Helios Vienna Insurance Group d.d.

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.

Contents

Management Board's report

The Management Board has pleasure in submitting its report together with the audited financial statements for the year ended 31 December 2012.

The Company

Helios Vienna Insurance Group d.d. (the "Company" or "Helios") was founded in September 1991 and registered as a joint stock company with its headquarters in Zagreb, Poljička 5. The Company began as the first Croatian private joint stock insurance company registered for all insurance activities.

As a composite insurer, Helios Vienna Insurance Group d.d. provides its policyholders with a wide range of high quality insurance products, both life and non life, and is able to provide quality service, advice and comprehensive insurance solutions to its clients.

In April 2008, Vienna Insurance Group Wiener Staedtische AG became the majority owner of the Company, and in December 2008 it became the sole shareholder.

In 2010, as part of group reorganization, Wiener Städtische's insurance operating business in Austria was separated out from the international holding company activities, whereby the sole shareholder of the Company became Vienna Insurance Group AG Wiener Versicherung Gruppe ("VIG").

Vienna Insurance Group is a listed international insurance group based in Vienna. With premium volume around EUR 9.9 billion and approximately 24,000 employees, VIG is one of the largest players on the insurance market in Central and Eastern Europe. It offers its customers high-quality products and services in the life and non-life segments. Shares of the Vienna Insurance Group are listed on the stock exchanges in Vienna and Prague.

In order to enable new business successes, growth, stability and to meet the needs of the insured and market demands, the Company merged with its related company Cosmopolitan Life Vienna Insurance Group d.d. ("Cosmopolitan Life") in June 2010. The merger has had a particular impact on the supply of products in the life insurance segment, which was expanded by "Whole Life Get Well" insurance – a unique product in the Croatian market. Merger of the two companies expanded sales network and number of offices through which the Company seeks to provide quality service.

Entire Croatian insurance market is suffering stagnation, or even, slight decrease. Vienna Insurance Group ("the Group") is currently operating on Croatian market through three insurance companies: Helios Vienna Insurance Group d.d. and Kvarner Vienna Insurance Group d.d. ("Kvarner") offering life and non life insurance, and life insurance company Erste Osiguranje Vienna Insurance Group d.d.

In order to ensure positive development of Croatian companies, during 2012 different measures have been undertaken. Nevertheless, due to critical size of both composite insurance companies in the majority Group's ownership (Helios and Kvarner), it is extremely difficult to permanently achieve positive results. In the light of the above, at the end of 2012 a strategic decision was made to merge the Company to the sister company Kvarner. The merger, if approved by HANFA, is expected to be realised during next business year.

The Company's shares are not listed on a regulated securities market.

Business performance

In 2012, the Company reported net profit of HRK 23.0 million. The Company realized gross written premium for non life insurance of HRK 64.7 million (before impairment of premium receivables), which represents an increase of 22.3% in comparison to 2011. In the same period, gross written premium for life assurance business, compared to 2011, decreased by 6.4% to the total amount of HRK 115.2 million. The Company's overall premium increased by 2.2% in comparison to 2011. In the light of the overall trend of decrease in gross written premium on the Croatian market, these increases are even further appreciated. The Company is one of the most profitable within the insurance industry.

The Company's main objective is building trust and customers satisfaction on the basis of providing attractive products and excellent services. Transition to the new SAP information system that supports flexible design of products and comprehensive way to portfolio administration will further contribute to achieving these objectives.

Management Board's report (continued)

Business performance (continued)

In order to maintain financial stability and security, business objectives of the Company are focused on further increase of profitability of the Company through growth of premium income and market share, in combination with reduction of overall operating costs. The priority of the Company is further reduction of the combined ratios. In the context of planned merger, the Company began preparing analysis to determine potential of rationalisation of business procedures and planning of their implementation, seeking to achieve faster service for clients with the same quality level.

In 2013 we plan to present to the policyholders products which cover all life areas, with accent on adjustment of the existing products, rather than on the introduction of new products. After the merger, the new company will be able to choose between existing products and offer its clients the most attractive products.

In the upcoming year, new Anti-discrimination Law will emphasise protection and promotion of equality which will influence insurance industry by creating a need for adjustment of existing premium tariffs which in the future will not depend on the gender.

The most common risks the Company is exposed to are financial risks and insurance risks. Amongst financial risks the Company is exposed to credit risk, liquidity risk and market risk (interest rate risk, foreign exchange risk and price risk). Exposure to these risks is shown in Note 1.38 to the financial statements.

The economic environment

The financial and economic crisis which started in 2008 continued also in 2012. In the third quarter of 2012 Croatian GDP based on market prices was on the same level as in the third quarter of 2011 and recorded a negative real growth rate of 1.9%. In December 2012, according to the Consumer Price Index, the prices of personal consumption goods were about 4.7% above those in December 2011, while on average were higher by 3.4%.

Negative trends in the economy are also reflected in employment. The registered unemployment rate grew from 18.6% in 2011 to 21.1% in December 2012. The unemployment rate is still high with faster growth compared to 2011. The number of people employed in the third quarter of 2012 is lower than in the third quarter of 2011, while the amount of average net salary paid in November 2012 was HRK 5,681, which is about 0.8% lower than in the same period of 2011.

Croatian insurance market

For the fourth consecutive year, the Croatian insurance market experienced a decrease in total gross written premium, which mirrors current economic crisis and the overall market trends in 2012. The main factors that affected the insurance business on the Croatian market were closure of many enterprises, high unemployment, reduction of sales of new vehicle and stagnation in construction. Because of this, high growth rates of premium achieved before 2009 have been replaced by the trend of reduction in premiums since then.

Weaker purchasing power strongly influences the decision to buy life insurance despite growing awareness for its need. Recurring premiums have been replaced by single premium payments made by policyholders as a high yield investment and not primarily as an underwriting protection.

During 2012, growth trend in surrendering life insurance policies slowed down which resulted in a decrease of number of the surrendered contracts. This slowdown was a result of the measures of the insurers themselves and the awareness of individuals about the existing pension system imperfections.

According to statistical data from the Croatian Insurance Bureau, the total gross written premiums of all Croatian insurance companies amounted to HRK 9.0 billion which is 1.2% less than previous year. Life insurance has even recorded a growth of 1.2% due to increase in single premium payments, while non life insurance recorded decrease in gross written premium amounting to 2.0% in comparison to 2011, which triggered mentioned decrease in total insurance premium.

Management Board report (continued)

Corporate governance

The Company considers responsible and consistent corporate governance as a prerequisite for safe and stable business operation, growth and creation of values to shareholder, policyholders and other stakeholders.

The company implements both external and internal regulations, and the regulations of its parent company – Vienna Insurance Group AG Wiener Versicherung Gruppe while ensuring that the latter are not in a conflict with the regulations in force in the Republic of Croatia, and it also monitors the alignment of its organizational structure, to be able to modify, i.e. adjust it promptly. In accordance with the Solvency II requirements, application of which was delayed until 2015, the Company is undertaking necessary preparations, already started during previous year.

The shareholder exercises its voting rights in the General meeting. The General meeting is usually held once a year.

The Management Board is responsible for the management of the Company's activities and represents the Company before third parties. It ensures that the Company operates in line with risk management regulations, that it secures and maintains an adequate level of capital in relation to the risks to which the Company is exposed, manages control functions, the performance of external and internal audit, draws up financial and other reports in line with accounting regulations and standards and reports to the Croatian Financial Services Supervisory Agency.

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

Walter Leonhartsberger	President
Ksenija Latin	Member
Azem Raković	Member

The Supervisory Board monitors the performance of the Company's activities, appoints and recalls members of the Management Board, participates in the development of annual financial reports, submits a written supervisory report to the General Assembly, adopts internal audit regulations as well as the annual internal audit work programs, represents the Company before the Management Board and grants prior approval to Management Board decisions when this is prescribed by law or the Statute of the Company.

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

Peter Franz Höfinger	President since 19 December 2012 and vice President until 18 December 2012
Hans-Peter Hagen	Vice President since 19 December 2012 and President until 18 December 2012
Natalia Čadek	Member
Roland Gröll	Member
Wolfgang Petschko	Member

Management Board report (continued)

Corporate governance (continued)

Efficient cooperation has been established between the Company's Management Board and the Supervisory Board. The Management Board, with the approval of the Supervisory Board, adopts the basic business documents – the budget (financial plan) for the current year, the medium-term development plan (three-year period) and the development strategy. The Management Board reports regularly (through financial reports submitted on a quarterly and an annual basis) to the Supervisory Board about the company's activities and about plan realization. At the same time, the Supervisory Board may require information from the company's Management Board regarding issues related to the Company's activities, which have or could have a material impact on its position.

Walter Leonhartsberger
President of the Management Board

Azem Raković
Member of the Management Board

HELIOS VIENNA INSURANCE GROUP d.d.
10000 ZAGREB, POLJIČKA ULICA 5
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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 financial statements for each financial year which give a true and fair view of the financial position of the Company and of the results of its 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 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 financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the 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 financial statements set out on pages 8 to 97 as well as the schedules prepared in accordance with the *Regulation on the structure and content of the annual financial statements of insurance and reinsurance companies* (Official Gazette 132/10) with the corresponding reconciliation, presented on pages 98 to 124 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 Helios Vienna Insurance Group d.d.:

Walter Leonhartsberger
President of the Management Board

Azem Raković
Member of the Management Board

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KPMG

Independent Auditor's Report to the shareholders of Helios Vienna Insurance Group d.d.

We have audited the accompanying financial statements of Helios Vienna Insurance Group d.d. ("the Company"), which comprise the statement of financial position as at 31 December 2012, the 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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KPMG

Independent Auditor's Report to the shareholders of Helios Vienna Insurance Group d.d. (continued)

Other legal and regulatory requirements

Pursuant to the Regulation of the Croatian Financial Services Supervisory Agency on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies, dated 19 November 2010 (Official Gazette 132/10), the Management Board of the Company has prepared the schedules set out on pages 98 to 112 ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2012, and of the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a reconciliation ("the Reconciliation"), as presented on pages 113 to 124, of the Schedules with the financial statements as presented on pages 8 to 97. The Management Board of the Company is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Company set out on pages 8 to 97 on which we have expressed an unqualified 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

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

Goran Horvat
Director, Croatian Certified Auditor

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

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Statement of financial position

As at 31 December

	Note	**2012 HRK'000**	2011 HRK'000
Assets			
Property and equipment	1.11	**43,662**	45,689
Investment property	1.12	**20,526**	21,653
Intangible assets			
Deferred acquisition costs	1.13	**2,240**	1,821
Other intangible assets	1.14	**141**	414
Investment in subsidiary	1.15	**-**	-
Financial assets at fair value through profit or loss	1.16	**84,488**	78,060
Available-for-sale financial assets	1.16	**382,875**	483,756
Held-to-maturity investments	1.16	**358,679**	219,052
Loans and receivables	1.16	**89,377**	91,974
Reinsurers' share of insurance contract provisions	1.17	**56,700**	51,186
Deferred tax asset	1.23	**-**	2,967
Insurance and other receivables	1.18	**78,154**	65,717
Cash and cash equivalents	1.19	**7,331**	1,974
Total assets		**1,124,173**	1,064,263
Shareholders' equity			
Share capital	1.20	**52,505**	45,003
Legal reserve	1.20	**2,725**	2,725
Fair value reserve	1.20	**22,477**	(11,868)
Other reserves		**70,333**	70,333
Retained earnings		**55,913**	60,807
Total equity		**203,953**	167,000
Liabilities			
Insurance contract provisions	1.22	**836,996**	834,620
Deferred tax liability	1.23	**5,619**	-
Provisions for liabilities and charges	1.24	**5,569**	5,909
Insurance and other payables and deferred income	1.25	**72,036**	56,734
Total liabilities		**920,220**	897,263
Total liabilities and equity		**1,124,173**	1,064,263

The accounting policies and other explanatory notes on pages 12 to 97 form an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

	Note	2012 HRK'000	2011 HRK'000
Gross premiums written	1.26	**179,142**	176,023
Written premiums ceded to reinsurers	1.26	**(36,258)**	(31,772)
Net premiums written		**142,884**	144,251
Change in the gross provision for unearned premiums	1.26	**(4,553)**	(2,820)
Reinsurers' share of change in the provision for unearned premiums	1.26	**2,443**	2,529
Net premiums earned		**140,774**	143,960
Fee and commission income	1.27	**12,751**	9,181
Financial income	1.28	**66,886**	72,107
Other operating income	1.29	**2,437**	2,787
Operating income		**222,848**	228,035
Claims and benefits incurred	1.30	**(122,537)**	(116,417)
Reinsurers' share of claims and benefits incurred	1.30	**15,317**	13,488
Net policyholder claims and benefits incurred		**(107,220)**	(102,929)
Acquisition costs	1.31	**(11,755)**	(10,133)
Administrative expenses	1.32	**(72,053)**	(72,834)
Other operating expenses	1.33	**(5,621)**	(3,907)
Financial expenses	1.34	**(3,248)**	(5,460)
Profit before income tax		**22,951**	32,772
Income tax expense	1.35	**-**	(13)
Profit for the year		**22,951**	32,759
Other comprehensive income for the year, net of income tax			
Gains/(losses) on changes in fair value of available-for-sale financial assets, net of deferred tax		**34,345**	(21,410)
Total comprehensive income for the year		**57,296**	11,349
Earnings per share		**HRK**	HRK
Basic and diluted earnings per share	1.21	**1,411**	2,257

The accounting policies and other explanatory notes on pages 12 to 97 form an integral part of these financial statements.

Statement of changes in equity

	Share capital HRK'000	Legal reserve HRK'000	Fair value reserve HRK'000	Other reserves HRK'000	Retained earnings / (accumulated losses) HRK'000	Total HRK'000
Balance at 1 January 2011	45,003	2,725	9,542	70,333	36,548	164,151
Total comprehensive income for the year						
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 1.20)	-	-	(26,763)	-	-	(26,763)
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 1.20)	-	-	5,353	-	-	5,353
Other comprehensive income	-	-	*(21,410)*	-	-	*(21,410)*
Profit for the year	-	-	-	-	*32,759*	*32,759*
Total comprehensive income for the year, net of income tax	-	-	(21,410)	-	32,759	11,349
Transactions with owners recognised directly in equity						
Dividends for 2010 (Note 1.20)	-	-	-	-	(8,500)	(8,500)
Balance at 31 December 2011	45,003	2,725	(11,868)	70,333	60,807	167,000
Balance at 1 January 2012	45,003	2,725	(11,868)	70,333	60,807	167,000
Gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 1.20)	-	-	42,931	-	-	42,931
Deferred tax on gains and losses on changes in fair value of available-for-sale financial assets, net of amounts realised (Note 1.20)	-	-	(8,586)	-	-	(8,586)
Other comprehensive income	-	-	*34,345*	-	-	*34,345*
Profit for the year	-	-	-	-	*22,951*	*22,951*
Total comprehensive income for the year, net of income	-	-	34,345	-	22,951	57,296
Transactions with owners recognised directly in equity						
Increase in share capital (Note 1.20)	7,502	-	-	-	-	7,502
Dividends for 2011 (Note 1.20)	-	-	-	-	(27,845)	(27,845)
Balance at 31 December 2012	52,505	2,725	22,477	70,333	55,913	203,953

The accounting policies and other explanatory notes on pages 12 to 97 form an integral part of these financial statements.

