabilities</i>	-14,812	-207,533
027		2.14	<i>Increase/decrease in deposits retained from business ceded to reinsurance</i>	44,350,931	67,785,491
028		2.15	<i>Increase/decrease in financial liabilities</i>	297,091	
029		2.16	<i>Increase/decrease in other liabilities</i>	83,077,147	27,473,736
030		2.17	<i>Increase/decrease in accruals and deferred income</i>	13,298,638	4,320,112
031		3	Paid profit tax		

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of cash flow (indirect method) for period 01.01.2011. - 31.12.20101.

in HRK

Position no,	Elements of sum	Position code	Position description	Current business period	The same period of the previous year
032	033+034+...+046	II	CASH FLOW FROM INVESTING ACTIVITIES	21,183,826	-22,719,546
033		1	Inflows from sale of tangible assets	28,359,708	558,997
034		2	Outflows for purchase of tangible assets	-3,070,174	-18,062,022
035		3	Inflows from sale of intangible assets		
036		4	Outflows for purchase of intangible assets	-2,526,973	-5,206,890
037		5	Inflows from sale of land and buildings not intended for business operations of the company	953,415	1,371,748
038		6	Outflows for purchase of land and buildings not intended for business operations of the company	-2,828,729	-1,381,380
039		7	Increase/decrease in investments in subsidiaries, associates and joint ventures		
040		8	Inflows from investments held to maturity	296,579	
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		
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	284,261,978	
048		1	Cash inflows on the basis of initial capital increase	284,261,978	
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		
053	001+032+047		NET CASH FLOW	-9,842,458	-276,304
054		IV	EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS		
055	053+054	V	NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	-9,842,458	-276,304
056		1	Cash and cash equivalents at the beginning of the period	13,503,119	13,779,422
057	055+056	2	Cash and cash equivalents at the end of the period	3,660,661	13,503,119

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of changes in equity for period 01.01.2011. - 31.12.2011.

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		
I.	Balance as at 1 January of previous year	120,107,610	330,462	889,382	1,462,698	-20,221,647		102,568,505	
1.	Changes in accounting policies								
2.	Correction of errors from previous periods								
II.	Balance as at 1 January of previous year (corrected)	120,107,610	330,462	889,382	1,462,698	-20,221,647		102,568,505	
III.	Comprehensive income/loss of the previous year			-1,813,599		-4,998,167		-6,811,767	
1.	Profit or loss of the period					-4,998,167		-4,998,167	
2.	Other comprehensive income or loss of the previous year			-1,813,599				-1,813,599	
2.1.	Unrealised gains or losses from tangible assets (land and buildings)								
2.2.	Unrealised gains or losses from financial assets available for sale			-1,813,599				-1,813,599	
2.3.	Realised gains or losses from financial assets available for sale								
2.4.	Other non-owner changes in equity								
IV.	Transactions with owners (previous period)								
1.	Increase/decrease in subscribed capital								
2.	Other payments by owners								
3.	Payment of shares in profit /dividends								
4.	Other distributions to owners								
V.	Balance as at the last day of the reporting period in previous year	120,107,610	330,462	-924,217	1,462,698	-25,219,814		95,756,738	

Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)

Unconsolidated statement of changes in equity for period 01.01.2011. - 31.12.2011.

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		
VI.	Balance as at 1 January of the current year	120,107,610	330,462	-924,217	1,462,698	-25,219,814		95,756,738	
1.	Changes in accounting policies								
2.	Correction of errors from previous periods								
VII.	Balance as at 1 January of the current year (corrected)	120,107,610	330,462	-924,217	1,462,698	-25,219,814		95,756,738	
VIII.	Comprehensive income/loss of the current year			-19,336,111			-92,131,977	-111,468,088	
1.	Profit or loss of the previous period						-92,131,977	-92,131,977	
2.	Other comprehensive income or loss of the current year			-19,336,111				-19,336,111	
2.1.	Unrealised gains or losses from tangible assets (land and buildings)								
2.2.	Unrealised gains or losses from financial assets available for sale			-19,336,111				-19,336,111	
2.3.	Realised gains or losses from financial assets available for sale								
2.4.	Other non-owner changes in equity								
IX.	Transactions with owners (current period)	115,687,530	168,574,448					284,261,978	
1.	Increase/decrease in subscribed capital	115,687,530	168,574,448					284,261,978	
2.	Other payments by owners								
3.	Payment of shares in profit /dividends								
4.	Other transactions with owners								
X.	Balance as at the last day of the reporting period in the current year	235,795,140	168,904,910	-20,260,328	1,462,698	-25,219,814	-92,131,977	268,550,628	

