

**Kvarner Vienna Insurance Group**

**Annual report and financial  
statements  
for 2012**

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

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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 2012.

### **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 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 EUR 9 billion and with around 25.000 employees, 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 are characteristics of the products that offer attractive solutions in the fields 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 which is further significantly accompanied with 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, VIG stocks are also 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.

In 2012, the Company achieved net profit of HRK 1.1 million. Furthermore, the Company has a strong capital base and during 2012 was in compliance with all regulatory capital requirements, whereby the capital surplus provides security to our policyholders and forms a basis for a strong and stable operations in the upcoming years.

In 2012, the Company realised gross written premium of HRK 408 million, which represents a decrease of 6.7% in comparison to 2011. As in previous years, the largest share in total premium relates to life insurance (42%) and motor insurance (30%). Both the non-life and life insurance segments recorded decrease in written premiums, however, the Company recorded a growth of 4% in property insurance. Despite the mentioned decrease, the gross written premium of HRK 408 million realised in 2012 positions the Company on the fifth place among insurance companies in Croatia, with a market share of 4.6%.

In 2012, the Company has continued to increase efficiency and optimise business processes and to reduce and control costs of the Company.

In 2012, total technical provisions of the Company increased by HRK 36,6 million compared to 2011 and amounted to HRK 1.3 billion. During 2012 there were no changes in the shareholder structure of the Company and the Company did not acquire treasury shares.

## **Management Board's report (continued)**

### **The Company (continued)**

The management of risks to which the Company is exposed in its ordinary business is conducted on regular basis. Risk management allows for identification, analysis, quantification and control of risks. The risks to which the Company is exposed to are: insurance risks, market risks (price risk, interest rate risk, foreign exchange risk), liquidity risk, operational risks, strategic risks and reputational risks. In each risk category the Company undertakes measures for management and control of risks in order to limit the risks to acceptable level.

The Company is a parent company of Kvarner Wiener Staedtische nekretnine d.o.o. ("KWSN"), which is involved in property management business. In 2012, KWSN realised net profit of HRK 255 thousand and total rental income of HRK 7.5 million.

In November 2012, majority shareholder, Vienna Insurance Group, announced its intention to merge operations of two sister companies Helios Vienna Insurance Group d.d. and Kvarner Vienna Insurance Group d.d., with the aim of strengthening market position, creation of marketable brand and creating of preconditions for future growth and development of operations in forthcoming accession of Republic of Croatia in the European Union and thus opening of new markets, in middle of 2013.

### **The economic environment**

The financial and economic crisis which started in 2008 continued also in 2012. In the third quarter of 2012 Croatian GDP was for 1.9% lower than in 2011 when GDP has recorded a positive real growth rate of 0.2%. In December 2012, according to the Consumer Price Index, the prices of personal consumption goods were about 4.4% above those in 2011.

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 and further to 21.1% in December 2012. 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 2012 was HRK 5,681, which was about 3.4% higher than in the same period of 2011.

### **The insurance industry**

There were 27 insurance companies on the Croatian insurance market in 2012. As a result of the current crisis and market trends in 2012, the Croatian insurance market recorded a slight decline in premiums. According to statistical data from the Croatian Insurance Bureau, the total premiums charged by all Croatian insurance companies amounted to HRK 9,037 billion, representing a decline of 1.2% compared to 2011. This is the fourth consecutive year of premium decline in the Croatian insurance market. Gross written premium for non-life insurance declined by 2.0% compared to 2011 and amounted to HRK 6.576 billion (73% of total written premiums) and life insurance written premiums amounted to HRK 2.461 billion (27% of total written premiums), representing a growth of 1.2% compared to the previous year.

### **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 2012 and up to the date of the signing of this report, comprised:

Harald Riener	President since 19 December 2012, member until 19 December 2012
Tamara Rendić	Member since 9 October 2012
Svemir (Mario) Kovač	Deputy member until 9 October 2012

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 Supervisory Board, during the course of 2012 and up to the date of the signing of this report, comprised:

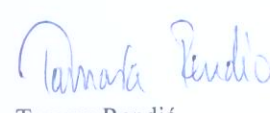
Peter Franz Höfing	Chairman since 19 December 2012, deputy Chairman until 19 December 2012
Hans-Peter Hagen	Deputy Chairman since 19 December 2012, Chairman until 19 December 2012
Natalia Cadek	Member
Roland Gröll	Member
Wolfgang Petschko	Member
Zoran Dimov	Member
Svemir (Mario) Kovač	Member since 9 October 2012

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. In this respect, 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  
President of the Management Board

KVARNER  
VIENNA INSURANCE GROUP d.d.  
RJEKA  
11

  
Tamara Rendić  
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 8 February 2013 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  
President of the Management Board

KVARNER  
VIENNA INSURANCE GROUP d.d.  
RIJEKA  
11

  
Tamara Rendić  
Member of the Management Board



## **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 2012, 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 2012, 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.

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## 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 2012, 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 2012, 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 2012, 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, 8 February 2013

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

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

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

  
Goran Horvat  
Director, Croatian Certified Auditor

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## Statement of financial position

*as at 31 December*

	<i>Note</i>	<b>Group</b>	Group	<b>Company</b>	Company
		<b>2012</b>	2011	<b>2012</b>	2011
		<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<b>Assets</b>					
Property and equipment	11	59,079	64,920	18,693	23,387
Investment property	12	28,064	27,103	4,362	2,829
Intangible assets					
Deferred acquisition costs	13	16,365	19,491	16,365	19,491
Other intangible assets	14	12,763	13,273	12,763	13,273
Investments in subsidiary and associate	15 b)	6	6	1,600	1,600
Financial assets at fair value through profit or loss	16	213,461	124,804	213,461	124,804
Available-for-sale financial assets	16	579,298	514,496	579,298	514,496
Held-to-maturity investments	16	528,562	527,772	528,562	527,772
Loans and receivables	16	101,664	150,352	107,664	156,352
Reinsurers' share of technical provisions	17	415,750	386,887	415,750	386,887
Deferred tax asset	18	-	5,065	-	5,065
Inventories		152	172	145	140
Insurance and other receivables	19	226,543	240,304	227,609	241,191
Current income tax prepayment		-	72	-	-
Assets held for sale	20	17,222	26,605	17,222	26,605
Cash and cash equivalents	21	7,046	3,786	6,513	3,661
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Total assets</b>		<b>2,205,975</b>	2,105,108	<b>2,150,007</b>	2,047,553
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Shareholders' equity</b>					
Share capital	22 a)	235,795	235,795	235,795	235,795
Share premium	22 b)	43,700	168,904	43,700	168,904
Legal reserve	22 c)	1,463	1,463	1,463	1,463
Fair value reserve	22 d)	29,322	(20,260)	29,322	(20,260)
Retained earnings/(accumulated losses)		10,296	(116,325)	9,016	(117,350)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Total equity attributable to equity holders of the Company</b>		<b>320,576</b>	269,577	<b>319,296</b>	268,552
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>					
Technical provisions	24	1,284,288	1,246,676	1,284,288	1,246,676
Discretionary profit participation provision	25	7,244	8,304	7,244	8,304
Subordinated loan	26	15,091	15,061	15,091	15,061
Borrowings	27	52,702	55,861	-	-
Deferred tax liability	18	7,331	-	7,331	-
Provisions for liabilities and charges	28	9,257	925	9,207	925
Current tax liability		111	262	-	-
Insurance and other payables	29	509,375	508,442	507,550	508,035
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>		<b>1,885,399</b>	1,835,531	<b>1,830,711</b>	1,779,001
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Total liabilities and equity</b>		<b>2,205,975</b>	2,105,108	<b>2,150,007</b>	2,047,553
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	Note	Group 2012 HRK'000	Group 2011 HRK'000	Company 2012 HRK'000	Company 2011 HRK'000
Gross premiums written	30	408,347	437,888	408,417	437,962
Written premiums ceded to reinsurers	30	(168,917)	(184,534)	(168,917)	(184,534)
<b>Net premiums written</b>		<b>239,430</b>	253,354	<b>239,500</b>	253,428
Change in the gross provision for unearned premiums	30	10,835	18,884	10,835	18,884
Reinsurers' share of change in the provision for unearned premiums	30	(2,899)	(510)	(2,899)	(510)
<b>Net earned premiums</b>		<b>247,366</b>	271,728	<b>247,436</b>	271,802
Fees and commission income	31	50,731	54,073	50,731	54,073
Financial income	32	92,059	79,790	90,119	77,716
Other operating income	33	4,214	7,299	3,470	6,830
<b>Operating income</b>		<b>394,370</b>	412,890	<b>391,756</b>	410,421
Claims and benefits incurred	34	(268,493)	(325,610)	(268,493)	(325,610)
Reinsurers' share of claims and benefits incurred	34	109,258	124,853	109,258	124,853
<b>Net policyholder claims and benefits incurred</b>		<b>(159,235)</b>	(200,757)	<b>(159,235)</b>	(200,757)
Acquisition costs	35	(46,036)	(67,230)	(46,036)	(67,230)
Administrative expenses	36	(127,815)	(126,879)	(128,177)	(129,900)
Other operating expenses	37	(28,796)	(44,230)	(28,746)	(44,230)
Financial expenses	38	(30,688)	(61,969)	(28,400)	(58,436)
<b>Profit/(loss) before income tax</b>		<b>1,800</b>	(88,175)	<b>1,162</b>	(90,132)
Income tax expense	39	(383)	(2,334)	-	(2,000)
<b>Profit/(loss) for the year</b>		<b>1,417</b>	(90,509)	<b>1,162</b>	(92,132)
<b>Other comprehensive income for the year, net of income tax</b>					
Net change in fair value of available-for-sale financial assets, net of deferred tax		49,582	(19,336)	49,582	(19,336)
<b>Total comprehensive income for the year</b>		<b>50,999</b>	(109,845)	<b>50,744</b>	(111,468)
Profit/(loss) for the year attributable to equity holders of the Company		1,417	(90,509)	1,162	(92,132)
Total comprehensive income for the period attributable to the equity holders of the Company		50,999	(109,845)	50,744	(111,468)
<b>Earnings/(loss) per share</b>		<b>HRK</b>	<b>HRK</b>		
Basic and diluted earnings/(loss) per share	23	4	(392)		

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 HRK'000	Share premium HRK'000	Legal reserve HRK'000	Fair value reserve HRK'000	Retained earnings /(accumulated losses) HRK'000	Total HRK'000
<b>Balance at 1 January 2011</b>	<b>120,107</b>	<b>330</b>	<b>1,463</b>	<b>(924)</b>	<b>(25,816)</b>	<b>95,160</b>
<b>Total comprehensive income for the year</b>						
<i>Loss for the year</i>	-	-	-	-	(90,509)	(90,509)
<i>Other comprehensive income</i>						
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>Total other comprehensive income</i>	-	-	-	(19,336)	-	(19,336)
<b>Total comprehensive income for the year, net of income tax</b>	-	-	-	(19,336)	(90,509)	(109,845)
<b>Transactions with owners recognised directly in equity</b>						
Increase in share capital (Note 22 a)	115,688	168,574	-	-	-	284,262
<b>Balance at 31 December 2011</b>	<b>235,795</b>	<b>168,904</b>	<b>1,463</b>	<b>(20,260)</b>	<b>(116,325)</b>	<b>269,577</b>
<b>Balance at 1 January 2012</b>	<b>235,795</b>	<b>168,904</b>	<b>1,463</b>	<b>(20,260)</b>	<b>(116,325)</b>	<b>269,577</b>
<b>Total comprehensive income for the year</b>						
<i>Profit for the year</i>	-	-	-	-	1,417	1,417
<i>Other comprehensive income</i>						
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	61,978	-	61,978
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	(12,396)	-	(12,396)
<i>Total other comprehensive income</i>	-	-	-	49,582	-	49,582
<b>Total comprehensive income for the year, net of income tax</b>	-	-	-	49,582	1,417	50,999
<b>Transactions with owners recognised directly in equity</b>						
Coverage of accumulated losses (Note 22 b)	-	(125,204)	-	-	125,204	-
<b>Balance at 31 December 2012</b>	<b>235,795</b>	<b>43,700</b>	<b>1,463</b>	<b>29,322</b>	<b>10,296</b>	<b>320,576</b>

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	Retained earnings /(accumulated losses) HRK'000	Total HRK'000
<b>Balance at 1 January 2011</b>	<b>120,107</b>	<b>330</b>	<b>1,463</b>	<b>(924)</b>	<b>(25,218)</b>	<b>95,758</b>
<b>Total comprehensive income for the year</b>						
<i>Loss for the year</i>	-	-	-	-	(92,132)	(92,132)
<i>Other comprehensive income</i>						
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>Total other comprehensive income</i>	-	-	-	(19,336)	-	(19,336)
<b>Total comprehensive income for the year, net of income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19,336)</b>	<b>(92,132)</b>	<b>(111,468)</b>
<b>Transactions with owners recognised directly in equity</b>						
Increase in share capital (Note 22 a)	115,688	168,574	-	-	-	284,262
<b>Balance 31 December 2011</b>	<b>235,795</b>	<b>168,904</b>	<b>1,463</b>	<b>(20,260)</b>	<b>(117,350)</b>	<b>268,552</b>
<b>Balance at 1 January 2012</b>	<b>235,795</b>	<b>168,904</b>	<b>1,463</b>	<b>(20,260)</b>	<b>(117,350)</b>	<b>268,552</b>
<i>Profit for the year</i>	-	-	-	-	1,162	1,162
<i>Other comprehensive income</i>						
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	61,978	-	61,978
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 22 d)	-	-	-	(12,396)	-	(12,396)
<i>Other comprehensive income</i>	-	-	-	49,582	-	49,582
<b>Total comprehensive income for the year, net of income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49,582</b>	<b>1,162</b>	<b>50,744</b>
<b>Transactions with owners recognised directly in equity</b>						
Coverage of accumulated losses (Note 22 b)	-	(125,204)	-	-	125,204	-
<b>Balance 31 December 2012</b>	<b>235,795</b>	<b>43,700</b>	<b>1,463</b>	<b>29,322</b>	<b>9,016</b>	<b>319,296</b>

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*

		<b>Group</b>	Group	<b>Company</b>	Company
<i>Note</i>		<b>2012</b>	2011	<b>2012</b>	2011
		<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<b>Cash flows from operating activities</b>					
Insurance premiums received		<b>413,478</b>	455,642	<b>413,548</b>	455,716
Reinsurance premiums paid		<b>(193,935)</b>	(184,662)	<b>(193,935)</b>	(184,662)
Fees and commissions received		<b>64,131</b>	50,543	<b>64,131</b>	50,543
Interest received		<b>64,514</b>	57,895	<b>64,874</b>	58,302
Dividends received		<b>140</b>	172	<b>140</b>	172
Rent from investment property received		<b>2,437</b>	2,433	<b>45</b>	-
Claims and benefits paid		<b>(231,165)</b>	(243,221)	<b>(231,165)</b>	(243,221)
Reinsurance claims received		<b>105,849</b>	117,990	<b>105,849</b>	117,990
Payments to intermediaries		<b>(27,511)</b>	(51,587)	<b>(27,511)</b>	(51,587)
Payments to employees and suppliers		<b>(137,616)</b>	(125,452)	<b>(139,212)</b>	(129,569)
Interest paid		<b>(2,903)</b>	(2,955)	<b>(1,184)</b>	(1,175)
Other operating cash flows		<b>(6,797)</b>	(41,956)	<b>(9,134)</b>	(40,659)
Net (acquisition)/disposal of operating assets					
- Equities		<b>3,603</b>	10,106	<b>3,603</b>	10,106
- Debt securities		<b>4,777</b>	(367,901)	<b>4,777</b>	(367,901)
- Units in investment funds		<b>(80,641)</b>	(50,829)	<b>(80,641)</b>	(50,829)
- Deposits with banks and loans to customers		<b>36,389</b>	74,134	<b>36,389</b>	74,134
- Investments for the benefit of unit and index linked life assurance		<b>(11,878)</b>	(12,350)	<b>(11,878)</b>	(12,350)
Income taxes paid		<b>(462)</b>	(86)	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net cash from/(used in) operations</b>		<b>2,410</b>	(312,084)	<b>(1,304)</b>	(314,990)
<b>Cash flow from investing activities</b>					
Proceeds from sale of property and equipment		<b>381</b>	28,360	<b>381</b>	28,358
Proceeds from sale of investment property		-	955	-	955
Proceeds from sale of assets held for sale		<b>8,826</b>	241	<b>8,826</b>	-
Acquisition of property and equipment		<b>(1,854)</b>	(3,365)	<b>(1,802)</b>	(3,071)
Acquisition of other intangible assets		<b>(3,177)</b>	(2,527)	<b>(3,177)</b>	(2,527)
Acquisition of investment property		<b>(72)</b>	(2,969)	<b>(72)</b>	(2,829)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net cash from investing activities</b>		<b>4,104</b>	20,695	<b>4,156</b>	20,886
<b>Cash flows from financing activities</b>					
Proceeds from increase in share capital	22 a)	-	284,262	-	284,262
Repayment of borrowings		<b>(3,254)</b>	(2,654)	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net cash (used in)/from financing activities</b>		<b>(3,254)</b>	281,608	-	284,262
<b>Net increase/(decrease) in cash and cash equivalents</b>					
		<hr/>	<hr/>	<hr/>	<hr/>
		<b>3,260</b>	(9,781)	<b>2,852</b>	(9,842)
Cash and cash equivalents at 1 January		<b>3,786</b>	13,567	<b>3,661</b>	13,503
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	21	<b>7,046</b>	3,786	<b>6,513</b>	3,661
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

## Notes to the 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. At the General Assembly held on 14 January 2013 the Company changed its Head office to Zagreb, Slovenska 24. Until the date when these financial statements were authorised for issue by the Management Board, the change of Head office of the Company was not yet subscribed in the authorised commercial court. 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 (99.4% of voting rights) and ultimate parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe, 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 subsidiary, “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 8 February 2013 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.

#### (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 investment in subsidiary is 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.

#### *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.

#### *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.

### **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:

	<b>2012</b>	<b>2011</b>
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:

	<b>2012</b>	<b>2011</b>
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 policy issue costs.

For non-life insurance business, the deferred acquisition cost asset is calculated by applying the rate of 13.70% on unearned premiums.

For life assurance business, apart from life rider products, 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*

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 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:

	<b>2012</b>	<b>2011</b>
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 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 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; or
- 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 investments*

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

##### *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 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 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.

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

##### ***Investment in subsidiary***

Investment in subsidiary is accounted at cost less impairment in the separate financial statements of the Company. Investment in subsidiary is 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 proceeds (less attributable transaction costs) and redemption value being recognised in profit or loss over the term 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.



### 3 Significant accounting policies (continued)

#### (i) Employee benefits (continued)

##### *Jubilee awards and termination benefits*

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date. The projected credit unit method is used for the calculation of the present value of the liability. The market yield on government bonds on the reported date is used as the discount rate.

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

#### (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 at 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 provision*.

### **3 Significant accounting policies (continued)**

#### **(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.

##### *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 Act, 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 Act, effective from 1 January 2006. However, as required by the Companies Act, the 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.

### 3 Significant accounting policies (continued)

#### (m) Impairment (continued)

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.

#### (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 and shareholders' funds are 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 level), technical reserves, number of claims paid and financial investments.

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 and share issued by the shareholders. 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., the Company's subsidiary.

### 3 Significant accounting policies (continued)

#### (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.

##### *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 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 expenses include interest expenses recognised using the effective interest rate method and net negative foreign exchange differences resulting from translation of monetary assets and liabilities using the exchange rate at the reporting date.

### 3 Significant accounting policies (continued)

#### (p) Expenses (continued)

##### *Financial expenses (continued)*

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 Group from the policyholder is not significant are classified as investment contracts. At the reporting date the Group did not have any investment contracts.

##### *Contracts with discretionary participation features*

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

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

##### *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, CE11, 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. 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 using the liability adequacy test by reference to classes of business which are managed together, before taking into account relevant investment returns. Liability adequacy testing for both life and non-life and related assets is disclosed in more detail in accounting policy 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 is determined according to contracts valid at the time in which 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**

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 or 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 2012, 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, except for equity securities classified as available for sale when are recognised in other comprehensive income.

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 profit or loss. Other changes in the carrying amount are recognised in other comprehensive income.

The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency classified as available for sale are recognised in other comprehensive income, along with other changes in 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 2012 was EUR 1 = HRK 7.546 (2011: EUR 1 = HRK 7.530).

## **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 uncertainty in relation to technical provisions*

The most significant estimates in relation to the Group's financial statements relate to technical provisions. 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 6, whilst insurance contract provisions are analysed in Note 24.

#### *Impairment losses 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 uncertainty in relation to court cases*

A significant source of estimation uncertainty stems from court cases. At 31 December 2012, the Group was involved in 1,101 (2011: 1,162) court cases for which HRK 53,737 thousand (2011: HRK 58,050 thousand) was provided as part of the claims reserve for reported but not yet settled claims. At 31 December 2012, the Group was involved in 30 non-insurance court cases for which HRK 3,045 thousand (2011: 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 Act.

### **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 at inception into different accounting categories in certain circumstances. In classifying financial assets as "trading", the Group has determined that it meets the definition 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 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 properties all properties that are not used in the performance of its own activities but are 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".

The Group has performed impairment test of goodwill for the year ended 31 December 2012, which indicated that the carrying amount of goodwill is recoverable.

#### *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.

#### *Impairment allowance of investment in subsidiary and associate*

Recognition of impairment allowance against investment in subsidiary and associate is based on the management's best estimate of their recoverable amounts.

#### *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 2012, as a result of impairment test, the Group recognised impairment loss in the amount of HRK 3,963 thousand (2011: HRK 5,455 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: traditional life products, unit-linked products, index-linked products and all lines of non-life products (property, accident, travel 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 the accumulation of net property losses arising out of one occurrence, a reinsurance catastrophe agreement provides cover for the first EUR 949.85 million (2011: EUR 949.85 million) of losses exceeding the first EUR 150 thousand.

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 EUR 30 thousand sum at risk.

Ceded reinsurance contains credit risk and such reinsurance receivables 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 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 assurance 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. Values at risk for life assurance are as follows:

Line of insurance	Value at risk			
	2012		2011	
	HRK'000	%	HRK'000	%
Life assurance – traditional products	2,730,347	45.0%	3,044,851	46.3%
Unit-linked and index-linked products	147,589	2.4%	200,644	3.1%
Supplementary risks to life assurance	3,186,576	52.6%	3,330,407	50.6%
<b>As at 31 December</b>	<b>6,064,512</b>	<b>100.0%</b>	<b>6,575,902</b>	<b>100.0%</b>

## 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 2012

In HRK	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 40,000	248,675	6.3%	182,484	6.5%
40,001-60,000	360,452	9.2%	259,330	9.2%
60,001-80,000	742,749	19.0%	592,983	21.0%
80,001-100,000	510,476	13.0%	351,478	12.5%
100,001-125,000	671,837	17.2%	509,023	18.1%
125,001-150,000	313,424	8.0%	210,223	7.5%
150,001-250,000	780,512	19.9%	531,487	18.8%
250,001-500,000	260,237	6.6%	160,427	5.7%
> 500,001	30,586	0.8%	18,580	0.7%
<b>As at 31 December 2012</b>	<b>3,918,948</b>	<b>100.0%</b>	<b>2,816,015</b>	<b>100.0%</b>

#### 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	6.6%	202,049	6.8%
40,001-60,000	421,328	10.1%	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%
<b>As at 31 December 2011</b>	<b>4,192,130</b>	<b>100.0%</b>	<b>2,976,689</b>	<b>100.0%</b>

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

### *Non-life insurance*

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

The liability for reported but not settled claims (RBNS) 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 in the gross amount 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 greatest influence on the level of provisions.

### *Tail factors*

For long-tail business, the level of provision is significantly influenced by the estimate of 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 2012 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 interest rate included in policies varies from 2.5% to 6% according to the actual technical rate used in premium determination. According to the guidelines and the rules issued by HANFA, the maximum interest rate used for discounting when calculating life assurance provision is 3.3% for the policies concluded before year 2010, 3% for the policies concluded during 2010, and 2.75% for the policies concluded after 2010. The tariffs that have technical interest rate used for premium determination which is lower than those percentage amounts, the lower interest rate is used for life provision calculation.

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

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 used in the calculation of whole portfolio.

#### *Policyholder bonuses*

Policyholders or beneficiaries of endowment policies, 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, CE11, 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. The level of the profit entitlement is determined by the Management Board.

## 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/IKD12	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 2012 there have been no major changes in assumptions used to measure life assurance assets and liabilities compared 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 levels of uncertainty in the future development of insurance markets and the Group's portfolio, the Group uses conservative margins for risk and uncertainty within the liability adequacy test.

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

The methodology of testing considers current estimates of all future contractual cash flows. 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 curve derived from Bloomberg data for several Croatian Government euro bonds. The data was then interpolated and extrapolated to the ultimate forward rate of 4.2% using the Solvency II methodology that is applied in the long term guarantee assessment (Smith-Wilson method).

#### *Profit sharing*

Whilst, for majority of 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*

Insurance liabilities in respect of 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 2,700 thousand has been established as of 31 December 2012 (2012: HRK 2,200 thousand) as a result of the liability adequacy test and is disclosed under the unexpired risk provision.