Statement of cash flow
For the year ended 31 December

	Note	2012 HRK'000	2011 HRK'000
Cash flows from operating activities			
Insurance premiums received		**175,810**	173,002
Reinsurance premiums paid		**(31,482)**	(29,856)
Fees and commissions received		**11,810**	8,232
Interest received		**46,876**	41,205
Claims and benefits paid		**(124,648)**	(96,642)
Reinsurance claims received		**9,368**	11,969
Payments to intermediaries		**(11,966)**	(10,325)
Payments to employees and suppliers		**(69,642)**	(70,280)
Other operating cash flows		**4,942**	16,871
Net (acquisition)/disposal of operating assets			
- Equity securities		**(7,406)**	(10,106)
- Debt securities		**23,950**	(12,488)
- Units in investment funds		**5,238**	(14,735)
- Deposits with banks and loans to customers		**2,171**	12,207
- Investments for the benefit of index linked life assurance		**(9,466)**	(8,952)
Net cash from operations		**25,555**	10,102
Cash flow from/(used in) investing activities			
Dividends received		**324**	114
Acquisition of property and equipment		**(1,126)**	(1,944)
Proceeds from sale of property and equipment		**978**	76
Acquisition of other intangible assets		**(31)**	(63)
Net cash from/(used in) investing activities		**145**	(1,817)
Cash flows used in financing activities			
Proceeds from increase in share capital	1.20	**7,502**	-
Dividend paid	1.20	**(27,845)**	(8,500)
Net cash used in financing activities		**(20,343)**	(8,500)
Effect of exchange rate changes on cash held		**-**	47
Net increase/(decrease) in cash and cash equivalents		**5,357**	(168)
Cash and cash equivalents at 1 January		**1,974**	2,142
Cash and cash equivalents at 31 December	1.19	**7,331**	1,974

The accounting policies and other explanatory notes on pages 12 to 97 form an integral part of these financial statements.

1 Notes to the financial statements

1.1. Reporting entity

Helios Vienna Insurance Group d.d. (the "Company"), whose registered address is at Poljička 5, Zagreb is a joint stock company incorporated and domiciled in Croatia.

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 sole shareholder (100% of voting rights) and ultimate parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe, a joint stock company, incorporated and domiciled in Austria.

1.2. Basis of preparation

(a) Statement of compliance

The financial statements of the Company 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.

The Company owns 100% of Hotel Voltino d.o.o. The Company has used the exemption allowed by International Accounting Standard 27 "*Consolidated and Separate Financial Statements*" (IAS 27), not to prepare consolidated financial statements, on the basis that the parent company prepares and files consolidated statements prepared in accordance with IFRS.

(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 Company operates ("the functional currency"), Croatian kuna (HRK), rounded to the nearest thousand, unless stated otherwise.

(d) Use of estimates and judgements

The preparation of the 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 the 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 in 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 1.4.

1.2. Basis of preparation (continued)

(e) Going concern assumption

As explained in Note 1.43, the Company's shareholders have decided to merge Helios Vienna Insurance Group osiguranje d.d. with Kvarner Vienna Insurance Group d.d., a related company, 99.36% owned by Vienna Insurance Group Wiener Städtische Versicherung AG, under a new company name Wiener Vienna Insurance Group d.d. and accordingly the financial statements have been prepared on a going concern basis, which is still considered appropriate as the Company will continue to operate under the merged company. Legal merger is scheduled mid-year 2013, following which the Company will cease to exist as an independent insurance company.

1.3. Significant accounting policies

(a) Property and equipment

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

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 Company, 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 part of an item of property and equipment. Land and assets acquired but not brought into use are not depreciated.

The estimated useful lives are as follows:

	2012	**2011**
Buildings	50 years	50 years
Motor vehicles	5 years	5 years
Equipment and furniture	2-10 years	2-10 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 disposal are determined by comparing proceeds with carrying amount of the related asset, and are included in profit or loss.

1.3. Significant accounting policies (continued)

(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:

	2012	2011
Investment property	50 years	50 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. General selling expenses are not deferred. For the non-life insurance business, at the reporting date the deferred acquisition costs have been calculated by applying the commission percentage to the invoiced unearned premium for each line of business.

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

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

(d) Other intangible assets

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

	2012	2011
Software	4 years	4 years

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

1.3. Significant accounting policies (continued)

(e) Financial instruments

Classification

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

Reclassification

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 1.16.

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 Company as at fair value through profit or loss. The Company 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 Company acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

The Company designates financial assets at fair value through profit or loss when either:

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

Financial assets at fair value through profit or loss include debt securities, equity securities, investments in investment fund units and investments in index-linked products for the account of policyholders.

Loans and receivables

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

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

Loans and receivables arise when the Company 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*.

1.3. Significant accounting policies (continued)

(e) Financial instruments (continued)

Classification (continued)

Available-for-sale financial assets

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company 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 Company from classifying investment securities as held-to-maturity for the current and the following two financial years. Held-to-maturity financial investments include debt securities.

Other financial liabilities

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

Recognition and derecognition

Regular way purchases and sales of financial assets available for sale and financial assets at fair value through profit or loss are recognised and derecognised on the settlement date which is the date that the financial instrument is delivered to or by the entity. Loans and receivables and other financial liabilities carried at amortised cost are recognised when advanced to borrowers or received from lenders.

The Company derecognises financial assets (in full or in 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 Company transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired.

The Company 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 Company will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

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 Company 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 Company 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.

1.3. Significant accounting policies (continued)

(e) Financial instruments (continued)

Initial and subsequent measurement (continued)

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 and losses arising from changes in the fair value of available-for-sale monetary assets are recognised directly in other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in profit or loss. For non-monetary financial assets available for sale all changes in fair value, including those related to translation difference, are recognised in other comprehensive income. Upon sale or other de-recognition of available-for-sale financial assets, all cumulative gains or losses are transferred from other comprehensive income to profit or loss.

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

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in 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 of available-for-sale financial assets is their quoted bid market price at 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 Company establishes fair value by using valuation techniques developed by the Company. These include the use of prices achieved in recent arm's length transactions, with 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 Company did not have any financial assets or liabilities the fair value of which was measured by valuation techniques.

Impairment of financial assets

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

1.3. Significant accounting policies (continued)

(e) Financial instruments (continued)

Impairment of financial assets (continued)

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 Company on terms that the Company 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.

Embedded derivatives which satisfy the definition of an insurance contract do not need to be separated from their host contract. In addition, the Company 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.

1.3. Significant accounting policies (continued)

(e) Financial instruments (continued)

Specific instruments (continued)

Debt securities

Debt securities are classified as financial assets at fair value through profit or loss, financial assets available for sale or held-to-maturity investments, 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 are presented net of any 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 are 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 funds

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

Investments held on account and at risk of life assurance policyholders

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

Loans and receivables from policyholders

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

Trade and other receivables

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

Investments in subsidiaries

Investments in subsidiaries are stated at their cost less any impairment in these separate financial statements.

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.

1.3. Significant accounting policies (continued)

(f) Leased assets

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

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

(g) 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.

(h) Employee benefits

Defined contribution plans

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

(i) 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, or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

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

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

(j) Provisions for liabilities and charges

A provision is recognised if, as a result of a past event, the Company 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 Company 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.

1.3. Significant accounting policies (continued)

(j) Provisions for liabilities and charges (continued)

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company 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 insurance contracts is disclosed under 1.3.(s) *Unexpired risk reserve.*

(k) 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. Any excess of the fair value of the consideration received over the par value of the shares issued is presented as share premium.

Repurchase of share capital

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

Dividends

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

Legal reserve

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

Fair value reserve

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

Other reserves

Other reserves are formed on the basis of the Company's Statute and can be used for share capital increase, dividend payment, loss coverage or other purposes at the discretion of the Company's General Assembly.

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.

1.3. Significant accounting policies (continued)

(l) Impairment

The carrying amounts of the Company's assets, other than deferred acquisition costs (see accounting policy 1.3 (c)), financial assets (see accounting policy 1.3 (e)) and deferred tax assets (see accounting policy 1.3 (i)), are tested for impairment at each reporting date. If any indication of impairment exists, the asset's recoverable amount is estimated. For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

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

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

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

(m) Segment reporting

A segment is a distinguishable component of the Company 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 Company's primary format for segment reporting is based on business segments, which include life assurance and non-life insurance segments.

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 are included directly to the non-life business segment.

Investment income, realised and unrealised gains and losses, expenses and charges representing shareholders' and life assurance business are directly included in the life assurance business segment.

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

During the year, administration costs and other acquisition costs are charged to the non-life segment. Allocation to life assurance segment 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: premium key (portfolio), number of man-days, number of training days, number of new policies, number of claims, premium new business and investment key.

Allocation of equity and assets

Property and equipment and intangible assets as well as investment property are allocated to the non-life and life segments. Financial investments are allocated according to source of funds. Equity is allocated according to minimal regulatory capital requirements for issued share capital; fair value reserve is allocated according to the source of the related financial assets, while the legal and other reserves are allocated to each segment according to the results of the related segment up to 2006 (see accounting policy Note 1.3 (k)). Other receivables and payables are allocated to those segments from which they originate.

1.3. Significant accounting policies (continued)

(n) Revenue

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

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 1.3 (e) 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 Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies. Fees and commission income includes various reinsurance commission income.

(o) 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 sales personnel, 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. The Company's accounting policy for deferred acquisition costs is disclosed in accounting policy note 1.3 (c).

Administration costs

Administration costs include personnel expenses, depreciation of property and equipment, electricity and other costs. Other costs consist mainly of costs of premium collection, policy cancellation costs, asset management costs and administrative 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.

1.3. Significant accounting policies (continued)

(o) Expenses (continued)

Financial expenses

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

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

(p) Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

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

Policyholders or beneficiaries of whole life, endowment and annuity-assurance policies are entitled to a share in the profits of the Company realised through the management of life assurance funds. The entitlement is calculated following the expiry of the third year of insurance. Entitlements are based on net profits achieved for the year. The level of the profit entitlement is determined by management.

The discretionary element of those contracts is accounted for as a liability within the life assurance provision.

At the reporting date the Company accounted for HRK 48.19 million of provision for discretionary profit participation bonuses (2011: HRK 50.32 million) which is included within the life assurance provision. During 2012, the Company allocated HRK 3.78 million to individual policyholders (2011: HRK 3.43 million).

1.3. Significant accounting policies (continued)

(q) 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.

(r) 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 days 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.

(s) 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 reporting date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, before taking into account relevant investment returns. Management believes that, at the reporting date, there is no need to recognise an unexpired risk provision. Liability adequacy testing for both life and non-life and related assets is disclosed in more detail in accounting policy 1.3 (x) and in Note 1.7.

(t) 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.

1.3. Significant accounting policies (continued)

(u) Life assurance provisions

The life assurance provision has been computed by the Company's actuary, having due regard to principles laid down in the regulation for the calculation of the mathematical provision for life assurers, issued by HANFA. The life assurance provision has been computed on an in-force premium basis, applying a Zillmer type valuation method, and taking into account actual acquisition, collection and administrative costs as well as all guaranteed benefits and bonuses already declared and proposed.

The life assurance provision is calculated applying a Zillmer rate of not more than 3.5%. The applied Zillmer rate is within the limits prescribed by HANFA. The life assurance provision of capitalised policies is not zillmerised. A prospective net premium valuation method has been adopted, with exception of index-linked products where provision is based on the fair value of the underlying assets.

The provision is initially measured using the assumptions defined by HANFA (latest officially published mortality/morbidity tables or other more appropriate biometric tables, and a maximum discount rate of 3.3% or lower). At each subsequent reporting date the provision is calculated on the same principles. A liability adequacy test ("LAT") is performed at each reporting date by the Company's actuaries using current estimates of future cash flows under its insurance contracts (refer to Note 1.7 and Note 1.8). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in profit or loss with a corresponding increase to the life assurance provision.

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

(v) 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 and claims recoverable from third parties that are anticipated to be collected are deducted from claims settled.

Claims outstanding based on case estimates and statistical methods comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred up to but unpaid at the reporting date whether reported or not, together with related internal and external claims handling expenses and an appropriate prudential margin. 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, judicial trends, legislative changes and past experience and trends.

Anticipated reinsurance recoveries are disclosed separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding. Reinsurance is determined according to contracts valid at the time claims occurred.

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

Claims 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.

1.3. Significant accounting policies (continued)

(w) Reinsurance

The Company 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 Company 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 insurance contract provisions. Recoverable amounts based on reinsurance contracts are assessed for impairment at each reporting date. The Company recognises impairment losses for reinsurance assets for which it assess they are not recoverable.

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 1.3 (e). The Company 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 Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Reinsurance commissions and profit commissions

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

(x) Liabilities and related assets under liability adequacy test

Insurance contracts are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs and other related insurance assets and liabilities. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in profit or loss for the year.

IFRS 4 requires a test for the adequacy of liabilities arising from insurance contracts. The Company 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) is inadequate in the light of the estimated future cash flows, the entire deficiency is charged to profit and loss. The estimates of future cash flows are based on realistic actuarial assumptions taking into consideration claim occurrence experience, most recent demographic tables, aspects of mortality, morbidity, investment return, expenses and inflation.

(y) Liability measurement of index-linked contracts

Liabilities in relation to "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.

1.3 Significant accounting policies (continued)

(z) 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 Company. An impairment allowance is established for premium receivables that are overdue more than 180 days (2011: 120 days).

(aa) 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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised in reserves.

Changes in the fair value of monetary securities denominated in or linked to foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in income as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within investment income or investment expense in the profit or loss. Other changes in the carrying amount are recognised in equity.

The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency classified as available for sale are recognised in other comprehensive income, along with other changes in fair value. At the reporting date the Company had non-monetary securities denominated in euro classified as available for sale in the amount of HRK 7,386 thousand.

The most significant foreign currency in which the Company 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).

(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 Company'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 Company has not yet decided on the date of the initial application of the new Standard neither it has analysed the effects of its application.

1.4. Accounting estimates and judgements

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Judgements relating to insurance contract provisions represent the major source of uncertainty 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.

1.4.1 Key sources of estimation uncertainty

Estimation of uncertainty in relation to insurance contract provisions

The most significant estimates in relation to the Company's financial statements relate to insurance contracts reserving. The Company takes a reasonably prudent approach to reserving and applies HANFA regulations. The Company employs certified actuaries. The Company's policy is to make provision for unexpired risks arising from non-life insurance business where the claims, deferred acquisition costs and administrative expenses likely to arise after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums available under those contracts. Management believes that the recognition of such provisions is not required at the reporting date.

Major assumptions in calculating the life assurance provision are set out in Note 1.6. Insurance risk management is discussed in detail in Note 1.5, whilst insurance contract provisions are analysed in Note 1.22.