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

Unconsolidated statement of financial position – Assets as at 31 December 2011

Supplementary information prescribed by a regulation of
the Croatian Agency for Financial Services

Statutory financial statements

		Transfer of investments for and on behalf of life assurance policyholders to Financial assets at fair value through profit or loss	Transfer of other tangible assets to inventories	Transfer of deferred acquisition costs	Transfer of other prepaid expenses and other assets to insurance and other receivables	Offsetting intercompany receivables and liabilities	
RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	-						
Called up capital	-						
Uncalled capital	-			19,491,746			19,491,746
INTANGIBLE ASSETS	13,272,692						13,272,692
Goodwill	4,931,965						Deferred acquisition costs
Other intangible assets	8,340,727						Other intangible assets
TANGIBLE ASSETS	23,527,618		(140,147)				23,387,471
Land and buildings intended for company business operations	12,753,310						Property and equipment
Equipment	10,634,161						
Other tangible assets and stock	140,147						
INVESTMENTS	1,282,734,689						
Investments in land and buildings not intended for company business operations	2,828,729						2,828,729
Investments in subsidiaries, associates and joint ventures	1,600,000						Investment property
Shares and stakes in subsidiaries	-						1,600,000
Shares and stakes in associates	1,600,000						Investment in subsidiary
Joint venture participation	-						
Other financial investments	1,278,305,960						
Held-to-maturity financial assets	527,772,492						527,772,492
<i>Fixed income debt and other securities</i>	527,772,492						Held-to-maturity financial assets
<i>Other investments held to maturity</i>	-						
Available-for-sale financial assets	514,495,647						514,495,647
<i>Equities, shares and other securities bearing variable income</i>	5,637,026						Available-for-sale financial assets
<i>Fixed income debt and other securities</i>	480,115,939						
<i>Units in investment funds</i>	28,742,682						
Other investments available for sale	-						

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

Unconsolidated statement of financial position – Assets as at 31 December 2011 (continued)

Supplementary information prescribed by a regulation of the Croatian Agency for Financial Services		Transfer of investments for and on behalf of life assurance policyholders to Financial assets at fair value through profit or loss	Transfer of other tangible assets to inventories	Transfer of deferred acquisition costs	Transfer of other prepaid expenses and other assets to insurance and other receivables	Offsetting intercompany receivables and liabilities	Statutory financial statements
Financial assets at fair value through profit or loss	79,685,803	45,119,414					124,805,217
<i>Equities, shares and other securities bearing variable income</i>	90,000						
<i>Fixed income debt and other securities</i>	15,685,431						
<i>Derivative financial instruments</i>	-						
<i>Units in investment funds</i>	63,910,372						
<i>Other investments</i>	-						
Deposits, loans and receivables	156,352,018						156,352,018
<i>Deposits with banks</i>	73,435,890						
<i>Loans</i>	72,695,202						
<i>Other loans and receivables</i>	10,220,926						
Deposits assumed in reinsurance business (deposits with ceding company)	-						
INVESTMENTS FOR AND ON BEHALF OF LIFE ASSURANCE POLICYHOLDERS	45,119,414	(45,119,414)					
REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS	386,885,733						386,885,733
Provision for unearned premium, reinsurance share	58,086,003						
Life assurance provision, reinsurance share	243,923,804						
Claims reserve, reinsurance share	84,875,926						
Provision for premium refund dependant and not dependant on result (bonuses and discounts), reinsurance share	-						
Equalisation reserve, reinsurance share	-						
Other technical insurance contract provisions, reinsurance share	-						
Life assurance provision for products where policyholders bear investment risk, reinsurance share	-						