## 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 - modelled future cash flows at the end of the year.

### *Life assurance*

	<b>LAT future cash flow -modelled HRK'000</b>
Base run	730,893
Interest rates (discounting and investment return) –100bp	751,601
Mortality +10%	733,504
Policy maintenance expenses +10%	744,718

The portfolio modelled represents 96.4% of in force life assurance provision (HRK 830,461 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 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, travel 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 insurance 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 is also 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 assurance 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 in instalments 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 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 2012

#### Group

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
<b>Assets</b>					
Property and equipment	18,368	325	40,386	-	59,079
Investment property	4,362	-	23,702	-	28,064
Intangible assets					
Deferred acquisition costs	15,991	374	-	-	16,365
Other intangible assets	9,420	3,343	-	-	12,763
Investments in subsidiary and associate	1,550	50	6	(1,600)	6
Financial assets at fair value through profit or loss	52,397	161,064	-	-	213,461
Available-for-sale financial assets	199,042	380,256	-	-	579,298
Held-to-maturity investments	45,230	483,332	-	-	528,562
Loans and receivables	80,225	27,439	-	(6,000)	101,664
Reinsurers' share of technical provisions	152,117	263,633	-	-	415,750
Inventories	145	-	7	-	152
Insurance and other receivables	127,909	99,700	319	(1,385)	226,543
Assets held for sale	17,222	-	-	-	17,222
Cash and cash equivalents	4,077	2,436	533	-	7,046
<b>Total assets</b>	<b>728,055</b>	<b>1,421,952</b>	<b>64,953</b>	<b>(8,985)</b>	<b>2,205,975</b>
<b>Shareholders' equity</b>					
Share capital	101,491	134,304	1,600	(1,600)	235,795
Share premium	43,700	-	-	-	43,700
Statutory reserve	-	1,463	-	-	1,463
Fair value reserve	10,491	18,831	-	-	29,322
Retained earnings	2,264	6,752	1,280	-	10,296
<b>Total equity attributable to equity holders of the Company</b>	<b>157,946</b>	<b>161,350</b>	<b>2,880</b>	<b>(1,600)</b>	<b>320,576</b>
<b>Liabilities</b>					
Technical provisions	358,262	926,026	-	-	1,284,288
Discretionary profit participation provision	-	7,244	-	-	7,244
Subordinated loan	15,091	-	-	-	15,091
Borrowings	-	-	58,702	(6,000)	52,702
Deferred tax liability	2,623	4,708	-	-	7,331
Provisions for liabilities and charges	9,207	-	50	-	9,257
Current tax liability	-	-	111	-	111
Insurance and other payables	184,926	322,624	3,210	(1,385)	509,375
<b>Total liabilities</b>	<b>570,109</b>	<b>1,260,602</b>	<b>62,073</b>	<b>(7,385)</b>	<b>1,885,399</b>
<b>Total liabilities and equity</b>	<b>728,055</b>	<b>1,421,952</b>	<b>64,953</b>	<b>(8,985)</b>	<b>2,205,975</b>

## 10 Segment reporting (continued)

### 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
<b>Assets</b>					
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 subsidiary and associate	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 technical 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
<b>Total assets</b>	<b>722,919</b>	<b>1,324,634</b>	<b>66,156</b>	<b>(8,601)</b>	<b>2,105,108</b>
<b>Shareholders' equity</b>					
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)
<b>Total equity attributable to equity holders of the Company</b>	<b>142,964</b>	<b>125,588</b>	<b>2,625</b>	<b>(1,600)</b>	<b>269,577</b>
<b>Liabilities</b>					
Technical 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
Provisions for liabilities and charges	925	-	-	-	925
Current tax liability	-	-	262	-	262
Insurance and other payables	192,534	315,501	1,408	(1,001)	508,442
<b>Total liabilities</b>	<b>579,955</b>	<b>1,199,046</b>	<b>63,531</b>	<b>(7,001)</b>	<b>1,835,531</b>
<b>Total liabilities and equity</b>	<b>722,919</b>	<b>1,324,634</b>	<b>66,156</b>	<b>(8,601)</b>	<b>2,105,108</b>

## 10 Segment reporting (continued)

### Statement of financial position by business segment as at 31 December 2012

#### Company

	Non-life HRK'000	Life HRK'000	Total HRK'000
<b>Assets</b>			
Property and equipment	18,368	325	18,693
Investment property	4,362	-	4,362
Intangible assets			
Deferred acquisition costs	15,991	374	16,365
Other intangible assets	9,420	3,343	12,763
Investment in subsidiary	1,550	50	1,600
Financial assets at fair value through profit or loss	52,397	161,064	213,461
Available-for-sale financial assets	199,042	380,256	579,298
Held-to-maturity investments	45,230	483,332	528,562
Loans and receivables	80,225	27,439	107,664
Reinsurers' share of technical provisions	152,117	263,633	415,750
Inventories	145	-	145
Insurance and other receivables	127,909	99,700	227,609
Assets held for sale	17,222	-	17,222
Cash and cash equivalents	4,077	2,436	6,513
	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	<b>728,055</b>	<b>1,421,952</b>	<b>2,150,007</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Shareholders' equity</b>			
Share capital	101,491	134,304	235,795
Share premium	43,700	-	43,700
Statutory reserve	-	1,463	1,463
Fair value reserve	10,491	18,831	29,322
Retained earnings	2,264	6,752	9,016
	<hr/>	<hr/>	<hr/>
<b>Total equity attributable to equity holders of the Company</b>	<b>157,946</b>	<b>161,350</b>	<b>319,296</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>			
Technical provisions	358,262	926,026	1,284,288
Discretionary profit participation provision	-	7,244	7,244
Subordinated loan	15,091	-	15,091
Deferred tax liability	2,623	4,708	7,331
Provisions for liabilities and charges	9,207	-	9,207
Insurance and other payables	184,926	322,624	507,550
	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	<b>570,109</b>	<b>1,260,602</b>	<b>1,830,711</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Total liabilities and equity</b>	<b>728,055</b>	<b>1,421,952</b>	<b>2,150,007</b>
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## 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
<b>Assets</b>			
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
Investment in subsidiary	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 technical 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/>
<b>Total assets</b>	<b>722,919</b>	<b>1,324,634</b>	<b>2,047,553</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Shareholders' equity</b>			
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/>
<b>Total equity attributable to equity holders of the Company</b>	<b>142,964</b>	<b>125,588</b>	<b>268,552</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>			
Technical 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	192,534	315,501	508,035
	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	<b>579,955</b>	<b>1,199,046</b>	<b>1,779,001</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Total liabilities and equity</b>	<b>722,919</b>	<b>1,324,634</b>	<b>2,047,553</b>
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## 10 Segment reporting (continued)

### Statement of comprehensive income by business segment for the year ended 31 December 2012

#### Group

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	237,881	170,536	-	(70)	408,347
Written premiums ceded to reinsurers	(115,909)	(53,008)	-	-	(168,917)
<b>Net premiums written</b>	<b>121,972</b>	<b>117,528</b>	<b>-</b>	<b>(70)</b>	<b>239,430</b>
Change in the gross provision for unearned premiums	10,981	(146)	-	-	10,835
Reinsurers' share of change in the provision for unearned premiums	(2,997)	98	-	-	(2,899)
<b>Net earned premiums</b>	<b>129,956</b>	<b>117,480</b>	<b>-</b>	<b>(70)</b>	<b>247,366</b>
Fees and commission income	41,551	9,180	-	-	50,731
Financial income	25,115	65,004	7,283	(5,343)	92,059
Other operating income	2,902	568	2,424	(1,680)	4,214
<b>Net income</b>	<b>199,524</b>	<b>192,232</b>	<b>9,707</b>	<b>(7,093)</b>	<b>394,370</b>
Claims and benefits incurred	(127,137)	(141,356)	-	-	(268,493)
Reinsurers' share of claims and benefits incurred	62,317	46,941	-	-	109,258
<b>Net policyholder claims and benefits incurred</b>	<b>(64,820)</b>	<b>(94,415)</b>	<b>-</b>	<b>-</b>	<b>(159,235)</b>
Acquisition costs	(25,191)	(20,845)	-	-	(46,036)
Administrative expenses	(68,966)	(59,211)	(6,371)	6,733	(127,815)
Other operating expenses	(17,710)	(11,036)	(50)	-	(28,796)
Financial expenses	(20,574)	(7,826)	(2,648)	360	(30,688)
<b>Profit/(loss) before income tax</b>	<b>2,263</b>	<b>(1,101)</b>	<b>638</b>	<b>-</b>	<b>1,800</b>
Income tax expense	-	-	(383)	-	(383)
<b>Profit/(loss) for the year</b>	<b>2,263</b>	<b>(1,101)</b>	<b>255</b>	<b>-</b>	<b>1,417</b>
<b>Other comprehensive income for the year, net of income tax</b>					
Net change in fair value of available-for-sale financial assets, net of deferred tax	12,719	36,863	-	-	49,582
<b>Total comprehensive income for the year</b>	<b>14,982</b>	<b>35,762</b>	<b>255</b>	<b>-</b>	<b>50,999</b>

## 10 Segment reporting (continued)

### 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)
<b>Net premiums written</b>	<b>125,653</b>	<b>127,775</b>	<b>-</b>	<b>(74)</b>	<b>253,354</b>
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)
<b>Net earned premiums</b>	<b>142,835</b>	<b>128,967</b>	<b>-</b>	<b>(74)</b>	<b>271,728</b>
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
<b>Net income</b>	<b>208,310</b>	<b>202,111</b>	<b>10,842</b>	<b>(8,373)</b>	<b>412,890</b>
Claims and benefits incurred	(168,161)	(157,449)	-	-	(325,610)
Reinsurers' share of claims and benefits	73,557	51,296	-	-	124,853
<b>Net policyholder claims and benefits</b>	<b>(94,604)</b>	<b>(106,153)</b>	<b>-</b>	<b>-</b>	<b>(200,757)</b>
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)
<b>(Loss)/profit before income tax</b>	<b>(60,534)</b>	<b>(29,598)</b>	<b>1,529</b>	<b>428</b>	<b>(88,175)</b>
Income tax expense	(2,000)	-	(334)	-	(2,334)
<b>(Loss)/profit for the year</b>	<b>(62,534)</b>	<b>(29,598)</b>	<b>1,195</b>	<b>428</b>	<b>(90,509)</b>
<b>Other comprehensive income for the year, net of income tax</b>					
Net change in fair value of available-for-sale financial assets, net of deferred tax	(2,287)	(17,049)	-	-	(19,336)
<b>Total comprehensive income for the year</b>	<b>(64,821)</b>	<b>(46,647)</b>	<b>1,195</b>	<b>428</b>	<b>(109,845)</b>

## 10 Segment reporting (continued)

### Statement of comprehensive income by business segment for the year ended 31 December 2012

#### Company

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	237,881	170,536	408,417
Written premiums ceded to reinsurers	(115,909)	(53,008)	(168,917)
<b>Net premiums written</b>	<b>121,972</b>	<b>117,528</b>	<b>239,500</b>
Change in the gross provision for unearned premiums	10,981	(146)	10,835
Reinsurers' share of change in the provision for unearned premiums	(2,997)	98	(2,899)
<b>Net earned premiums</b>	<b>129,956</b>	<b>117,480</b>	<b>247,436</b>
Fees and commission income	41,551	9,180	50,731
Financial income	25,115	65,004	90,119
Other operating income	2,902	568	3,470
<b>Net income</b>	<b>199,524</b>	<b>192,232</b>	<b>391,756</b>
Claims and benefits incurred	(127,137)	(141,356)	(268,493)
Reinsurers' share of claims and benefits incurred	62,317	46,941	109,258
<b>Net policyholder claims and benefits incurred</b>	<b>(64,820)</b>	<b>(94,415)</b>	<b>(159,235)</b>
Acquisition costs	(25,191)	(20,845)	(46,036)
Administrative expenses	(68,966)	(59,211)	(128,177)
Other operating expenses	(17,710)	(11,036)	(28,746)
Financial expenses	(20,574)	(7,826)	(28,400)
<b>Profit/(loss) before income tax</b>	<b>2,263</b>	<b>(1,101)</b>	<b>1,162</b>
Income tax expense	-	-	-
<b>Profit/(loss) for the year</b>	<b>2,263</b>	<b>(1,101)</b>	<b>1,162</b>
<b>Other comprehensive income for the year, net of income tax</b>			
Net change in fair value of available-for-sale financial assets, net of deferred tax	12,719	36,863	49,582
<b>Total comprehensive income for the year</b>	<b>14,982</b>	<b>35,762</b>	<b>50,744</b>

## 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)
<b>Net premiums written</b>	<b>125,653</b>	<b>127,775</b>	<b>253,428</b>
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)
<b>Net earned premiums</b>	<b>142,835</b>	<b>128,967</b>	<b>271,802</b>
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
<b>Net income</b>	<b>208,310</b>	<b>202,111</b>	<b>410,421</b>
Claims and benefits incurred	(168,161)	(157,449)	(325,610)
Reinsurers' share of claims and benefits incurred	73,557	51,296	124,853
<b>Net policyholder claims and benefits incurred</b>	<b>(94,604)</b>	<b>(106,153)</b>	<b>(200,757)</b>
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)
<b>Loss before income tax</b>	<b>(60,534)</b>	<b>(29,598)</b>	<b>(90,132)</b>
Income tax expense	(2,000)	-	(2,000)
<b>Loss for the year</b>	<b>(62,534)</b>	<b>(29,598)</b>	<b>(92,132)</b>
<b>Other comprehensive income for the year, net of income tax</b>			
Net change in fair value of available-for-sale financial assets, net of deferred tax	(2,287)	(17,049)	(19,336)
<b>Total comprehensive income for the year</b>	<b>(64,821)</b>	<b>(46,647)</b>	<b>(111,468)</b>



## **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 travel 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 Group 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
<b>Cost</b>						
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)
<b>Balance at 31 December 2011</b>	<b>60,194</b>	<b>1,695</b>	<b>6,945</b>	<b>33,530</b>	<b>6,855</b>	<b>109,219</b>
Balance at 1 January 2012	60,194	1,695	6,945	33,530	6,855	109,219
Additions	6	-	105	1,696	50	1,857
Disposals	-	-	(883)	(9)	-	(892)
Write offs (Note 36)	(1,065)	-	-	(3,707)	(162)	(4,934)
Impairment of assets (Note 36)	(234)	-	-	-	-	(234)
Reclassification to investment property (Note 12)	(1,613)	-	-	-	-	(1,613)
<b>Balance at 31 December 2012</b>	<b>57,288</b>	<b>1,695</b>	<b>6,167</b>	<b>31,510</b>	<b>6,743</b>	<b>103,403</b>
<b>Depreciation and impairment losses</b>						
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 offs	(458)	-	-	-	-	(458)
Reclassification to investment property (Note 12)	(752)	-	-	-	-	(752)
Reclassifications to other intangible assets (Note 14)	-	-	-	(1,134)	-	(1,134)
<b>Balance at 31 December 2011</b>	<b>7,929</b>	<b>-</b>	<b>3,047</b>	<b>29,532</b>	<b>3,791</b>	<b>44,299</b>
Balance at 1 January 2012	7,929	-	3,047	29,532	3,791	44,299
Depreciation charge for the year	1,230	-	1,156	1,772	527	4,685
Disposals	-	-	(461)	(8)	-	(469)
Write offs (Note 36)	(183)	-	-	(3,693)	(159)	(4,035)
Impairment of assets (Note 36)	(40)	-	-	-	-	(40)
Reclassification to investment property (Note 12)	(116)	-	-	-	-	(116)
<b>Balance at 31 December 2012</b>	<b>8,820</b>	<b>-</b>	<b>3,742</b>	<b>27,603</b>	<b>4,159</b>	<b>44,324</b>
<b>Carrying amounts</b>						
At 1 January 2011	84,937	1,689	3,350	4,943	3,643	98,562
<b>At 31 December 2011</b>	<b>52,265</b>	<b>1,695</b>	<b>3,898</b>	<b>3,998</b>	<b>3,064</b>	<b>64,920</b>
At 1 January 2012	52,265	1,695	3,898	3,998	3,064	64,920
<b>At 31 December 2012</b>	<b>48,468</b>	<b>1,695</b>	<b>2,425</b>	<b>3,907</b>	<b>2,584</b>	<b>59,079</b>

Included within land and buildings is non-depreciable land with a carrying amount of HRK 9,305 thousand (2011: HRK 9,305 thousand).

Land and buildings with a carrying amount of HRK 39,065 thousand (2011: HRK 40,049 thousand) are pledged as collateral for borrowings of the Group (Note 27).

In 2012, the Group changed the use of business premises with carrying amount of HRK 1,497 thousand (2011: HRK 6,060 thousand) from owner-occupied to investment property and reclassified these premises as such.

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
<b>Cost</b>						
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)
<b>Balance at 31 December 2011</b>	<b>12,944</b>	<b>1,695</b>	<b>6,945</b>	<b>28,760</b>	<b>6,268</b>	<b>56,612</b>
Balance at 1 January 2012	12,944	1,695	6,945	28,760	6,268	56,612
Additions	6	-	105	1,696	50	1,857
Disposals	-	-	(883)	(9)	-	(892)
Write offs (Note 36)	(1,065)	-	-	(3,700)	(3)	(4,768)
Impairment of assets (Note 36)	(234)	-	-	-	-	(234)
Reclassification to investment property (Note 12)	(1,613)	-	-	-	-	(1,613)
<b>Balance at 31 December 2012</b>	<b>10,038</b>	<b>1,695</b>	<b>6,167</b>	<b>26,747</b>	<b>6,315</b>	<b>50,962</b>
<b>Depreciation and impairment losses</b>						
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 offs	(458)	-	-	-	-	(458)
Reclassifications to other intangible assets (Note 14)	-	-	-	(1,134)	-	(1,134)
<b>Balance at 31 December 2011</b>	<b>1,886</b>	<b>-</b>	<b>3,047</b>	<b>24,917</b>	<b>3,375</b>	<b>33,225</b>
Balance at 1 January 2012	1,886	-	3,047	24,917	3,375	33,225
Depreciation charge for the year	225	-	1,156	1,686	472	3,539
Disposals	-	-	(461)	(8)	-	(469)
Write offs (Note 36)	(183)	-	-	(3,687)	-	(3,870)
Impairment of assets (Note 36)	(40)	-	-	-	-	(40)
Reclassification to investment property (Note 12)	(116)	-	-	-	-	(116)
<b>Balance at 31 December 2012</b>	<b>1,772</b>	<b>-</b>	<b>3,742</b>	<b>22,908</b>	<b>3,847</b>	<b>32,269</b>
<b>Carrying amounts</b>						
At 1 January 2011	36,954	1,689	3,333	4,707	3,365	50,048
<b>At 31 December 2011</b>	<b>11,058</b>	<b>1,695</b>	<b>3,898</b>	<b>3,843</b>	<b>2,893</b>	<b>23,387</b>
At 1 January 2012	11,058	1,695	3,898	3,843	2,893	23,387
<b>At 31 December 2012</b>	<b>8,266</b>	<b>1,695</b>	<b>2,425</b>	<b>3,839</b>	<b>2,468</b>	<b>18,693</b>

Included within land and buildings is non-depreciable land with a carrying amount of HRK 2,236 thousand (2011: HRK 2,236 thousand).

In 2012, the Company changed the use of business premises with carrying amount of HRK 1,497 thousand from owner-occupied to investment property and reclassified these premises as such.

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

## 12 Investment property

	<b>Group</b>	<b>Company</b>
	<b>HRK'000</b>	<b>HRK'000</b>
<b>Cost</b>		
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)
<b>Balance at 31 December 2011</b>	<b>30,755</b>	<b>2,829</b>
Balance at 1 January 2012	30,755	2,829
Additions	72	72
Reclassifications from property and equipment (Note 11)	1,613	1,613
<b>Balance at 31 December 2012</b>	<b>32,440</b>	<b>4,514</b>
<b>Depreciation and impairment losses</b>		
Balance at 1 January 2011	2,476	148
Depreciation charge for the year (Note 38)	572	-
Disposal	(148)	(148)
Reclassifications from property and equipment (Note 11)	752	-
<b>Balance at 31 December 2011</b>	<b>3,652</b>	<b>-</b>
Balance at 1 January 2012	3,652	-
Depreciation charge for the year (Note 38)	608	36
Reclassifications from property and equipment (Note 11)	116	116
<b>Balance at 31 December 2012</b>	<b>4,376</b>	<b>152</b>
<b>Carrying amounts</b>		
At 1 January 2011	46,270	27,624
<b>At 31 December 2011</b>	<b>27,103</b>	<b>2,829</b>
At 1 January 2012	27,103	2,829
<b>At 31 December 2012</b>	<b>28,064</b>	<b>4,362</b>

Investment property of the Group with a carrying amount of HRK 23,702 thousand (2011: HRK 24,274 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 2,437 thousand (2011: HRK 2,433 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 550 thousand (2011: HRK 590 thousand) are recognised in profit or loss within "Administrative expenses".

In 2012, the Group changed the use of business premises with carrying amount of HRK 1,497 thousand (2011: HRK 6,060 thousand) from owner-occupied to investment property and reclassified these premises as such.

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

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 Zillmerisation 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	
	2012	2011	2012	2011	2012	2011
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	19,156	32,412	335	384	19,491	32,796
Net change (Note 35)	(3,165)	(13,256)	39	(49)	(3,126)	(13,305)
<b>Balance at 31 December</b>	<b>15,991</b>	19,156	<b>374</b>	335	<b>16,365</b>	19,491

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
<b>Cost</b>						
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
Write offs (Note 36)	(3,838)	-	-	(5,400)	-	(9,238)
<b>Balance at 31 December 2011</b>	<b>3,552</b>	<b>3,450</b>	<b>28,598</b>	<b>3,450</b>	<b>62</b>	<b>39,112</b>
Balance at 1 January 2012	3,552	3,450	28,598	3,450	62	39,112
Additions	-	-	1,540	1,637	-	3,177
Transfer into use	-	-	202	(202)	-	-
Write offs (Note 36)	-	-	-	(676)	-	(676)
<b>Balance at 31 December 2012</b>	<b>3,552</b>	<b>3,450</b>	<b>30,340</b>	<b>4,209</b>	<b>62</b>	<b>41,613</b>
<b>Amortisation and impairment losses</b>						
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
<b>Balance at 31 December 2011</b>	<b>-</b>	<b>2,070</b>	<b>23,769</b>	<b>-</b>	<b>-</b>	<b>25,839</b>
Balance at 1 January 2012	-	2,070	23,769	-	-	25,839
Amortisation for the year	-	345	2,635	-	31	3,011
<b>Balance at 31 December 2012</b>	<b>-</b>	<b>2,415</b>	<b>26,404</b>	<b>-</b>	<b>31</b>	<b>28,850</b>
<b>Carrying amounts</b>						
At 1 January 2011	7,390	1,725	5,387	8,662	-	23,164
<b>At 31 December 2011</b>	<b>3,552</b>	<b>1,380</b>	<b>4,829</b>	<b>3,450</b>	<b>62</b>	<b>13,273</b>
At 1 January 2012	3,552	1,380	4,829	3,450	62	13,273
<b>At 31 December 2012</b>	<b>3,552</b>	<b>1,035</b>	<b>3,936</b>	<b>4,209</b>	<b>31</b>	<b>12,763</b>

The amortisation charge is recognised in profit or loss within “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
<b>Cost</b>						
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
Write offs (Note 36)	(3,838)	-	-	(5,400)	-	(9,238)
<b>Balance at 31 December 2011</b>	<b>3,552</b>	<b>3,450</b>	<b>28,548</b>	<b>3,450</b>	<b>62</b>	<b>39,062</b>
Balance at 1 January 2012	3,552	3,450	28,548	3,450	62	39,062
Additions	-	-	1,540	1,637	-	3,177
Transfer into use	-	-	202	(202)	-	-
Write offs (Note 36)	-	-	-	(676)	-	(676)
<b>Balance at 31 December 2012</b>	<b>3,552</b>	<b>3,450</b>	<b>30,290</b>	<b>4,209</b>	<b>62</b>	<b>41,563</b>
<b>Amortisation and impairment losses</b>						
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
<b>Balance at 31 December 2011</b>	<b>-</b>	<b>2,070</b>	<b>23,719</b>	<b>-</b>	<b>-</b>	<b>25,789</b>
Balance at 1 January 2012	-	2,070	23,719	-	-	25,789
Amortisation for the year	-	345	2,635	-	31	3,011
<b>Balance at 31 December 2012</b>	<b>-</b>	<b>2,415</b>	<b>26,354</b>	<b>-</b>	<b>31</b>	<b>28,800</b>
<b>Carrying amounts</b>						
At 1 January 2011	7,390	1,725	5,387	8,662	-	23,164
<b>At 31 December 2011</b>	<b>3,552</b>	<b>1,380</b>	<b>4,829</b>	<b>3,450</b>	<b>62</b>	<b>13,273</b>
At 1 January 2012	3,552	1,380	4,829	3,450	62	13,273
<b>At 31 December 2012</b>	<b>3,552</b>	<b>1,035</b>	<b>3,936</b>	<b>4,209</b>	<b>31</b>	<b>12,763</b>

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

## 15 Investments in subsidiary and associate

a) **Subsidiary and associate are as follows:**

	Industry	Domicile	Group ownership at 31 December 2012	Group ownership at 31 December 2011
Kvarner Wiener Städtische nekretnine d.o.o.	Property management	Croatia	100%	100%
Vile Baredine d.o.o.	Construction and services	Croatia	30%	30%

Subsidiary is fully consolidated in the Group financial statements.

b) **Investments in subsidiary and associate are as follows:**

	Group 2012 HRK'000	Group 2011 HRK'000	Company 2012 HRK'000	Company 2011 HRK'000
Kvarner Wiener Städtische nekretnine d.o.o.	-	-	1,600	1,600
Vile Baredine (30%)	6	6	-	-
	<u>6</u>	<u>6</u>	<u>1,600</u>	<u>1,600</u>

In the unconsolidated financial statements for 2012 and 2011 the investment in Kvarner Wiener Städtische nekretnine d.o.o. is carried within non-life segment apart from HRK 50 thousand which are carried within life assurance segment.

c) **The Group's share in associate, Vile Baredine d.o.o. is analysed as follows:**

	2012 HRK'000	2011 HRK'000
Current assets	22	18
Non-current assets	1,705	1,508
Current liabilities	(1,881)	(1,655)
<b>Net assets</b>	<u><b>(154)</b></u>	<u><b>(129)</b></u>
<b>Share of associates' revenue and profit</b>	<u><b>(7)</b></u>	<u><b>(12)</b></u>



## 15 Investments in subsidiary and associate (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 investment in subsidiary amounted to HRK 102 thousand.

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

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

## 16 Financial investments

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Financial assets at fair value through profit or loss	<b>213,461</b>	124,804	<b>213,461</b>	124,804
Available-for-sale financial assets	<b>579,298</b>	514,496	<b>579,298</b>	514,496
Held-to-maturity investments	<b>528,562</b>	527,772	<b>528,562</b>	527,772
Loans and receivables	<b>101,664</b>	150,352	<b>107,664</b>	156,352
	<u><b>1,422,985</b></u>	<u>1,317,424</u>	<u><b>1,428,985</b></u>	<u>1,323,424</u>

### *Financial assets at fair value through profit or loss*

As at 31 December 2012 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 60,557 thousand (2011: HRK 45,119 thousand), measured at fair value through profit or loss.

### *Available-for-sale financial assets*

As at 31 December 2012 there were no past due available-for-sale financial assets.