Losses from impairment of loans and receivables

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 1.3(e) 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 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 1.3(e). For financial assets that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Estimation of uncertainty in relation to court cases

A significant source of estimation uncertainty stems from court cases. At 31 December 2012, the Company was involved in 554 (2011: 524) court cases regarding claims, for which HRK 39,867 thousand (2011: HRK 37,617 thousand) was provided as part of the claims reserve for reported but not yet settled claims. As at 31 December 2012, the Company was involved in 30 non-insurance court cases for which HRK 5,569 thousand (2011: 37 cases, HRK 5,909 thousand) was provided as provision for non-insurance related legal claims. The management believes that the related provisions are sufficient.

Tax

The Company 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.

1.4. Accounting estimates and judgements (continued)

1.4.1 Key sources of estimation uncertainty (continued)

Regulatory requirements

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

Joint liability

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

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

Financial asset and liability classification

The Company's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances. In classifying financial assets as "trading", the Company has determined that it meets the description of trading assets set out in accounting policy 1.3 (e) "Financial assets at fair value through profit or loss". In designating financial assets at fair value through profit or loss, the Company has determined that it has met one of the criteria for this designation set out in accounting policy 1.3 (e). 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 Company has the positive intention and the ability to hold these investments to maturity.

In March 2012 and in October 2011 the Company reclassified part of available-for-sale financial assets as held-to-maturity investments. The Company has the intent and ability to hold the reclassified assets to maturity.

Valuation of financial instruments

The Company's accounting policy on fair value measurements is discussed in accounting policy 1.3 (e). The Company measures fair values using the fair value hierarchy as discussed in Note 1.38 on financial risk management.

Classification of products

The Company's accounting policy on classification of contracts as insurance or investment contracts is disclosed in accounting policy note 1.3 (p). At the reporting date, the Company had no insurance products which should be classified as investment contracts.

Classification of property between investment property and owned-used property

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

Allocation of indirect expenses life and non-life

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

1.4. Accounting estimates and judgements (continued)

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

Useful economic life of equipment and intangible assets

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

Impairment of investment in subsidiaries

Impairment of investments in subsidiaries is based on management's best estimate of the recoverable amount of subsidiaries. Recoverable amount is the higher of fair value less cost to sell and value in use.

1.5. Insurance risk management

The Company is exposed to actuarial and underwriting risk arising from a wide range of life and non-life products offered to customers: whole life, participating traditional life products, index-linked products and all lines of non-life products (property, accident, 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. 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 Company 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 Company 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. All 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.

The Company reinsures a portion of the risks it underwrites in order to control its exposure to losses especially from large claims, and protect capital resources. For the non life business, the Company buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure for an individual risk to amount of EUR 195 thousand for casco, EUR 125 thousand for motor third party liability, EUR 100 thousand for property and 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 949.9 million of losses exceeding the first EUR 0.1 million.

For the basic "Whole Life" assurance, the Company buys a combination of proportional reinsurance treaties with upper risk limits to reduce the net exposure per life contract, and additional excess of loss reinsurance. For the supplemental "Whole Life" assurance for the benefit payment in the case of surgery operation, the Company buys a proportional reinsurance treaty. For the traditional life insurance the Company has the surplus reinsurance treaty.

Ceded reinsurance also contains credit risk and such reinsurance recoverables are reported after deductions for impairment because of estimated inability to collect. The Company 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 life assurance provision.

1.5. Insurance risk management (continued)

Concentration of insurance risk

A key aspect of the insurance risk faced by the Company 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 Company'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 Company 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 Company are primarily located in the Republic of Croatia.

Non life insurance

Within non-life insurance, the management believes that the Company 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 Company arises from catastrophe events, such as earthquake, flood or storm damage. The techniques and assumptions that the Company uses to calculate and manage these risks are as follows:

- measurement of geographical accumulations;
- assessment of probable maximum losses;
- excess of loss reinsurance.

According to data available to the Company, the insured sum per lines of business at the end of 2012 and 2011 are summarized in the following table. Sum insured represents the theoretical effect on the Company of occurrence of the maximum loss per each policy in the Company's portfolio.

Line of business	Sum insured 31 December 2012		Sum insured 31 December 2011	
	HRK'000	%	HRK'000	%
Motor (third party)	**142,209,407**	**79.83%**	103,972,942	75.57%
Motor (other classes)	**430,759**	**0.24%**	439,518	0.32%
Property	**13,420,997**	**7.53%**	10,339,452	7.52%
Personal lines	**20,143,771**	**11.31%**	21,909,132	15.93%
Other	**1,933,720**	**1.09%**	903,381	0.66%
Total	**178,138,654**	**100.00%**	137,564,425	100.00%

1.5. Insurance risk management (continued)

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. Value at risk for life insurance is as follows:

	Value at risk			
	2012		2011	
Line of business	**HRK'000**	**%**	HRK'000	%
Life assurance - traditional products	**3,525,847**	**62.84%**	4,068,264	63.21%
Life insurance where the insured bears the risk of investment	-	-	1,243	0.02%
Additional insurance to life assurance	**2,084,768**	**37.16%**	2,366,754	36.77%
At 31 December	**5,610,615**	**100.00%**	6,436,261	100.00%

Tables of long-term insurance contracts given below provide an overview of concentration of risk through the three contract groups clustered according to the sum insured for each insured life.

	Total sum insured			
	Before reinsurance		**After reinsurance**	
Sum insured per policy at 31 December 2012	**HRK'000**	**%**	**HRK'000**	**%**
< 100,000	**536,138**	**12.44%**	**454,836**	**13.35%**
100,000-250,000	**2,320,016**	**53.84%**	**1,906,432**	**55.96%**
> 250,000	**1,453,255**	**33.72%**	**1,045,363**	**30.69%**
At 31 December 2012	**4,309,409**	**100.00%**	**3,406,631**	**100.00%**

	Total sum insured			
	Before reinsurance		After reinsurance	
Sum insured per policy at 31 December 2011	HRK'000	%	HRK'000	%
< 100,000	613,334	12.92%	542,363	14.58%
100,000-250,000	2,516,714	53.00%	2,029,644	54.54%
> 250,000	1,618,515	34.08%	1,149,229	30.88%
At 31 December 2011	4,748,563	100.00%	3,721,236	100.00%

1.6. Principal assumptions that have the greatest effect on 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 settled.

The liability for reported claims (NOCR) is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the value 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 Company'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 Company'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 the observed historical claims development.

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

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

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. Reinsurers' share in IBNR is determined based on reinsurers' share in RBNS and Reinsurance Treaties in force. Provisions are not discounted.

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

Expected claims ratio

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

Tail factors

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

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

Life assurance

The life assurance provision is calculated using a prospective premium valuation using the statistical data and interest rates used to calculate premium rates, as well as the maximum actual interest rate prescribed by HANFA (in accordance with relevant national legislation). The Company uses the latest available Republic of Croatia mortality tables (MT RH) from 2000 – 2002 except for term assurance and critical illness contracts where the mortality tables from premium basis are more appropriate. The rest of the assumptions used are locked in at policy inception and remain in force until expiry of the liability.

In 2008, the Company has reduced the maximum rate for discounting technical provisions to 3.3% in order to comply with regulatory requirements. There were no such changes in 2012.

The Company elects to use Republic of Croatia mortality tables MT RH from 2000-02, MT JUG 1970 and GC. The use of the MT JUG 1970 mortality tables results in a larger life assurance provision than would be calculated if the MT HR 2000-02 mortality tables were used in the calculation of the term assurance portfolio. For critical illness portfolio the Company uses original morbidity and mortality tables (General Cologne Re morbidity tables). For the surgical rider and the child birth the Company uses the original biometrical tables.

Principal assumptions for life assurance business

Description	Product	Rates of interest for calculating reserve	Mortality tables
Endowment	H11, H11J, H21, H31, H31J	3.30%	MT HR 2000
	L11, L11J, L21, L31, L31J	3.30%	MT HR 2000
	W11, W11J, W21, W21J, C31	3.30%	MT HR 2000
	L41, L41J, H51	2.50%	MT HR 2000
Endowment-Group	G11, G12, G13, G14, G16, G17, G18, G32, G33, G35, G36	3.30%	MT HR 2000
Pure endowment	D11, D11J	3.30%	MT HR 2000
	D41, D41J	2.50%	MT HR 2000
Term assurance	T11, T11J	3.30%	MT JUG 1970
	T41, T41J	2.50%	MT HR 2000
Critical Illness	KB1	3.30%	GC
Permanent disability	PWD	2.50%	GC
Annuities - Pension	Z11, Z12, Z12J, Z22J	3.30%	MT HR 2000
Annuities -Scholarship	Z13F, Z13S, Z13JF, Z13JS, Z14F, Z14S, Z14JF, Z23JF	3.30%	MT HR 2000
Index linked	EURO-IL	3.30%	MT HR 2000
	EIL-2009	2.50%	MT HR 2000
	WLBT	3.30%	MT HR 2000
Whole Life L-100	L-100	3.30%	MT HR 2000
Whole Life WLP	WLP	3.30%	MT HR 2000
Whole Life Get Well	WLGW	3.30%	MT HR 2000
Whole-Life Get Well_25	WLGW-25	2.50%	MT HR 2000
Whole Life Annuities	WLR	2.50%	MT HR 2000

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

Life assurance (continued)

Policyholder bonuses

Policyholders or beneficiaries of endowment and annuity contracts are entitled to a share in the profits of the Company realised through the management of life assurance funds. The entitlement is calculated following the expiry of the third year of insurance. Entitlements are based on investment returns on life assurance assets achieved for the year and the business result of the company. The level of the profit entitlement is determined by management.

The "Whole Life" policies offered by the Company mature at the age of 100. In the event of survival, the paid-up insurance bought with the share in profits is accumulated along with the sum insured. In the event of death, the Company pays the sum insured increased by the insurance bought with the share in the profits accounted for by that time. The Company makes provisions for the insurance bought by bonuses allocated to policyholders within the life assurance provision. There is a consistent formula for calculating and distributing bonuses to any particular policy. However, the volume of the total profit sharing is fully discretionary and dependant on the decision of the management of the Company.

1.7. Liability adequacy test

Life assurance

In 2012 there have been no major changes in assumptions used to measure life assurance assets and liabilities in relation to prior years

The life assurance provision is tested at each reporting date against a calculation of future cash flows using explicit and consistent assumptions of all factors – future premiums, mortality, morbidity, investment returns, lapses, surrenders, guarantees, policyholder bonuses, expenses and exercise of policyholder options. For this purpose the Company uses the Liability adequacy test (LAT) model in Excel. 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 Company's own internal models and publicly available resources (e.g. demographic information published by the Croatian Statistical Bureau).

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

Input assumptions are 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 Company segments the products into homogenous groups according to the characteristics of individual products. 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 as an expense in profit or loss, by establishing an additional provision.

1.7. Liability adequacy test (continued)

Life assurance (continued)

Mortality and morbidity

Mortality tables are made based on Republic of Croatia mortality tables MT HR 2000-02. Assumptions for mortality and morbidity are adjusted by a margin for risk and uncertainty.

Persistency

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

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

Expenses

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

Expected investment return and discount rate

Future investment returns are calculated using separate risk free curves for portfolio denominated in Croatian kuna and for portfolio denominated in Euro, 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% with the Solvency II methodology that is applied in the long term guarantee assessment (Smith-Wilson method).

Profit sharing

Whilst, for most life assurance policies, the amount and timing of the bonus to policyholders is at the discretion of the Company, 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 technical interest rate on individual policies. The percentage applied is consistent with the Company's current business practice for bonus allocation.

Non-life insurance

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

The liability adequacy test for non-life insurance is therefore limited to the unexpired portion of existing contracts. 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.

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

Life assurance

	LAT future cash flow -modelled HRK'000
Base run	479,476
Interest rates (discounting and investment return) +100bp	460,472
Interest rates (discounting and investment return) –100bp	501,297
Mortality +10%	483,735
Policy maintenance expenses +10%	497,387

The portfolio modelled represents 98.60% of in force life assurance provision (HRK 650,766 thousand of life assurance provision modelled). The rest of the portfolio was not modelled.

Base run represents LAT future cash flows calculated using the assumptions described under Note 1.7 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 profit or loss and insurance liabilities (as evidenced by LAT cash flow above) are mostly influenced by an increase in the interest rates and increase in policy maintenance expenses. Hence the effect of changes in interest rates in both directions has been estimated.

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.

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

Non-life insurance contracts

The Company offers many types of non-life insurance of which mainly motor, property, liability, marine, transport 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 Company 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 Company's motor portfolio comprises both motor third party liability insurance (MTPL) and motor (casco) insurance. MTPL insurance covers bodily injury claims and property claims in the Republic of Croatia as well as claims caused abroad by insured motorists under the Green Card system.

Property damage under MTPL and casco claims are generally reported and settled within a short period after 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. Tariffs and 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.

Property insurance

This is broadly split into Industrial and Personal lines. For Industrial lines the Company 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.

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

Non-life insurance contracts (continued)

Liability insurance

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 Company, but are also sold as a standalone product.

Life assurance contracts

Bonuses

Almost all of the Company's traditional life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Company and are recognised when proposed and approved by the Board of Directors in accordance with the relevant legal requirements. Once allocated to policy bonuses are guaranteed.

Premiums

Premiums may be payable in regular instalments or as a single premium at inception of the policy.

Whole Life policy – L-100

This whole life assurance product comprises risks of death upon the end of life (in practice up to the 100th birthday when the policy matures). Premiums paid regularly are scheduled annually, semi-annually, quarterly or monthly. Surrender values are guaranteed at the fixed amount set up at policy inception.

Insurance benefits are paid out as a lump sum. The Company has 4 generations of the main product and only the 4th one, Whole Life Get Well, WLGW_25, is the active tariff. There are 4 types of the additional insurance that could be connected to the main policy cover:

- Terminal Illness Rider ("TI"), allowing for the prepayment of 50% of the sum insured in the case of terminal illness - introduced in 2004
- Accidental Death Benefits Rider ("ADB") comprising of payment of an additional 100% of the sum insured in the case of death caused by accident - introduced in 2004
- Surgical insurance additional benefit payment for the case of surgical operation performed. – introduced in 2008
- childbirth – benefit for the case of the birth of the child - introduced in 2008

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

Life assurance contracts (continued)

Whole Life Renta – WLR

This whole life assurance product comprises risks of death upon the end of the accumulation period phase that ends at the age 65 and the risk of longevity that lasts upon the end of the life.

Premiums are paid regularly. Surrender values are guaranteed as fixed amounts. Insurance benefits are paid out in lump-sum (accumulated capital) at age 65, or in regular monthly payment of annuity if the insured at age 65 choose this option. The guaranteed period of annuity payment is 10 years.

Term life insurance products

Traditional term life insurance products comprise risks of death. Premium is paid regularly or as single premium. Policies offer a fixed sum insured for death. 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. These life assurance policies give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offer cover for risks of death and paid out the sum insured at maturity. Accident can be added as a rider to the main endowment coverage. Insurance benefits are usually paid in a lump-sum.

Pure endowments

These are also traditional life insurance products providing life-long financial protection at expiry. The premium under this product can also give the insured the possibility to finance their needs in retirement. Premiums under this product are regular or single premium and cover the risk of endowment and accident riders.