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

Unconsolidated statement of financial position – Assets as at 31 December 2011 (continued)

Supplementary information prescribed by a regulation of the
Croatian Agency for Financial Services

Statutory financial statements

		Transfer of investments for and on behalf of life assurance policyholders to Financial assets at fair value through profit or loss	Transfer of other tangible assets to inventories	Transfer of deferred acquisition costs	Transfer of other prepaid expenses and other assets to insurance and other receivables	Offsetting intercompany receivables and liabilities		
DEFERRED AND CURRENT TAX ASSET	5,065,082						5,065,082	Deferred tax assets
Deferred tax asset	5,065,082							
Current tax asset	-		140,147				140,147	Inventories
RECEIVABLES	308,449,233				3,112,640	(70,371,321)	241,190,552	Insurance and other receivables
Receivables from direct insurance business	62,096,659							
<i>From policyholders</i>	61,244,509							
<i>From sales representatives</i>	852,150							
Receivables from coinsurance and reinsurance	102,620,327							
Other receivables	143,732,247							
<i>Receivables from other insurance business</i>	48,485,096							
<i>Receivables for investment yields</i>	23,014,406							
<i>Other receivables</i>	72,232,745							
OTHER ASSETS	30,265,953							
Cash at bank and in hand	3,660,660						3,660,660	Cash and cash equivalents
<i>Amounts on business account</i>	3,585,088							
<i>Amounts on account for backing life assurance provision</i>	75,572							
<i>Cash in hand</i>	-							
Long term assets held for sale	26,605,293						26,605,293	Assets held for sale
Other	-							
PREPAID EXPENSES AND ACCRUED INCOME	22,604,386							
Accrued interest and rent income	-							
Deferred acquisition costs	19,491,746			(19,491,746)				
Other prepaid expenses and accrued income	3,112,640				(3,112,640)			
TOTAL ASSETS	2,117,924,800						2,047,553,479	Total assets
OFF BALANCE SHEET RECORDS	-							

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

Unconsolidated statement of financial position – Equity and liabilities as at 31 December 2011 (continued)

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

		Transfer of current period loss to accumulated losses	Transfer of discretionary profit participation from life assurance provision to separate line	Transfer of life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer of other liabilities to Provisions for liabilities and charges	Transfer deposits from reinsurance, accrued expenses and other liabilities to insurance and other payables		
							Statutory financial statements	
								Total equity attributable to equity holders of the Company
EQUITY	268,550,628							268,550,628
Share capital	235,795,140							235,795,140
<i>Paid in share capital - ordinary shares</i>	<i>235,795,140</i>							
<i>Paid in share capital - preference shares</i>	<i>-</i>							
<i>Called up share capital</i>	<i>-</i>							
Share premium (capital reserves)	168,904,910							168,904,910
Revaluation reserve	(20,260,328)							(20,260,328)
<i>Land and buildings</i>	<i>-</i>							
<i>Financial investments</i>	<i>(20,260,328)</i>							
<i>Other revaluation reserves</i>	<i>-</i>							
Reserves	1,462,698							1,462,698
<i>Legal reserve</i>	<i>591,136</i>							
<i>Statutory reserve</i>	<i>871,562</i>							
<i>Other reserve</i>	<i>-</i>							
Retained earnings or accumulated losses	(25,219,815)	(92,131,977)						(117,351,792)
<i>Retained earnings</i>	<i>8,876,370</i>							
<i>Accumulated losses (-)</i>	<i>(34,096,185)</i>							
Profit or loss of current reporting period	(92,131,977)	(92,131,977)						
<i>Profit of current reporting period</i>	<i>-</i>							
<i>Loss of current reporting period (-)</i>	<i>(92,131,977)</i>							
SUBORDINATED DEBT	15,060,840							15,060,840
TECHNICAL PROVISIONS	1,209,859,933		(8,303,667)	45,119,414				1,246,675,680
<i>Provision for unearned premiums, gross</i>	<i>130,174,567</i>							
<i>Life assurance provision, gross</i>	<i>825,808,706</i>							
<i>Claims reserve, gross</i>	<i>251,676,660</i>							
<i>Provisions for premium refund dependant and not dependant on result (bonuses and discounts), gross</i>	<i>-</i>		<i>8,303,667</i>					<i>8,303,667</i>
<i>Equalisation reserve, gross</i>	<i>-</i>							
<i>Other technical insurance contract provisions, gross</i>	<i>2,200,000</i>							