In 2012, the Group recognised an impairment loss on equity and debt securities available for sale through profit or loss, which decreased profit before tax by HRK 3,963 thousand (2011: increased loss before tax by HRK 5,455 thousand), of which HRK 3,818 thousand related to financial assets which became impaired in 2012 and the remaining amount of impairment loss related to financial assets which were already impaired in prior years.

### *Held-to-maturity investments*

As at 31 December 2012 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:

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Loans to customers	<b>86,717</b>	95,999	<b>92,717</b>	101,999
Impairment allowance on loans to customers	<b>(30,272)</b>	(19,083)	<b>(30,272)</b>	(19,083)
Loans to customers, net of impairment allowance	<u><b>56,445</b></u>	<u>76,916</u>	<u><b>62,445</b></u>	<u>82,916</u>
Deposits with banks	<b>45,219</b>	73,436	<b>45,219</b>	73,436
	<u><b>101,664</b></u>	<u>150,352</u>	<u><b>107,664</b></u>	<u>156,352</u>

## 16 Financial investments (continued)

### *Loans and receivables (continued)*

Loans and receivables are analysed as shown below:

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Not due but impaired	<b>1,023</b>	-	<b>1,023</b>	-
Not due and not impaired	<b>64,532</b>	99,807	<b>65,532</b>	104,807
Due but not impaired	<b>2,844</b>	5,350	<b>7,844</b>	6,350
Due and impaired	<b>63,537</b>	64,278	<b>63,537</b>	64,278
Impairment	<b>(30,272)</b>	(19,083)	<b>(30,272)</b>	(19,083)
	<b>101,664</b>	150,352	<b>107,664</b>	156,352

Out of the Group's past due but not impaired loans in the amount of HRK 2,844 thousand (2011: HRK 5,350 thousand), HRK 560 thousand (2011: HRK 2,349 thousand) is secured by mortgages on real estate, HRK 34 thousand (2011: HRK 1 thousand) is secured by the redemption value of life assurance policies, HRK 2,250 thousand (2011: HRK 3,000 thousand) is secured by bank guarantee.

Out of past due and impaired loans in the amount of HRK 63,537 thousand (2011: 64,278 thousand), HRK 55,953 thousand (2011: HRK 56,001 thousand) is secured by mortgages on real estate, HRK 42 thousand (2011: 42 thousand) is secured by the redemption value of life assurance policies, HRK 2,271 thousand (2011: 2,415 thousand) is secured by bank guarantee, while HRK 5,271 thousand (2011: 5,820 thousand) is not secured.

In 2012 and 2011 there was no interest income recognised on impaired loans.

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

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<b>Balance at 1 January</b>	<b>19,083</b>	4,826	<b>19,083</b>	4,826
Impairment losses (Note 38)	<b>12,188</b>	16,701	<b>12,188</b>	16,701
Collection of amounts previously provided for (Note 32)	<b>(450)</b>	(62)	<b>(450)</b>	(62)
Write offs	<b>(549)</b>	(2,382)	<b>(549)</b>	(2,382)
<b>Balance at 31 December</b>	<b>30,272</b>	19,083	<b>30,272</b>	19,083

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 HRK'000	Available-for- sale financial assets HRK'000	Held-to- maturity investments HRK'000	Loans and receivables HRK'000	Total HRK'000
<b>2012</b>					
Listed	-	2,754	-	-	2,754
Unlisted	90	-	-	-	90
<b>Equity securities</b>	<b>90</b>	<b>2,754</b>	<b>-</b>	<b>-</b>	<b>2,844</b>
Bonds - Government of Republic of Croatia	-	502,304	526,540	-	1,028,844
Municipal bonds – domestic	-	968	2,022	-	2,990
Corporate bonds – domestic	-	43,103	-	-	43,103
Corporate bonds – foreign	6,150	-	-	-	6,150
Corporate bonds – assets backing index-linked products, foreign	33,762	-	-	-	33,762
<b>Debt securities – fixed rate, listed</b>	<b>39,912</b>	<b>546,375</b>	<b>528,562</b>	<b>-</b>	<b>1,114,849</b>
Investment funds – open ended, quoted	146,664	30,169	-	-	176,833
Investment funds – assets backing unit-linked products, foreign	26,795	-	-	-	26,795
<b>Investment funds</b>	<b>173,459</b>	<b>30,169</b>	<b>-</b>	<b>-</b>	<b>203,628</b>
Deposits with banks	-	-	-	45,219	45,219
Loans to customers – secured by the redemption value of life assurance	-	-	-	14,137	14,137
Loans to customers - secured by mortgages on real estate	-	-	-	39,590	39,590
Loans to customers - others	-	-	-	2,718	2,718
<b>Loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>101,664</b>	<b>101,664</b>
	<b>213,461</b>	<b>579,298</b>	<b>528,562</b>	<b>101,664</b>	<b>1,422,985</b>
<b>2011</b>					
Listed	-	5,637	-	-	5,637
Unlisted	90	-	-	-	90
<b>Equity securities</b>	<b>90</b>	<b>5,637</b>	<b>-</b>	<b>-</b>	<b>5,727</b>
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
<b>Debt securities – fixed rate, listed</b>	<b>38,450</b>	<b>480,116</b>	<b>527,772</b>	<b>-</b>	<b>1,046,338</b>
Investment funds – open ended, quoted	63,910	28,743	-	-	92,653
Investment funds – assets backing unit-linked products, foreign	22,354	-	-	-	22,354
<b>Investment funds</b>	<b>86,264</b>	<b>28,743</b>	<b>-</b>	<b>-</b>	<b>115,007</b>
Deposits with banks	-	-	-	73,436	73,436
Loans to customers – secured by the redemption value of life assurance	-	-	-	13,902	13,902
Loans to customers - secured by mortgages on real estate	-	-	-	56,328	56,328
Loans to customers - others	-	-	-	6,686	6,686
<b>Loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>150,352</b>	<b>150,352</b>
	<b>124,804</b>	<b>514,496</b>	<b>527,772</b>	<b>150,352</b>	<b>1,317,424</b>

## 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
<b>2012</b>					
Listed	-	2,754	-	-	2,754
Unlisted	90	-	-	-	90
<b>Equity securities</b>	<b>90</b>	<b>2,754</b>	<b>-</b>	<b>-</b>	<b>2,844</b>
Bonds - Government of Republic of Croatia	-	502,304	526,540	-	1,028,844
Municipal bonds – domestic	-	968	2,022	-	2,990
Corporate bonds – domestic	-	43,103	-	-	43,103
Corporate bonds – foreign	6,150	-	-	-	6,150
Corporate bonds – assets backing index-linked products, foreign	33,762	-	-	-	33,762
<b>Debt securities – fixed rate, listed</b>	<b>39,912</b>	<b>546,375</b>	<b>528,562</b>	<b>-</b>	<b>1,114,849</b>
Investment funds – open ended, quoted	146,664	30,169	-	-	176,833
Investment funds – assets backing unit-linked products, foreign	26,795	-	-	-	26,795
<b>Investment funds</b>	<b>173,459</b>	<b>30,169</b>	<b>-</b>	<b>-</b>	<b>203,628</b>
Deposits with banks	-	-	-	45,219	45,219
Loans to customers – secured by the redemption value of life assurance	-	-	-	14,137	14,137
Loans to customers - secured by mortgages on real estate	-	-	-	45,590	45,590
Loans to customers - others	-	-	-	2,718	2,718
<b>Loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>107,664</b>	<b>107,664</b>
	<b>213,461</b>	<b>579,298</b>	<b>528,562</b>	<b>107,664</b>	<b>1,428,985</b>
<b>2011</b>					
Listed	-	5,637	-	-	5,637
Unlisted	90	-	-	-	90
<b>Equity securities</b>	<b>90</b>	<b>5,637</b>	<b>-</b>	<b>-</b>	<b>5,727</b>
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
<b>Debt securities – fixed rate, listed</b>	<b>38,450</b>	<b>480,116</b>	<b>527,772</b>	<b>-</b>	<b>1,046,338</b>
Investment funds – open ended, quoted	63,910	28,743	-	-	92,653
Investment funds – assets backing unit-linked products, foreign	22,354	-	-	-	22,354
<b>Investment funds</b>	<b>86,264</b>	<b>28,743</b>	<b>-</b>	<b>-</b>	<b>115,007</b>
Deposits with banks	-	-	-	73,436	73,436
Loans to customers – secured by the redemption value of life assurance	-	-	-	13,902	13,902
Loans to customers - secured by mortgages on real estate	-	-	-	56,328	56,328
Loans to customers - others	-	-	-	12,686	12,686
<b>Loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>156,352</b>	<b>156,352</b>
	<b>124,804</b>	<b>514,496</b>	<b>527,772</b>	<b>156,352</b>	<b>1,323,424</b>

## 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 from 1 July 2008, the Group 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 higher by HRK 91 thousand (before impairment effects). There was no effect on equity.

In addition, in November 2011 upon decision of the Management Board, based on paragraph 54 of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*, the Group 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 Group 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 has 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 2012 were as follows:

<b>Group and Company</b>	<b>At the reclassification date</b>		<b>31 December 2012</b>	
	<b>Book value HRK '000</b>	<b>Fair value HRK '000</b>	<b>Book value HRK '000</b>	<b>Fair value HRK '000</b>
<i>Financial assets at fair value through profit or loss reclassified to financial assets available for sale on 24 February 2009</i>				
Debt securities	8,337	8,337	800	800
<i>Financial assets available for sale reclassified to financial assets held to maturity on 2 November 2011</i>				
Debt securities	296,041	296,041	298,660	344,547

## 16 Financial investments (continued)

### Reclassification of financial assets (continued)

Following table presents amounts recognised in profit or loss and other comprehensive income during 2012 and 2011 from reclassified financial assets:

Group and Company	2012		2011	
	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 or loss reclassified to financial assets available for sale on 24 February 2009</i>				
Interest income	183	-	275	-
Premium discount	157	-	120	-
Realised gain	-	-	17	-
Change in fair value reserve, net of income tax	-	466	-	(42)
<i>Financial assets available for sale reclassified to held to maturity investments on 2 November 2011</i>				
Exchange rate differences	538	-	1,536	-
Interest income	19,763	-	3,219	-
Premium discount	484	-	60	-
Amortisation of fair value reserve	(1,647)	(1,318)	(276)	(221)
	<u>19,478</u>	<u>(852)</u>	<u>4,951</u>	<u>(263)</u>

Following table shows amounts which would have been recognised in the profit or loss and other comprehensive income during 2012 and 2011 from reclassified financial assets if reclassification was not performed:

Group and Company	2012		2011	
	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 on 24 February 2009</i>				
Interest income	183	-	275	-
Premium discount	157	-	120	-
Realised gains	-	-	17	-
Unrealised losses	583	-	(52)	-
<i>Financial assets available-for-sale reclassified to held-to-maturity investments on 2 November 2011</i>				
Exchange rate differences	620	-	1,472	-
Interest income	19,763	-	3,219	-
Premium discount	(595)	-	(101)	-
Change in fair value reserve, net of income tax	-	41,141	-	(13,242)
	<u>20,711</u>	<u>41,141</u>	<u>4,950</u>	<u>(13,242)</u>

## 17 Reinsurers' share of technical provisions

### Group and Company

	<i>Note</i>	2012 HRK'000	2011 HRK'000
<b>Non-life</b>			
Reinsurance share in provision for unearned premiums	24 a)	54,252	57,249
Reinsurance share in reported but not settled claims reserve	24 b)	71,550	58,304
Reinsurance share in incurred but not reported claims reserve	24 c)	26,315	24,283
<b>Total Non-life</b>		<b>152,117</b>	139,836
<b>Life</b>			
Reinsurance share in provision for unearned premiums	24 a)	936	838
Reinsurance share in reported but not settled claims reserve	24 b)	1,161	1,310
Reinsurance share in incurred but not reported claims reserve	24 c)	945	979
Reinsurance share in life assurance provision	24 e)	260,591	243,924
<b>Total Life</b>		<b>263,633</b>	247,051
<b>Total reinsurers' share of technical provisions</b>		<b>415,750</b>	386,887

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 2012 HRK'000	Group 2011 HRK'000	Company 2012 HRK'000	Company 2011 HRK'000
	<b>Balance at 1 January</b>	5,065	2,246	5,065
Recognised in profit or loss (Note 39)	-	(2,000)	-	(2,000)
Recognised in other comprehensive income (Note 22 d)	(5,065)	4,819	(5,065)	4,819
<b>Balance at 31 December</b>	-	5,065	-	5,065
<b>Deferred tax liability</b>				
	Group 2012 HRK'000	Group 2011 HRK'000	Company 2012 HRK'000	Company 2011 HRK'000
<b>At 1 January</b>	-	15	-	15
Recognised in other comprehensive income (Note 22 d)	7,331	(15)	7,331	(15)
<b>At 31 December</b>	7,331	-	7,331	-



## 19 Insurance and other receivables

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Insurance receivables				
- from policyholders	<b>104,396</b>	106,493	<b>104,396</b>	106,493
- from agents	<b>136</b>	852	<b>136</b>	852
- from recourses	<b>28,817</b>	28,713	<b>28,817</b>	28,713
- from other	<b>14,879</b>	20,706	<b>14,879</b>	20,706
Receivables from reinsurance				
- for claims recoveries	<b>40,771</b>	36,314	<b>40,771</b>	36,314
- for reinsurance commission	<b>21,005</b>	34,405	<b>21,005</b>	34,405
- for reinsurance deposits	<b>15,056</b>	31,902	<b>15,056</b>	31,902
Other receivables				
- accrued interest	<b>48,907</b>	37,189	<b>48,907</b>	37,309
- other	<b>44,099</b>	22,597	<b>45,032</b>	23,199
Prepaid expenses	<b>1,664</b>	4,367	<b>1,663</b>	4,367
Impairment allowance				
- for receivables from policyholders	<b>(46,832)</b>	(45,249)	<b>(46,832)</b>	(45,249)
- for recourse receivables	<b>(850)</b>	(934)	<b>(850)</b>	(934)
- for accrued interest	<b>(25,482)</b>	(17,670)	<b>(25,482)</b>	(17,670)
- for other receivables	<b>(20,023)</b>	(19,381)	<b>(19,889)</b>	(19,216)
<b>Total insurance and other receivables</b>	<b>226,543</b>	240,304	<b>227,609</b>	241,191

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 expenses. In 2012 and 2011 no interest income from this deposit was recognised.

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

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Not due and not impaired	<b>180,708</b>	165,311	<b>180,862</b>	165,311
Due but not impaired	<b>45,835</b>	74,993	<b>46,747</b>	75,880
Due and impaired	<b>93,187</b>	83,234	<b>93,053</b>	83,069
Impairment allowance	<b>(93,187)</b>	(83,234)	<b>(93,053)</b>	(83,069)
	<b>226,543</b>	240,304	<b>227,609</b>	241,191

## 19 Insurance and other receivables (continued)

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

	<b>Group 2012 HRK'000</b>	Group 2011 HRK'000	<b>Company 2012 HRK'000</b>	Company 2011 HRK'000
Balance at 1 January	45,249	35,506	45,249	35,506
Increase in provisions	28,662	35,603	28,662	35,603
Decrease in provisions	(25,070)	(25,860)	(25,070)	(25,860)
<b>Impairment losses</b>	<b>3,592</b>	9,743	<b>3,592</b>	9,743
Write off of provision	(2,009)	-	(2,009)	-
<b>Balance at 31 December</b>	<b>46,832</b>	45,249	<b>46,832</b>	45,249

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

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

	<b>Group 2012 HRK'000</b>	Group 2011 HRK'000	<b>Company 2012 HRK'000</b>	Company 2011 HRK'000
Balance at 1 January	934	1,015	934	1,015
Decrease in provisions	(84)	(81)	(84)	(81)
Balance at 31 December	<b>850</b>	934	<b>850</b>	934

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:

	<b>Group 2012 HRK'000</b>	Group 2011 HRK'000	<b>Company 2012 HRK'000</b>	Company 2011 HRK'000
Balance at 1 January	17,670	5,511	17,670	5,511
Increase in provisions	9,102	12,316	9,102	12,316
Decrease in provisions	(156)	(11)	(156)	(11)
<b>Net impairment losses</b>	<b>8,946</b>	12,305	<b>8,946</b>	12,305
Write off of provisions	(1,134)	(146)	(1,134)	(146)
<b>Balance at 31 December</b>	<b>25,482</b>	17,670	<b>25,482</b>	17,670

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:

	<b>Group 2012 HRK'000</b>	Group 2011 HRK'000	<b>Company 2012 HRK'000</b>	Company 2011 HRK'000
Balance at 1 January	<b>19,381</b>	282	<b>19,216</b>	252
Increase in provisions	<b>673</b>	19,103	<b>673</b>	19,103
Decrease in provisions	<b>(31)</b>	(4)	-	(139)
<b>Impairment losses</b>	<b>642</b>	19,099	<b>673</b>	18,964
<b>Balance at 31 December</b>	<b>20,023</b>	19,381	<b>19,889</b>	19,216

In 2012 increase in provisions for other receivables is recognised in profit or loss within "Other operating expenses" (Note 37) while in 2011 it was recognised in profit or loss within "Financial expenses" (Note 38).

Decrease in provisions is recognised in profit or loss within "Other operating income" (Note 33).

## 20 Assets held for sale

	<b>Group 2012 HRK'000</b>	Group 2011 HRK'000	<b>Company 2012 HRK'000</b>	Company 2011 HRK'000
Property	<b>17,222</b>	26,605	<b>17,222</b>	26,605

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

## 21 Cash and cash equivalents

	<b>Group 2012 HRK'000</b>	Group 2011 HRK'000	<b>Company 2012 HRK'000</b>	Company 2011 HRK'000
Cash at bank	<b>7,046</b>	3,786	<b>6,513</b>	3,661
<b>Total cash and cash equivalents</b>	<b>7,046</b>	3,786	<b>6,513</b>	3,661

## 22 Equity

### a) Share capital

	<b>31 December 2012</b>	31 December 2011
	<b>HRK'000</b>	HRK'000
<i>Authorised, issued and fully paid</i>		
374,278 (2011:374,278) ordinary shares of HRK 630	<b>235,795</b>	235,795
	<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 issued shares 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	in HRK '000	in HRK '000	in HRK '000	in HRK '000
29 March 2011	35,238	630	630	-	22,200	<b>22,200</b>	-	-	-
15 November 2011	63,493	630	1,766	40,001	-	<b>40,001</b>	22,128	50,000	<b>72,128</b>
9 December 2011	84,900	630	1,766	53,487	-	<b>53,487</b>	6,446	90,000	<b>96,446</b>
<b>Total</b>	<u>183,631</u>			<u>93,488</u>	<u>22,200</u>	<u><b>115,688</b></u>	<u>28,574</u>	<u>140,000</u>	<u><b>168,574</b></u>

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

	2012	2011
	<b>% ownership</b>	% ownership
Vienna Insurance Group AG Wiener Versicherung Gruppe	<b>99.4</b>	99.4
Minority shareholders	<b>0.6</b>	0.6
	<u>          </u>	<u>          </u>
	<b>100.0</b>	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.

In 2012 the Group used share premium, in the amount of HRK 125,204 thousand, for coverage of accumulated losses from previous years.

## 22 Equity (continued)

### c) Legal reserve

The legal reserve represents accumulated appropriations from retained earnings in accordance with the previous Insurance Act, 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 presented in other comprehensive income in the Statement of comprehensive income, net of tax. Movements in the fair value reserve were as follows:

<b>Group and Company</b>	<i>Note</i>	<b>2012</b>	2011
		<b>HRK'000</b>	HRK'000
Gross fair value reserve at 1 January		(25,325)	(1,155)
Deferred tax		5,065	231
		<hr/>	<hr/>
<b>Balance at 1 January</b>		<b>(20,260)</b>	<b>(924)</b>
Net gains/(losses) from change in fair value of available-for-sale financial assets		54,256	(24,044)
Deferred tax on net gains/(losses) from change in fair value of available-for-sale financial assets		(10,851)	4,809
Impairment losses on available-for-sale financial assets – transfer to profit or loss		3,818	39
Deferred tax on impairment losses on available-for-sale financial assets - transfer to profit or loss		(764)	(8)
Net gains on disposal of available-for-sale financial assets - transfer to profit or loss	32	3,904	-
Deferred tax on net gains on disposal of available-for-sale financial assets – transfer to profit or loss		(781)	-
Net losses on disposal of available-for-sale financial assets - transfer to profit or loss	38	-	(165)
Deferred tax on net losses on disposal of available-for-sale financial assets - transfer to profit or loss		-	33
		<hr/>	<hr/>
Gross fair value reserve at 31 December		36,653	(25,325)
Deferred tax		(7,331)	5,065
		<hr/>	<hr/>
<b>Balance at 31 December</b>		<b>29,322</b>	<b>(20,260)</b>
		<hr/> <hr/>	<hr/> <hr/>

## 22 Equity (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.

	2012	2012	2012	2011	2011	2011
	Non-life	Life	Total	Non-life	Life	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Solvency margin	35,056	37,326	72,382	39,525	36,836	76,361
Min. Founding capital (FC)	22,500	22,500	45,000	22,500	22,500	45,000
Guarantee capital (GC)	150,862	139,176	290,038	148,705	121,635	270,340
Capital	149,222	135,619	284,841	147,065	118,080	265,145
GC >= min FC	YES	YES	YES	YES	YES	YES
Capital >= Solvency margin	YES	YES	YES	YES	YES	YES

As shown in the table above, as at 31 December 2012 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 114.2 million and HRK 98.3 million respectively (2011: HRK 107.5 million and HRK 81.2 million).

### An analysis of capital is given below

	2012	2012	2012	2011	2011	2011
	Non-life	Life	Total	Non-life	Life	Total
	HRK '000	HRK '000	HRK'000	HRK '000	HRK '000	HRK '000
<b>Tier 1 capital</b>						
Share capital, paid in	101,491	134,304	235,795	101,491	134,304	235,795
Reserves not related to liabilities from insurance	43,700	1,463	45,163	140,330	30,037	170,367
Retained earnings after paid dividends	-	7,853	7,853	-	8,877	8,877
Intangible assets	(9,420)	(3,343)	(12,763)	(9,320)	(3,953)	(13,273)
Accumulated losses including loss for the year	-	(1,101)	(1,101)	(96,629)	(29,598)	(126,227)
<b>Basic capital</b>	135,771	139,176	274,947	135,872	139,667	275,539
<b>Tier 2 capital</b>						
Subordinated loan	15,091	-	15,091	15,061	-	15,061
Fair value reserve	-	-	-	(2,228)	(18,032)	(20,260)
<b>Supplementary capital</b>	15,091	-	15,091	12,833	(18,032)	(5,199)
<b>Guarantee capital</b>	150,862	139,176	290,038	148,705	121,635	270,340
<b>Deductions</b>	(1,640)	(3,557)	(5,197)	(1,640)	(3,555)	(5,195)
<b>Capital</b>	149,222	135,619	284,841	147,065	118,080	265,145

## 23 Basic and diluted earnings/(loss) per share

For the purposes of calculating earnings/(loss) per share, earnings/(loss) is calculated as the profit/(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/(loss) per share was 374,278 (2011: 230,838). Given that there are no options, convertible bonds or similar instruments, the diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share.