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 the guaranteed maturity value (guaranteed by the note issuer). Policyholders have therefore guaranteed the value at maturity of the policy, however the amount of surrender value is not guaranteed. One group of the insurance contracts, WL Best of Trend expire in the year 2018, the other group Eurogarantie 1 and 2 in 2020 and Eurogarantie 3 in 2019.

1.10. Segment reporting

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

	Non-life HRK'000	Life HRK'000	Total HRK'000
Assets			
Property and equipment	38,984	4,678	**43,662**
Investment property	5,480	15,046	**20,526**
Intangible assets			
Deferred acquisition costs	2,240	-	**2,240**
Other intangible assets	109	32	**141**
Investment in subsidiary	-	-	-
Financial assets at fair value through profit or loss	15,604	68,884	**84,488**
Available-for-sale financial assets	56,052	326,823	**382,875**
Held-to-maturity investments	29,978	328,701	**358,679**
Loans and receivables	150	89,227	**89,377**
Reinsurers' share of insurance contract provisions	55,811	889	**56,700**
Insurance and other receivables	42,918	35,236	**78,154**
Cash and cash equivalents	857	6,474	**7,331**
Total assets	**248,183**	**875,990**	**1,124,173**
Shareholders' equity			
Share capital	30,005	22,500	**52,505**
Legal reserve	560	2,165	**2,725**
Fair value reserve	3,439	19,038	**22,477**
Other reserves	3,932	66,401	**70,333**
Retained earnings	13,092	42,821	**55,913**
Total equity	**51,028**	**152,925**	**203,953**
Liabilities			
Insurance contract provisions	124,937	712,059	**836,996**
Deferred tax liability	859	4,760	**5,619**
Provisions for liabilities and charges	5,569	-	**5,569**
Insurance and other payables and deferred income	65,790	6,246	**72,036**
Total liabilities	**197,155**	**723,065**	**920,220**
Total liabilities and equity	**248,183**	**875,990**	**1,124,173**

1.10. Segment reporting (continued)

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

	Non-life HRK'000	Life HRK'000	Total HRK'000
Assets			
Property and equipment	39,965	5,724	**45,689**
Investment property	-	21,653	**21,653**
Intangible assets			
Deferred acquisition costs	1,821	-	**1,821**
Other intangible assets	307	107	**414**
Investment in subsidiary	-	-	**-**
Financial assets at fair value through profit or loss	7,033	71,027	**78,060**
Available-for-sale financial assets	53,651	430,105	**483,756**
Held-to-maturity investments	23,274	195,778	**219,052**
Loans and receivables	286	91,688	**91,974**
Reinsurers' share of insurance contract provisions	49,678	1,508	**51,186**
Deferred tax asset	1,026	1,941	**2,967**
Insurance and other receivables	32,655	33,062	**65,717**
Cash and cash equivalents	774	1,200	**1,974**
Total assets	**210,470**	**853,793**	**1,064,263**
Shareholders' equity			
Share capital	22,503	22,500	**45,003**
Legal reserve	560	2,165	**2,725**
Fair value reserve	(4,104)	(7,764)	**(11,868)**
Other reserves	3,932	66,401	**70,333**
Retained earnings	12,451	48,356	**60,807**
Total equity	**35,342**	**131,658**	**167,000**
Liabilities			
Insurance contract provisions	119,377	715,243	**834,620**
Provisions for liabilities and charges	5,909	-	**5,909**
Insurance and other payables and deferred income	49,842	6,892	**56,734**
Total liabilities	**175,128**	**722,135**	**897,263**
Total liabilities and equity	**210,470**	**853,793**	**1,064,263**

1.10. Segment reporting (continued)

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

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	63,908	115,234	**179,142**
Written premiums ceded to reinsurers	(32,374)	(3,884)	**(36,258)**
Net premiums written	**31,534**	**111,350**	**142,884**
Change in the gross provision for unearned premiums	(4,631)	78	**(4,553)**
Reinsurers' share of change in the provision for unearned premiums	2,453	(10)	**2,443**
Net premiums earned	**29,356**	**111,418**	**140,774**
Fee and commission income	11,185	1,566	**12,751**
Financial income	5,635	61,251	**66,886**
Other operating income	2,097	340	**2,437**
Operating income	**48,273**	**174,575**	**222,848**
Claims and benefits incurred	(27,983)	(94,554)	**(122,537)**
Reinsurers' share of claims and benefits incurred	14,648	669	**15,317**
Net policyholder claims and benefits incurred	**(13,335)**	**(93,885)**	**(107,220)**
Acquisition costs	(5,773)	(5,982)	**(11,755)**
Administrative expenses	(15,071)	(56,982)	**(72,053)**
Other operating expenses	(5,416)	(205)	**(5,621)**
Financial expenses	(151)	(3,097)	**(3,248)**
Profit before income tax	**8,527**	**14,424**	**22,951**
Income tax expense	-	-	-
Profit for the year	**8,527**	**14,424**	**22,951**
Other comprehensive income for the year, net of income tax			
Net gains on changes in fair value of available-for-sale financial assets, net of deferred tax	**7,542**	**26,803**	**34,345**
Total comprehensive income for the year	**16,069**	**41,227**	**57,296**

1.10. Segment reporting (continued)

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

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	52,866	123,157	176,023
Written premiums ceded to reinsurers	(27,617)	(4,155)	(31,772)
Net premiums written	**25,249**	**119,002**	**144,251**
Change in the gross provision for unearned premiums	(2,924)	104	(2,820)
Reinsurers' share of change in the provision for unearned premiums	2,320	209	2,529
Net premiums earned	**24,645**	**119,315**	**143,960**
Fee and commission income	7,412	1,769	9,181
Financial income	7,006	65,101	72,107
Other operating income	2,461	326	2,787
Operating income	**41,524**	**186,511**	**228,035**
Claims and benefits incurred	(19,991)	(96,426)	(116,417)
Reinsurers' share of claims and benefits incurred	12,366	1,122	13,488
Net policyholder claims and benefits incurred	**(7,625)**	**(95,304)**	**(102,929)**
Acquisition costs	(4,557)	(5,576)	(10,133)
Administrative expenses	(13,265)	(59,569)	(72,834)
Other operating expenses	(3,511)	(396)	(3,907)
Financial expenses	(3,288)	(2,172)	(5,460)
Profit before income tax	**9,278**	**23,494**	**32,772**
Income tax expense	-	(13)	(13)
Profit for the year	**9,278**	**23,481**	**32,759**
Other comprehensive income for the year, net of income tax			
Net losses on changes in fair value of available-for-sale financial assets, net of deferred tax	(3,774)	(17,636)	(21,410)
Total comprehensive income for the year	**5,504**	**5,845**	**11,349**

1.10. 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 Company are Non-life insurance and Life assurance. Note 1.9 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 part liability
- Motor casco
- Accident
- Marine and transport

Life:

- Whole life
- Whole life annuities
- Endowment
- Term insurance
- Pure endowment
- Index-linked
- Annuities

Geographical segment

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

1.11. Property and equipment

	Land and buildings HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Leasehold improvements HRK'000	Total HRK'000
Cost					
Balance at 1 January 2011	51,148	2,361	9,495	204	63,208
Additions	38	650	1,256	-	1,944
Disposals	-	(199)	-	-	(199)
Write off	-	-	(311)	-	(311)
Reclassification to investment property (Note 1.12)	(1,812)	-	-	-	(1,812)
Balance at 31 December 2011	**49,374**	**2,812**	**10,440**	**204**	**62,830**
Balance at 1 January 2012	49,374	2,812	10,440	204	62,830
Additions	60	295	771	-	1,126
Disposals	(1,006)	(207)	-	-	(1,213)
Write off	-	-	(583)	-	(583)
Balance at 31 December 2012	**48,428**	**2,900**	**10,628**	**204**	**62,160**
Depreciation and impairment losses					
Balance at 1 January 2011	6,982	1,589	6,621	198	15,390
Depreciation charge for the year	830	269	1,199	3	2,301
Disposals	-	(100)	-	-	(100)
Write off	-	-	(311)	-	(311)
Reclassification to investment property (Note 1.12)	(139)	-	-	-	(139)
Balance at 31 December 2011	**7,673**	**1,758**	**7,509**	**201**	**17,141**
Balance at 1 January 2012	7,673	1,758	7,509	201	17,141
Depreciation charge for the year	788	310	1,244	-	2,342
Disposals	(212)	(207)	-	3	(416)
Write off	-	-	(569)	-	(569)
Balance at 31 December 2012	**8,249**	**1,861**	**8,184**	**204**	**18,498**
Carrying amounts					
At 1 January 2011	44,166	772	2,874	6	47,818
At 31 December 2011	41,701	1,054	2,931	3	45,689
At 1 January 2012	41,701	1,054	2,931	3	45,689
At 31 December 2012	**40,179**	**1,039**	**2,444**	**-**	**43,662**

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

In 2011, the Company changed the use of business premises with carrying amount of HRK 1,673 thousand from owner-occupied to investment property and reclassified these premises as such.

1.12. Investment property

	HRK'000
Cost	
Balance at 1 January 2011	22,345
Reclassification from property and equipment (Note 1.11)	1,812
Balance at 31 December 2011	24,157
Balance at 1 January 2012	24,157
Balance at 31 December 2012	**24,157**
Depreciation and impairment losses	
Balance at 1 January 2011	1,870
Depreciation charge for the year	312
Reclassification from property and equipment (Note 1.11)	139
Impairment loss	183
Balance at 31 December 2011	2,504
Balance at 1 January 2012	2,504
Depreciation charge for the year	341
Impairment loss	786
Balance at 31 December 2012	**3,631**
Carrying amounts	
At 1 January 2011	20,475
At 31 December 2011	21,653
At 1 January 2012	21,653
At 31 December 2012	**20,526**

Management believes that the fair value of investment property is not materially different from its carrying amount.

The depreciation charge and impairment loss are recognised in profit or loss under "Financial expenses" (Note 1.34).

In 2011, the Company changed the use of business premises with carrying amount of HRK 1,673 thousand from owner-occupied to investment property and reclassified these premises as such.

The Company entered into operating leases for all of its investment properties. The rental income arising during the year amounted to HRK 863 thousand (2011: HRK 857 thousand), which is recognised in "Financial income" (Note 1.28).

Direct operating expenses (including repairs and maintenance) arising from investment property during the year amounted to HRK 299 thousand (2011: HRK 108 thousand), which are recognised in "Administrative expenses" (Note 1.32).

1.13. Deferred acquisition costs

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

An analysis of deferred costs is shown below:

	Non-life	
	2012	2011
	HRK'000	HRK'000
Balance at 1 January	**1,821**	1,575
Increase	**2,240**	1,821
Decrease	**(1,821)**	(1,575)
Balance at 31 December	**2,240**	1,821

1.14. Other intangible assets

	Computer software
	HRK'000
Cost	
Balance at 1 January 2011	10,080
Additions	63
Balance at 31 December 2011	10,143
Balance at 1 January 2012	10,143
Additions	31
Balance at 31 December 2012	**10,174**
Amortisation and impairment losses	
Balance at 1 January 2011	9,353
Depreciation charge for the year	376
Balance at 31 December 2011	9,729
Balance at 1 January 2012	9,729
Depreciation charge for the year	304
Balance at 31 December 2012	**10,033**
Carrying amounts	
At 1 January 2011	727
At 31 December 2011	414
At 1 January 2012	414
At 31 December 2012	**141**

The amortisation charge and impairment loss are recognised in profit or loss under "Administrative expenses" (Note 1.32).

1.15. Investment in subsidiary

a) The Company's subsidiary is as follows:

	Industry	Domicile	Company's ownership at 31 December 2012
Hotel Voltino d.o.o.	Hotels and similar accommodation	Croatia	100%

The investment in Hotel Voltino d.o.o. is carried within the non-life segment in both 2012 and 2011.

b) Investment in subsidiary is as follows:

Hotel Voltino d.o.o	**2012 HRK'000**	2011 HRK'000
Cost	**5,135**	5,135
Impairment allowance	**(5,135)**	(5,135)
	-	-

c) Movement in impairment allowance

	2012 HRK'000	2011 HRK'000
Balance at 1 January	**5,135**	2,135
Impairment loss recognised during the year	**-**	3,000
Balance at 31 December	**5,135**	5,135

The impairment loss on investment in subsidiary is recognised under "Financial expenses" in profit or loss (Note 1.34).

1.16. Financial investments

	2012 HRK'000	2011 HRK'000
Financial assets at fair value through profit or loss	**84,488**	78,060
Available-for-sale financial assets	**382,875**	483,756
Held-to-maturity investments	**358,679**	219,052
Loans and receivables	**89,377**	91,974
	915,419	872,842

1.16. Financial investments (continued)

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 products in the amount of HRK 44,069 thousand (2011: HRK 30,346 thousand).

Financial assets available for sale

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

Equity securities classified as available-for-sale financial assets in the amount of HRK 10,106 thousand (2011: HRK 10,106 thousand) represent investment in a related company Erste osiguranje Vienna Insurance Group d.d. This investment represents 5% of the issued capital of Erste osiguranje Vienna Insurance Group d.d., and is carried at cost. Equity securities classified as financial asset available for sale in the amount of HRK 7,386 thousand (2011: -) represent investment in a related company VIG FUND uzavreny investicni fond, a.s. Mentioned investment represents 0.98% of net assets of VIG FUND uzavreny investicni fond, a.s. and is measured at fair value.

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 net of impairment allowance for loans to customers as follows:

	2012 **HRK'000**	2011 HRK'000
Deposits with banks	**32,000**	30,000
Loans to customers	**68,587**	72,288
Impairment allowance on loans to customers	**(11,210)**	(10,314)
	89,377	91,974

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

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

	2012 **HRK'000**	2011 HRK'000
Balance at 1 January	**10,314**	9,917
Impairment loss recognised during the year	**1,154**	736
Collection of amounts previously provided	**(258)**	(287)
Write off	-	(52)
Balance at 31 December	**11,210**	10,314

The impairment loss on loans to customers is recognised under "Financial expenses" in profit or loss (Note 1.34) and collection of amounts previously provided is recognised under "Financial income" in profit or loss (Note 1.28).