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

Unconsolidated statement of financial position – Equity and liabilities as at 31 December 2011 (continued)

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

Statutory financial statements

		Transfer of current period loss to accumulated losses	Transfer of discretionary profit participation from life assurance provision to separate line	Transfer of life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer of other liabilities to Provisions for liabilities and charges	Offsetting intercompany receivables and liabilities	Transfer deposits from reinsurance, accrued expenses, other financial liabilities and other liabilities to insurance and other payables	
LIFE ASSURANCE PROVISION FOR PRODUCTS WHERE POLICYHOLDERS BEAR INVESTMENT RISK, gross	45,119,414			(45,119,414)				
OTHER PROVISIONS	424,786				500,000			924,786
Provision for pension contributions and similar liabilities	424,786							
Other provisions	-							
DEFERRED AND CURRENT TAX LIABILITY	-							
Deferred tax liability	-							
Current tax liability	-							
DEPOSIT FROM REINSURANCE	292,045,013						(292,045,013)	
FINANCIAL LIABILITIES	297,091						(297,091)	
Liabilities for loans	-							
Liabilities for issued securities	-							
Other financial liabilities	297,091					(70,371,321)	578,409,199	508,037,878
OTHER LIABILITIES	248,117,210				(500,000)		(247,617,210)	
Liabilities arising from direct insurance business	24,712,104							
Liabilities from coinsurance and reinsurance business	138,014,613							
Liabilities for discontinued operations	-							
Other liabilities	85,390,493							
ACCRUED EXPENSES AND DEFERRED INCOME	38,449,885						(38,449,885)	
Deferred reinsurance commission	-							
Other accrued expenses and deferred income	38,449,885							
TOTAL LIABILITIES	2,117,924,800							2,047,553,479
OFF BALANCE SHEET RECORDS	-							-
								Total liabilities and equity

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

Unconsolidated statement of comprehensive income for year ended 31 December 2011

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

		Netting off of premium impairment with gross premium written	Comprising other technical income with other operating income	Comprising gross changes in provisions with net claims incurred	Comprising reinsurers share of technical provisions with reinsurers share of claims and benefits incurred	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealised and realised gains and losses and income from sale of real estate with net book value of asset sold	Loss from sale of investment property	Netting off foreign exchange losses on translation of monetary assets and liabilities other than financial investments with foreign exchange gains	Statutory financial statements		
Earned premiums	271,802,137									271,802,137		Net earned premiums
Gross premiums written	448,095,530	(10,133,408)								437,962,122		Gross premiums written
Coinsurance premiums	-											
Impairment loss and collected impairment loss of premium receivables/coinsurance premium	(10,133,408)	10,133,408										
Written premiums ceded to reinsurance (-)	(184,533,743)										(184,533,743)	Written premiums ceded to reinsurers
Premiums ceded to coinsurance (-)	-											
Change in gross provision for unearned premium (+/-)	18,885,002										18,885,002	Change in the gross provision for unearned premiums Reinsurers' share of change in the provision for unearned premiums
Reinsurers' share of change in the provisions for unearned premiums (+/-)	(511,244)										(511,244)	
Coinsurers' share of change in the provisions for unearned premiums (+/-)	-											
Investment income	82,615,694						(4,844,571)		(54,753)	77,716,370		Financial income
Income from subsidiaries, associates and joint ventures	-											
Income from investment in land and buildings	-											
Rental income	-											
Capital appreciation of land and buildings	-											
Gain on disposal of land and buildings	-											
Interest income	60,481,573											
Unrealised gains of financial assets at fair value through profit or loss	3,284,999											
Income from disposal of financial investments (realised)	1,296,081											
Investment in financial assets at fair value through profit or loss	1,072,137											
Available-for-sale financial assets	200,343											
Other income from sale of financial investments	23,601											
Net positive foreign exchange differences	16,987,223											
Other investment income	565,818											