	<b>Group 2012 HRK'000</b>	<b>Group 2011 HRK'000</b>
Profit/(loss) attributable to ordinary shareholders for earnings/(loss) per share	<b>1,417</b>	<b>(90,509)</b>

## 24 Technical provisions

### Group and Company

	<b>2012 HRK'000</b>	<b>2011 HRK'000</b>
<i>Non-life insurance business</i>		
Provision for unearned premiums	116,731	127,712
Reported but not settled claims reserve	146,604	144,814
Incurred but not reported claims reserve	92,227	96,709
Unexpired risk provision	2,700	2,200
<b>Total Non-life insurance business</b>	<b>358,262</b>	<b>371,435</b>
<i>Life assurance business</i>		
Provision for unearned premiums	2,609	2,463
Reported but not settled claims reserve	6,545	7,895
Incurred but not reported claims reserve	2,166	2,259
Life assurance provision for traditional products	854,149	817,505
Provision for unit-linked and index-linked	60,557	45,119
<b>Total Life assurance business</b>	<b>926,026</b>	<b>875,241</b>
<b>Total technical provisions</b>	<b>1,284,288</b>	<b>1,246,676</b>

## 24 Technical provisions (continued)

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

#### Group

	2012 Gross HRK'000	2012 Reinsurance HRK'000	2012 Net HRK'000	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000
<i>Non-life insurance business</i>						
<b>Balance at 1 January</b>	127,712	57,249	70,463	146,242	58,597	87,645
Premiums written during the year	237,811	115,909	121,902	251,043	125,464	125,579
Less: premiums earned during the year	(248,792)	(118,906)	(129,886)	(269,573)	(126,812)	(142,761)
<b>Balance at 31 December</b>	<u>116,731</u>	<u>54,252</u>	<u>62,479</u>	<u>127,712</u>	<u>57,249</u>	<u>70,463</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	2,463	838	1,625	2,817	-	2,817
Premiums written during the year	9,746	4,937	4,809	9,921	6,001	3,920
Less: premiums earned during the year	(9,600)	(4,839)	(4,761)	(10,275)	(5,163)	(5,112)
<b>Balance at 31 December</b>	<u>2,609</u>	<u>936</u>	<u>1,673</u>	<u>2,463</u>	<u>838</u>	<u>1,625</u>

#### Company

	2012	2012	2012	2011	2011	2011
	Gross HRK'000	Reinsurance HRK'000	Net HRK'000	Gross HRK'000	1.1. einsurance HRK'000	1.2. et HRK'000
<i>Non-life insurance business</i>						
<b>Balance at 1 January</b>	127,712	57,249	70,463	146,242	58,597	87,645
Premiums written during the year	237,881	115,909	121,972	251,117	125,464	125,653
Less: premiums earned during the year	(248,862)	(118,906)	(129,956)	(269,647)	(126,812)	(142,835)
<b>Balance at 31 December</b>	<u>116,731</u>	<u>54,252</u>	<u>62,479</u>	<u>127,712</u>	<u>57,249</u>	<u>70,463</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	2,463	838	1,625	2,817	-	2,817
Premiums written during the year	9,746	4,937	4,809	9,921	6,001	3,920
Less: premiums earned during the year	(9,600)	(4,839)	(4,761)	(10,275)	(5,163)	(5,112)
<b>Balance at 31 December</b>	<u>2,609</u>	<u>936</u>	<u>1,673</u>	<u>2,463</u>	<u>838</u>	<u>1,625</u>



## 24 Technical provisions (continued)

### b) Analysis of movements in reported but not settled claims reserve

#### Group and Company

	2012 Gross HRK'000	2012 Reinsurance HRK'000	2012 Net HRK'000	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000
<i>Non-life insurance business</i>						
<b>Balance at 1 January</b>	144,814	58,304	86,510	127,918	37,704	90,214
Current year claims	129,202	56,615	72,587	143,006	43,388	99,618
Change in previous year claims	1,917	3,670	(1,753)	30,026	21,747	8,279
Claims paid	(129,329)	(47,039)	(82,290)	(156,136)	(44,535)	(111,601)
<b>Balance at 31 December</b>	<u>146,604</u>	<u>71,550</u>	<u>75,054</u>	<u>144,814</u>	<u>58,304</u>	<u>86,510</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	7,895	1,310	6,585	7,252	1,452	5,800
Current year claims	91,346	30,571	60,775	87,279	20,161	67,118
Change in previous year claims	(919)	(263)	(656)	(44)	659	(703)
Claims paid	(91,777)	(30,457)	(61,320)	(86,592)	(20,962)	(65,630)
<b>Balance at 31 December</b>	<u>6,545</u>	<u>1,161</u>	<u>5,384</u>	<u>7,895</u>	<u>1,310</u>	<u>6,585</u>

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

#### Group and Company

	2012 Gross HRK'000	2012 Reinsurance HRK'000	2012 Net HRK'000	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000
<i>Non-life insurance business</i>						
<b>Balance at 1 January</b>	96,709	24,283	72,426	101,680	15,861	85,819
Additions recognised during the year	24,617	18,053	6,564	22,200	13,909	8,291
Transfer to claims reported provision	(29,099)	(16,021)	(13,078)	(27,171)	(5,487)	(21,684)
<b>Balance at 31 December</b>	<u>92,227</u>	<u>26,315</u>	<u>65,912</u>	<u>96,709</u>	<u>24,283</u>	<u>72,426</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	2,259	979	1,280	2,216	-	2,216
Additions recognised during the year	2,261	627	1,634	3,685	979	2,706
Transfer to claims reported provision	(2,354)	(661)	(1,693)	(3,642)	-	(3,642)
<b>Balance at 31 December</b>	<u>2,166</u>	<u>945</u>	<u>1,221</u>	<u>2,259</u>	<u>979</u>	<u>1,280</u>

## 24 Technical provisions (continued)

### d) Analysis of movements in unexpired risk provision

#### Group and Company

	2012 Gross HRK'000	2012 Reinsurance HRK'000	2012 Net HRK'000	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000
<b>Balance as at 1 January</b>	2,200	-	2,200	2,100	-	2,100
Release in profit or loss	(2,200)	-	(2,200)	(2,100)	-	(2,100)
Increase in profit or loss	2,700	-	2,700	2,200	-	2,200
<b>Balance at 31 December</b>	<u>2,700</u>	<u>-</u>	<u>2,700</u>	<u>2,200</u>	<u>-</u>	<u>2,200</u>

### e) Life assurance provisions

#### Group and Company

	2012 Gross HRK'000	2012 Reinsurance HRK'000	2012 Net HRK'000	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000
<b>Balance at 1 January</b>	817,505	243,924	573,581	758,772	214,427	544,345
Premium allocation	99,505	38,950	60,555	107,871	39,037	68,834
Release of liabilities due to benefits paid, surrenders and other terminations	(98,556)	(34,069)	(64,487)	(94,711)	(23,764)	(70,947)
Unwinding of discount/accretion of interest	26,099	7,957	18,142	24,570	7,328	17,242
Change in Zillmer adjustment	9,879	4,049	5,830	9,446	3,850	5,596
Change in provision for unearned premium	(1,733)	(624)	(1,109)	(3,379)	(1,282)	(2,097)
Change in negative provisions	(272)	(121)	(151)	(832)	(377)	(455)
Foreign currency translations	1,722	525	1,197	15,768	4,705	11,063
<b>Balance at 31 December</b>	<u>854,149</u>	<u>260,591</u>	<u>593,558</u>	<u>817,505</u>	<u>243,924</u>	<u>573,581</u>

### f) Provision for unit-linked and index-linked

#### Group and Company

	2012 Gross HRK'000	2012 Reinsurance HRK'000	2012 Net HRK'000	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000
<b>Balance at 1 January</b>	45,119	-	45,119	32,650	-	32,650
Premium allocation	11,878	-	11,878	12,242	-	12,242
Unrealised gains/(losses) on funds where policyholder investments were allocated	3,438	-	3,438	(643)	-	(643)
Foreign currency translations	122	-	122	870	-	870
<b>Balance at 31 December</b>	<u>60,557</u>	<u>-</u>	<u>60,557</u>	<u>45,119</u>	<u>-</u>	<u>45,119</u>

## 24 Technical provisions (continued)

### g) Development of claims reported by policyholders at 31 December 2012

#### Group and Company

	Prior to 2007	2007	2008	2009	2010	2011	2012	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	443,701	188,625	203,345	210,213	204,298	186,754	162,840	-
One year later	445,190	182,076	203,103	201,087	189,350	182,019		
Two years later	446,565	178,663	188,454	192,499	182,051			
Three years later	442,876	173,542	191,992	191,762				
Four years later	446,459	199,274	199,525					
Five years later	444,209	211,475						
Six years later	453,229							
<b>Current estimate of cumulative claims</b>	<b>453,229</b>	<b>211,475</b>	<b>199,525</b>	<b>191,762</b>	<b>182,051</b>	<b>182,019</b>	<b>162,840</b>	<b>1,582,901</b>
Cumulative payments	435,782	171,510	179,830	173,769	157,758	139,704	95,773	1,354,126
Amount recognised in the current year statement of financial position	17,447	39,965	19,695	17,993	24,293	42,315	67,067	228,775
Unsettled claims at 31 December 2012 on policies transferred in at 30 December 2005 on merger with Aurum	9,023	-	-	-	-	-	-	9,023
Claims handling costs and recourses	-	-	-	-	-	-	-	9,744
<b>Total value recognised in the current year statement of financial position</b>	<b>26,470</b>	<b>39,965</b>	<b>19,695</b>	<b>17,993</b>	<b>24,293</b>	<b>42,315</b>	<b>67,067</b>	<b>247,542</b>

The 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 as set above.

## 24 Technical provision (continued)

### h) Remaining maturities of technical provisions

#### Group and Company

#### 2012

	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	119,340	-	-	-	-	-	119,340
Reported but not settled claims reserve and incurred but not reported claims reserve	58,234	189,308	-	-	-	-	247,542
Unexpired risk provision	2,700	-	-	-	-	-	2,700
Life assurance provision and provision for unit-linked and index-linked	32,086	201,236	295,874	196,841	130,141	58,528	914,706
Technical provisions	<u>212,360</u>	<u>390,544</u>	<u>295,874</u>	<u>196,841</u>	<u>130,141</u>	<u>58,528</u>	<u>1,284,288</u>

#### 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
Reported but not settled 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-linked and index-linked	18,413	170,380	284,045	180,259	152,129	57,398	862,624
Technical provisions	<u>232,116</u>	<u>340,729</u>	<u>284,045</u>	<u>180,259</u>	<u>152,129</u>	<u>57,398</u>	<u>1,246,676</u>

## 24 Technical provisions (continued)

### i) Structure of assets used for backing life assurance provision

#### Group and Company

	<b>31 December 2012 HRK '000</b>	31 December 2011 HRK '000
<b>Assets used for backing life assurance provision</b>		
Debt securities issued by Republic of Croatia	620,552	557,781
Municipal bonds	2,990	3,400
Bonds and other debt securities traded on regulated stock exchange in Republic of Croatia	12,325	11,581
Equities traded on regulated stock exchange in Republic of Croatia	599	469
Shares and equities of investment funds registered in Republic of Croatia	22,469	22,266
Advances and loans in the amount of insurance redemption value based on life insurance contract	14,137	13,903
Deposits with banks domiciled in Republic of Croatia	7,168	25,431
Loans secured by guarantees issued by banks domiciled in Republic of Croatia	-	2,164
Balances on giro account of the Company	798	60
	<hr/>	<hr/>
<b>Total assets used for backing life assurance provision</b>	<b>681,038</b>	<b>637,055</b>
	<hr/> <hr/>	<hr/> <hr/>

	<b>31 December 2012 HRK '000</b>	31 December 2011 HRK '000
Life assurance provision, net of reinsurance and discretionary profit participation provision	600,802	581,885
Claims provision for risks for which it is necessary to create life assurance provision, net of reinsurance	4,267	5,294
	<hr/>	<hr/>
<b>Requested coverage of life assurance provision</b>	<b>605,069</b>	<b>587,179</b>
	<hr/> <hr/>	<hr/> <hr/>
Assets used for backing life assurance provision	681,038	637,055
Requested coverage of life assurance provision	605,069	587,179
	<hr/>	<hr/>
<b>Excess of coverage</b>	<b>75,969</b>	<b>49,876</b>
	<hr/> <hr/>	<hr/> <hr/>

## 24 Technical 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 categories 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
<b>2012</b>					
Asset backing life assurance provision	35,597	184,158	461,283	-	681,038
Life assurance provision, net of reinsurance	(20,091)	(145,924)	(209,117)	(225,670)	(600,802)
Claims provision, net of reinsurance	(2,286)	(1,981)	-	-	(4,267)
<b>Maturity gap</b>	<b><u>13,220</u></b>	<b><u>36,253</u></b>	<b><u>252,166</u></b>	<b><u>(225,670)</u></b>	<b><u>75,969</u></b>
<b>2011</b>					
Asset backing life assurance provision	88,494	163,972	323,762	60,827	637,055
Life assurance provision, net of reinsurance	(13,018)	(130,691)	(202,898)	(235,278)	(581,885)
Claims provision, net of reinsurance	(3,823)	(1,471)	-	-	(5,294)
<b>Maturity gap</b>	<b><u>71,653</u></b>	<b><u>31,810</u></b>	<b><u>120,864</u></b>	<b><u>(174,451)</u></b>	<b><u>49,876</u></b>

As of 31 December 2012, 54.4% of total assets used for backing life assurance provision were classified as financial assets available for sale, which enables the Group to dispose of these assets easily to meet insurance contracts liabilities when needed. 41.6% of assets used for backing life assurance provision are classified as held-to-maturity investments, 0.8% of assets used for backing life assurance provision are classified as financial assets at fair value through profit and loss and 3.2% as loans and receivables.

The following table analyses the financial asset used for backing life assurance provision into relevant categories based on the currency in which is denominated. Life assurance provision and claims provision for risks for which it is necessary to create life assurance provision are denominated in EURO.

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
<b>2012</b>					
Asset backing life assurance provision	62,589	570,765	633,354	47,684	681,038
<b>2011</b>					
Asset backing life assurance provision	55,427	534,949	590,376	46,679	637,055

In 2012, the Company achieved an annual return on investments from life assurance provision in amount of 6.79% (2011: 7.16%). Weighted average yield for the three-year period from 2010 to 2012 was 7.33% (2011: three year period from 2009 to 2011: 6.89%).

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

## 24 Technical provisions (continued)

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

#### Group and Company

	<b>31 December 2012 HRK '000</b>	31 December 2011 HRK '000
<b>Assets used for backing technical provisions</b>		
Securities issued by Republic of Croatia	<b>201,840</b>	197,138
Bonds and other debt securities traded on regulated stock exchange in Republic of Croatia	<b>29,979</b>	10,018
Equities traded on regulated stock exchange in Republic of Croatia	<b>69</b>	1,095
Shares of companies domiciled in Republic of Croatia	-	90
Shares and equities of investment funds registered in Republic of Croatia	<b>46,394</b>	50,782
Loans with a pledge over a real estate	<b>6,389</b>	9,774
Loans and deposits to banks domiciled in Republic of Croatia (same bank or group of related banks at max. 5 %)	<b>29,537</b>	28,663
Balances on giro account of the Company	<b>4,077</b>	2,611
	<hr/>	<hr/>
<b>Total assets used for backing technical provisions (other than life assurance provision)</b>	<b><u>318,285</u></b>	<b><u>300,171</u></b>
	<b>31 December 2012 HRK '000</b>	31 December 2011 HRK '000
Provision for unearned premiums, net of reinsurance	<b>64,152</b>	72,088
Claims provision, net of reinsurance	<b>143,304</b>	161,507
Other provisions	<b>2,700</b>	2,200
	<hr/>	<hr/>
<b>Requested coverage of technical provisions (other than life assurance provision)</b>	<b><u>210,156</u></b>	<b><u>235,795</u></b>
Assets used for backing technical provisions (other than life assurance provision)	<b>318,285</b>	300,171
Coverage of technical provisions (other than life assurance provision)	<b>210,156</b>	235,795
	<hr/>	<hr/>
<b>Excess of coverage</b>	<b><u>108,129</u></b>	<b><u>64,376</u></b>

## 24 Technical provisions (continued)

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

The following table analyses the financial assets used for backing technical provisions into relevant maturity categories 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	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>2012</b>					
Asset backing technical provisions	96,633	152,770	68,882	-	318,285
Provision for unearned premium, net of reinsurance	(64,152)	-	-	-	(64,152)
Claims provision, net of reinsurance	(34,859)	(108,445)	-	-	(143,304)
Other provisions	(2,700)	-	-	-	(2,700)
<b>Maturity gap</b>	<b>(5,078)</b>	<b>44,325</b>	<b>68,882</b>	<b>-</b>	<b>108,129</b>
<b>2011</b>					
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)
<b>Maturity gap</b>	<b>61,596</b>	<b>(72,386)</b>	<b>75,076</b>	<b>90</b>	<b>64,376</b>

As of 31 December 2012, 60.6% of total assets used for backing technical provisions are classified as financial assets available for sale, 12.7% as financial assets at fair value through profit or loss, which enables the Group to dispose of those assets easily to meet insurance contracts liabilities when needed. 14.2% 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 categories based on the currency in which are denominated.

	EURO	EURO linked	EURO and EURO linked total	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>2012</b>					
Asset backing technical provision	9,814	7,657	17,471	300,814	318,285
Provision for unearned premium, net of reinsurance	-	(1,673)	(1,673)	(62,479)	(64,152)
Claims provision, net of reinsurance	-	(2,339)	(2,339)	(140,965)	(143,304)
Other provisions	-	-	-	(2,700)	(2,700)
	9,814	3,645	13,459	94,670	108,129
<b>2011</b>					
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



## 25 Discretionary profit participation provision

### Group and Company

	2012 HRK'000	2011 HRK'000
<b>Balance at 1 January</b>	<b>8,304</b>	9,335
Funds released during the year due to surrenders and benefits	<b>(1,060)</b>	(1,031)
<b>Balance at 31 December</b>	<b>7,244</b>	8,304

## 26 Subordinated loan

	Group 2012 HRK'000	Group 2011 HRK'000	Company 2012 HRK'000	Company 2011 HRK'000
<b>Subordinated loan</b>	<b>15,091</b>	15,061	<b>15,091</b>	15,061

In 2009, the Group obtained subordinated loan from Vienna Insurance Group Wiener Versicherung Gruppe AG, parent company of the Group. In February 2012 subordinated loan was transferred to LVP Holding GmbH. Subordinated loan bears a fixed interest rate of 8% per annum (2011: 8% p.a.) and has unlimited maturity. Payment of this loan is subordinated to all other liabilities of the Group.

## 27 Borrowings

	Group 2012 HRK'000	Group 2011 HRK'000	Company 2012 HRK'000	Company 2011 HRK'000
Borrowings	<b>52,702</b>	55,861	-	-

Borrower	Currency	Contracted principal in currency	Interest rate	Maturity	Outstanding amount Group 2012 HRK'000	Outstanding amount Group 2011 HRK'000
LVP Holding GmbH	EUR	5,756,129	5%, fixed	31 December 2015	<b>43,434</b>	43,346
OTP Bank NYRT	EUR	1,000,000	3 month EURIBOR + 1.8%	31 December 2016	-	3,765
OTP banka d.d.	EUR	1,000,000	3 month EURIBOR + 1.8%	31 December 2016	<b>3,018</b>	-
OTP banka d.d.	HRK	12,500,000	6.5%	21 December 2017	<b>6,250</b>	8,750
					<b>52,702</b>	55,861

In September 2012, loan granted by OTP Bank NYRT was transferred to OTP bank d.d. under the same conditions.

Loans granted by LVP Holding GmbH bank and OTP banka d.d. (transferred from OTP bank NYRT) are secured with the property of Kvarner Wiens Städtische nekretnine d.o.o., and loan granted by OTP banka d.d. is secured with deposit of Kvarner Vienna Insurance Group d.d. in the amount of HRK 6,250 thousand.

## 28 Provisions for liabilities and charges

### Group

	Provision for court cases HRK'000	Termination benefits and jubilee awards HRK'000	Restructuring provision HRK'000	Total HRK'000
<b>Balance at 1 January 2011</b>	500	1,000	-	1,500
Release of provision	-	(1,000)	-	(1,000)
Increase of provision	-	425	-	425
<b>Balance at 31 December 2011</b>	<u>500</u>	<u>425</u>	<u>-</u>	<u>925</u>
<b>Balance at 1 January 2012</b>	<b>500</b>	<b>425</b>	-	<b>925</b>
Release of provision	(120)	(425)	-	<b>(545)</b>
Increase of provision	2,665	511	5,701	<b>8,877</b>
<b>Balance at 31 December 2012</b>	<u><u>3,045</u></u>	<u><u>511</u></u>	<u><u>5,701</u></u>	<u><u>9,257</u></u>

### Company

	Provision for court cases HRK'000	Termination benefits and jubilee awards HRK'000	Restructuring provision HRK'000	Total HRK'000
<b>Balance at 1 January 2011</b>	500	1,000	-	1,500
Release of provision	-	(1,000)	-	(1,000)
Increase of provision	-	425	-	425
<b>Balance at 31 December 2011</b>	<u>500</u>	<u>425</u>	<u>-</u>	<u>925</u>
<b>Balance at 1 January 2012</b>	<b>500</b>	<b>425</b>	-	<b>925</b>
Release of provision	(120)	(425)	-	<b>(545)</b>
Increase of provision	2,615	511	5,701	<b>8,827</b>
<b>Balance at 31 December 2012</b>	<u><u>2,995</u></u>	<u><u>511</u></u>	<u><u>5,701</u></u>	<u><u>9,207</u></u>

Increase of provision for court cases is recognised in „Other operating expenses“ (Note 37). Net increase of obligatory severance payments and jubilee awards provision and increase of restructuring provision are recognised in „Administrative expenses“ (Note 36).

## 29 Insurance and other payables

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Direct insurance contract payables				
- to policyholders	<b>1,692</b>	3,912	<b>1,692</b>	3,912
- to agents, brokers and intermediaries	<b>1,506</b>	1,447	<b>1,506</b>	1,447
Reinsurance contract payables	<b>112,997</b>	138,015	<b>112,997</b>	138,015
Deposits retained from reinsurance business	<b>308,009</b>	292,045	<b>308,009</b>	292,045
Trade creditors	<b>7,764</b>	6,217	<b>7,631</b>	5,992
Liabilities for salaries	<b>5,826</b>	6,171	<b>5,804</b>	6,149
Interest payable on borrowings	-	3	-	-
Commission expense accrual	<b>3,895</b>	3,634	<b>3,895</b>	3,634
Other payables and accrued expenses	<b>31,946</b>	22,682	<b>31,407</b>	22,525
Deferred income from recourses	<b>27,967</b>	27,779	<b>27,967</b>	27,779
Accrued expenses	<b>7,773</b>	6,537	<b>6,642</b>	6,537
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total insurance and other payables</b>	<b>509,375</b>	508,442	<b>507,550</b>	508,035
	<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 the average of BID and ASK prices of 3 month ZIBOR at beginning of the accounting period increased by + 0,5 pp.

## 30 Premiums

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<i>Non-life insurance</i>				
Gross premium written	<b>237,811</b>	251,043	<b>237,881</b>	251,117
Written premiums ceded to reinsurers	<b>(115,909)</b>	(125,464)	<b>(115,909)</b>	(125,464)
Change in unearned premiums, gross	<b>10,981</b>	18,530	<b>10,981</b>	18,530
Change in unearned premiums, reinsurance share	<b>(2,997)</b>	(1,348)	<b>(2,997)</b>	(1,348)
<b>Total premium income net, (earned) from non-life insurance</b>	<b>129,886</b>	142,761	<b>129,956</b>	142,835
<i>Life assurance</i>				
Gross premium written	<b>170,536</b>	186,845	<b>170,536</b>	186,845
Written premiums ceded to reinsurers	<b>(53,008)</b>	(59,070)	<b>(53,008)</b>	(59,070)
Change in unearned premiums, gross	<b>(146)</b>	354	<b>(146)</b>	354
Change in unearned premiums, reinsurance share	<b>98</b>	838	<b>98</b>	838
<b>Total premium income net, (earned) from life assurance</b>	<b>117,480</b>	128,967	<b>117,480</b>	128,967
<b>Total</b>				
Gross premium written	<b>408,347</b>	437,888	<b>408,417</b>	437,962
Written premiums ceded to reinsurers	<b>(168,917)</b>	(184,534)	<b>(168,917)</b>	(184,534)
Change in unearned premiums, gross	<b>10,835</b>	18,884	<b>10,835</b>	18,884
Change in unearned premiums, reinsurance share	<b>(2,899)</b>	(510)	<b>(2,899)</b>	(510)
<b>Total premiums</b>	<b>247,366</b>	271,728	<b>247,436</b>	271,802

Gross premiums written for the Group and the Company for life assurance business include premiums of HRK 10.7 million (2011: HRK 13.35 million) in respect of unit-linked products and premiums of HRK 9.1 million in respect of index-linked products (2011: HRK 6.90 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 3.6 million (2011: HRK 9.7 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
<b>2012</b>					
<i>Non-life insurance business</i>					
Motor (third party)	100,369	106,741	(34,218)	(31,590)	(4,299)
Motor (other classes)	23,679	27,039	(21,275)	(7,730)	(523)
Property	65,645	65,453	(33,344)	(32,535)	(10,919)
Personal lines	12,635	13,809	(6,716)	(6,270)	(319)
Other	35,483	35,750	(31,584)	(15,670)	1,022
<b>Total non-life</b>	<b>237,811</b>	<b>248,792</b>	<b>(127,137)</b>	<b>(93,795)</b>	<b>(15,038)</b>
<i>Life assurance business</i>					
Periodic premiums	147,032	147,083	(122,503)	(66,865)	1,384
Single premiums	13,758	13,758	(16,376)	(7,905)	-
Individual premiums	160,790	160,841	(138,879)	(74,770)	1,384
Life rider products	9,746	9,549	(2,477)	(5,286)	1,827
<b>Total life</b>	<b>170,536</b>	<b>170,390</b>	<b>(141,356)</b>	<b>(80,056)</b>	<b>3,211</b>
Thereof unit-linked and index-linked	19,864	19,864	(20,208)	(6,979)	-
<b>Grand total</b>	<b>408,347</b>	<b>419,182</b>	<b>(268,493)</b>	<b>(173,851)</b>	<b>(11,827)</b>
<b>2011</b>					
<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
<b>Total non-life</b>	<b>251,043</b>	<b>269,573</b>	<b>(168,161)</b>	<b>(116,283)</b>	<b>(10,914)</b>
<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)
<b>Total life</b>	<b>186,845</b>	<b>187,199</b>	<b>(157,449)</b>	<b>(77,826)</b>	<b>4,796</b>
Thereof unit-linked and index-linked	20,250	20,250	(16,511)	(6,553)	-
<b>Grand total</b>	<b>437,888</b>	<b>456,772</b>	<b>(325,610)</b>	<b>(194,109)</b>	<b>(6,118)</b>

## 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
<b>2012</b>					
<i>Non-life insurance business</i>					
Motor (third party)	100,369	106,741	(34,218)	(31,722)	(4,299)
Motor (other classes)	23,679	27,039	(21,275)	(7,758)	(523)
Property	65,715	65,523	(33,344)	(32,656)	(10,919)
Personal lines	12,635	13,809	(6,716)	(6,293)	(319)
Other	35,483	35,750	(31,584)	(15,728)	1,022
<b>Total non-life</b>	<b>237,881</b>	<b>248,862</b>	<b>(127,137)</b>	<b>(94,157)</b>	<b>(15,038)</b>
<i>Life assurance business</i>					
Periodic premiums	147,032	147,083	(122,503)	(66,865)	1,384
Single premiums	13,758	13,758	(16,376)	(7,905)	-
Individual premiums	160,790	160,841	(138,879)	(74,770)	1,384
Life rider products	9,746	9,549	(2,477)	(5,286)	1,827
<b>Total life</b>	<b>170,536</b>	<b>170,390</b>	<b>(141,356)</b>	<b>(80,056)</b>	<b>3,211</b>
Thereof unit-linked and index-linked	19,864	19,864	(20,208)	(6,979)	-
<b>Grand total</b>	<b>408,417</b>	<b>419,252</b>	<b>(268,493)</b>	<b>(174,213)</b>	<b>(11,827)</b>
<b>2011</b>					
<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
<b>Total non-life</b>	<b>251,117</b>	<b>269,647</b>	<b>(168,161)</b>	<b>(119,304)</b>	<b>(10,914)</b>
<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)
<b>Total life</b>	<b>186,845</b>	<b>187,199</b>	<b>(157,449)</b>	<b>(77,826)</b>	<b>4,796</b>
Thereof unit-linked and index-linked	20,250	20,250	(16,511)	(6,553)	-
<b>Grand total</b>	<b>437,962</b>	<b>456,846</b>	<b>(325,610)</b>	<b>(197,130)</b>	<b>(6,118)</b>

## 31 Fees and commission income

### Group and Company

	2012 HRK'000	2011 HRK'000
Reinsurance commission	50,097	52,256
Profit reinsurance commission	634	1,817
	<u>50,731</u>	<u>54,073</u>