1.16. Financial investments (continued)

	Fair value through profit or loss HRK'000	Available-for-sale HRK'00	Held to maturity HRK'000	Loans and receivables HRK'000	Total HRK'000
31 December 2012					
Equity securities					
Listed	1,157	-	-	-	**1,157**
Unlisted	-	17,492	-	-	**17,492**
	1,157	17,492	-	-	**18,649**
Debt securities – fixed interest rate, listed					
Bonds - Government of Republic of Croatia	-	317,027	358,679	-	**675,706**
Bonds - Government of Republic of Poland	-	18,380	-	-	**18,380**
Corporate bonds – foreign	22,241	-	-	-	**22,241**
Corporate bonds - domestic	-	19,484	-	-	**19,484**
Corporate bonds - assets backing index-linked products - foreign	44,069	-	-	-	**44,069**
	66,310	354,891	358,679	-	**779,880**
Investment funds – open ended, quoted	17,021	10,492	-	-	**27,513**
Deposits with banks	-	-	-	32,000	**32,000**
Loans to customers	-	-	-	57,377	**57,377**
	84,488	**382,875**	**358,679**	**89,377**	**915,419**
31 December 2011					
Equity securities					
Listed	1,308	-	-	-	1,308
Unlisted	-	10,106	-	-	10,106
	1,308	10,106	-	-	**11,414**
Debt securities – fixed interest rate, listed					
Bonds - Government of Republic of Croatia	-	427,267	219,052	-	646,319
Bonds - Government of Republic of Poland	-	14,309	-	-	14,309
Bonds - other institutions of Republic of Croatia	-	18,167	-	-	18,167
Corporate bonds – foreign	24,949	-	-	-	24,949
Corporate bonds - domestic	-	4,021	-	-	4,021
Corporate bonds - assets backing index-linked products - foreign	30,346	-	-	-	30,346
	55,295	463,764	219,052	-	**738,111**
Investment funds – open ended, quoted	21,457	9,886	-	-	**31,343**
Deposits with banks	-	-	-	30,000	30,000
Loans to customers	-	-	-	61,974	61,974
	78,060	**483,756**	**219,052**	**91,974**	**872,842**

1.16. Financial investments (continued)

Reclassification of financial assets

On 20 March 2012 upon decision of the Company's Management Board, based on paragraph 54 of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*, the Company reclassified available-for-sale financial assets with a carrying value of HRK 139,508 thousand as held-to-maturity investments. On 5 October 2011 upon decision of the Company's Management Board the Company reclassified available-for-sale financial assets with a carrying value of HRK 219,132 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 6.38% (2011: 6.75%). Up to the date of reclassification the Company recognised a gain on changes in fair value net of income tax of HRK 3.543 thousand in other comprehensive income in respect of reclassified financial assets (2011: loss of HRK 1.759 thousand). Had there not been any asset reclassification, the Company would have recognised HRK 52,923 thousand gain net of income tax on the change in fair value of the underlying assets in other comprehensive income as at 31 December 2012 (2011: loss of HRK 10,291 thousand). The Company has the intent and ability to hold the reclassified assets to maturity.

Net book values of reclassified assets and their fair values at the date of reclassification and at 31 December 2012 and 31 December 2011 were as follows:

	At the reclassification date		**31 December 2012**		31 December 2011	
	Net book value HRK'000	**Fair value HRK'000**	**Net book value HRK'000**	**Fair value HRK'000**	Net book value HRK'000	Fair value HRK'000
Available-for-sale financial assets reclassified to held-to-maturity investments on 5 October 2011						
Debt securities	219,132	219,132	218,802	247,858	219,052	206,188
Available-for-sale financial assets reclassified to held-to-maturity investments on 20 March 2012						
Debt securities	139,508	139,508	139,877	161,212	-	-

The following table shows the amounts recognised in profit or loss and other comprehensive income from reclassified assets in 2012 and 2011:

	2012		2011	
	Profit or loss HRK'000	**Other comprehensive income HRK'000**	Profit or loss HRK'000	Other comprehensive income HRK'000
Available-for-sale financial assets reclassified to held-to-maturity investments on 5 October 2011				
Interest income	14,638	-	4,693	-
Amortisation of premium	(250)	-	(81)	-
Amortisation of fair value reserve to profit or loss	(324)	-	(80)	-
Amortisation of fair value reserve, net of income tax	-	260	-	64
Available-for-sale financial assets reclassified to held-to-maturity investments on 20 March 2012				
Interest income	8,998	-	-	-
Exchange rate differences	403	-	-	-
Amortisation of premium	(33)	-	-	-
Amortisation of fair value reserve to profit or loss	347	-	-	-
Amortisation of fair value reserve, net of income tax	-	(278)	-	-
	23,779	**(18)**	4,532	64

1.16. Financial investments (continued)

Reclassification of financial assets (continued)

The following table shows the amounts that would be recognised in profit or loss and other comprehensive income from reclassified assets in 2012 and 2011 if there was no reclassification:

	2012		2011	
	Profit or loss HRK'000	**Other comprehensive income HRK'000**	Profit or loss HRK'000	Other comprehensive income HRK'000
Available-for-sale financial assets reclassified to held-to-maturity investments on 5 October 2011				
Interest income	14,638	-	4,693	-
Amortisation of premium	(551)	-	(181)	-
Change in fair value reserve, net of income tax	-	30,248	-	(10,291)
Available-for-sale financial assets reclassified to held-to-maturity investments on 20 March 2012				
Interest income	8,998	-	-	-
Exchange rate differences	310	-	-	-
Amortisation of premium	180	-	-	-
Change in fair value reserve, net of income tax	-	22,675	-	-
	23,575	**52,923**	4,512	(10,291)

1.17. Reinsurers' share of insurance contract provisions

	Note	**2012 HRK'000**	2011 HRK'000
Non-life			
Reinsurance share in provision for unearned premiums	1.22 a)	**16,081**	13,628
Reinsurance share in notified outstanding claims reserve	1.22 b)	**28,671**	25,279
Reinsurance share in incurred but not reported claims reserve	1.22 c)	**11,059**	10,771
Total Non-life		**55,811**	**49,678**
Life			
Reinsurance share in provision for unearned premiums	1.22 a)	**199**	209
Reinsurance share in notified outstanding claims reserve	1.22 b)	**374**	750
Reinsurance share in incurred but not reported claims reserve	1.22 c)	**316**	549
Total Life		**889**	**1,508**
Total reinsurer's share of insurance contracts provisions		**56,700**	**51,186**

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

1.18. Insurance and other receivables

	2012 HRK'000	2011 HRK'000
Receivables from policyholders	**24,188**	20,047
Receivables from recourses	**4,292**	4,304
Receivables from reinsurance		
- for claims recoveries	**12,766**	9,888
- for reinsurance commission	**10,841**	8,989
Accrued interest	**32,570**	29,269
Other receivables	**5,284**	4,239
Prepaid expenses	**356**	273
	90,297	77,009
Impairment allowance		
- for insurance receivables	**(5,493)**	(4,684)
- for recourses	**(4,292)**	(4,304)
- for other receivables and prepayments	**(2,358)**	(2,304)
Total insurance and other receivables	**78,154**	65,717

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

	2012 HRK'000	2011 HRK'000
Balance at 1 January	**(4,684)**	(4,372)
Increase	**(1,798)**	(528)
Collection of amounts previously provided	**989**	216
Impairment losses	**(809)**	(312)
Balance at 31 December	**(5,493)**	(4,684)

In 2012 the Company changed its accounting estimate of impairment allowance for insurance receivables and recorded impairment allowance for premium receivables due more than 180 days (2011: due more than 120 days). If there had not been a change in the accounting estimate in 2012, impairment allowance for premium receivables would have been higher by HRK 790 thousand. Impairment losses for insurance receivables are netted off against gross premiums written.

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

	2012 HRK'000	2011 HRK'000
Balance at 1 January	**(4,304)**	(4,412)
Collection of amounts previously provided	**12**	108
Impairment losses	**12**	108
Balance at 31 December	**(4,292)**	(4,304)

Income from collection of amounts previously provided is recognised under "Other operating income" (Note 1.29) in profit or loss.

1.18 Insurance and other receivables (continued)

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

	2012 HRK'000	2011 HRK'000
Balance at 1 January	**(2,304)**	(2,191)
Increase in impairment allowance for accrued interest	**(6)**	-
Increase in impairment allowance for other receivables	**(60)**	(201)
Collection of amounts previously provided	**12**	88
Impairment losses	**(54)**	(113)
Balance at 31 December	**(2,358)**	(2,304)

Increase in impairment allowance on other receivables is recognised under "Administrative expenses" in profit or loss (Note 1.32), while increase in impairment allowance on accrued interest is recognised under "Financial expenses" (Note 1.34) in profit or loss. Collection of amounts previously provided is recognised under "Other operating income" (Note 1.29).

1.19. Cash and cash equivalents

	2012 HRK'000	2011 HRK'000
Cash at bank	**7,294**	1,943
Cash in hand	**37**	31
Total cash and cash equivalents	**7,331**	1,974

1.20. Share capital

	2012 HRK'000	2011 HRK'000
Authorised, issued and fully paid 16,937 (2011: 14,517) ordinary shares of HRK 3,100 (2011: HRK 3,100) per share	**52,505**	45,003

The share capital of the Company is denominated in Croatian kuna. The nominal value of each share issued by the Company is HRK 3,100.

During 2012 the Company had share issue of 2,420 new shares at price of HRK 3,100, in accordance with the decision of the General Assembly held on 12 April 2012, which increased share capital of non life segment of the Company. All shares are fully paid by the owner of the Company Vienna Insurance Group AG Wiener Versicherung Gruppe.

1.20. Share capital (continued)

The shareholder of the Company at year end was as follows:

	2012 % ownership	2011 % ownership
Vienna Insurance Group AG Wiener Versicherung Gruppe	**100**	100

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

Legal reserve

Requirements for setting up legal reserves are explained in detail in accounting policy 1.3 (k). At 31 December 2012 legal reserve amounts to HRK 2,725 thousand (2011: HRK 2,725 thousand), and the surplus of HRK 475 thousand (2011: HRK 475 thousand) above the cumulative minimum requirement under the Companies Act of HRK 2,250 thousand has not been transferred back to retained earnings considering that the legal regulations on the interaction of the previous Insurance Law (no longer in force) and currently applicable Companies Act remain unclear.

Other reserves

The establishment of other reserves is explained in accounting policy 1.3 (k).

Dividends

In 2012 the Company paid dividends for 2011 in the amount of HRK 1,918 per share (2011: 585.52) or HRK 27,845 thousand in total (2011: 8,500 thousand), following their declaration by shareholders in general meeting.

Fair value reserve

Fair value reserve contains unrealised gains and losses from changes in fair value of financial assets available for sale, net of associated deferred tax. All movements are shown in other comprehensive income in the Statement of comprehensive income, net of tax. Movements in the fair value reserve were as follows:

	Note	2012 HRK'000	2011 HRK'000
Gross fair value reserve at 1 January		(14,835)	11,928
Deferred tax		2,967	(2,386)
Balance at 1 January		**(11,868)**	9,542
Net gains /(losses) from change in fair value of available-for-sale financial assets		48,298	(18,745)
Deferred tax on net (gains)/losses from change in fair value of available-for-sale financial assets		(9,659)	3,749
Net gains on disposal of available-for-sale financial assets - transfer to profit or loss	1.28	(5,367)	(8,018)
Deferred tax on net gains transferred to profit or loss on disposal of available-for-sale financial assets – transfer to profit or loss		1,073	1,604
Gross fair value reserve at 31 December		**28,096**	(14,835)
Deferred tax		**(5,619)**	2,967
Balance at 31 December		**22,477**	(11,868)

1.20. Share capital (continued)

Capital management

Externally imposed capital requirements are set and regulated by the Croatian Financial Services Supervisory Agency (HANFA). These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholder value.

The Company 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 the risk characteristics of the Company's activities. There were no changes made to the capital base, objectives, policies and processes from the previous year.

As at 31 December 2012 and 31 December 2011, guarantee capital was higher than the minimum required by article 19 of the Insurance Act, and the solvency margin was higher than the minimum requirement calculated according to article 98 of the Insurance Act.

	2012			2011		
	Non-life	**Life**	**Total**	Non-life	Life	Total
	HRK'000	**HRK'000**	**HRK'000**	HRK'000	HRK'000	HRK'000
Solvency margin	**5,898**	**36,258**	**42,156**	5,925	37,525	43,450
Min. Founding capital (FC)	**22,500**	**22,500**	**45,000**	22,500	22,500	45,000
Guarantee capital (GC)	**38,953**	**119,431**	**158,384**	25,757	108,070	133,827
Capital	**38,953**	**101,939**	**140,892**	25,757	97,964	123,721
GC >= min FC	YES	YES	YES	YES	YES	YES
Capital >= Solvency margin	YES	YES	YES	YES	YES	YES

An analysis of capital is given below

	2012 Non-life	**2012 Life**	**2012 Total**	**2011 Non-life**	**2011 Life**	**2011 Total**
	HRK '000	**HRK '000**	**HRK'000**	**HRK '000**	**HRK '000**	**HRK'000**
Tier 1 capital						
Share capital, paid in	30,005	22,500	52,505	22,503	22,500	45,003
Reserves not related to liabilities from insurance	4,493	68,565	73,058	4,492	68,566	73,058
Retained earnings after paid dividends	4,564	28,398	32,962	3,173	24,875	28,048
Intangible assets	(109)	(32)	(141)	(307)	(107)	(414)
	38,953	**119,431**	**158,384**	**29,861**	**115,834**	**145,695**
Tier 2 capital						
Fair value reserve	-	-	-	(4,104)	(7,764)	(11,868)
	-	-	-	**(4,104)**	**(7,764)**	**(11,868)**
Guarantee capital	**38,953**	**119,431**	**158,384**	**25,757**	**108,070**	**133,827**
Deductibles						
Unmarketable investments	(165)	(17,492)	(17,657)	-	(10,106)	(10,106)
Capital	**38,788**	**101,939**	**140,727**	**25,757**	**97,964**	**123,721**

1.21. Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the profit for the year attributable to ordinary shareholders of the Company. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares used for basic and diluted earnings per share was 16,262 (2011: 14,517). Given that there are no effects of options, convertible bonds or similar effects, the number of shares used for calculation of diluted earnings per share is the same as for basic earnings per share: 16,262 shares (2011: 14,517 shares).