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

Unconsolidated statement of comprehensive income for year ended 31 December 2011 (continued)

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

		Netting off of premium impairment with gross premium written	Comprising other technical income with other income	Comprising gross changes in provisions with net claims incurred	Comprising reinsurers share of technical provisions with reinsurers share of net claims incurred	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealised and realised gains and losses and income from sale of real estate with net book value of asset sold	Loss from sale of investment property	Netting off foreign exchange losses on translation of monetary assets and liabilities other than financial investments with foreign exchange gains	Statutory financial statements	
Fees and commission income	54,072,592									54,072,592	Fees and commission income
Other technical income, net of reinsurance	1,541,286		(1,541,286)								
Other income	5,169,439		1,541,286								
Net claims incurred	(159,983,122)							64,859	54,753	6,830,337	Other operating income
Claims paid	(177,231,363)										
Gross amount (-)	(242,727,798)									(325,610,022)	Claims and benefits incurred
Coinsurers' share (+)	-			(82,882,224)							
Reinsurers' share(+)	65,496,435				59,355,913					124,852,348	Reinsurers' share of claims and benefits incurred
Change in claims reserves (+/-)	(17,248,241)										
Gross amount (-)	(12,610,952)			12,610,952							
Coinsurers' share (+)	(26,207)				26,207						
Reinsurers' share(+)	29,885,400				(29,885,400)						
Net change in life assurance provision and other technical provisions	(28,305,004)										
Change in life assurance provision (+/-)	(28,205,004)										
Gross amount (-)	(57,701,724)			57,701,724							
Reinsurers' share(+)	29,496,720				(29,496,720)						
Change in other technical provisions (+/-)	(100,000)			100,000							
Gross amount (-)	(100,000)										
Coinsurers' share (+)	-										
Reinsurers' share(+)	-										
Change in life assurance provisions for products where policyholders bear investment risk, net of reinsurance (+/-)	(12,469,548)										
Gross amount (-)	(12,469,548)			12,469,548							
Coinsurers' share (+)	-										
Reinsurers' share(+)	-										
Expenses for premium refund (bonuses and discounts), net of reinsurance	-										
Dependant on result (bonuses)	-										
Not dependant of result (discounts)	-										
Operating expenses (expenses for operations), net	(197,129,527)										
Acquisition costs	(67,229,763)									(67,229,763)	Acquisition costs
Commission	(43,005,669)										
Other acquisition costs	(16,626,516)										
Change in deferred acquisition costs (+/-)	(7,597,578)										

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

Unconsolidated statement of comprehensive income for year ended 31 December 2011 (continued)

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

											Statutory financial statements
		Netting off of premium impairment with gross premium written	Comprising other technical income with other operating income	Comprising gross changes in provisions with net claims incurred	Comprising reinsurers share of technical provisions with reinsurers share of claims and benefits incurred	Adding change in other deferred acquisition costs to acquisition costs	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealised and realised gains and losses and income from sale of real estate with net book value of asset sold	Loss from sale of investment property	Netting off foreign exchange losses on translation of monetary assets and liabilities other than financial investments with foreign exchange gains	
Other comprehensive income	(19,336,111)										
Foreign currency translation gains/losses of financial statements of foreign operations											(19,336,111) Other comprehensive income
Gains/losses from changes in fair value of available-for-sale financial assets	(19,336,111)										(19,336,111) Net change in fair value of available-for-sale financial assets, net of deferred tax
Gains/losses from revaluation of land and buildings used by the company in operations											
Gains/losses from revaluation of other tangible and intangible assets (excluding land and buildings)											
Effects of cash flow hedges											
Actuarial gains/(losses) of defined benefit plan											
Share in other comprehensive income of associates											
Income tax on other comprehensive income											
Total comprehensive income	(111,468,088)										(111,468,088) Total comprehensive income for the year
Attributable to owners of the company											
Attributable to non-controlling interests											
Reclassification adjustments											