## 32 Financial income

	Group 2012 HRK'000	Group 2011 HRK'000	Company 2012 HRK'000	Company 2011 HRK'000
Interest income:				
- Available-for-sale financial assets	30,325	28,408	30,325	28,408
- Held-to-maturity investments	31,816	15,163	31,816	15,163
- Loans and receivables	14,333	16,447	14,693	16,807
Dividend income	140	172	140	172
Rental income from investment property	2,437	2,433	45	-
Net gain on remeasurement of assets at fair value through profit or loss	4,627	306	4,627	306
Net realised gain on assets at fair value through profit or loss	1,691	475	1,691	475
Net realised gain on assets available for sale	3,904	-	3,904	-
Foreign exchange translation gain				
- Financial assets at fair value through profit or loss	48	100	48	100
- Available-for-sale financial assets	986	7,043	986	7,043
- Held-to-maturity investments	1,000	5,976	1,000	5,976
- Loans and receivables	(213)	2,780	(120)	2,780
Collection of previously impaired loans to customers	450	62	450	62
Other financial income	515	425	514	424
	<u>92,059</u>	<u>79,790</u>	<u>90,119</u>	<u>77,716</u>

### Group

	Non-life 2012 HRK'000	Life 2012 HRK'000	Investment property 2012 HRK'000	Total 2012 HRK'000	Non-life 2011 HRK'000	Life 2011 HRK'000	Investment property 2011 HRK'000	Total 2011 HRK'000
<b>Financial income</b>								
Income from assets backing equity	8,900	3,251	1,940	14,091	9,386	2,052	2,433	13,871
Income from assets backing life assurance provision	-	58,193	-	58,193	-	59,029	-	59,029
Income from assets backing other technical provisions	16,215	-	-	16,215	6,771	-	-	6,771
Income from assets backing index-linked and unit-linked products	-	3,560	-	3,560	-	119	-	119
	<u>25,115</u>	<u>65,004</u>	<u>1,940</u>	<u>92,059</u>	<u>16,157</u>	<u>61,200</u>	<u>2,433</u>	<u>79,790</u>

## 32 Financial income (continued)

### Company

	Non-life 2012	Life 2012	Total 2012	Non-life 2011 HRK'000	Life 2011 HRK'000	Total 2011 HRK'000
	HRK'000	HRK'000	HRK'000	0	HRK'000	HRK'000
<b>Financial income</b>						
Income from assets backing equity	8,900	3,251	12,151	9,745	2,052	11,797
Income from assets backing life assurance provision	-	58,193	58,193	-	59,029	59,029
Income from assets backing other technical provisions	16,215	-	16,215	6,771	-	6,771
Income from assets backing index-linked and unit-linked products	-	3,560	3,560	-	119	119
	<u>25,115</u>	<u>65,004</u>	<u>90,119</u>	<u>16,516</u>	<u>61,200</u>	<u>77,716</u>

## 33 Other operating income

	Group 2012 HRK'000	Group 2011 HRK'000	Company 2012 HRK'000	Company 2011 HRK'000
Income from sale of equipment and vehicles	12	112	12	112
Income from sale of land and buildings	-	2,369	-	2,369
Income from service claims	-	432	-	432
Net foreign exchange gain on translation of monetary assets and liabilities other than financial investments	1,065	46	1,065	940
Income from accrued expenses	-	1,741	-	1,741
Decrease in provisions for recourse receivables (Note 19)	84	81	84	81
Decrease in provision for other receivables (Note 19)	31	4	-	139
Income from release of provision	117	-	117	-
Income from recharged utilities expenses	741	690	-	-
Other operating income	2,164	1,824	2,192	1,016
	<u>4,214</u>	<u>7,299</u>	<u>3,470</u>	<u>6,830</u>



## 34 Net policyholders claims and benefits accrued

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<i>Non-life insurance</i>				
Claims paid				
Gross amount	<b>(129,329)</b>	(156,136)	<b>(129,329)</b>	(156,136)
Reinsurers' share	<b>47,039</b>	44,535	<b>47,039</b>	44,535
Change in reported but not settled claims reserve				
Gross amount	<b>(1,790)</b>	(16,896)	<b>(1,790)</b>	(16,896)
Reinsurers' share	<b>13,246</b>	20,600	<b>13,246</b>	20,600
Change in incurred but not reported claims reserve				
Gross amount	<b>4,482</b>	4,971	<b>4,482</b>	4,971
Reinsurers' share	<b>2,032</b>	8,422	<b>2,032</b>	8,422
Change in unexpired risk provision, gross and net	<b>(500)</b>	(100)	<b>(500)</b>	(100)
	<hr/>	<hr/>	<hr/>	<hr/>
Total gross claims incurred from non-life insurance	<b>(127,137)</b>	(168,161)	<b>(127,137)</b>	(168,161)
Total reinsurance share in claims incurred from non-life insurance	<b>62,317</b>	73,557	<b>62,317</b>	73,557
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total net claims incurred from non-life insurance</b>	<b>(64,820)</b>	(94,604)	<b>(64,820)</b>	(94,604)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Life assurance</i>				
Claims paid (benefits and surrenders)				
Gross amount	<b>(91,777)</b>	(86,592)	<b>(91,777)</b>	(86,592)
Reinsurers' share	<b>30,457</b>	20,962	<b>30,457</b>	20,962
Change in life assurance provision				
Gross amount	<b>(36,644)</b>	(58,733)	<b>(36,644)</b>	(58,733)
Reinsurers' share	<b>16,667</b>	29,497	<b>16,667</b>	29,497
Change in life assurance provision for unit and index-linked products, gross and net	<b>(15,438)</b>	(12,469)	<b>(15,438)</b>	(12,469)
Change in reported but not settled claims reserve				
Gross amount	<b>1,350</b>	(643)	<b>1,350</b>	(643)
Reinsurers' share	<b>(149)</b>	(142)	<b>(149)</b>	(142)
Change in incurred but not reported claims reserve, gross and net				
Gross amount	<b>93</b>	(43)	<b>93</b>	(43)
Reinsurers' share	<b>(34)</b>	979	<b>(34)</b>	979
Change in discretionary profit participation provision, gross and net	<b>1,060</b>	1,031	<b>1,060</b>	1,031
	<hr/>	<hr/>	<hr/>	<hr/>
Total gross claims incurred from life assurance	<b>(141,356)</b>	(157,449)	<b>(141,356)</b>	(157,449)
Total reinsurance share in claims incurred from life assurance	<b>46,941</b>	51,296	<b>46,941</b>	51,296
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total net claims incurred from life assurance</b>	<b>(94,415)</b>	(106,153)	<b>(94,415)</b>	(106,153)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Total gross claims incurred</b>	<b>(268,493)</b>	(325,610)	<b>(268,493)</b>	(325,610)
<b>Total reinsurance share in claims incurred</b>	<b>109,258</b>	124,853	<b>109,258</b>	124,853
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>(159,235)</b>	(200,757)	<b>(159,235)</b>	(200,757)
	<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.

### Analysis of claims ratio, costs ratio and combined ratio

	Claims ratio	Costs ratio	Combined ratio
<b>2012</b>			
Personal accident insurance	47.63%	20.95%	68.58%
Health insurance	179.57%	26.76%	206.33%
Insurance of motor vehicles	81.04%	30.02%	111.06%
Insurance of aircrafts	-	21.31%	21.31%
Insurance of vessels	135.69%	63.55%	199.24%
Insurance of goods in transit	19.87%	21.96%	41.83%
Insurance against fire and natural disasters	32.23%	30.82%	63.05%
Other property insurance lines	62.60%	35.12%	97.72%
Motor third party liability insurance	31.83%	3.87%	35.70%
Aircraft liability insurance	-	21.31%	21.31%
Vessel liability insurance	41.23%	38.77%	80.00%
Other third liability insurance lines	127.95%	25.32%	153.27%
Credit insurance	763.16%	21.31%	784.47%
Suretyship insurance	(175.13%)	21.31%	(153.82%)
Insurance of miscellaneous financial losses	(37.35%)	13.93%	(23.42%)
Insurance of legal protection	30.65%	29.54%	60.19%
Travel insurance	73.85%	48.77%	122.62%
<b>Total non-life</b>	<b>50.16%</b>	<b>20.48%</b>	<b>70.64%</b>
<b>2011</b>			
Personal accident insurance	38.41%	26.35%	64.76%
Health insurance	763.97%	29.21%	793.18%
Insurance of motor vehicles	86.20%	41.97%	128.17%
Insurance of aircrafts	-	30.03%	30.03%
Insurance of vessels	355.91%	83.37%	439.28%
Insurance of goods in transit	23.96%	21.30%	45.26%
Insurance against fire and natural disasters	18.35%	43.15%	61.50%
Other property insurance lines	36.60%	35.99%	72.59%
Motor third party liability insurance	47.28%	10.60%	57.88%
Aircraft liability insurance	-	10.38%	10.38%
Vessel liability insurance	25.79%	46.51%	72.30%
Other third liability insurance lines	46.91%	18.10%	65.01%
Credit insurance	1523.09%	14.05%	1537.14%
Suretyship insurance	489.85%	16.59%	506.44%
Insurance of miscellaneous financial losses	13.23%	13.23%	26.46%
Insurance of legal protection	-	29.10%	29.10%
Travel insurance	70.89%	54.10%	124.99%
<b>Total non-life</b>	<b>60.07%</b>	<b>26.57%</b>	<b>86.64%</b>

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 and profit participation + acquisition costs – change in deferred acquisition costs) / (gross written premium)

**Combined ratio** = claims ratio + costs ratio

## 35 Acquisition costs

### Group and Company

	2012 HRK'000	2011 HRK'000
<i>Non-life insurance business</i>		
Commission expenses	18,622	20,113
Other acquisition costs	3,404	2,790
Changes in deferred acquisition costs (Note 13)	3,165	13,256
	<hr/>	<hr/>
<b>Total acquisition costs, non-life</b>	<b>25,191</b>	<b>36,159</b>
	<hr/>	<hr/>
<i>Life assurance business</i>		
Commission expenses	17,708	22,892
Other acquisition costs	3,176	8,130
Changes in deferred acquisition costs (Note 13)	(39)	49
	<hr/>	<hr/>
<b>Total acquisition costs, life</b>	<b>20,845</b>	<b>31,071</b>
	<hr/>	<hr/>
	<b>46,036</b>	<b>67,230</b>
	<hr/>	<hr/>

Included within acquisition costs are internal sales staff costs amounting to HRK 8.8 million (2011: HRK 11.1 million).

### Analysis by class of business

#### Group and Company

	2012 HRK'000	2011 HRK'000
<i>Non-life insurance business</i>		
Personal accident insurance	1,984	2,869
Health insurance	19	47
Insurance of motor vehicles	2,438	5,066
Insurance of aircrafts	1	8
Insurance of vessels	2,297	2,465
Insurance of goods in transit	160	162
Insurance against fire and natural disasters	4,452	5,034
Other property insurance lines	5,290	5,179
Motor third party liability insurance	6,583	13,423
Aircraft liability insurance	-	1
Vessel liability insurance	336	352
Other third party liability insurance lines	946	806
Credit insurance	6	11
Suretyship insurance	3	2
Insurance of miscellaneous financial losses	157	223
Insurance of legal protection	1	2
Travel insurance	518	509
	<hr/>	<hr/>
<b>Total non-life</b>	<b>25,191</b>	<b>36,159</b>
	<hr/>	<hr/>
<i>Life assurance business</i>		
Life products	18,794	25,857
Life rider products	1,073	2,166
Index-linked and unit-linked	978	3,048
	<hr/>	<hr/>
<b>Total life</b>	<b>20,845</b>	<b>31,071</b>
	<hr/>	<hr/>
<b>Total non-life and life</b>	<b>46,036</b>	<b>67,230</b>
	<hr/>	<hr/>

## 36 Administrative expenses

	<b>Group 2012 HRK'000</b>	Group 2011 HRK'000	<b>Company 2012 HRK'000</b>	Company 2011 HRK'000
Depreciation of property and equipment (Note 11)	4,685	5,521	3,539	4,308
Amortisation of other intangible assets (Note 14)	3,011	3,185	3,011	3,185
Goodwill write offs (Note 14)	-	3,838	-	3,838
Land and buildings write off (Note 11)	882	-	882	-
Impairment of land and buildings (Note 11)	194	-	194	-
Other equipment, furniture and leasehold improvement write off (Note 11)	17	-	16	-
Impairment of other intangible assets (Note 14)	676	5,400	676	5,400
Personnel expenses	58,390	63,900	57,859	63,264
Materials and services	26,015	24,440	22,580	21,253
Office premises rental expenses	7,363	6,617	13,994	14,964
Company cars rental expenses	409	976	409	976
Audit fees	769	803	769	803
Lawyer fees	1,852	1,111	1,852	1,111
Intellectual services	411	284	411	284
Increase of termination benefits and jubilee award provision (Note 28)	86	-	86	-
Increase of restructuring provision (Note 28)	5,701	-	5,701	-
Other expenses	17,354	10,804	16,198	10,514
	<b>127,815</b>	<b>126,879</b>	<b>128,177</b>	<b>129,900</b>

In 2012, the average number of employees of the Group was 622 (2011: 639) and of the Company was 619 (2011: 636). In 2012, the Group paid pension contributions of HRK 11.9 million (2011: HRK 12.6 million) into obligatory pension funds.

<b>Analysis by class of business</b>	<b>Group 2012 HRK'000</b>	Group 2011 HRK'000	<b>Company 2012 HRK'000</b>	Company 2011 HRK'000
<i>Non-life insurance business</i>				
Personal accident insurance	4,286	6,525	4,309	6,833
Health insurance	98	61	99	64
Insurance of motor vehicles	5,293	8,740	5,321	9,152
Insurance of aircrafts	2	4	2	4
Insurance of vessels	4,228	6,379	4,250	6,680
Insurance of goods in transit	797	734	801	769
Insurance against fire and natural disasters	10,797	12,818	10,854	13,423
Other property insurance lines	11,996	12,770	12,059	13,372
Motor third party liability insurance	25,005	25,915	25,137	26,380
Aircraft liability insurance	5	6	5	6
Vessel liability insurance	876	1,033	881	1,082
Other third party liability insurance lines	3,016	2,998	3,032	3,140
Credit insurance	16	18	16	18
Suretyship insurance	11	9	11	9
Insurance of miscellaneous financial losses	1,053	687	1,059	719
Insurance of legal protection	2	5	2	5
Travel insurance	1,123	1,422	1,128	1,489
<b>Total non-life</b>	<b>68,604</b>	<b>80,124</b>	<b>68,966</b>	<b>83,145</b>
<i>Life assurance business</i>				
Life products	49,587	39,677	49,587	39,677
Life rider products	4,807	3,573	4,807	3,573
Index linked and unit linked	4,817	3,505	4,817	3,505
<b>Total life</b>	<b>59,211</b>	<b>46,755</b>	<b>59,211</b>	<b>46,755</b>
<b>Total non-life and life</b>	<b>127,815</b>	<b>126,879</b>	<b>128,177</b>	<b>129,900</b>

### 37 Other operating expenses

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Fire brigade contributions	1,492	1,476	1,492	1,476
Technical interest rate payable on deposit retained from reinsurance	9,047	7,883	9,047	7,883
Other technical charges	7,925	15,768	7,925	15,768
Guarantee fund	330	10,752	330	10,752
Prevention costs	798	1,270	798	1,270
Compulsory motor third party liability insurance contribution to the Croatian health fund	5,986	7,081	5,986	7,081
Impairment of other receivables (Note 19)	673	-	673	-
Increase in provision for court cases (Note 28)	2,545	-	2,495	-
	<u>28,796</u>	<u>44,230</u>	<u>28,746</u>	<u>44,230</u>

### 38 Financial expenses

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Interest expense	2,900	3,855	1,184	1,175
Depreciation of investment property (Note 12)	608	572	36	-
Net realised loss on financial assets available for sale	-	165	-	165
Realised loss on sale of subsidiary	-	88	-	88
Impairment of available-for-sale financial assets	3,963	5,455	3,963	5,455
Impairment of loans to customers	12,188	16,701	12,188	16,701
Impairment of deposits with banks (Note 19)	-	19,103	-	19,103
Impairment of accrued interest (Note 19)	8,946	12,305	8,946	12,305
Impairment of assets held for sale	214	-	214	-
Loss from sale of investment property	-	64	-	64
Loss from sale of assets held for sale	341	-	341	-
Other expenses	1,528	3,661	1,528	3,380
	<u>30,688</u>	<u>61,969</u>	<u>28,400</u>	<u>58,436</u>

#### Group

	<b>Non-life</b>	<b>Life</b>	<b>Investment property</b>	<b>Total</b>	Non-life	Life	Investment property	Total
	<b>2012</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>	2011	2011	2011	2011
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	HRK'000	HRK'000	HRK'000	HRK'000
Expenses from assets backing share capital	20,376	3,404	2,288	26,068	22,800	25,040	3,533	51,373
Expenses from assets backing life assurance provision	-	4,422	-	4,422	-	9,274	-	9,274
Expenses from assets backing other technical provisions	198	-	-	198	1,322	-	-	1,322
	<u>20,574</u>	<u>7,826</u>	<u>2,288</u>	<u>30,688</u>	<u>24,122</u>	<u>34,314</u>	<u>3,533</u>	<u>61,969</u>

### 38 Financial expenses (continued)

Company	Non-life	Life	Total	Non-life	Life	Total
	2012	2012	2012	2011	2011	2011
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Expenses from assets backing share capital	20,376	3,404	23,780	22,077	25,040	47,117
Expenses from assets backing life assurance provision	-	4,422	4,422	-	9,274	9,274
Expenses from assets backing other technical provisions	198	-	198	2,045	-	2,045
	<u>20,574</u>	<u>7,826</u>	<u>28,400</u>	<u>24,122</u>	<u>34,314</u>	<u>58,436</u>

### 39 Income taxes

	Group	Group	Company	Company
	2012	2011	2012	2011
	HRK'000	HRK'000	HRK'000	HRK'000
<b>Current tax expense</b>				
Current income tax	383	334	-	-
Deferred income tax	-	2,000	-	2,000
	<u>383</u>	<u>2,334</u>	<u>-</u>	<u>2,000</u>
<b>Total income tax expense</b>	<u>383</u>	<u>2,334</u>	<u>-</u>	<u>2,000</u>

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

	Group	Group	Company	Company
	2012	2011	2012	2011
	HRK'000	HRK'000	HRK'000	HRK'000
Accounting profit/(loss) for the period before income taxes	<u>1,800</u>	<u>(88,175)</u>	<u>1,162</u>	<u>(90,132)</u>
Income tax at 20% (2011: 20%)	(360)	17,635	(232)	18,026
Tax effect of:				
Non-deductible expenses	(10,645)	(12,358)	(10,390)	(12,329)
Tax exempt income	5,072	4,156	5,072	4,156
Release of previously recognised deferred tax asset on unused tax losses	-	(2,000)	-	(2,000)
Adjustments to previous period tax return	-	86	-	-
Unrecognised portion of temporary differences and tax losses arising during the period	-	(9,853)	-	(9,853)
Use of tax losses brought forward	5,550	-	5,550	-
	<u>5,550</u>	<u>-</u>	<u>5,550</u>	<u>-</u>
<b>Total income tax expense</b>	<u>(383)</u>	<u>(2,334)</u>	<u>-</u>	<u>(2,000)</u>

## 39 Income taxes (continued)

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

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<i>At income tax rate of 20%</i>				
Unused tax losses brought forward	(13,830)	(6,654)	(13,672)	(6,496)
Use of tax losses brought forward	5,550	-	5,550	-
Unrecognised tax losses incurred during the period	-	(7,176)	-	(7,176)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Unused tax losses carried forward</b>	<b>(8,280)</b>	(13,830)	<b>(8,122)</b>	(13,672)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### c. Tax losses brought forward

The potential deferred tax asset, arising from tax losses, of HRK 8.3 million for the Group and HRK 8.1 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:

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<i>At income tax rate of 20%</i>				
No more than 1 year	-	-	-	-
No more than 2 years	(381)	-	(381)	-
No more than 3 years	(723)	(5,931)	(565)	(5,931)
No more than 4 years	(7,176)	(723)	(7,176)	(565)
No more than 5 years	-	(7,176)	-	(7,176)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total potential benefit of tax losses carried forward</b>	<b>(8,280)</b>	(13,830)	<b>(8,122)</b>	(13,672)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Unrecognised benefit of tax loss carried forward</b>	<b>(8,280)</b>	(13,830)	<b>(8,122)</b>	(13,672)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Deferred tax asset recognized in the statement of financial position</b>	<b>-</b>	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 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 2012, HRK 7.8 million was recognised as an expense in the Group's profit or loss (2011: HRK 7.5 million) and HRK 14.4 million was recognised in the Company's profit or loss (2011: HRK 15.9 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 99.4% (2011: 99.4%) of the Company's shares at year end. The remaining 0.6% (2011: 0.6%) 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 subsidiary and associate; 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 had subordinated loan obtained from the parent company in the amount of HRK 15.1 million as of 31 December 2011 and until 17 February 2012 when subordinated loan was transferred to related company LVB Holding GmbH with unchanged conditions. Subordinated loan bears 8% 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 borrowings were transferred to related company LVB Holding GmbH. As a result, the Group recorded HRK 1.08 million (2011: HRK 3.14 million) of interest expenses on borrowings and subordinated loan. 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. The results of transactions with parent company and related parties are reinsurance premiums and recoveries during the year as well as receivable and payable balances at the end of the year, as follows:

<b>Group and Company</b>	<b>2012</b>	2011
	<b>HRK'000</b>	HRK'000
<b>Premium ceded:</b>		
Reinsurance premiums payable at beginning of the year	<b>(142,156)</b>	(82,866)
Reinsurance premiums ceded during the year	<b>(170,971)</b>	(226,556)
Reinsurance premiums paid during the year	<b>191,776</b>	167,266
	<hr/>	<hr/>
Reinsurance premiums payable at the end of the year	<b>(121,351)</b>	(142,156)
	<hr/> <hr/>	<hr/> <hr/>
<b>Reinsurance recoveries:</b>		
At the beginning of the year	<b>36,418</b>	24,694
Invoiced during the year	<b>72,493</b>	58,108
Received during the year	<b>(68,053)</b>	(46,384)
	<hr/>	<hr/>
Outstanding at the end of the year	<b>40,858</b>	36,418
	<hr/> <hr/>	<hr/> <hr/>
<b>Reinsurance commission:</b>		
At the beginning of the year	<b>34,182</b>	25,369
Invoiced during the year	<b>56,509</b>	57,592
Received during the year	<b>(70,092)</b>	(48,779)
	<hr/>	<hr/>
Outstanding at the end of the year	<b>20,599</b>	34,182
	<hr/> <hr/>	<hr/> <hr/>
<b>Receivables from deposit retained from reinsurance business</b>	<b>15,056</b>	31,902
	<hr/> <hr/>	<hr/> <hr/>
<b>Deposit retained from reinsurance business</b>	<b>(308,009)</b>	(292,045)
	<hr/> <hr/>	<hr/> <hr/>
<b>Accrued interest on deposit retained from reinsurance business</b>	<b>8,447</b>	7,234
	<hr/> <hr/>	<hr/> <hr/>



## **41 Related parties (continued)**

### *Related companies (continued)*

As at 17 February 2012 subordinated debt obtained from the parent company in 2010 was transferred to other related company, LVB Holding GmbH Austria. As of 31 December 2012 subordinated loan amounts to HRK 15.1 million and bears 8% interest per annum. Maturity of subordinated loan is indefinite.

As of 20 December 2011, borrowings obtained from the parent company were 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.

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, representing 5% of 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.

### *Subsidiaries*

During 2012 the Company charged to Kvarner Wiener Städtische nekretnine d.o.o. ("KWSN") gross written premium of HRK 70 thousand (2011: HRK 74 thousand) on property insurance policy. In the same period the Company incurred HRK 6.37 million (2011: HRK 8.46 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 2012 amounted to HRK 6,000 thousand (2011: 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 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 2012 there was no dividend paid by Kvarner Wiener Städtische nekretnine d.o.o. to the Company (2011: nil).

### *Associate*

Vile Baredina is associate company of KWSN. The Company granted loan to Vile Baredina which became 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 2012 amounted to HRK 1,261 thousand (2011: HRK 634 thousand) and in 2011 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 2.3 million (2011: HRK 2.1 million), and comprises the total gross amount of their compensation including short-term and long-term benefits, such as basic salary, bonuses and benefits in kind.

## 41 Related parties (continued)

<b>Group 2012</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expense</b>
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
<i>Key management personnel</i>	-	258	-	2,333
<i>Parent company</i>				
Vienna Insurance Group AG Wiener Versicherung Gruppe	7,056	42,519	56,761	79,372
<i>Associate</i>				
Vile Baredine	513	-	-	627
<i>Related companies</i>				
LVP Holding GmbH	-	58,525	-	1,973
Wiener Staedtische Versicherung AG	971	2,663	3,592	5,162
VIG Re	43,292	389,677	25,451	28,449
DONAU	363	148	337	732
Compensa Towarzystwo Ubezpieczeń Spolka Akcyjna				
Vienna Insurance Group, Warsaw	2	3	4	2
Erste Osiguranje Vienna Insurance Group d.d.	5	-	85	1,388
Helios Vienna Insurance Group d.d.	7	-	153	55
	<u>52,209</u>	<u>493,793</u>	<u>86,383</u>	<u>120,093</u>
	<u><u>52,209</u></u>	<u><u>493,793</u></u>	<u><u>86,383</u></u>	<u><u>120,093</u></u>
<b>Company 2012</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expense</b>
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
<i>Key management personnel</i>	-	229	-	2,013
<i>Parent company</i>				
Vienna Insurance Group AG Wiener Versicherung Gruppe	7,056	42,519	56,761	79,372
<i>Associate</i>				
Vile Baredine	513	-	-	627
<i>Subsidiary</i>				
Kvarner Wiener Staedtische nekretnine d.o.o.	-	124	70	8,266
<i>Related companies</i>				
LVP Holding GmbH	-	15,091	-	888
Wiener Staedtische Versicherung AG	971	2,663	3,592	5,162
VIG Re	43,292	389,677	25,451	28,449
DONAU	363	148	337	732
Compensa Towarzystwo Ubezpieczeń Spolka Akcyjna				
Vienna Insurance Group, Warsaw	2	3	4	2
Erste Osiguranje Vienna Insurance Group d.d.	5	-	85	1,388
Helios Vienna Insurance Group d.d.	7	-	153	55
	<u>52,209</u>	<u>450,454</u>	<u>86,453</u>	<u>126,954</u>
	<u><u>52,209</u></u>	<u><u>450,454</u></u>	<u><u>86,453</u></u>	<u><u>126,954</u></u>

## 41 Related parties (continued)

<b>Group 2011</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expense</b>
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
<i>Key management personnel</i>	-	161	-	2,060
<i>Parent company</i>				
Vienna Insurance Group AG Wiener Versicherung Gruppe	11,530	167,760	7,280	11,014
<i>Associate</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>
<b>Company 2011</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expense</b>
	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>	<b>HRK'000</b>
<i>Key management personnel</i>	-	131	-	1,702
<i>Parent company</i>				
Vienna Insurance Group AG Wiener Versicherung Gruppe	11,530	167,760	5,321	11,014
<i>Associate</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>44,521</u>
	<u><u>62,927</u></u>	<u><u>450,891</u></u>	<u><u>20,725</u></u>	<u><u>44,521</u></u>

## 42 Financial Risk Management

The primary objective of the Group's risk and financial management framework is to protect the Group's policyholders and 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, including a summary of Group's risk management.