	2012	2011
	HRK'000	HRK'000
Profit attributable to ordinary shareholders for earnings per share	**22,951**	32,759
Weighted average number of ordinary shares at 31 December	**16,262**	14,517
	HRK	HRK
Basic and diluted earnings per share	**1,411**	2,257

1.22. Insurance contract provisions

	2012 HRK'000	2011 HRK'000
Non-life business		
Provision for unearned premiums	32,589	27,958
Notified outstanding claims reserve	65,342	62,134
Incurred but not reported claims reserve	23,972	26,325
Provisions for claims handling costs	2,621	2,602
Other technical provisions	413	358
Total Non-life business	124,937	119,377
Life assurance business		
Provision for unearned premiums	885	963
Life assurance provision	660,023	675,309
Life assurance provision for index-linked products	44,069	30,346
Notified outstanding claims reserve	4,029	4,609
Incurred but not reported claims reserve	2,847	3,765
Provisions for claims handling costs	206	251
Total Life assurance business	712,059	715,243
Total insurance contracts provisions	836,996	834,620

a) Analysis of movement on provision for unearned premiums

	2012 Gross HRK'000	2012 Reinsurance HRK'000	2012 Net HRK'000	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000
Non-life business						
Balance at 1 January	27,958	13,628	14,330	25,034	11,308	13,726
Premiums written during the year	64,717	32,375	32,342	52,866	27,617	25,249
Less: premiums earned during the year	(60,086)	(29,922)	(30,164)	(49,942)	(25,297)	(24,645)
Balance at 31 December	32,589	16,081	16,508	27,958	13,628	14,330
Life assurance business						
Balance at 1 January	963	209	754	1,067	-	1,067
Premiums written during the year	4,466	1,555	2,911	4,936	1,702	3,234
Less: premiums earned during the year	(4,544)	(1,565)	(2,979)	(5,040)	(1,493)	(3,547)
Balance at 31 December	885	199	686	963	209	754

1.22. Insurance contract provisions (continued)

b) Analysis of movements in notified outstanding claims reserve

	2012 Gross HRK'000	2012 Reinsurance HRK'000	2012 Net HRK'000	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000
Non-life business						
Balance at 1 January	62,134	25,279	36,855	61,950	24,315	37,635
Current year claims	36,237	15,903	20,334	29,987	12,321	17,666
Change in previous year claims	(5,975)	(1,543)	(4,432)	(5,963)	(1,999)	(3,964)
Claims paid	(27,054)	(10,968)	(16,086)	(23,840)	(9,358)	(14,482)
Balance at 31 December	65,342	28,671	36,671	62,134	25,279	36,855
Life assurance business						
Balance at 1 January	4,609	750	3,859	6,005	646	5,359
Current year claims	95,798	792	95,006	74,560	919	73,641
Change in previous year claims	1,282	110	1,172	(2,354)	(182)	(2,172)
Claims paid	(97,660)	(1,278)	(96,382)	(73,602)	(633)	(72,969)
Balance at 31 December	4,029	374	3,655	4,609	750	3,859

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

	2012 Gross HRK'000	2012 Reinsurance HRK'000	2012 Net HRK'000	2011 Gross HRK'000	2011 Reinsurance HRK'000	2011 Net HRK'000
Non-life business						
Balance at 1 January	26,325	10,771	15,554	30,311	8,727	21,584
Additions recognised during the year	6,748	3,918	2,830	3,647	4,281	(634)
Transfer to claims reported provision	(9,101)	(3,630)	(5,471)	(7,633)	(2,237)	(5,396)
Balance at 31 December	23,972	11,059	12,913	26,325	10,771	15,554
Life assurance business						
Balance at 1 January	3,765	549	3,216	4,392	164	4,228
Additions recognised during the year	(871)	(213)	(658)	(769)	340	(1,109)
Transfer to claims reported provision	(47)	(20)	(27)	142	45	97
Balance at 31 December	2,847	316	2,531	3,765	549	3,216

1.22. Insurance contract provisions (continued)

d) Life assurance provisions

	2012 Gross and net HRK'000	2011 Gross and net HRK'000
Balance at 1 January	**675,309**	662,273
Premium allocation	62,892	67,466
Release of liabilities due to benefits paid, surrenders and other terminations	(99,167)	(79,178)
Unwinding of discount/accretion interest	25,814	25,286
Change in Zillmer adjustment	(4,409)	(8,577)
Change in provision for unearned premium	(924)	888
Foreign currency translation differences	508	7,151
Balance at 31 December	**660,023**	675,309

e) Technical provision for contracts where policyholders bear investment risk (index-linked)

	2012 Gross and net HRK'000	2011 Gross and net HRK'000
Balance at 1 January	**30,346**	18,474
Premium allocation	**9,258**	9,704
Unrealised gains on funds where policyholders investments were allocated	**4,376**	1,584
Foreign currency translation differences	**89**	584
Balance at 31 December	**44,069**	30,346

1.22. Insurance contract provisions (continued)

f) Development of claims reported by policyholders at 31 December 2012

	Prior to 2003 HRK'000	2003 HRK'000	2004 HRK'000	2005 HRK'000	2006 HRK'000	2007 HRK'000	2008 HRK'000	2009 HRK'000	2010 HRK'000	2011 HRK'000	2012 HRK'000	Total HRK'000
Estimate of cumulative claims at the end of underwriting year	148,016	63,905	60,908	58,296	81,896	167,698	102,662	93,136	98,152	102,538	140,640	
One year later	157,281	61,609	61,241	56,046	79,912	163,022	97,058	88,190	93,604	97,783		
Two years later	155,683	61,742	60,362	52,299	76,478	159,400	89,665	86,975	88,663			
Three years later	151,608	61,505	57,063	52,267	74,843	156,244	89,120	83,930				
Four years later	151,896	58,727	57,321	51,436	70,555	156,413	86,562					
Five years later	147,293	58,629	56,032	52,211	71,927	155,784						
Six years later	142,440	57,025	59,944	51,479	71,929							
Seven	139,012	62,805	60,995	51,448								
Eight years later	136,956	61,482	60,829									
Nine years later	136,486	61,342										
Ten years	136,644											
Current estimate of cumulative claims	136,644	61,342	60,829	51,448	71,929	155,784	86,562	83,930	88,663	97,783	140,640	**1,035,554**
Cumulative payments	127,558	56,811	49,288	46,304	69,238	151,439	82,637	79,160	81,098	86,163	109,668	**939,364**
Amount recognised in the current year statement of financial position	9,086	4,531	11,541	5,144	2,691	4,345	3,925	4,770	7,565	11,620	30,972	**96,190**
Provisions for claims handling costs	267	133	339	151	79	128	115	140	222	341	911	**2,826**
Total value recognised at 31 December 2012	9,353	4,664	11,880	5,295	2,770	4,473	4,040	4,910	7,787	11,961	31,883	**99,016**

g) Remaining maturities of insurance liabilities

2012	**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**
Provision for unearned premiums	**29,908**	**3,566**	-	-	**33,474**
Claims reserves	**35,992**	**51,216**	**12,222**	-	**99,430**
Life assurance provisions	**45,954**	**103,284**	**82,749**	**428,036**	**660,023**
Life assurance provision for index-linked products	-	-	**44,069**	-	**44,069**
Insurance liabilities	**111,854**	**158,066**	**139,040**	**428,036**	**836,996**

1.22. Insurance contract provisions (continued)

g) Remaining maturities of insurance liabilities (continued)

2011	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
Provision for unearned premiums	26,492	2,429	-	-	28,921
Claims reserves	42,894	47,461	9,689	-	100,044
Life assurance provisions	52,658	118,955	92,632	411,064	675,309
Life assurance provision for index-linked products	-	-	30,346	-	30,346
Insurance liabilities	**122,044**	**168,845**	**132,667**	**411,064**	**834,620**

h) Structure of assets used for backing life assurance provision

	31 December 2012 HRK '000	31 December 2011 HRK '000
Assets used for backing life assurance provision		
Securities issued by Republic of Croatia	589,676	569,393
Securities issued by Croatian Bank for Reconstruction and Development	-	18,167
Bonds and other debt securities traded on regulated stock exchanges in Croatia	19,484	4,021
Shares and units of investment funds registered in Croatia	2,575	15,731
Loans and advances in the amount of redemption value based on life assurance contract	41,097	38,482
Deposits with banks domiciled in Croatia	32,000	30,000
Balances on giro account of the Company	5,968	171
Long term bonds or other debt securities issued by EU member states or OECD member states	18,380	14,309
Long term bonds or other debt securities issued by non-state entities of EU member states or OECD member states	14,753	11,265
Units in investment funds that are sold in the member state of the reporting entity or OECD member states	10,492	9,886
Total assets used for backing life assurance provision	**734,425**	**711,425**
Life assurance provision	660,023	675,309
Claims provision for risks for which it is necessary to create life provision, net of reinsurance	4,380	4,857
Required coverage of life assurance provision	**664,403**	**680,166**
Excess of coverage	**70,022**	**31,259**

As at 31 December 2012 the structure and amount of the Company's assets backing life assurance provision are in line with regulatory requirements (31 December 2011: also compliant).

1.22. Insurance contract provisions (continued)

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

The following table analyses the matching of assets used for backing the life assurance provision with the related insurance liability within relevant maturity groupings based on the remaining maturity.

	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
2012					
Assets backing life assurance provision	28,014	590,751	75,328	40,332	734,425
Life assurance provision	(45,954)	(103,284)	(82,749)	(428,036)	(660,023)
Claims provision, net of reinsurance	(4,380)	-	-	-	(4,380)
Maturity gap	**(22,320)**	**487,467**	**(7,421)**	**(387,704)**	**70,022**
2011					
Assets backing life assurance provision	32,989	177,218	341,842	159,376	711,425
Life assurance provision	(52,658)	(118,955)	(92,632)	(411,064)	(675,309)
Claims provisions, net of reinsurance	(4,857)	-	-	-	(4,857)
Maturity gap	**(24,526)**	**58,263**	**249,210**	**(251,688)**	**31,259**

As of 31 December 2012, 44.48% of assets used for backing the life assurance provision are classified as financial assets available for sale and as financial assets at fair value through profit or loss, which enables the Company to dispose of these assets easily if needed. 44.76% of assets used for backing the life assurance provision are classified as held-to-maturity investments and 10.76% as loans and receivables.

The following table analyses assets used for backing the life assurance provision into relevant groupings based on the currency in which they are denominated. The life assurance provision for traditional products is denominated in EURO, while the majority of life assurance provision for "whole life products" is denominated in HRK.

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	HRK HRK'000	Total HRK'000
2012						
Asset backing life assurance provision	44,853	308,620	**353,473**	7,995	372,957	**734,425**
2011						
Asset backing life assurance provision	81,626	287,742	**369,368**	-	342,057	**711,425**

In 2012, the Company achieved an annual return on investments backing the life assurance provision of 7.79% (2011: 8.34%). The weighted average yield for the three-year period from 2010 to 2012 was 7.98% (2011: three year period from 2009 to 2011: 7.68%).

The valuation of financial assets is described in accounting policy 1.3 (e).

1.22. Insurance contract provisions (continued)

i) Structure of assets used for backing technical provisions

	31 December 2012 HRK '000	31 December 2011 HRK '000
Assets used for backing technical provisions		
Securities issued by Republic of Croatia	81,107	72,830
Bonds and other debt securities traded on regulated stock exchanges in Croatia	-	-
Equities traded on regulated stock exchanges in Croatia	993	1,208
Shares and units of investment funds registered in Croatia	7,423	5,726
Balances on giro account of the Company	1,325	1,771
Total assets used for backing technical provisions	**90,848**	**81,535**
Provision for unearned premiums, net of reinsurance	17,194	15,084
Claims provision, net of reinsurance	54,217	57,480
Other provision	413	358
Required coverage of technical provisions other than life insurance provision	**71,824**	**72,922**
Excess of coverage	**19,024**	**8,613**

As at 31 December 2012 the structure and amount of assets of the Company backing technical provisions are in line with regulatory requirements (31 December 2011: also compliant).

1.22. Insurance contract provisions (continued)

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

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

	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
2012					
Asset backing technical provisions	9,741	6,730	74,377	-	90,848
Provision for unearned premium, net of reinsurance	(15,363)	(1,832)	-	-	(17,194)
Claims reserve and other provisions, net of reinsurance	(16,920)	(30,477)	(7,232)	-	(54,630)
Maturity gap	**(22,542)**	**(25,579)**	**67,145**	-	**19,024**
2011					
Asset backing technical provisions	8,705	-	72,830	-	81,535
Provision for unearned premium, net of reinsurance	(13,477)	(1,607)	-	-	(15,084)
Claims reserve and other provisions, net of reinsurance	(20,172)	(30,565)	(7,101)	-	(57,838)
Maturity gap	**(24,944)**	**(32,172)**	**65,729**	-	**8,613**

As of 31 December 2012, 65.54% of total assets used for backing technical provisions are classified as financial assets available for sale and as financial assets at fair value through profit or loss, which enables the Company to dispose of these assets easily to meet insurance contracts liabilities when needed. 33% of assets used for backing technical provision are classified as held-to-maturity investments and 1.46% as cash and cash equivalents.

The following table analyses the financial assets used for backing technical provisions into relevant groupings based on the currency in which they are denominated. Provisions for unearned premium, claims provision and other provisions are denominated in EURO, except for provisions in respect of Motor Third Party Liability and credit insurance policies which are denominated in HRK.

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	HRK HRK'000	Total HRK'000
2012						
Asset backing technical provision	163	26,644	**26,807**	-	64,041	**90,848**
2011						
Asset backing technical provision	360	22,833	**23,193**	13	58,329	**81,535**

The valuation of financial assets is described in accounting policy 1.3 (e).

1.23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012 HRK'000	2011 HRK'000	**2012 HRK'000**	2011 HRK'000	**2012 HRK'000**	2011 HRK'000
Available-for-sale financial assets	**-**	2,967	**(5,619)**	-	**(5,619)**	2,967
As at 31 December	**-**	2,967	**(5,619)**	-	**(5,619)**	2,967

	Assets		Liabilities		Net	
	2012 HRK'000	2011 HRK'000	**2012 HRK'000**	2011 HRK'000	**2012 HRK'000**	2011 HRK'000
As at 1 January	**2,967**	95	**-**	(2,468)	**2,967**	(2,373)
Movement recognised in other comprehensive income (Note 1.20)	**(2,967)**	2,885	**(5,619)**	2,468	**(8,586)**	5,353
Recognised in profit or loss (Note 1.35)	**-**	(13)	**-**	-	**-**	(13)
As at 31 December	**-**	2,967	**(5,619)**	-	**(5,619)**	2,967

1.24. Provisions for liabilities and charges

	Provision for litigations HRK'000
Balance at 1 January 2011	5,822
Increase in provision	127
Utilisation of provision	(40)
Balance at 31 December 2011	**5,909**
Balance at 1 January 2012	5,909
Utilisation of provision	(130)
Decrease in provision	(210)
Balance at 31 December 2012	**5,569**

Decrease in provision for litigations is recognised under "Other operating income" in profit or loss (Note 1.29). Increase in provision for litigations is recognised under "Administrative expenses" in profit or loss (Note 1.32).

1.25. Insurance and other payables and deferred income

	2012 HRK'000	2011 HRK'000
Direct insurance contract payables		
- to policyholders	**4,594**	4,174
- to agents, brokers and intermediaries	**539**	331
Reinsurance contract payables	**21,660**	16,884
Deferred reinsurance commission income	**5,330**	4,419
Deposit retained from reinsurance business	**24,834**	16,643
Trade creditors	**1,783**	3,200
Liabilities for salaries	**3,794**	4,032
Other payables and accrued expenses	**9,502**	7,051
Total insurance and other payables and deferred income	**72,036**	56,734

The Company retains deposits from reinsurance business arising from the quota share reinsurance treaties on motor third party liability and personal accident with a related company. In accordance with the reinsurance treaties the Company does not cede the reinsurance share, but retains and invests the funds. For Motor Third Party Liability insurance and for Personal Accident insurance from 1 January 2011, interest rate is determined quarterly as average of BID and ASK of 3 month ZIBOR applicable at the beginning of the period of account increased by 0,5 pp (annual interest rate on deposit retained from reinsurance from Motor Third Party Liability insurance from underwriting year 2010 amounts to 1.5%). During 2012 average interest rate payable quarterly amounted to 2.32%.