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

Unconsolidated statement of cash flows for year ended 31 December 2011

Supplementary information prescribed by a decision of the Croatian Agency for Financial Services	Transfer of receipts from investment held to maturity to cash flow from operating activities	Statutory financial statements
CASH FLOW FROM OPERATING ACTIVITIES	(315,288,262)	296,579 (314,991,683) Net cash (used in)/from operations
Cash flow before changes in operating assets and liabilities	(144,929,472)	
Profit/loss before taxes	(90,131,977)	
Adjustments	(54,797,495)	
Depreciation of real estate and equipment	4,306,376	
Depreciation of intangible assets	3,185,560	
Value impairment and profits/losses on reduction to fair value	(57,413,730)	
Interest expense		
Interest income		
Shares in profit of associated companies		
Profits/losses on sale of tangible assets (including land and buildings)	(2,416,689)	
Other adjustments	(2,459,011)	
Increase/decrease of operating assets and liabilities	(170,358,789)	
Increase/decrease of available-for-sale financial assets	(340,983,468)	
Increase/decrease of financial assets at fair value through profit or loss	(52,419,132)	
Increase/decrease of deposits, loans and receivables	133,794,355	
Increase/decrease of deposit assumed in reinsurance business		
Increase/decrease of investments for and on behalf of life assurance policyholders	(12,469,548)	
Increase/decrease of reinsurers' share of insurance contract provisions	(58,844,669)	
Increase/decrease of tax assets	(2,819,216)	
Increase/decrease of receivables	(55,879,976)	
Increase/decrease of other assets		
Increase/decrease of prepaid expenses and accrued income	14,256,648	
Increase/decrease of technical provisions	51,527,674	
Increase decrease of life assurance provision for products where policyholders bear investment risk	12,469,548	
Increase/decrease of tax liabilities	(14,812)	
Increase/decrease of deposit from reinsurance	44,350,931	
Increase/decrease of financial liabilities	297,091	
Increase/decrease of other liabilities	83,077,147	
Increase/decrease in accrued expenses and deferred income	13,298,638	
Income taxes paid		
CASH FLOW FROM INVESTING ACTIVITIES	21,183,826	20,887,247 Net cash from investing activities
Proceeds from sale of tangible assets	28,359,708	28,359,708 Proceeds from sale of property and equipment
Payments for acquisition of tangible assets	(3,070,174)	(3,070,174) Acquisition of property and equipment
Proceeds from sale of intangible assets		
Payments for acquisition of intangible assets	(2,526,973)	(2,526,973) Acquisition of other intangible assets
Proceeds from sale of investment property	953,415	953,415 Proceeds from sale of investment property
Payments for acquisition of investment property	(2,828,729)	(2,828,729) Acquisition of investment property
Increase/decrease of investments in subsidiaries, associates and participation in joint ventures		
Receipts from investments held to maturity	296,579	(296,579)
Payments for investments held to maturity		
Proceeds from sale of securities and shares		
Payments for investments in securities and shares		
Receipts from dividends and profit shares		
Receipts from repayment of short and long term loans given		
Payments for short and long term loans given		
CASH FLOW FROM FINANCING ACTIVITIES	284,261,978	284,261,978 Proceeds from increase in share capital
Receipts from increase in share capital	284,261,978	
Receipts from short and long term borrowings		
Payments for repayment of short and long term borrowings		
Payments for repurchase of treasury shares		
Dividend payments		
CASH FLOW	(9,842,458)	(9,842,458) Net decrease in cash and cash equivalents
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	(9,842,458)	(9,842,458) Net decrease in cash and cash equivalents
Cash and cash equivalents at the beginning of the period	13,503,119	13,503,119 Cash and cash equivalents at 1 January
Cash and cash equivalents at the end of the period	3,660,661	3,660,661 Cash and cash equivalents at 31 December