### 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, 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 the potential loss as well as the potential 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 Act.

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 majority 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 on the investment portfolio and insurance reserves, are regularly 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 44 discloses the effective interest rates and repricing analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities within the scope of IAS 39 at 31 December 2012 and 31 December 2011.

Since the majority of interest earning assets 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 is exposed to price risk on its portfolio of marketable equity securities carried in the statement of financial position at fair value. 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 on 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 instruments.

<b>Group and Company</b>	<b>Impact on profit or loss after tax 2012 HRK'000</b>	<b>Impact on other comprehensive income after tax 2012 HRK'000</b>	<b>Impact on profit or loss after tax 2011 HRK'000</b>	<b>Impact on other comprehensive income after tax 2011 HRK'000</b>
Change in price by $\pm$ 1%	<b>1,388/(1,388)</b>	<b>263/(263)</b>	690/(690)	275/(275)
Change in price by $\pm$ 3%	<b>4,163/(4,163)</b>	<b>790/(790)</b>	2,070/(2,070)	825/(825)
Change in price by $\pm$ 5%	<b>6,938/(6,938)</b>	<b>1,317/(1,317)</b>	3,451/(3,451)	1,375/(1,375)

### 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, borrowings and subordinated loan. 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 2012 and 31 December 2011.

The analysis below is performed for reasonably possible movements in key variable with all other variables held constant, showing the impact on profit or loss 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 7.39 HRK for 1 EUR and 7.70 HRK for 1 EUR (2011: between 7.38 HRK for 1 EUR and 7.68 HRK for 1 EUR). The EUR/HRK rate was most of the time in the past within that range.

## 42 Financial risk management (continued)

### Foreign exchange risk (continued)

Group	Impact on profit	Impact on other	Impact on profit or	Impact on other
	or loss after tax	comprehensive	loss after tax	comprehensive
	2012	2012	2011	2011
	HRK'000	HRK'000	HRK'000	HRK'000
EUR / HRK rate				
Change in fx rate by $\pm$ 1%	5,357/(5,357)	143/(143)	5,208/(5,208)	139/(139)
Change in fx rate by $\pm$ 2%	10,714/(10,714)	285/(285)	10,415/(10,415)	278/(278)

Company	Impact on profit	Impact on other	Impact on profit or	Impact on other
	or loss after tax	comprehensive	loss after tax	comprehensive
	2012	2012	2011	2011
	HRK'000	HRK'000	HRK'000	HRK'000
EUR / HRK rate				
Change in fx rate by $\pm$ 1%	5,728/(5,728)	143/(143)	5,585/(5,585)	139/(139)
Change in fx rate by $\pm$ 2%	11,457/(11,457)	285/(285)	11,169/(11,169)	278/(278)

### 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 to 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

	Note	Group 2012 HRK'000	Group 2011 HRK'000	Company 2012 HRK'000	Company 2011 HRK'000
Cash and cash equivalents	21	7,046	3,786	6,513	3,661
Debt securities	16	1,114,849	1,046,338	1,114,849	1,046,338
Deposits with banks	16	45,219	73,436	45,219	73,436
Loans to customers	16	56,445	76,916	62,445	82,916
Current income tax prepayment		-	72	-	-
Insurance and other receivables		224,879	235,937	225,946	236,824
		<u>1,448,438</u>	<u>1,436,485</u>	<u>1,454,972</u>	<u>1,443,175</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:

	<b>Group 2012 HRK'000</b>	Group 2011 HRK'000	<b>Company 2012 HRK'000</b>	Company 2011 HRK'000
Government bonds	<b>1,028,844</b>	981,839	<b>1,028,844</b>	981,839
Accrued interest thereon	<b>21,112</b>	16,013	<b>21,112</b>	16,013
Current income tax prepayment	-	72	-	-
Current tax liability	<b>(111)</b>	(262)	-	-
	<b><u>1,049,845</u></b>	<u>997,662</u>	<b><u>1,049,956</u></b>	<u>997,852</u>

The total exposure to Croatian state risk represents 48% of the total assets of the Group (2011: 47%) and 49% of the total assets of the Company (2011: 49%).

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.

	<b>AAA - A HRK'000</b>	<b>BBB - B HRK'000</b>	<b>Not rated HRK'000</b>	<b>Total HRK'000</b>
<b>Group 2012</b>				
Financial assets at fair value through profit or loss				
Debt securities	1,294	4,856	-	<b>6,150</b>
Debt securities – assets backing index-linked products	27,233	6,529	-	<b>33,762</b>
Available-for-sale financial assets				
Debt securities	-	502,304	44,071	<b>546,375</b>
Held-to-maturity investments				
Debt securities	-	526,540	2,022	<b>528,562</b>
Loans and receivables				
Deposits with banks	-	-	45,219	<b>45,219</b>
Loans to customers	-	-	56,445	<b>56,445</b>
Insurance and other receivables	76,788	40	148,051	<b>224,879</b>
Current income tax prepayment	-	-	-	-
Cash and cash equivalents	-	-	7,046	<b>7,046</b>
	<b><u>105,315</u></b>	<b><u>1,040,269</u></b>	<b><u>302,854</u></b>	<b><u>1,448,438</u></b>
<b>Group 2011</b>				
Financial assets at fair value through profit or loss				
Debt securities	2,502	13,183	-	<b>15,685</b>
Debt securities – assets backing index-linked products	22,394	371	-	<b>22,765</b>
Available-for-sale financial assets				
Debt securities	-	456,322	23,794	<b>480,116</b>
Held-to-maturity investments				
Debt securities	-	525,517	2,255	<b>527,772</b>
Loans and receivables				
Deposits with banks	-	-	73,436	<b>73,436</b>
Loans to customers	-	-	76,916	<b>76,916</b>
Insurance and other receivables	102,616	15,942	117,379	<b>235,937</b>
Current income tax prepayment	-	72	-	<b>72</b>
Cash and cash equivalents	-	-	3,786	<b>3,786</b>
	<b><u>127,512</u></b>	<b><u>1,011,407</u></b>	<b><u>297,566</u></b>	<b><u>1,436,485</u></b>



## 42 Financial risk management (continued)

### Credit risk (continued)

	AAA – A HRK'000	BBB – B HRK'000	Not rated HRK'000	Total HRK'000
<b>Company 2012</b>				
Financial assets at fair value through profit or loss				
Debt securities	1,294	4,856	-	6,150
Debt securities – assets backing index-linked products	27,233	6,529	-	33,762
Available-for-sale financial assets				
Debt securities	-	502,304	44,071	546,375
Held-to-maturity investments				
Debt securities	-	526,540	2,022	528,562
Loans and receivables				
Deposits with banks	-	-	45,219	45,219
Loans to customers	-	-	62,445	62,445
Insurance and other receivables	76,788	40	149,118	225,946
Cash and cash equivalents	-	-	6,513	6,513
	<u>105,315</u>	<u>1,040,269</u>	<u>309,388</u>	<u>1,454,972</u>
<b>Total exposure to credit risk</b>	<b><u>105,315</u></b>	<b><u>1,040,269</u></b>	<b><u>309,388</u></b>	<b><u>1,454,972</u></b>
<b>Company 2011</b>				
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 financial assets				
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	118,194	236,824
Cash and cash equivalents	-	-	3,661	3,661
	<u>127,512</u>	<u>1,011,407</u>	<u>304,256</u>	<u>1,443,175</u>
<b>Total exposure to credit risk</b>	<b><u>127,512</u></b>	<b><u>1,011,407</u></b>	<b><u>304,256</u></b>	<b><u>1,443,175</u></b>

## 42 Financial risk management (continued)

### Credit risk (continued)

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

<b>Reinsurers as of 31 December 2012</b>	<b>Credit rating (Standard&amp;Poor's)</b>
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	AA+
Randall & Quilter Group Inv, Ltd. (ex -Chevanstell Limited)	Not rated
SCOR Deutschland Ruckversicherungs 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.	BBB+
Mutuelle Centrale de Reassurance	Not rated
Münchener Rückversicherungsgesellschaft	AA-
New Reinsurance Company	AA-
Odyssey America Reinsurance Corporation	A-
Partner Reinsurance Europe Ltd.	A+
Polish Re / Polskie Towarzystwo Reasekuracyjne S.A.	BBB+
R + V Versicherung AG	AA-
Sava / Pozavarovalnica Sava d.d.	BBB+
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+
Compensa	A+
Zurich Re	AA-

## **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 the Group met statutory requirements for claims settlement 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 investments is estimated to be HRK 53.4 million higher than the carrying amount (2011: HRK 19.1 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 2012	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	6,150	-	-	6,150
Debt securities – assets backing index-linked products	33,762	-	-	33,762
Investment funds	146,664	-	-	146,664
Investment funds – assets backing unit-linked products	26,795	-	-	26,795
Available-for-sale financial assets				
Debt securities	546,375	-	-	546,375
Equity securities	2,754	-	-	2,754
Investment funds	30,169	-	-	30,169
<b>Total financial assets</b>	<b>792,669</b>	<b>-</b>	<b>-</b>	<b>792,669</b>
31 December 2011				
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
<b>Total financial assets</b>	<b>462,907</b>	<b>176,303</b>	<b>-</b>	<b>639,210</b>

In both 2012 and 2011 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 analysis

The tables below analyses the financial assets and liabilities within the scope of IAS 39 of the Group and the Company at 31 December 2012 and 31 December 2011 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 - 2012

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
<b>Financial assets</b>						
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	881	5,269	6,150
Debt securities – assets backing index-linked products	-	-	-	10,950	22,812	33,762
Equity securities	-	-	-	-	90	90
Investment funds	146,664	-	-	-	-	146,664
Investment funds – assets backing unit-linked products	-	-	-	-	26,795	26,795
Available-for-sale financial assets						
Debt securities	-	10,166	30,503	183,842	321,864	546,375
Equity securities	2,754	-	-	-	-	2,754
Investment funds	30,169	-	-	-	-	30,169
Held-to-maturity investments						
Debt securities	-	-	91,984	21,825	414,753	528,562
Loans and receivables						
Deposits with banks	-	35,787	2,264	7,168	-	45,219
Loans to customers	46,312	7,427	1,728	978	-	56,445
Insurance and other receivables	182,453	40,152	1,478	796	-	224,879
Cash and cash equivalents	7,046	-	-	-	-	7,046
<b>Total financial assets</b>	<b>415,398</b>	<b>93,532</b>	<b>127,957</b>	<b>226,440</b>	<b>791,583</b>	<b>1,654,910</b>
<b>Financial liabilities</b>						
Subordinated loan*	-	-	-	-	15,091	15,091
Borrowings**	1,320	3,327	4,549	51,395	-	60,591
Insurance and other payables	131,351	69,059	13,561	57,737	201,927	473,635
<b>Total financial liabilities</b>	<b>132,671</b>	<b>72,386</b>	<b>18,110</b>	<b>109,132</b>	<b>217,018</b>	<b>549,317</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,184 thousand in 2012. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

\*\* Borrowings include all foreseeable future cash outflows, including interest payable.

## 43 Maturity analysis (continued)

### 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
<b>Financial assets</b>						
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 financial assets						
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
<b>Total financial assets</b>	<b>495,949</b>	<b>173,382</b>	<b>14,205</b>	<b>200,191</b>	<b>673,420</b>	<b>1,557,147</b>
<b>Financial liabilities</b>						
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
<b>Total financial liabilities</b>	<b>180,772</b>	<b>44,109</b>	<b>18,183</b>	<b>98,907</b>	<b>213,490</b>	<b>555,461</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,175 thousands in 2011. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

\*\* Borrowings include all foreseeable future cash outflows, including interest payable.

## 43 Maturity analysis (continued)

### Company – 2012

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
<b>Financial assets</b>						
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	881	5,269	6,150
Debt securities – assets backing index-linked products	-	-	-	10,950	22,812	33,762
Equity securities	-	-	-	-	90	90
Investment funds	146,664	-	-	-	-	146,664
Investment funds – assets backing unit-linked products	-	-	-	-	26,795	26,795
Available-for-sale financial assets						
Debt securities	-	10,166	30,503	183,842	321,864	546,375
Equity securities	2,754	-	-	-	-	2,754
Investment funds	30,169	-	-	-	-	30,169
Held-to-maturity investments						
Debt securities	-	-	91,984	21,825	414,753	528,562
Loans and receivables						
Deposits with banks	-	35,787	2,264	7,168	-	45,219
Loans to customers	52,312	7,427	1,728	978	-	62,445
Insurance and other receivables	183,520	40,152	1,478	796	-	225,946
Cash and cash equivalents	6,513	-	-	-	-	6,513
<b>Total financial assets</b>	<b>421,932</b>	<b>93,532</b>	<b>127,957</b>	<b>226,440</b>	<b>791,583</b>	<b>1,661,444</b>
<b>Financial liabilities</b>						
Subordinated loan*	-	-	-	-	15,091	15,091
Insurance and other payables	130,657	69,059	13,561	57,737	201,927	472,941
<b>Total financial liabilities</b>	<b>130,657</b>	<b>69,059</b>	<b>13,561</b>	<b>57,737</b>	<b>217,018</b>	<b>488,032</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,184 thousands in 2012. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

## 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
<b>Financial assets</b>						
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 financial assets						
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
<b>Total financial assets</b>	<b>498,711</b>	<b>177,382</b>	<b>14,205</b>	<b>200,191</b>	<b>673,420</b>	<b>1,563,909</b>
<b>Financial liabilities</b>						
Subordinated loan*	-	-	-	-	15,061	15,061
Insurance and other payables	178,056	40,716	13,507	44,340	197,100	473,719
<b>Total financial liabilities</b>	<b>178,056</b>	<b>40,716</b>	<b>13,507</b>	<b>44,340</b>	<b>212,161</b>	<b>488,780</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,175 thousands in 2011. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.



## 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 2012 and 31 December 2011 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 – 2012

	Effective interest rate	Up to 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Non – interest bearing	Total	Amounts subject to fixed rates
	%	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>Financial assets</b>									
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	-	6,150	6,150	-
Debt securities – assets backing index-linked products	n/a	-	-	-	-	-	33,762	33,762	-
Equity securities	n/a	-	-	-	-	-	90	90	-
Investment funds	n/a	-	-	-	-	-	146,664	146,664	-
Investment funds – assets backing unit-linked products	n/a	-	-	-	-	-	26,795	26,795	-
Available-for-sale financial assets									
Debt securities	6.15	9,975	10,166	30,503	173,867	321,864	-	546,375	536,400
Equity securities	n/a	-	-	-	-	-	2,754	2,754	-
Investment funds	n/a	-	-	-	-	-	30,169	30,169	-
Held-to-maturity investments									
Debt securities	5.99	-	-	91,984	21,825	414,753	-	528,562	528,562
Loans and receivables									
Deposits with banks	4.27	-	35,787	2,264	7,168	-	-	45,219	45,219
Loans to customers	12.14	46,312	7,427	1,728	978	-	-	56,445	56,445
Insurance and other receivables	n/a	-	-	-	-	-	224,879	224,879	-
Cash and cash equivalents	0.41	7,046	-	-	-	-	-	7,046	-
<b>Total financial assets</b>		<b>63,333</b>	<b>53,380</b>	<b>126,479</b>	<b>203,838</b>	<b>736,617</b>	<b>471,263</b>	<b>1,654,910</b>	<b>1,166,626</b>
<b>Financial liabilities</b>									
Subordinated loan*	8	-	-	-	-	15,091	-	15,091	15,091
Borrowings**	5.09	4,473	2,538	3,744	49,836	-	-	60,591	57,406
Insurance and other payables	2.76	46,815	4,729	11,983	42,032	201,927	166,149	473,635	270,249
<b>Total financial liabilities</b>		<b>51,288</b>	<b>7,267</b>	<b>15,727</b>	<b>91,868</b>	<b>217,018</b>	<b>166,149</b>	<b>549,317</b>	<b>342,746</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,184 thousands in 2012. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

\*\* Borrowings include all foreseeable future cash outflows, including interest payable.

## 44 Interest rate repricing analysis (continued)

### Group – 2011

	Effective interest rate %	Up to 6 months HRK'000	12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non – interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
<b>Financial assets</b>									
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 financial assets									
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	-
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<b>Total financial assets</b>		<b>219,601</b>	<b>128,386</b>	<b>12,337</b>	<b>189,176</b>	<b>612,526</b>	<b>395,121</b>	<b>1,557,147</b>	<b>1,148,222</b>
		=====	=====	=====	=====	=====	=====	=====	=====
<b>Financial liabilities</b>									
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
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<b>Total financial liabilities</b>		<b>42,168</b>	<b>7,088</b>	<b>15,974</b>	<b>90,180</b>	<b>213,489</b>	<b>186,562</b>	<b>555,461</b>	<b>334,523</b>
		=====	=====	=====	=====	=====	=====	=====	=====

\* Subordinated loan bears annual interest of 8%, or HRK 1,175 thousands in 2011. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

\*\* Borrowings include all foreseeable future cash outflows, including interest payable.

## 44 Interest rate repricing analysis (continued)

### Company – 2012

	Effective interest rate	Up to 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Non - interest bearing	Total	Amounts subject to fixed rates
	%	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>Financial assets</b>									
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	-	6,150	6,150	-
Debt securities – assets backing index-linked products	n/a	-	-	-	-	-	33,762	33,762	-
Equity securities	n/a	-	-	-	-	-	90	90	-
Investment funds	n/a	-	-	-	-	-	146,664	146,664	-
Investment funds – assets backing unit-linked products	n/a	-	-	-	-	-	26,795	26,795	-
Available-for-sale financial assets									
Debt securities	6.15	9,975	10,166	30,503	173,867	321,864	-	546,375	536,400
Equity securities	n/a	-	-	-	-	-	2,754	2,754	-
Investment funds	n/a	-	-	-	-	-	30,169	30,169	-
Held-to-maturity investments									
Debt securities	5.99	-	-	91,984	21,825	414,753	-	528,562	528,562
Loans and receivables									
Deposits with banks	4.27	-	35,787	2,264	7,168	-	-	45,219	45,219
Loans to customers	11.55	52,312	7,427	1,728	978	-	-	62,445	62,445
Insurance and other receivables	n/a	-	-	-	-	-	225,946	225,946	-
Cash and cash equivalents	0.41	6,513	-	-	-	-	-	6,513	-
<b>Total financial assets</b>		<b>68,800</b>	<b>53,380</b>	<b>126,479</b>	<b>203,838</b>	<b>736,617</b>	<b>472,330</b>	<b>1,661,444</b>	<b>1,172,626</b>
<b>Financial liabilities</b>									
Subordinated loan*	8	-	-	-	-	15,091	-	15,091	15,091
Insurance and other payables	2.76	46,815	4,729	11,983	42,032	201,927	165,455	472,941	270,249
<b>Total financial liabilities</b>		<b>46,815</b>	<b>4,729</b>	<b>11,983</b>	<b>42,032</b>	<b>217,018</b>	<b>165,455</b>	<b>488,032</b>	<b>285,340</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,184 thousands in 2012. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

## 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
<b>Financial assets</b>									
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 financial assets									
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	-
<b>Total financial assets</b>		<b>221,476</b>	<b>132,386</b>	<b>12,337</b>	<b>189,176</b>	<b>612,526</b>	<b>396,008</b>	<b>1,563,909</b>	<b>1,154,222</b>
<b>Financial liabilities</b>									
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
<b>Total financial liabilities</b>		<b>36,038</b>	<b>4,511</b>	<b>12,153</b>	<b>38,025</b>	<b>212,160</b>	<b>185,893</b>	<b>488,780</b>	<b>273,149</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,175 thousands in 2011. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

## 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 2012 and 31 December 2011.

### Group - 2012

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>					
Financial assets at fair value through profit or loss					
Debt securities	6,150	-	6,150	-	6,150
Debt securities – assets backing index-linked products	33,762	-	33,762	-	33,762
Equity securities	-	-	-	90	90
Investment funds	-	40,263	40,263	106,401	146,664
Investment funds – assets backing unit-linked products	-	26,795	26,795	-	26,795
Available-for-sale financial assets					
Debt securities	60,249	251,775	312,024	234,351	546,375
Equity securities	-	-	-	2,754	2,754
Investment funds	-	17,821	17,821	12,348	30,169
Held-to-maturity investments					
Debt securities	12,055	484,837	496,892	31,670	528,562
Loans and receivables					
Deposits with banks	2,264	7,168	9,432	35,787	45,219
Loans to customers	-	54,195	54,195	2,250	56,445
Insurance and other receivables	-	52,062	52,062	172,817	224,879
Cash and cash equivalents	-	216	216	6,830	7,046
<b>Total financial assets</b>	<b>114,480</b>	<b>935,132</b>	<b>1,049,612</b>	<b>605,298</b>	<b>1,654,910</b>
<b>Financial liabilities</b>					
Subordinated loan*	15,091	-	15,091	-	15,091
Borrowings**	53,133	-	53,133	7,458	60,591
Insurance and other payables	-	324,410	324,410	149,225	473,635
<b>Total financial liabilities</b>	<b>68,224</b>	<b>324,410</b>	<b>392,634</b>	<b>156,683</b>	<b>549,317</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,184 thousands in 2012. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

\*\* Borrowings include all foreseeable future cash outflows, including interest payable.

## 45 Currency risk analysis (continued)

### Group - 2011

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>					
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 financial assets					
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
<b>Total financial assets</b>	<b>109,312</b>	<b>927,293</b>	<b>1,036,605</b>	<b>520,542</b>	<b>1,557,147</b>
<b>Financial liabilities</b>					
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
<b>Total financial liabilities</b>	<b>70,892</b>	<b>324,971</b>	<b>395,863</b>	<b>159,598</b>	<b>555,461</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,175 thousands in 2011. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

\*\* Borrowings include all foreseeable future cash outflows, including interest payable.

## 45 Currency risk analysis (continued)

### Company – 2012

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>					
Financial assets at fair value through profit or loss					
Debt securities	6,150	-	6,150	-	6,150
Debt securities – assets backing index-linked products	33,762	-	33,762	-	33,762
Equity securities	-	-	-	90	90
Investment funds	-	40,263	40,263	106,401	146,664
Investment funds – assets backing unit-linked products	-	26,795	26,795	-	26,795
Available-for-sale financial assets					
Debt securities	60,249	251,775	312,024	234,351	546,375
Equity securities	-	-	-	2,754	2,754
Investment funds	-	17,821	17,821	12,348	30,169
Held-to-maturity investments					
Debt securities	12,055	484,837	496,892	31,670	528,562
Loans and receivables					
Deposits with banks	2,264	7,168	9,432	35,787	45,219
Loans to customers	-	54,195	54,195	8,250	62,445
Insurance and other receivables	-	52,062	52,062	173,884	225,946
Cash and cash equivalents	-	214	214	6,299	6,513
<b>Total financial assets</b>	<b>114,480</b>	<b>935,130</b>	<b>1,049,610</b>	<b>611,834</b>	<b>1,661,444</b>
<b>Financial liabilities</b>					
Subordinated loan*	15,091	-	15,091	-	15,091
Insurance and other payables	-	324,410	324,410	148,531	472,941
<b>Total financial liabilities</b>	<b>15,091</b>	<b>324,410</b>	<b>339,501</b>	<b>148,531</b>	<b>488,032</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,184 thousands in 2012. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.

## 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
<b>Financial assets</b>					
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 financial assets					
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
<b>Total financial assets</b>	<b>109,312</b>	<b>927,293</b>	<b>1,036,605</b>	<b>527,304</b>	<b>1,563,909</b>
<b>Financial liabilities</b>					
Subordinated loan*	15,061	-	15,061	-	15,061
Insurance and other payables	-	324,971	324,971	148,748	473,719
<b>Total financial liabilities</b>	<b>15,061</b>	<b>324,971</b>	<b>340,032</b>	<b>148,748</b>	<b>488,780</b>

\* Subordinated loan bears annual interest of 8%, or HRK 1,175 thousands in 2011. As subordinated loan has unlimited maturity, future cash flows in respect of interest payable are not included.



## **46 Contingent assets and liabilities**

### *Off-balance sheet accounts*

The Group had no off-balance sheet accounts as at 31 December 2012 (2011: -).

### *Capital liabilities*

The Group had no capital liabilities as at 31 December 2012 (2011: -).

### *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.

## **47 Events after the reporting date**

In light of challenging market environment and increasing regulatory and technological requirements, Vienna Insurance Group AG Wiener Versicherung Gruppe, ultimate parent company and majority shareholder (99.4% voting rights) decided to consolidate operations of its subsidiaries in Croatia and thus legally merge related company Helios Vienna Insurance Group d.d., fully owned by Vienna Insurance Group AG Wiener Versicherung Gruppe, into the Company. The merger contract was signed on 29 January 2013 and merger is expected to take place until mid-2013.