1.26. Premiums

	2012 HRK'000	2011 HRK'000
Non-life insurance		
Gross premiums written	**63,908**	52,866
Written premiums ceded to reinsurers	**(32,374)**	(27,617)
Change in provision for unearned premiums, gross	**(4,631)**	(2,924)
Change in provision for unearned premiums, reinsurance share	**2,453**	2,320
Total premiums income net, (earned) from non-life insurance	**29,356**	24,645
Life assurance		
Gross premiums written	**115,234**	123,157
Written premiums ceded to reinsurers	**(3,884)**	(4,155)
Change in provision for unearned premiums, gross	**78**	104
Change in provision for unearned premiums, reinsurance share	**(10)**	209
Total premiums income net, (earned) from life assurance	**111,418**	119,315
Total premiums	**140,774**	143,960

Gross premiums written for the Company for the life assurance business include premiums of HRK 11,487 thousand (2011: HRK 10,653 thousand) in respect of index-linked products.

1.26. Premiums (continued)

An analysis of written premiums and claims incurred by class of business is set out below.

2012	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
Non-life insurance business					
Accident	3,131	3,539	(1,929)	(2,836)	117
Health	-	-	11	-	-
Motor hull	5,723	5,998	(3,255)	(1,900)	(1,060)
Marine hull	795	757	(608)	(293)	(57)
Transport	63	66	(25)	(35)	5
Property fire	4,820	4,570	(1,460)	(3,109)	(749)
Other property	2,539	2,686	(453)	(1,758)	(428)
Motor third party liability	44,875	39,287	(20,361)	(9,578)	(1,196)
Marine liability	240	208	(7)	(159)	(39)
General liability	1,367	1,339	134	(925)	(673)
Credit insurance	0	510	72	-	-
Financial losses	48	44	(29)	(36)	(8)
Travel insurance	307	273	(73)	(215)	-
Total non-life	**63,908**	**59,277**	**(27,983)**	**(20,844)**	**(4,088)**
Life assurance business					
Life products	91,431	91,431	(73,880)	(56,114)	(866)
Annuities	1,201	1,201	(882)	(820)	-
Life rider products	11,115	11,193	(4,001)	(4,055)	(793)
Index linked	11,487	11,487	(15,791)	(1,975)	-
Total life	**115,234**	**115,312**	**(94,554)**	**(62,964)**	**(1,659)**
Total non-life and life	**179,142**	**174,589**	**(122,537)**	**(83,808)**	**(5,747)**
2011					
Non-life insurance business					
Accident	5,167	4,967	(1,237)	(3,567)	(49)
Health	-	-	(3)	-	-
Motor hull	6,152	6,404	(6,126)	(1,919)	(144)
Marine hull	669	665	(28)	(250)	(390)
Transport	32	29	46	(16)	(7)
Property fire	4,183	4,077	(985)	(2,541)	(1,138)
Other property	2,877	3,347	(1,398)	(1,890)	(462)
Motor third party liability	32,115	28,069	(11,924)	(6,564)	(2,062)
Marine liability	176	166	(10)	(110)	(49)
General liability	1,303	1,386	1,749	(837)	(1,211)
Credit insurance	-	647	(20)	-	-
Financial losses	39	41	(19)	(26)	(7)
Travel insurance	153	144	(36)	(102)	-
Total non-life	**52,866**	**49,942**	**(19,991)**	**(17,822)**	**(5,519)**
Life assurance business					
Life products	102,408	102,408	(78,325)	(58,818)	(1,066)
Annuities	1,386	1,386	(1,886)	(788)	-
Life rider products	8,710	8,814	(2,805)	(3,929)	11
Index linked	10,653	10,653	(13,410)	(1,610)	-
Total life	**123,157**	**123,261**	**(96,426)**	**(65,145)**	**(1,055)**
Total non-life and life	**176,023**	**173,203**	**(116,417)**	**(82,967)**	**(6,574)**

1.27. Fee and commission income

	2012 HRK'000	2011 HRK'000
Reinsurance commission	**12,751**	9,181

1.28. Financial income

	2012 HRK'000	2011 HRK'000
Interest income:		
Available-for-sale financial assets	**18,955**	37,606
Held-to-maturity investments	**22,995**	3,489
Loans and receivables	**8,221**	7,549
Dividend income	**324**	114
Rental income from investment property	**863**	857
Net unrealised gain on financial assets at fair value through profit or loss	**6,851**	4,297
Net realised gain on financial assets at fair value through profit and loss	**1,188**	1,634
Net realised gain on financial assets available for sale	**5,367**	8,018
Net foreign exchange from translation of monetary assets	**814**	7,991
Collection of loans previously provided for	**258**	287
Other interest income	**728**	-
Other financial income	**322**	265
	66,886	72,107

	Non-life 2012 HRK'000	**Life 2012 HRK'000**	**Total 2012 HRK'000**	Non-life 2011 HRK'000	Life 2011 HRK'000	Total 2011 HRK'000
Financial income						
Income from assets backing equity	905	3,711	4,616	96	5,271	5,367
Income from assets backing life assurance provision	-	53,274	53,274	-	57,234	57,234
Income from assets backing index-linked products	-	4,257	4,257	-	2,538	2,538
Income from assets backing other technical provisions	4,730	9	4,739	6,910	58	6,968
	5,635	**61,251**	**66,886**	7,006	65,101	72,107

1.29. Other operating income

	2012 HRK'000	2011 HRK'000
Collection of amounts from recourses	**12**	108
Collection of amounts from other receivables	**12**	88
Decrease in provisions for liabilities and charges	**210**	-
Other operating income	**2,203**	2,591
	2,437	2,787

1.30. Net policyholder claims and benefits incurred

	2012 HRK'000	2011 HRK'000
Non-life insurance		
Claims paid		
Gross amount	(27,054)	(23,840)
Reinsurers' share	10,968	9,358
Change in notified outstanding claims reserve		
Gross amount	(3,208)	(184)
Reinsurers' share	3,392	964
Change in incurred but not reported claims reserve		
Gross amount	2,353	3,986
Reinsurers' share	288	2,044
Change in provision for claims handling costs, gross and net	(19)	114
Change in other technical provisions, gross and net	(55)	(67)
Total gross claims incurred from non-life insurance	(27,983)	(19,991)
Total reinsurance share in claims incurred from non-life insurance	14,648	12,366
Total net claims incurred from non-life insurance	**(13,335)**	(7,625)
Life assurance		
Claims paid (benefits and surrenders)		
Gross amount	(97,660)	(73,602)
Reinsurers' share	1,278	633
Change in life assurance provision, gross and net	15,286	(13,036)
Change in life assurance provision for linked products, gross and net	(13,723)	(11,872)
Change in notified outstanding claims reserve		
Gross amount	580	1,396
Reinsurers' share	(376)	104
Change in incurred but not reported claims reserve		
Gross amount	918	627
Reinsurers' share	(233)	385
Change in provision from claims handling costs, gross and net	45	61
Total gross claims incurred from life assurance	(94,554)	(96,426)
Total reinsurance share in claims incurred from life assurance	669	1,122
Total net claims incurred from life assurance	**(93,885)**	(95,304)
Total gross claims and benefits incurred	**(122,537)**	(116,417)
Total reinsurance share in claims and benefits incurred	**15,317**	13,488
Total	**(107,220)**	(102,929)

1.30. Net policyholder claims and benefits incurred (continued)

An analysis of claims ratio, costs ratio and combined ratio

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.

2012

	Claims ratio	Costs ratio	Combined ratio
Accident	**53.7%**	**48.8%**	**102.5%**
Motor Hull	**53.5%**	**28.5%**	**82.0%**
Marine Hull	**79.2%**	**37.0%**	**116.2%**
Transport	**37.7%**	**54.6%**	**92.3%**
Property Fire	**31.5%**	**31.4%**	**62.9%**
Other property	**16.6%**	**26.8%**	**43.4%**
Motor Third Party Liability	**51.1%**	**7.2%**	**58.3%**
Marine liability	**3.5%**	**66.5%**	**70.0%**
General liability	**(9.9%)**	**44.8%**	**34.9%**
Credit insurance	**(24.9%)**	**-**	**(24.9%)**
Financial losses	**65.4%**	**62.2%**	**127.6%**
Travel insurance	**26.3%**	**70.9%**	**97.2%**
Total non-life	**46.5%**	**15.6%**	**62.1%**

2011

	Claims ratio	Costs ratio	Combined ratio
Accident	24.8%	32.9%	57.7%
Motor Hull	95.5%	30.4%	125.9%
Marine Hull	4.3%	26.2%	30.5%
Transport	(156.9%)	51.0%	(105.9%)
Property Fire	24.1%	36.3%	60.4%
Other property	41.7%	38.8%	80.5%
Motor Third Party Liability	42.4%	11.5%	53.9%
Marine liability	5.7%	29.4%	35.1%
General liability	(125.9%)	28.9%	(97.0%)
Credit insurance	(7.3%)	-	(7.3%)
Financial losses	46.7%	55.8%	102.5%
Travel insurance	24.9%	68.5%	93.4%
Total non-life	**39.8%**	**20.1%**	**59.9%**

The above ratios are calculated using the formulas prescribed by HANFA's Instruction of the Regulation on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies (Official Gazette 132/10) as follows:

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

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

Combined ratio = claims ratio + costs ratio

1.31. Acquisition costs

	2012 HRK'000	2011 HRK'000
Non-life insurance business		
Commission expenses	**5,932**	4,445
Other acquisition costs	**260**	358
Changes in deferred acquisition costs (Note 1.13.)	**(419)**	(246)
Total acquisition costs, non-life	**5,773**	4,557
Life assurance business		
Commission expenses	**4,077**	3,970
Other acquisition costs	**1,905**	1,606
Total acquisition costs, life	**5,982**	5,576
	11,755	10,133

	2012 HRK'000	2011 HRK'000
Non-life insurance business		
Accident	**643**	907
Health	**-**	-
Motor hull	**561**	513
Marine hull	**71**	54
Transport	**8**	3
Property fire	**982**	720
Other property	**534**	493
Motor third party liability	**2,587**	1,586
Marine liability	**20**	13
General liability	**297**	237
Credit insurance	**-**	-
Financial losses	**11**	7
Travel insurance	**59**	24
Total non-life	**5,773**	4,557
Life assurance business		
Life products	**4,631**	4,515
Annuities	**62**	61
Life rider products	**488**	373
Index linked	**801**	627
Total life	**5,982**	5,576
Total non-life and life	**11,755**	10,133

1.32. Administrative expenses

	2012 HRK'000	2011 HRK'000
Personnel expenses	**40,338**	38,102
Software maintenance expenses	**8,274**	9,856
Goods and services	**7,140**	7,696
Rental expenses	**3,836**	3,164
Depreciation and amortisation	**2,646**	2,677
Fees paid to lawyers	**1,575**	1,538
Fees paid to auditors for statutory audit	**715**	722
Intellectual services	**353**	552
Impairment of other receivables	**60**	201
Increase in provisions for liabilities and charges	**-**	127
Other costs	**7,116**	8,199
	72,053	72,834

	2012 HRK'000	2011 HRK'000
Non-life insurance business		
Accident	**2,193**	2,660
Health	**-**	-
Motor hull	**1,339**	1,406
Marine hull	**222**	196
Transport	**27**	13
Property fire	**2,127**	1,821
Other property	**1,224**	1,397
Motor third party liability	**6,991**	4,978
Marine liability	**139**	97
General liability	**628**	600
Credit insurance	**-**	-
Financial losses	**25**	19
Travel insurance	**156**	78
Total non-life	**15,071**	13,265
Life assurance business		
Life products	**51,483**	54,303
Annuities	**758**	727
Life rider products	**3,567**	3,556
Index linked	**1,174**	983
Total life	**56,982**	59,569
Total non-life and life	**72,053**	72,834

In 2012, the average number of employees of the Company was 407 (2011: 394).

In 2012, the Company made pension contributions of HRK 5.5 million (2011: HRK 5.3 million) into obligatory pension funds.

1.33. Other operating expenses

	2012 HRK'000	2011 HRK'000
Fire brigade contributions	**144**	128
Guarantee fund	**223**	307
Contribution towards Croatian Health Insurance Fund	**2,400**	1,692
Other technical charges	**2,854**	1,780
	5,621	3,907

1.34. Financial expenses

	2012 HRK'000	2011 HRK'000
Depreciation of investment property	**341**	312
Impairment loss on investment in subsidiary	**-**	3,000
Impairment of loans to customers	**1,154**	736
Impairment loss on investment property	**786**	183
Impairment loss on accrued interest	**6**	-
Interest expense	**-**	171
Other financial expense	**961**	1,058
	3,248	5,460

	Non-life 2012 HRK'000	Life 2012 HRK'000	Total 2012 HRK'000	Non-life 2011 HRK'000	Life 2011 HRK'000	Total 2011 HRK'000
Expenses from assets backing share capital	**93**	**2,212**	**2,305**	3,033	1,250	4,283
Expenses from assets backing life assurance provision	**-**	**885**	**885**	-	922	922
Expenses from assets backing index-linked products	**-**	**-**	**-**	-	-	-
Expenses from assets backing other technical provisions	**58**	**-**	**58**	255	-	255
	151	**3,097**	**3,248**	3,288	2,172	5,460

1.35. Income taxes

	2012 HRK'000	2011 HRK'000
Current tax expense	-	-
Deferred tax expense	-	13
Total income tax expense	-	13

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

	2012 HRK'000	2011 HRK'000
Accounting profit for the year for the period before income taxes	**22,951**	32,772
Income tax at 20% (2011: 20%)	**(4,590)**	(6,554)
Non-deductible expenses	**(713)**	(1,303)
Tax exempt income	**85**	44
Utilisation of tax losses brought forward	**5,218**	7,800
Income tax expense	-	(13)

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

	2012 HRK'000	2011 HRK'000
At income tax rate of 20%		
Unused tax losses brought forward	**(10,070)**	(17,870)
Utilisation of tax losses brought forward	**5,218**	7,800
Unused tax losses carried forward	**(4,852)**	(10,070)

As at 31 December 2012 gross tax losses carried forward amounted to HRK 24.2 million (2011: HRK 50.3 million) which at income tax of 20% amounts to HRK 4.8 million (2011: HRK 10.1 million).

c) Income tax recognised in other comprehensive income

	2012 HRK'000	2011 HRK'000
Increase in net deferred tax (liability)/asset	**(8,586)**	5,353

1.35. Income taxes (continued)

d) Tax losses brought forward

Net tax losses amounting to HRK 4,852 thousand (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:

	2012	2011
	HRK'000	HRK'000
At income tax rate of 20%		
No more than 1 year	**-**	-
No more than 2 years	**4,852**	-
No more than 3 years	**-**	10,070
No more than 4 years	**-**	-
No more than 5 years	**-**	-
Total potential benefit of tax losses carried forward	**4,852**	10,070
Deferred tax asset recognised in the statement of financial position	**-**	-
Deferred tax asset not recognised in the statement of financial position	**4,852**	10,070

1.36. Operating leases

The Company leases offices for business purposes and motor vehicles under operating leases. All leases are cancellable and typically run for an initial period of one to ten years. None of these lease contracts include contingent rental expenses.

During 2012, HRK 3,836 thousand was recognised as an expense in the Company's profit or loss in respect of operating leases (2011: HRK 3,164 thousand).

1.37. Related parties

The sole shareholder of the Company is VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe ("VIG") with holdings of 100% of the Company's shares at year end. The Company considers that it has an immediate related party relationship with the ultimate parents of its key shareholder, and their subsidiaries; its subsidiary; 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.