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

### Unconsolidated statement of financial position (balance sheet) 31 December 2012

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
<b>001</b>	002+003	<b>A</b>	<b>RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID</b>						
002		1	Called up capital						
003		2	Uncalled capital						
<b>004</b>	005+006	<b>B</b>	<b>INTANGIBLE ASSETS</b>	<b>3,952,724</b>	<b>9,319,969</b>	<b>13,272,692</b>	<b>3,342,525</b>	<b>9,419,732</b>	<b>12,762,257</b>
005		1	Goodwill		4,931,965	4,931,965		4,586,917	4,586,917
006		2	Other intangible assets	3,952,724	4,388,004	8,340,727	3,342,525	4,832,815	8,175,340
<b>007</b>	008+009+010	<b>C</b>	<b>TANGIBLE ASSETS</b>	<b>335,290</b>	<b>23,192,327</b>	<b>23,527,617</b>	<b>325,356</b>	<b>18,513,034</b>	<b>18,838,390</b>
008		1	Land and buildings intended for company business operations	335,290	12,418,020	12,753,310	325,356	9,635,570	9,960,926
009		2	Equipment		10,634,161	10,634,161		6,264,315	6,264,315
010		3	Other tangible assets and stock		140,147	140,147		2,613,149	2,613,149
<b>011</b>	012+013+017+036	<b>D</b>	<b>INVESTMENTS</b>	<b>915,711,591</b>	<b>367,023,098</b>	<b>1,282,734,689</b>	<b>991,583,285</b>	<b>382,805,279</b>	<b>1,374,388,565</b>
<b>012</b>		<b>I</b>	<b>Investments in land and buildings not intended for company business operations</b>		<b>2,828,729</b>	<b>2,828,729</b>		<b>4,361,416</b>	<b>4,361,416</b>
<b>013</b>	014+015+016	<b>II</b>	<b>Investments in subsidiaries, associates and joint ventures</b>	<b>50,000</b>	<b>1,550,000</b>	<b>1,600,000</b>	<b>50,000</b>	<b>1,550,000</b>	<b>1,600,000</b>
014		1	Shares and stakes in subsidiaries						
015		2	Shares and stakes in associates	50,000	1,550,000	1,600,000	50,000	1,550,000	1,600,000
016		3	Joint venture participation						
<b>017</b>	018+021+026+032	<b>III</b>	<b>Other financial investments</b>	<b>915,661,591</b>	<b>362,644,369</b>	<b>1,278,305,960</b>	<b>991,533,285</b>	<b>376,893,863</b>	<b>1,368,427,148</b>
<b>018</b>	019+020	<b>1</b>	<b>Investments held-to-maturity</b>	<b>482,618,232</b>	<b>45,154,260</b>	<b>527,772,492</b>	<b>483,331,771</b>	<b>45,230,006</b>	<b>528,561,776</b>
019		1.1	Debt securities and other securities with fixed revenue	482,618,232	45,154,260	527,772,492	483,331,771	45,230,006	528,561,776
020		1.2	Other investments held to maturity						
<b>021</b>	022+023+024+025	<b>2</b>	<b>Investments available-for-sale</b>	<b>340,549,893</b>	<b>173,945,754</b>	<b>514,495,647</b>	<b>380,256,047</b>	<b>199,042,024</b>	<b>579,298,071</b>
022		2.1	Shares, stakes and other securities with variable revenue	4,542,207	1,094,819	5,637,026	2,685,212	68,904	2,754,116
023		2.2	Debt securities and other securities with fixed revenue	312,875,449	167,240,490	480,115,939	353,489,175	192,886,128	546,375,303

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

### Unconsolidated statement of financial position (balance sheet) 31 December 2012

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	23,132,237	5,610,445	28,742,682	24,081,661	6,086,992	30,168,653	
025		2.4	Other investments available for sale							
<b>026</b>	027+028+029+030+031	<b>3</b>	<b>Investments at fair value through profit and loss account</b>	<b>34,424,597</b>	<b>45,261,206</b>	<b>79,685,803</b>	<b>100,506,215</b>	<b>52,397,250</b>	<b>152,903,466</b>	
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	15,685,431		15,685,431	6,149,766		6,149,766	
029		3.3	Derivative financial instruments							
030		3.4	Investment fund units	18,739,166	45,171,206	63,910,372	94,356,450	52,307,250	146,663,700	
031		3.5	Other investments							
<b>032</b>	033+034+035	<b>4</b>	<b>Deposits, loans and receivables</b>	<b>58,068,869</b>	<b>98,283,149</b>	<b>156,352,018</b>	<b>27,439,252</b>	<b>80,224,583</b>	<b>107,663,835</b>	
033		4.1	Deposits with credit institutions (banks)	36,022,511	37,413,379	73,435,890	9,432,025	35,787,307	45,219,332	
034		4.2	Loans	11,825,432	60,869,770	72,695,202	7,424,019	44,437,276	51,861,295	
035		4.3	Other loans and receivables	10,220,926		10,220,926	10,583,208		10,583,208	
<b>036</b>		<b>IV</b>	<b>Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)</b>							
<b>037</b>		<b>E</b>	<b>INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS</b>	<b>45,119,414</b>		<b>45,119,414</b>	<b>60,557,629</b>		<b>60,557,629</b>	
<b>038</b>	039+040+041+042+043+044+045	<b>F</b>	<b>REINSURANCE SHARE IN TECHNICAL PROVISIONS</b>	<b>247,050,119</b>	<b>139,835,614</b>	<b>386,885,733</b>	<b>263,632,571</b>	<b>152,116,402</b>	<b>415,748,973</b>	
039		1	Unearned premiums, reinsurance share	837,540	57,248,463	58,086,003	936,142	54,251,554	55,187,696	
040		2	Mathematical provision, reinsurance share	243,923,804		243,923,804	260,591,001		260,591,001	
041		3	Provision for claims outstanding, reinsurance share	2,288,775	82,587,151	84,875,926	2,105,428	97,864,849	99,970,277	
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 2012

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						
<b>046</b>	047+048	<b>G</b>	<b>DEFERRED AND CURRENT TAX ASSET</b>	<b>4,508,104</b>	<b>556,977</b>	<b>5,065,082</b>			
047		1	Deferred tax asset	4,508,104	556,977	5,065,082			
048		2	Current tax asset						
<b>049</b>	050+053+054	<b>H</b>	<b>RECEIVABLES</b>	<b>103,758,643</b>	<b>204,690,590</b>	<b>308,449,233</b>	<b>99,699,990</b>	<b>127,454,743</b>	<b>227,154,732</b>
<b>050</b>	051+052	<b>1</b>	<b>Receivables from direct insurance business</b>	<b>852,150</b>	<b>61,244,509</b>	<b>62,096,659</b>	<b>135,550</b>	<b>57,563,706</b>	<b>57,699,256</b>
051		1.1	<i>From policyholders</i>		61,244,509	61,244,509		57,563,706	57,563,706
052		1.2	<i>From insurance agents, or insurance brokers</i>	852,150		852,150	135,550		135,550
<b>053</b>		<b>2</b>	<b>Receivables from co-insurance and reinsurance business</b>	<b>60,094,334</b>	<b>42,525,993</b>	<b>102,620,327</b>	<b>52,062,048</b>	<b>24,770,911</b>	<b>76,832,959</b>
<b>054</b>	055+056+057	<b>3</b>	<b>Other receivables</b>	<b>42,812,159</b>	<b>100,920,088</b>	<b>143,732,247</b>	<b>47,502,392</b>	<b>45,120,125</b>	<b>92,622,517</b>
055		3.1	<i>Receivables from other insurance business</i>	89,350	48,395,746	48,485,096		36,633,866	36,633,866
056		3.2	<i>Receivables for return on investments</i>	19,882,800	3,131,606	23,014,406	19,269,791	4,913,834	24,183,626
057		3.3	<i>Other receivables</i>	22,840,009	49,392,736	72,232,745	28,232,601	3,572,425	31,805,026
<b>058</b>	059+063+064	<b>I</b>	<b>OTHER ASSETS</b>	<b>1,049,333</b>	<b>29,216,620</b>	<b>30,265,953</b>	<b>2,436,552</b>	<b>21,309,241</b>	<b>23,745,792</b>
<b>059</b>	060+061+062	<b>1</b>	<b>Cash at bank and in hand</b>	<b>1,049,333</b>	<b>2,611,327</b>	<b>3,660,660</b>	<b>2,436,552</b>	<b>4,076,421</b>	<b>6,512,973</b>
060		1.1	<i>Funds in the business account</i>	973,761	2,611,327	3,585,088	1,638,362	4,076,421	5,714,783
061		1.2	<i>Funds in the account of assets covering mathematical provision</i>	75,572		75,572	798,190		798,190
062		1.3	<i>Cash in hand</i>						
<b>063</b>		<b>2</b>	<b>Long-term assets intended for sale and business cessation</b>		26,605,293	26,605,293		17,222,397	17,222,397
<b>064</b>		<b>3</b>	<b>Other</b>					10,423	10,423
<b>065</b>	066+067+068	<b>J</b>	<b>PREPAYMENTS AND ACCRUED INCOME</b>	<b>3,147,166</b>	<b>19,457,219</b>	<b>22,604,386</b>	<b>374,457</b>	<b>16,436,152</b>	<b>16,810,608</b>
066		1	Deferred interest and rent						
067		2	Deferred acquisition costs	335,016	19,156,730	19,491,746	374,457	15,992,053	16,366,510

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

### Unconsolidated statement of financial position (balance sheet) 31 December 2012

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	2,812,150	300,489	3,112,640		444,098	444,098
069	001+004+007+011+037+038+046+049+058+065	K	<b>TOTAL ASSETS (A+B+C+D+E+F+G+H+I+J)</b>	<b>1,324,632,386</b>	<b>793,292,414</b>	<b>2,117,924,800</b>	<b>1,421,952,364</b>	<b>728,054,583</b>	<b>2,150,006,947</b>
070		L	<b>OFF BALANCE SHEET ITEMS</b>						

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

### Unconsolidated statement of financial position (balance sheet) 31 December 2012

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+08 1+085+0 88	A	<b>CAPITAL AND RESERVES</b>	125,587,302	142,963,327	268,550,628	161,350,647	157,944,742	319,295,389
072	073+074 +075	1	<b>Subscribed capital</b>	134,303,825	101,491,315	235,795,140	134,303,825	101,491,315	235,795,140
073		1,1	<i>Paid-up capital - ordinary shares</i>	134,303,825	101,491,315	235,795,140	134,303,825	101,491,315	235,795,140
074		1,2	<i>Paid-up capital - preference shares</i>						
075		1,3	<i>Called up capital</i>						
076		2	<b>Issued shares premiums (capital reserves)</b>	28,574,448	140,330,462	168,904,910		43,699,922	43,699,922
077	078+079 +080	3	<b>Revaluation reserve</b>	-18,032,418	-2,227,910	-20,260,328	18,831,453	10,491,150	29,322,603
078		3,1	<i>Land and buildings</i>						
079		3,2	<i>Financial investments</i>	-18,032,418	-2,227,910	-20,260,328	18,831,453	10,491,150	29,322,603
080		3,3	<i>Other revaluation reserves</i>						
081	082+083 +084	4	<b>Reserves</b>	1,462,698		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>						
085	086+087	5	<b>Transferred (retained) profit or loss</b>	8,876,370	-34,096,185	-25,219,815	7,853,197		7,853,197
086		5,1	<i>Retained profit</i>	8,876,370		8,876,370	7,853,197		7,853,197
087		5,2	<i>Transferred loss (-)</i>		-34,096,185	-34,096,185			
088	089+090	6	<b>Profit or loss of the current accounting period</b>	-29,597,622	-62,534,355	-92,131,977	-1,100,526	2,262,356	1,161,830
089		6,1	<i>Profit of the current accounting period</i>					2,262,356	2,262,356
090		6,2	<i>Loss of the current accounting period (-)</i>	-29,597,622	-62,534,355	-92,131,977	-1,100,526		-1,100,526
091		B	<b>SUBORDINATED LIABILITIES</b>		15,060,840	15,060,840		15,091,240	15,091,240
092	093+094 +095+09 6+097+0 98	C	<b>TECHNICAL PROVISIONS</b>	838,425,396	371,434,537	1,209,859,933	872,712,724	358,261,543	1,230,974,266

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

### Unconsolidated statement of financial position (balance sheet) 31 December 2012

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	2,463,033	127,711,534	130,174,567	2,609,401	116,730,316	119,339,717
094		2	Mathematical provision, gross amount	825,808,706		825,808,706	861,392,526		861,392,526
095		3	Provision for claims outstanding, gross amount	10,153,656	241,523,003	251,676,660	8,710,797	238,831,226	247,542,023
096		4	Provisions for return of premiums depending and not depending on the result (bonuses and rebates), gross amount						
097		5	Equalisation provision, gross amount						
098		6	Other insurance technical provisions, gross amount		2,200,000	2,200,000		2,700,000	2,700,000
099		D	<b>LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount</b>	45,119,414		45,119,414	60,557,629		60,557,629
100	101+102	E	<b>OTHER RESERVES</b>		424,786	424,786		9,207,398	9,207,398
101		1	Provisions for pensions and similar liabilities		424,786	424,786		9,207,398	9,207,398
102		2	Other provisions						
103	104+105	F	<b>DEFERRED AND CURRENT TAX LIABILITY</b>				4,707,863	2,622,788	7,330,651
104		1	Deferred tax liability				4,707,863	2,622,788	7,330,651
105		2	Current tax liability						
106		G	<b>DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE</b>	249,311,842	42,733,171	292,045,013	262,209,188	45,800,217	308,009,405
107	108+109+110	H	<b>FINANCIAL LIABILITIES</b>		297,091	297,091	325,318		325,318
108		1	Liabilities on the basis of loans						
109		2	Liabilities on the basis of issued securities						
110		3	Other financial liabilities		297,091	297,091	325,318		325,318
111	112+113+114+115	I	<b>OTHER LIABILITIES</b>	65,090,645	183,026,564	248,117,210	59,522,196	101,189,199	160,711,395
112		1	Liabilities from direct insurance business	1,812,708	22,899,396	24,712,104	1,081,257	3,738,085	4,819,343
113		2	Liabilities from co-insurance and reinsurance business	63,204,254	74,810,359	138,014,613	57,776,222	55,220,282	112,996,504

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

**Unconsolidated statement of financial position (balance sheet) 31 December 2012**

**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	73,684	85,316,809	<b>85,390,493</b>	664,717	42,230,831	<b>42,895,548</b>
<b>116</b>	117+118	<b>J</b>	<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>1,097,785</b>	<b>37,352,100</b>	<b>38,449,885</b>	<b>566,800</b>	<b>37,937,456</b>	<b>38,504,256</b>
117		1	Deferred reinsurance commission						
118		2	Other accrued expenses and deferred income	1,097,785	37,352,100	<b>38,449,885</b>	566,800	37,937,456	<b>38,504,256</b>
<b>119</b>	071+091+092+099+100+103+106+107+111+116	<b>K</b>	<b>TOTAL LIABILITIES (A+B+C+D+E+F+G+H+I+J)</b>	<b>1,324,632,384</b>	<b>793,292,416</b>	<b>2,117,924,800</b>	<b>1,421,952,364</b>	<b>728,054,583</b>	<b>2,150,006,947</b>
<b>120</b>		<b>L</b>	<b>OFF BALANCE SHEET ITEMS</b>						



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

**Unconsolidated statement of comprehensive income (income statement) for period 01.01.2012.-  
31.12.2012.**

*in HRK*

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non-life	Total	Life	Non-life	Total
<b>001</b>	002+003 +004+005 +006+007 +008+009	<b>I</b>	<b>Earned premiums (recognized in revenue)</b>	<b>128,967,550</b>	<b>142,834,587</b>	<b>271,802,137</b>	<b>117,480,243</b>	<b>129,956,405</b>	<b>247,436,649</b>
002		1	Written gross premiums	186,845,248	261,250,283	448,095,530	170,535,556	241,474,259	412,009,815
003		2	Co-insurance premiums						
004		3	Value adjustment and charged adjustment of insurance/co-insurance premium value		-10,133,408	-10,133,408		-3,592,938	-3,592,938
005		4	Premiums ceded to reinsurance (-)	-59,069,560	-125,464,184	-184,533,743	-53,007,547	-115,909,224	-168,916,771
006		5	Premiums ceded to co-insurance (-)						
007		6	Change in gross provisions for unearned premiums (+/-)	354,321	18,530,680	18,885,002	-146,368	10,981,217	10,834,850
008		7	Change in provisions for unearned premiums, reinsurance share (+/-)	837,540	-1,348,784	-511,244	98,602	-2,996,909	-2,898,307
009		8	Change in provisions for unearned premiums, co-insurance share (+/-)						
<b>010</b>	011+012 +016+017 +018+022 +023	<b>II</b>	<b>Income from investments</b>	<b>65,526,997</b>	<b>17,088,697</b>	<b>82,615,694</b>	<b>70,436,567</b>	<b>25,405,885</b>	<b>95,842,452</b>
011		1	Income from subsidiaries, associates and joint ventures						
012	013+014 +015	2	Income from investment in land and buildings					44,699	44,699
013		2,1	Income from rent					44,699	44,699
014		2,2	Income from increased value of land and buildings						
015		2,3	Income from sale of land and buildings						
016		3	Interest income	46,074,789	14,406,784	60,481,573	53,675,618	23,157,501	76,833,120
017		4	Unrealized profits from investment valued at fair value through profit and loss account	3,176,173	108,826	3,284,999	5,325,503	77,947	5,403,450
018	019+020 +021	5	Profits from sale (realization) of financial investments	1,053,162	242,919	1,296,081	7,676,811	1,176,794	8,853,605
019		5,1	Investment valued at fair value through profit and loss account	854,475	217,662	1,072,137	917,283	1,051,876	1,969,160
020		5,2	Investments available-for-sale	175,086	25,257	200,343	6,742,232	124,918	6,867,149
021		5,3	Other profits from sale of financial investments	23,601		23,601	17,296		17,296
022		6	Net positive exchange rate differentials	14,978,457	2,008,766	16,987,223	3,149,352	454,327	3,603,680

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

### Unconsolidated statement of comprehensive income (income statement) for period 01.01.2012.- 31.12.2012.

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	244,416	321,401	565,818	609,283	494,617	1,103,900
<b>024</b>		<b>III</b>	<b>Income from commissions and fees</b>	<b>11,732,129</b>	<b>42,340,462</b>	<b>54,072,592</b>	<b>9,179,620</b>	<b>41,550,926</b>	<b>50,730,546</b>
<b>025</b>		<b>IV</b>	<b>Other insurance-technical income, net of reinsurance</b>	<b>190,648</b>	<b>1,350,638</b>	<b>1,541,286</b>	<b>501,856</b>	<b>1,563,189</b>	<b>2,065,046</b>
<b>026</b>		<b>V</b>	<b>Other income</b>	<b>20,641</b>	<b>5,148,798</b>	<b>5,169,439</b>	<b>66,208</b>	<b>1,339,542</b>	<b>1,405,750</b>
<b>027</b>	028+032	<b>VI</b>	<b>Expenditures for insured events, net</b>	<b>-65,478,907</b>	<b>-94,504,215</b>	<b>-159,983,122</b>	<b>-60,060,228</b>	<b>-64,319,926,94</b>	<b>-124,380,155</b>
028	029+030+031	1	Settled claims	-65,629,782	-111,601,581	-177,231,363	-61,319,741	-82,289,402	-143,609,142
029		1,1	Gross amount (-)	-86,592,130	-156,135,668	-242,727,798	-91,777,129	129,328,816	-221,105,944
030		1,2	Co-insurer share (+)						
031		1,3	Reinsurer share(+)	20,962,348	44,534,087	65,496,435	30,457,388	47,039,414	77,496,802
032	033+034+035	2	Change in provisions for claims outstanding (+/-)	150,875	17,097,366	17,248,241	1,259,513	17,969,475	19,228,987
033		2,1	Gross amount (-)	-685,703	-11,925,249	-12,610,952	1,442,859	2,691,777	4,134,637
034		2,2	Co-insurer share (+)		-26,207	-26,207		-204,095	-204,095
035		2,3	Reinsurer share(+)	836,578	29,048,822	29,885,400	-183,347	15,481,792	15,298,445
<b>036</b>	037+040	<b>VII</b>	<b>Change in other technical provisions, net of reinsurance</b>	<b>-28,205,004</b>	<b>-100,000</b>	<b>-28,305,004</b>	<b>-18,916,623</b>	<b>-500,000</b>	<b>-19,416,623</b>
037	038+039	1	Change in mathematical provision (+/-)	-28,205,004		-28,205,004	-18,916,623		-18,916,623
038		1,1	Gross amount (-)	-57,701,724		-57,701,724	-35,583,820		-35,583,820
039		1,2	Reinsurer share(+)	29,496,720		29,496,720	16,667,197		16,667,197
040	041+042+043	2	Change in other technical provisions, net of reinsurance (+/-)		-100,000	-100,000		-500,000	-500,000
041		1,1	Gross amount (-)		-100,000	-100,000		-500,000	-500,000
042		1,2	Co-insurer share (+)						
043		1,3	Reinsurer share(+)						
<b>044</b>	045+046+047	<b>VIII</b>	<b>Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)</b>	<b>-12,469,548</b>		<b>-12,469,548</b>	<b>-15,438,214</b>		<b>-15,438,214</b>
045		1	Gross amount (-)	-12,469,548		-12,469,548	-15,438,214		-15,438,214
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 01.01.2012.-  
31.12.2012.**

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			<b>Expenses for premium refund (bonuses and discounts), net of reinsurance</b>						
049		1	Depending on the result (bonuses)						
050		2	Not depending on the result (rebates)						
<b>051</b>	<b>052+056</b>	<b>X</b>	<b>Business expenditures (for business operations), net</b>	<b>-77,824,953</b>	<b>-119,304,574</b>	<b>-197,129,527</b>	<b>-80,055,521</b>	<b>-94,157,933</b>	<b>-174,213,454</b>
052	053+054+055	1	Acquisition costs	-31,070,995	-36,158,768	-67,229,763	-20,845,185	-25,190,851	-46,036,035
053		1,1	Commission	-22,892,320	-20,113,349	-43,005,669	-17,708,401	-18,622,033	-36,330,434
054		1,2	Other acquisition costs	-8,129,658	-8,496,858	-16,626,516	-3,176,225	-3,404,141	-6,580,366
055		1,3	Change in deferred acquisition costs (+/-)	-49,017	-7,548,561	-7,597,578	39,441	-3,164,677	-3,125,236
056	057+058+059	2	Administration costs	-46,753,958	-83,145,807	-129,899,764	-59,210,337	-68,967,082	-128,177,419
057		2,1	Depreciation of tangible assets	-3,964,222	-9,071,035	-13,035,256	-4,452,226	-4,004,590	-8,456,816
058		2,3	Salaries, taxes and contributions to and from salaries	-27,246,864	-33,873,088	-61,119,952	-27,359,717	-35,895,534	-63,255,251
059		2,4	Other administration costs	-15,542,872	-40,201,684	-55,744,556	-27,398,394	-29,066,958	-56,465,352
<b>060</b>	<b>061+062+063+064+065+066+067</b>	<b>XI</b>	<b>Investment expenses</b>	<b>-38,641,386</b>	<b>-24,575,174</b>	<b>-63,216,560</b>	<b>-13,258,139</b>	<b>-20,867,000</b>	<b>-34,125,139</b>
061		1	Depreciation (buildings not intended for business operations of the company)					-36,568	-36,568
062		2	Interest		-1,174,850	-1,174,850		-1,184,050	-1,184,050
063		3	Investment value adjustment (reduction)	-32,675,014	-20,900,796	-53,575,809	-7,295,108	-17,801,992	-25,097,100
064		4	Losses from sale (realization) of financial assets	-956,430	-116,552	-1,072,982	-3,130,945	-127,062	-3,258,008
065		5	Adjustment of financial assets at fair value through profit and loss account	-2,979,413		-2,979,413	-776,494		-776,494
066		6	Net negative exchange rate differences	-552,229	-481,676	-1,033,906	-1,524,288	-164,752	-1,689,040
067		7	Other investment expenses	-1,478,301	-1,901,300	-3,379,600	-531,304	-1,552,574	-2,083,879
<b>068</b>	<b>069+070</b>	<b>XII</b>	<b>Other technical expenses, net of reinsurance</b>	<b>-13,415,789</b>	<b>-18,578,255</b>	<b>-31,994,044</b>	<b>-11,022,680</b>	<b>-14,163,611</b>	<b>-25,186,291</b>
069		1	Expenses for preventive operations		-1,269,614	-1,269,614		-797,802	-797,802
070		2	Other technical expenses of insurance	-13,415,789	-17,308,641	-30,724,430	-11,022,680	-13,365,809	-24,388,489
<b>071</b>		<b>XIII</b>	<b>Other expenses including value adjustments</b>		<b>-12,235,320</b>	<b>-12,235,320</b>	<b>-13,615,44</b>	<b>-3,545,121</b>	<b>-3,558,737</b>
<b>072</b>	<b>001+010+024+025+026+027+036+044+048+051+060+068+071</b>	<b>XIV</b>	<b>Profit or loss of the accounting period before taxation (+/-)</b>	<b>-29,597,622</b>	<b>-60,534,355</b>	<b>-90,131,977</b>	<b>-1,100,526</b>	<b>2,262,356</b>	<b>1,161,830</b>

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

**Unconsolidated statement of comprehensive income (income statement) for period 01.01.2012.- 31.12.2012.**

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	<b>Profit or loss tax</b>		-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	<b>Profit or loss of the accounting period after taxation (+/-)</b>	-29,597,622	-62,534,355	-92,131,977	-1,100,526	2,262,356	1,161,830
077		1	Attributable to owners of the parent						
078		2	Attributable to non-controlling interests						
079	001+010+024+025+026+075	XVII	<b>TOTAL INCOME</b>	206,437,966	206,763,182	413,201,148	197,664,495	199,815,947	397,480,442
080	027+036+044+048+051+060+068+071+074	XVIII	<b>TOTAL EXPENDITURE</b>	-236,035,587	-269,297,537	-505,333,125	-198,765,021	-197,553,592	-396,318,613
081	082+083+084+085+086+087+088+089	XIX	<b>Other comprehensive income</b>	-17,048,970	-2,287,141	-19,336,111	36,863,871	12,719,060	49,582,931
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	-17,048,970	-2,287,141	-19,336,111	36,863,871	12,719,060	49,582,931
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	<b>Total comprehensive income</b>	-46,646,592	-64,821,496	-111,468,088	35,763,345	14,981,415	50,744,760
091		1	Attributable to owners of the parent						
092		2	Attributable to non-controlling interests						
093		XXI	<b>Reclassification adjustments</b>						

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

### Unconsolidated statement of cash flow (indirect method) for period 01.01.2012. - 31.12.2012.

*in HRK*

Position number	Elements of sum	Position code	Position description	Current business period	The same period of the previous year
<b>001</b>	002+013+031	<b>1</b>	<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>-315,288,262</b>	<b>-1,304,393</b>
<b>002</b>	003+004	<b>1</b>	<b>Cash flow before the change in assets and liabilities</b>	<b>-144,929,472</b>	<b>29,766,256</b>
003		1.1	Profit/loss before taxation	-90,131,977	1,161,830
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments	<b>-54,797,495</b>	<b>28,604,426</b>
005		1.2.1	<i>Depreciation of real estate and equipment</i>	4,306,376	3,575,310
006		1.2.2	<i>Depreciation of intangible assets</i>	3,185,560	3,010,966
007		1.2.3	<i>Value impairment and profits/losses on reduction to fair value</i>	-57,413,730	20,470,145
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	310,928
012		1.2.8	<i>Other adjustments</i>	-2,459,011	1,237,078
<b>013</b>	014+015+...+ 030	<b>2</b>	<b>Increase/decrease in assets and liabilities</b>	<b>-170,358,789</b>	<b>-31,070,649</b>
014		2.1	Increase/decrease in investments available-for-sale	-340,983,468	-15,219,493
015		2.2	Increase/decrease in investment valued at fair value through profit and loss account	-52,419,132	-68,590,708
016		2.3	Increase/decrease in deposits, loans and receivables	133,794,355	23,591,084
017		2.4	Increase/decrease of deposits in insurance business ceded to reinsurance		
018		2.5	Increase/decrease in investments for the account and risk of life assurance policyholders	-12,469,548	-15,438,214
019		2.6	Increase/decrease in reinsurance share in technical provisions	-58,844,669	-28,863,240
020		2.7	Increase/decrease in tax assets	-2,819,216	5,065,082
021		2.8	Increase/decrease in receivables	-55,879,976	81,294,500
022		2.9	Increase/decrease in other assets		-10,423
023		2.10	Increase/decrease in prepayments and accrued income	14,256,648	5,793,777
024		2.11	Increase/decrease in technical provisions	51,527,674	21,114,333
025		2.12	Increase decrease in life assurance technical provisions where the policyholder bears the investment risk	12,469,548	15,438,214
026		2.13	Increase/decrease in tax liabilities	-14,812	7,330,651
027		2.14	Increase/decrease in deposits retained from business ceded to reinsurance	44,350,931	15,964,393
028		2.15	Increase/decrease in financial liabilities	297,091	28,227
029		2.16	Increase/decrease in other liabilities	83,077,147	-78,623,202
030		2.17	Increase/decrease in accruals and deferred income	13,298,638	54,370
<b>031</b>		<b>3</b>	<b>Paid profit tax</b>		

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

### Unconsolidated statement of cash flow (indirect method) for period 01.01.2012. - 31.12.2012.

*in HRK*

Position number	Elements of sum	Position code	Position description	Current business period	The same period of the previous year
<b>032</b>	033+034+...+046	<b>II</b>	<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>21,183,826</b>	<b>4,156,705</b>
033		1	Inflows from sale of tangible assets	28,359,708	380,820
034		2	Outflows for purchase of tangible assets	-3,070,174	-1,801,558
035		3	Inflows from sale of intangible assets		
036		4	Outflows for purchase of intangible assets	-2,526,973	-3,176,545
037		5	Inflows from sale of land and buildings not intended for business operations of the company	953,415	8,826,100
038		6	Outflows for purchase of land and buildings not intended for business operations of the company	-2,828,729	-72,112
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		
<b>047</b>	048+049+050 +051+052	<b>III</b>	<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>284,261,978</b>	
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		
<b>053</b>	001+032+047		<b>NET CASH FLOW</b>	<b>-9,842,458</b>	<b>2,852,312</b>
<b>054</b>		<b>IV</b>	<b>EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS</b>		
<b>055</b>	053+054	<b>V</b>	<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>-9,842,458</b>	<b>2,852,312</b>
056		1	Cash and cash equivalents at the beginning of the period	13,503,119	3,660,661
<b>057</b>	<b>055+056</b>	<b>2</b>	<b>Cash and cash equivalents at the end of the period</b>	<b>3,660,661</b>	<b>6,512,973</b>

## 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						Total capital and reserves	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			
<b>I.</b>	<b>Balance as at 1 January of previous year</b>	<b>120,107,610</b>	<b>330,462</b>	<b>-924,217</b>	<b>1,462,698</b>	<b>-25,219,814</b>		<b>95,756,738</b>	<b>0</b>	<b>95,756,738</b>
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
<b>II.</b>	<b>Balance as at 1 January of previous year (corrected)</b>	<b>120,107,610</b>	<b>330,462</b>	<b>-924,217</b>	<b>1,462,698</b>	<b>-25,219,814</b>		<b>95,756,738</b>	<b>0</b>	<b>95,756,738</b>
<b>III.</b>	<b>Comprehensive income/loss of the previous year</b>			<b>-19,336,111</b>			<b>-92,131,977</b>	<b>-111,468,088</b>	<b>0</b>	<b>-111,468,088</b>
1.	Profit or loss of the period						<b>-92,131,977</b>	<b>-92,131,977</b>	<b>0</b>	<b>-92,131,977</b>
2.	<b>Other comprehensive income or loss of the previous year</b>			<b>-19,336,111</b>				<b>-19,336,111</b>	<b>0</b>	<b>-19,336,111</b>
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			<b>-19,336,111</b>				<b>-19,336,111</b>		<b>-19,336,111</b>
2.3.	Realised gains or losses from financial assets available for sale									
2.4.	Other non-owner changes in equity									
<b>IV.</b>	<b>Transactions with owners (previous period)</b>	<b>115,687,530</b>	<b>168,574,448</b>					<b>284,261,978</b>	<b>0</b>	<b>284,261,978</b>
1.	Increase/decrease in subscribed capital	<b>115,687,530</b>	<b>168,574,448</b>					<b>284,261,978</b>	<b>0</b>	<b>284,261,978</b>
2.	Other payments by owners									
3.	Payment of shares in profit /dividends									
4.	Other distributions to owners									
<b>V.</b>	<b>Balance as at the last day of the reporting period in previous year</b>	<b>235,795,140</b>	<b>168,904,910</b>	<b>-20,260,328</b>	<b>1,462,698</b>	<b>-25,219,814</b>	<b>-92,131,977</b>	<b>268,550,628</b>	<b>0</b>	<b>268,550,628</b>

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

### Unconsolidated statement of changes in equity for period 01.01.2012. - 31.12.2012.

*in HRK*

Position code	Position description	Attributable to owners of the parent						Attributable to non-controlling interest	Total capital and reserves	
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year			Total capital and reserves
<b>VI.</b>	<b>Balance as at 1 January of the current year</b>	235,795,140	168,904,910	-20,260,328	1,462,698	-117,351,792		268,550,628	0	268,550,628
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
<b>VII.</b>	<b>Balance as at 1 January of the current year (corrected)</b>	235,795,140	168,904,910	-20,260,328	1,462,698	-117,351,792		268,550,628	0	268,550,628
<b>VIII.</b>	<b>Comprehensive income/loss of the current year</b>			49,582,931			1,161,830	50,744,760	0	50,744,760
1.	Profit or loss of the previous period						1,161,830	1,161,830	0	1,161,830
2.	<b>Other comprehensive income or loss of the current year</b>			49,582,931				49,582,931	0	49,582,931
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			49,582,931				49,582,931		49,582,931
2.3.	Realised gains or losses from financial assets available for sale									
2.4.	Other non-owner changes in equity									
<b>IX.</b>	<b>Transactions with owners (current period)</b>		-125,204,988			125,204,988			0	
1.	Increase/decrease in subscribed capital		-125,204,988			125,204,988			0	
2.	Other payments by owners									
3.	Payment of shares in profit /dividends									
4.	Other transactions with owners									
<b>X.</b>	<b>Balance as at the last day of the reporting period in the current year</b>	235,795,140	43,699,922	29,322,603	1,462,698	7,853,197	1,161,830	319,295,389	0	319,295,389



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

### Unconsolidated statement of financial position – Assets as at 31 December 2012

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		Statutory financial statements
<b>RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID</b>	-					-	
Called up capital	-						
Uncalled capital	-			16,366,510		16,366,510	<b>Deferred acquisition costs</b>
<b>INTANGIBLE ASSETS</b>	<b>12,762,257</b>					<b>12,762,257</b>	<b>Other intangible assets</b>
Goodwill	4,586,917						
Other intangible assets	8,175,340						
<b>TANGIBLE ASSETS</b>	<b>18,838,390</b>		(145,472)			<b>18,692,918</b>	<b>Property and equipment</b>
Land and buildings intended for company business operations	9,960,926						
Equipment	6,264,315						
Other tangible assets and stock	2,613,149						
<b>INVESTMENTS</b>	<b>1,374,388,565</b>						
<b>Investments in land and buildings not intended for company business operations</b>	<b>4,361,416</b>					<b>4,361,416</b>	<b>Investment property</b>
<b>Investments in subsidiaries, associates and joint ventures</b>	<b>1,600,000</b>					<b>1,600,000</b>	<b>Investment in subsidiary</b>
Shares and stakes in subsidiaries	-						
Shares and stakes in associates	1,600,000						
Joint venture participation	-						
<b>Other financial investments</b>	<b>1,368,427,148</b>						
<b>Held-to-maturity financial assets</b>	<b>528,561,776</b>					<b>528,561,776</b>	<b>Held-to-maturity financial assets</b>
<i>Fixed income debt and other securities</i>	528,561,776						
<i>Other investments held to maturity</i>	-						
<b>Available-for-sale financial assets</b>	<b>579,298,071</b>					<b>579,298,071</b>	<b>Available-for-sale financial assets</b>
<i>Equities, shares and other securities bearing variable income</i>	2,754,116						
<i>Fixed income debt and other securities</i>	546,375,303						
<i>Units in investment funds</i>	30,168,653						
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 2012 (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		
<b>Financial assets at fair value through profit or loss</b>	<b>152,903,466</b>					<b>213,461,095</b>	<b>Financial assets at fair value through profit or loss</b>
<i>Equities, shares and other securities bearing variable income</i>	<b>90,000</b>						
<i>Fixed income debt and other securities</i>	<b>6,149,766</b>						
<i>Derivative financial instruments</i>	-						
<i>Units in investment funds</i>	<b>146,663,700</b>						
<i>Other investments</i>	-						
<b>Deposits, loans and receivables</b>	<b>107,663,835</b>					<b>107,663,835</b>	<b>Loans and receivables</b>
<i>Deposits with banks</i>	<b>45,219,332</b>						
<i>Loans</i>	<b>51,861,295</b>						
<i>Other loans and receivables</i>	<b>10,583,208</b>						
<b>Deposits assumed in reinsurance business (deposits with ceding company)</b>	-						
<b>INVESTMENTS FOR AND ON BEHALF OF LIFE ASSURANCE POLICYHOLDERS</b>	<b>60,557,629</b>						
		(60,557,629)					
<b>REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS</b>	<b>415,748,973</b>					<b>415,748,973</b>	<b>Reinsurers' share of technical provisions</b>
Provision for unearned premium, reinsurance share	<b>55,187,696</b>						
Life assurance provision, reinsurance share	<b>260,591,001</b>						
Claims reserve, reinsurance share	<b>99,970,277</b>						
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 2012 (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	Statutory financial statements
<b>DEFERRED AND CURRENT TAX ASSET</b>	-				-
Deferred tax asset	-				-
Current tax asset	-	145,472			145,472
<b>RECEIVABLES</b>	<b>227,154,732</b>			<b>454,521</b>	<b>227,609,254</b>
<b>Receivables from direct insurance business</b>	<b>57,699,256</b>				
<i>From policyholders</i>	<i>57,563,706</i>				
<i>From sales representatives</i>	<i>135,550</i>				
<b>Receivables from coinsurance and reinsurance</b>	<b>76,832,959</b>				
<b>Other receivables</b>	<b>92,622,517</b>				
<i>Receivables from other insurance business</i>	<i>36,633,866</i>				
<i>Receivables for investment yields</i>	<i>24,183,626</i>				
<i>Other receivables</i>	<i>31,805,026</i>				
<b>OTHER ASSETS</b>	<b>23,745,792</b>				
<b>Cash at bank and in hand</b>	<b>6,512,973</b>				<b>6,512,973</b>
<i>Amounts on business account</i>	<i>5,714,783</i>				
<i>Amounts on account for backing life assurance provision</i>	<i>798,190</i>				
<i>Cash in hand</i>	<i>-</i>				
<b>Long term assets held for sale</b>	<b>17,222,397</b>				<b>17,222,397</b>
<b>Other</b>	<b>10,423</b>			<b>(10,423)</b>	
<b>PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>16,810,608</b>				
Accrued interest and rent income	-				
Deferred acquisition costs	16,366,510		(16,366,510)		
Other prepaid expenses and accrued income	444,098			(444,098)	
<b>TOTAL ASSETS</b>	<b>2,150,006,947</b>				<b>2,150,006,947</b>
<b>OFF BALANCE SHEET RECORDS</b>	<b>-</b>				
					<b>Inventories</b>
					<b>Insurance and other receivables</b>
					<b>Cash and cash equivalents</b>
					<b>Assets held for sale</b>
					<b>Total assets</b>

## 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 2012 (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		<b>Statutory financial statements</b>
								<b>Total equity attributable to equity holders of the Company</b>
<b>EQUITY</b>	<b>319,295,389</b>							<b>319,295,389</b>
<b>Share capital</b>	<b>235,795,140</b>							<b>235,795,140</b>
<i>Paid in share capital - ordinary shares</i>	<i>235,795,140</i>							
<i>Paid in share capital - preference shares</i>								
<i>Called up share capital</i>								
<b>Share premium (capital reserves)</b>	<b>43,699,922</b>							<b>43,699,922</b>
<b>Revaluation reserve</b>	<b>29,322,603</b>							<b>29,322,603</b>
<i>Land and buildings</i>								
<i>Financial investments</i>	<i>29,322,603</i>							
<i>Other revaluation reserves</i>								
<b>Reserves</b>	<b>1,462,698</b>							<b>1,462,698</b>
<i>Legal reserve</i>	<i>591,136</i>							
<i>Statutory reserve</i>	<i>871,562</i>							
<i>Other reserve</i>								
<b>Retained earnings or accumulated losses</b>	<b>7,853,197</b>	<b>1,161,830</b>						<b>9,015,026</b>
<i>Retained earnings</i>	<i>7,853,197</i>							
<i>Accumulated losses (-)</i>								
<b>Profit or loss of current reporting period</b>	<b>1,161,830</b>	<b>(1,161,830)</b>						
<i>Profit of current reporting period</i>	<i>2,262,356</i>							
<i>Loss of current reporting period (-)</i>	<i>-1,100,526</i>							
<b>SUBORDINATED DEBT</b>	<b>15,091,240</b>							<b>15,091,240</b>
<b>TECHNICAL PROVISIONS</b>	<b>1,230,974,266</b>		<b>(7,243,470)</b>	<b>60,557,629</b>				<b>1,284,288,425</b>
<i>Provision for unearned premiums, gross</i>	<i>119,339,717</i>							
<i>Life assurance provision, gross</i>	<i>861,392,526</i>							
<i>Claims reserve, gross</i>	<i>247,542,023</i>							
<i>Provisions for premium refund dependant and not dependant on result (bonuses and discounts), gross</i>			<i>7,243,470</i>					<i>7,243,470</i>
<i>Equalisation reserve, gross</i>								
<i>Other technical insurance contract provisions, gross</i>	<i>2,700,000</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 2012 (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	Transfer deposits from reinsurance, accrued expenses, other financial liabilities and other liabilities to insurance and other payables		
<b>LIFE ASSURANCE PROVISION FOR PRODUCTS WHERE POLICYHOLDERS BEAR INVESTMENT RISK, gross</b>	<b>60,557,629</b>			(60,557,629)			-	
<b>OTHER PROVISIONS</b>	<b>9,207,398</b>						<b>9,207,398</b>	<b>Provisions for liabilities and charges</b>
Provision for pension contributions and similar liabilities	9,207,398							
Other provisions								
<b>DEFERRED AND CURRENT TAX LIABILITY</b>	<b>7,330,651</b>						<b>7,330,651</b>	<b>Deferred tax liability</b>
Deferred tax liability	7,330,651							
Current tax liability								
<b>DEPOSIT FROM REINSURANCE</b>	<b>308,009,405</b>					(308,009,405)	-	
<b>FINANCIAL LIABILITIES</b>	<b>325,318</b>				(325,318)		-	
Liabilities for loans								
Liabilities for issued securities								
Other financial liabilities	325,318							
<b>OTHER LIABILITIES</b>	<b>160,711,395</b>				325,318	346,513,662	<b>507,550,374</b>	<b>Insurance and other payables and deferred income</b>
Liabilities arising from direct insurance business	4,819,343							
Liabilities from coinsurance and reinsurance business	112,996,504							
Liabilities for discontinued operations								
Other liabilities	42,895,548							
<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>	<b>38,504,256</b>					(38,504,256)		
Deferred reinsurance commission								
Other accrued expenses and deferred income	38,504,256							
<b>TOTAL LIABILITIES</b>	<b>2,150,006,947</b>						<b>2,150,006,947</b>	<b>Total liabilities and equity</b>
<b>OFF BALANCE SHEET RECORDS</b>	<b>-</b>						<b>-</b>	

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

### Unconsolidated statement of comprehensive income for year ended 31 December 2012

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	
<b>Earned premiums</b>	<b>247,436,649</b>									<b>247,436,649</b>	<b>Net earned premiums</b>
Gross premiums written	412,009,815	(3,592,938)								408,416,877	Gross premiums written
Coinsurance premiums	-									-	
Impairment loss and collected impairment loss of premium receivables/coinsurance premium	(3,592,938)	3,592,938								-	
Written premiums ceded to reinsurance (-)	(168,916,771)									(168,916,771)	Written premiums ceded to reinsurers
Premiums ceded to coinsurance (-)	-									-	
Change in gross provision for unearned premium (+/-)	10,834,850									10,834,850	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 (+/-)	(2,898,307)									(2,898,307)	
Coinsurers' share of change in the provisions for unearned premiums (+/-)	-									-	
<b>Investment income</b>	<b>95,842,452</b>						(5,723,542)			<b>90,118,910</b>	<b>Financial income</b>
Income from subsidiaries, associates and joint ventures	-									-	
Income from investment in land and buildings	44,699									-	
Rental income	44,699									-	
Capital appreciation of land and buildings	-									-	
Gain on disposal of land and buildings	-									-	
Interest income	76,833,120									-	
Unrealised gains of financial assets at fair value through profit or loss	5,403,450									-	
Income from disposal of financial investments (realised)	8,853,605									-	
Investment in financial assets at fair value through profit or loss	1,969,160									-	
Available-for-sale financial assets	6,867,149									-	
Other income from sale of financial investments	17,296									-	
Net positive foreign exchange differences	3,603,680									-	
Other investment income	1,103,900									-	

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

### Unconsolidated statement of comprehensive income for year ended 31 December 2012 (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	
<b>Fees and commission income</b>	<b>50,730,546</b>									<b>50,730,546</b>	<b>Fees and commission income</b>
<b>Other technical income, net of reinsurance</b>	<b>2,065,046</b>		(2,065,046)							-	
<b>Other income</b>	<b>1,405,750</b>		2,065,046							<b>3,470,796</b>	<b>Other operating income</b>
<b>Net claims incurred</b>	<b>(124,380,155)</b>									-	
Claims paid	(143,609,142)									-	
Gross amount (-)	(221,105,944)			(47,387,397)						(268,493,342)	Claims and benefits incurred
Coinsurers' share (+)	-									-	
Reinsurers' share(+)	77,496,802				31,761,548					109,258,350	Reinsurers' share of claims and benefits incurred
Change in claims reserves (+/-)	19,228,987									-	
Gross amount (-)	4,134,637			(4,134,637)						-	
Coinsurers' share (+)	(204,095)				204,095					-	
Reinsurers' share(+)	15,298,445				(15,298,445)					-	
<b>Net change in life assurance provision and other technical provisions</b>	<b>(19,416,623)</b>									-	
Change in life assurance provision (+/-)	(18,916,623)									-	
Gross amount (-)	(35,583,820)			35,583,820						-	
Reinsurers' share(+)	16,667,197				(16,667,197)					-	
Change in other technical provisions (+/-)	(500,000)									-	
Gross amount (-)	(500,000)			500,000						-	
Coinsurers' share (+)	-									-	
Reinsurers' share(+)	-									-	
<b>Change in life assurance provisions for products where policyholders bear investment risk, net of reinsurance (+/-)</b>	<b>(15,438,214)</b>									-	
Gross amount (-)	(15,438,214)			15,438,214						-	
Coinsurers' share (+)	-									-	
Reinsurers' share(+)	-									-	
<b>Expenses for premium refund (bonuses and discounts), net of reinsurance</b>	<b>-</b>									-	
Dependant on result (bonuses)	-									-	
Not dependant of result (discounts)	-									-	
<b>Operating expenses (expenses for operations), net</b>	<b>(174,213,454)</b>									-	
Acquisition costs	(46,036,035)									(46,036,035)	Acquisition costs
Commission	(36,330,434)									-	
Other acquisition costs	(6,580,366)									-	
Change in deferred acquisition costs (+/-)	(3,125,236)									-	

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

### Unconsolidated statement of comprehensive income for year ended 31 December 2012 (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 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
Administrative expenses	(128,177,419)								(128,177,419) Administrative expenses
Depreciation of tangible assets	(8,456,816)								-
Salaries and taxes and contributions on and from salaries	(63,255,251)								-
Other administration costs	(56,465,352)								-
<b>Investment expenses</b>	<b>(34,125,139)</b>					5,723,542			<b>(28,401,597) Financial expenses</b>
Depreciation of investment property	(36,568)								-
Interest expense	(1,184,050)								-
Impairment loss of investments	(25,097,100)								-
Realised loss on disposal of financial investments	(3,258,008)								-
Adjustment of financial assets at fair value through profit and loss account	(776,494)								-
Net negative foreign exchange differences	(1,689,040)								-
Other investment expenses	(2,083,879)								-
<b>Other technical expenses, net of reinsurance</b>	<b>(25,186,291)</b>				(3,558,737)				<b>(28,745,028) Other operating expenses</b>
Prevention expenses	(797,802)								-
Other technical charges	(24,388,489)								-
<b>Other expenses, including impairment losses</b>	<b>(3,558,737)</b>				3,558,737				-
<b>Profit or loss for the period before income tax (+/-)</b>	<b>1,161,830</b>								<b>1,161,830 Profit/(loss) before income tax</b>
<b>Income tax on profit or loss</b>	-								- <b>Deferred tax asset</b>
Current tax expense	-								-
Deferred tax expense (benefit)	-								-
<b>Profit or loss for the period after income tax (+/-)</b>	<b>1,161,830</b>								<b>1,161,830 Profit/(loss) for the year</b>
Attributable to owners of the company									
Attributable to non-controlling interests									
<b>TOTAL INCOME</b>	<b>397,480,442</b>								<b>397,480,442</b>
<b>TOTAL EXPENSES</b>	<b>(396,318,613)</b>								<b>(396,318,613)</b>



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

### Unconsolidated statement of comprehensive income for year ended 31 December 2012 (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 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 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		
<b>Other comprehensive income</b>	<b>49,582,931</b>									<b>49,582,931</b>	<b>49,582,931</b>	<b>Other comprehensive income</b>
Foreign currency translation gains/losses of financial statements of foreign operations	-									-	-	
Gains/losses from changes in fair value of available-for-sale financial assets	49,582,931									-	49,582,931	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	-									-	-	
<b>Total comprehensive income</b>	<b>50,744,760</b>									<b>50,744,760</b>	<b>50,744,760</b>	<b>Total comprehensive income for the year</b>
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*	Reconciliation	Statutory financial statements*
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>(1,304,393)</b>	<b>(1,304,393) Net cash (used in)/from operations</b>
<b>Cash flow before changes in operating assets and liabilities</b>	<b>29,766,256</b>	
Profit/loss before taxes	1,161,830	
Adjustments	<b>28,604,426</b>	
Depreciation of real estate and equipment	3,575,310	
Depreciation of intangible assets	3,010,966	
Value impairment and profits/losses on reduction to fair value	20,470,145	
Interest expense		
Interest income		
Shares in profit of associated companies		
Profits/losses on sale of tangible assets (including land and buildings)	310,928	
Other adjustments	1,237,078	
<b>Increase/decrease of operating assets and liabilities</b>	<b>(31,070,649)</b>	
Increase/decrease of available-for-sale financial assets	(15,219,493)	
Increase/decrease of financial assets at fair value through profit or loss	(68,590,708)	
Increase/decrease of deposits, loans and receivables	23,591,084	
Increase/decrease of deposit assumed in reinsurance business		
Increase/decrease of investments for and on behalf of life assurance policyholders	(15,438,214)	
Increase/decrease of reinsurers' share of insurance contract provisions	(28,863,240)	
Increase/decrease of tax assets	5,065,082	
Increase/decrease of receivables	81,294,500	
Increase/decrease of other assets	(10,423)	
Increase/decrease of prepaid expenses and accrued income	5,793,777	
Increase/decrease of technical provisions	21,114,333	
Increase decrease of life assurance provision for products where policyholders bear investment risk	15,438,214	
Increase/decrease of tax liabilities	7,330,651	
Increase/decrease of deposit from reinsurance	15,964,393	
Increase/decrease of financial liabilities	28,227	
Increase/decrease of other liabilities	(78,623,202)	
Increase/decrease in accrued expenses and deferred income	54,370	
<b>Income taxes paid</b>		
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>4,156,705</b>	<b>4,156,705 Net cash from investing activities</b>
Proceeds from sale of tangible assets	380,820	380,820 Proceeds from sale of property and equipment
Payments for acquisition of tangible assets	(1,801,558)	(1,801,558) Acquisition of property and equipment
Proceeds from sale of intangible assets		
Payments for acquisition of intangible assets	(3,176,545)	(3,176,545) Acquisition of other intangible assets
Proceeds from sale of investment property	8,826,100	8,826,100 Proceeds from sale of investment property
Payments for acquisition of investment property	(72,112)	(72,112) Acquisition of investment property
Increase/decrease of investments in subsidiaries, associates and participation in joint ventures		
Receipts from investments held to maturity		
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		
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Receipts from increase in share capital		
Receipts from short and long term borrowings		
Payments for repayment of short and long term borrowings		
Payments for repurchase of treasury shares		
Dividend payments		
<b>CASH FLOW</b>	<b>2,852,312</b>	<b>2,852,312 Net decrease in cash and cash equivalents</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,852,312</b>	<b>2,852,312 Net decrease in cash and cash equivalents</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>3,660,661</b>	<b>3,660,661 Cash and cash equivalents at 1 January</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>6,512,973</b>	<b>6,512,973 Cash and cash equivalents at 31 December</b>

\*Unconsolidated statement of cash flows prescribed by a decision of the Croatian Agency for Financial Services is compound using indirect method while statement of cash flows in statutory financial statements is compound using direct method.