VIG and VIG Re

VIG is a parent company and VIG Re is a related company and one of the Company's reinsurance providers. Transactions with VIG include software maintenance for SAP information system and reinsurance transactions.

1.37. Related parties (continued)

VIG and VIG Re (continued)

Reinsurance transactions with VIG and VIG Re gave rise to reinsurance premiums and recoveries during the year and debtors and creditors at the end of the year, which are summarised in a table below:

	VIG Re 2012 HRK'000	VIG 2012 HRK'000	VIG Re 2011 HRK'000	VIG 2011 HRK'000
Premium ceded:				
Reinsurance premiums payable at beginning of year	(3,956)	(4,444)	(4,217)	(4,784)
Reinsurance premiums ceded during the year	(9,478)	(23,947)	(8,917)	(16,600)
Reinsurance premiums paid during the year	8,597	20,223	9,178	16,940
Reinsurance premiums payable at the end of the year	(4,837)	(8,168)	(3,956)	(4,444)
Reinsurance claims recoveries:				
At the beginning of the year	915	1,898	996	2,260
Invoiced during the year	2,988	6,340	3,121	10,549
Received during the year	(2,584)	(5,393)	(3,202)	(10,911)
Outstanding at end of the year	1,319	2,845	915	1,898
Reinsurance commission:				
At the beginning of the year	931	2,412	824	2,352
Invoiced during the year	2,002	8,895	2,141	5,553
Received during the year	(1,909)	(8,104)	(2,034)	(5,493)
Outstanding at the end of the year	1,024	3,203	931	2,412
Deposit retained from reinsurance business	-	(24,834)	-	(16,643)
Interest on deposit retained from reinsurance business	-	(483)	-	(187)

Reinsurance premiums payable in respect of premium ceded towards VIG Re and VIG and deposit retained from reinsurance business are included within "*Reinsurance contract payables*" and "*Deposit retained from reinsurance business*", respectively in Note 1.25 "*Insurance and other payables and deferred income*". Receivables for reinsurance claims recoveries from VIG Re and VIG and receivables for reinsurance income are included within "*Receivables from reinsurance for claims recoveries*" and "*Receivables for reinsurance commission*" in Note 1.18 "*Insurance and other receivables*".

1.37. Related parties (continued)

Key management personnel

Key management personnel include Management Board members ("Key management personnel"). Key management personnel have liability for loans and receivables to the Company in the amount of HRK 708 thousand (2011: HRK 796 thousand). During 2012 the Company realised HRK 37 thousand (2011: HRK 5 thousand) of interest income from loans to key management personnel with interest rates of 4%, 4.4% and 5%. Key management personnel expenses relate to short-term employee benefits which include net salaries, pension and social contributions and bonuses.

In 2012, the Company made pension contributions to Key management personnel of HRK 365 thousand (2011: HRK 347 thousand) into obligatory pension funds.

Hotel Voltino

The Company has 100% share in subsidiary Hotel Voltino. During 2012 there were no transactions with the subsidiary and as of 31 December 2012 the Company has HRK 409 thousand outstanding receivables from the subsidiary which were fully provided for (2011: HRK 409 thousand also fully provided for). During 2012 and 2011 there were no expenses recognised in respect of bad or doubtful debts due from Hotel Voltino.

Related companies

Transactions with Kvarner Vienna Insurance Group d.d. ("KVIG") relate to underwriting of motor casco and claims estimation services (2011: underwriting of motor third party liability and transport insurance policies). In addition, during 2011 the Company purchased shares of Erste osiguranje Vienna Insurance Group d.d. from KVIG in amount of HRK 10,106 thousand what represents 5% shareholding in Erste osiguranje Vienna Insurance Group, other related company, as of 31 December 2012 and 31 December 2011.

In 2012 and 2011 the Company rented office premises from Kvarner Wiener Staedtische nekretnine d.o.o., a subsidiary of KVIG.

The Company holds 5% shareholding in Erste osiguranje Vienna Insurance Group . During 2012 there were no transactions with this company.

The Company holds 0.98% shareholding in VIG FUND uzavreny investicni fond, a.s., related company registered in Czech republic. The Company acquired this shareholding by direct purchase from the share issuer.

Assets, liabilities, income and expense at and for the year ended 31 December 2012, arising from transactions with related parties, were as follows:

	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key management personnel	708	1,168	37	3,261
Subsidiary				
Hotel Voltino	-	-	-	-
Parent company				
VIG	6,048	34,351	15,234	33,079
Related companies				
VIG Re	2,343	4,837	4,990	9,478
Kvarner Vienna Insurance Group d.d.	-	7	45	152
Erste osiguranje Vienna Insurance Group d.d.	-	-	214	-
Kvarner Wiener Staedtische nekretnine d.o.o.	-	4	-	177
VIG FUND uzavreny investicni fond, a.s	7,386	-	-	-
	16,485	**40,367**	**20,520**	**46,147**

1.37 Related parties (continued)

Assets, liabilities, income and expense at and for the year ended 31 December 2011, arising from transactions with related parties, were as follows:

	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key management personnel	796	1,388	5	4,139
Subsidiary				
Hotel Voltino	-	-	-	3,000
Parent company				
VIG	4,310	26,903	16,102	26,643
Related companies				
VIG Re	1,846	3,956	5,262	8,917
Kvarner Vienna Insurance Group d.d.	6	-	51	65
Erste osiguranje Vienna Insurance Group d.d.	10,106	-	-	-
Kvarner Wiener Staedtische nekretnine d.o.o.	-	6	-	261
	17,064	**32,253**	**21,420**	**43,025**

1.38. Financial Risk Management

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders and policyholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the importance of having efficient and effective risk management systems in place.

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

Market risk

Market risk includes three types of risk:

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

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

Asset and liability matching

The Company actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise the after-tax, risk-adjusted investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash-flow and duration basis. 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 compliance with the rules established by the Insurance Law.

The Company 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 Company's ability to achieve its asset and liability management goals and objectives

Interest rate risk

The Company's exposure to market risk for changes in interest rates is concentrated in its investment portfolio. The Company'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 Company is also exposed to the risk of changes in future cash flows arising from the changes in market interest rates. This risk is, however, limited considering that the all of the Company's interest bearing investments at the reporting date bear fixed interest rates.

1.38. Financial risk management (continued)

Interest rate risk (continued)

Deposits retained from reinsurance bear mostly variable interest rates, as explained in Note 1.25. Interest rate changes also do not influence the level of non-life provisions, other than for motor third party annuities, which are not significant at the reporting date. The life assurance provision is discounted using the lower of the technical interest rate or maximum rate prescribed by HANFA, which cannot be higher than the weighted average annual return for the last three years on assets backing life assurance provision.

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

The Company attempts to match the future receipts from financial 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 Company to purchase interest rate swaps in Croatia, the Company is exposed to interest rate risk.

The Company is presently contractually committed to accrue interest at rates from 2.5% to 7% 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 Company earns by investing its long term funds are higher.

Note 1.40 discloses the effective interest rates and repricing analysis of financial assets and financial liabilities of the Company within scope of IAS 39 at 31 December 2012 and 31 December 2011.

Since mostly all interest bearing assets on 31 December 2012 and 31 December 2011 had a fixed interest rate (with variable interest bearing assets relating to loans, for which change of interest rate is under the Company's control), there would be no direct effect on the Company's profit or loss in case of interest rate changes. 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.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The main source of exposure to price risk are investments in investment funds and investments in shares, however the Company's investment in shares at the reporting date is not significant.

The Company's holdings are limited by parameters established by senior management, as well as by regulatory and statutory requirements. The market risk policy is in place and the risk is monitored on the ongoing bases.

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

	Impact on profit or loss after tax 2012 HRK'000	Impact on other comprehensive income after tax 2012 HRK'000	Impact on profit or loss after tax 2011 HRK'000	Impact on other comprehensive income after tax 2011 HRK'000
Change in price by ± 1%	145/(145)	143/(143)	182/(182)	79/(79)
Change in price by ± 3%	436/(436)	429/(429)	546/(546)	237/(237)
Change in price by ± 5%	727/(727)	715/(715)	911/(911)	395/(395)

1.38. Financial risk management (continued)

Foreign exchange risk

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

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

The Company manages foreign currency risk by trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency. Life assurance provision is equally denominated in Croatian kuna and Euro and, consequently, investments backing the life assurance provision are denominated in Croatian kuna and Euro.

Note 1.41 discloses the currency analysis of the Company's financial assets and financial liabilities within the scope of IAS 39 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 and other comprehensive income resulting from financial investments.

There are three currencies in the portfolio, but only the foreign exchange rates that include Euro and kuna are analysed. The EUR/HRK rate is targeted in an interval of between 7.470 HRK for 1 EUR and 7.621 HRK for 1 EUR. The EUR/HRK rate has most of the time in the past been within that interval.

EUR / HRK rate	Impact on profit or loss after tax 2012 HRK'000	Impact on other comprehensive income after tax 2012 HRK'000	Impact on profit or loss after tax 2011 HRK'000	Impact on other comprehensive income after tax 2011 HRK'000
Change in fx rate by ± 1%	3,623/(3,623)	143/(143)	3,621/(3,621)	79/(79)
Change in fx rate by ± 2%	7,247/(7,247)	286/(286)	7,242/(7,242)	158/(158)

Credit risk

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

The Company's portfolios of fixed income securities, mortgage loans and deposits with banks are subject to credit risk. The Company manages these risks by reviews by the Management Board and regular meetings to review credit developments.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all policyholders and collateral is secured prior to the disbursement or extension of approved policyholder loans. The Company has adopted a risk adverse investment policy.

1.38. Financial risk management (continued)

Credit risk (continued)

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

	2012 HRK'000	2011 HRK'000
Government debt securities	**675,706**	646,319
State institutions bonds	**-**	18,167
Accrued interest thereon	**13,542**	15,007
	689,248	679,493

The total exposure to Croatian state risk represents 61.3% of the total assets of the Company (2011: 63.85%).

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

Maximum exposure to credit risk at the reporting date

2012

	AAA – A HRK'000	BBB – B HRK'000	Not rated HRK'000	Total HRK'000
Financial assets at fair value through profit or loss				
Debt securities	14,753	7,488	-	**22,241**
Investments backing index-linked products	22,469	21,600	-	**44,069**
Available-for-sale financial assets				
Debt securities	18,380	317,027	19,484	**354,891**
Held-to-maturity investments				
Debt securities	-	358,679	-	**358,679**
Loans and receivables				
Deposits with banks	-	-	32,000	**32,000**
Loans to customers	-	-	57,377	**57,377**
Interest receivable	749	13,535	17,984	**32,268**
Insurance and other receivables, without interest receivables	22,887	720	22,205	**45,812**
Cash and cash equivalents	-	-	7,331	**7,331**
Total exposure to credit risk	**79,238**	**719,049**	**156,381**	**954,668**

1.38. Financial risk management (continued)

Credit risk (continued)

2011

	AAA – A HRK'000	BBB – B HRK'000	Not rated HRK'000	Total HRK'000
Financial assets at fair value through profit or loss				
Debt securities	11,265	13,684	-	**24,949**
Investments backing index-linked products	22,135	8,211	-	**30,346**
Available-for-sale financial assets				
Debt securities	14,309	445,434	4,021	**463,764**
Held-to-maturity investments				
Debt securities	-	219,052	-	**219,052**
Loans and receivables				
Deposits with banks	-	-	30,000	**30,000**
Loans to customers	-	-	61,974	**61,974**
Interest receivable	747	15,007	13,218	**28,972**
Insurance and other receivables, without interest receivables	18,877	-	17,868	**36,745**
Cash and cash equivalents	-	-	1,974	**1,974**
Total exposure to credit risk	**67,333**	**701,388**	**129,055**	**897,776**

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

The following table provides information on the reinsurers of the Company as of 31 December 2012. The Management believes that the Company is not significantly exposed to credit risk from reinsurance receivables as of 31 December 2012 due to solid credit ratings of the reinsurers.

Reinsurers as of 31 December 2012	**Credit rating (Standard&Poor's)**
VIG	A+
VIG Re	A+
Sava Re	BBB+
Swiss Re	AA-
Basler Re	A-

1.38 Financial risk management (continued)

Ageing analysis

	< 90 days HRK'000	> 90 days HRK'000	Total past due but not impaired HRK'000	Past due and impaired HRK'000	Total due HRK'000	Undue HRK'000	Impairment allowance HRK'000	Total HRK'000
2012								
Loans to customers	2,066	8,621	10,687	11,157	21,844	46,743	(11,210)	57,377
Receivables from policyholders	3,962	1,396	5,358	5,493	10,851	13,337	(5,493)	18,695
Receivables from reinsurance	23,607	-	23,607	-	23,607	-	-	23,607
Receivables from recourses	-	-	-	4,292	4,292	-	(4,292)	-
Accrued interest	129	201	330	302	632	31,938	(302)	32,268
Other receivables	77	56	133	2,055	2,188	3,377	(2,055)	3,510
Total	29,841	10,274	40,115	23,299	63,414	95,395	(23,352)	135,457
2011								
Loans to customers	1,598	11,481	13,079	10,314	23,393	48,895	(10,314)	61,974
Receivables from policyholders	2,877	435	3,312	4,684	7,996	12,051	(4,684)	15,363
Receivables from reinsurance	18,877	-	18,877	-	18,877	-	-	18,877
Receivables from recourses	-	-	-	4,304	4,304	-	(4,304)	-
Accrued interest	198	322	520	297	817	28,452	(297)	28,972
Other receivables	591	-	591	2,007	2,598	1,914	(2,007)	2,505
Total	24,141	12,238	36,379	21,606	57,985	91,312	(21,606)	127,691

Out of past due but not impaired loans of HRK 10,687 thousand (2011: HRK 13,079 thousand), HRK 9,618 thousand (2011: HRK 11,622 thousand) is secured by mortgages on real estate, HRK 938 thousand (2011: HRK 968 thousand) is secured by the redemption value of life assurance policies, and HRK 131 thousand (2011: HRK 489 thousand) is not secured. Other past due receivables are not secured by collateral.

In 2012 the Company recognised loss from increase in impairment allowance on interest receivable in the amount of HRK 6 thousand, while in 2011 there was no interest income recognised on impaired loans.

Liquidity risk

Liquidity risk arises in the general funding of the Company'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 Company holds a portfolio of liquid assets as part of its liquidity risk management strategy, to ensure continuous operations and legal requirements.

Note 1.39 discloses the maturity analysis of the Company's financial assets and liabilities within scope of IAS 39 at 31 December 2012 and 31 December 2011.

Note 1.22 discloses the maturity analysis of the Company's insurance contract provisions, while matching of assets used for backing life assurance provision and technical provision with the related liabilities is analysed in Note 1.22 (h) and Note 1.22 (i).

1.38. Financial risk management (continued)

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 available-for-sale financial assets are measured at fair value. Loans and receivables are measured at amortised cost less impairment.

The market value of loans and receivables with residual maturities of less than 12 months approximates book value due to their short remaining maturities. The carrying value of loans and receivables with remaining maturities over 12 months and fixed rates is not significant at the reporting date and management believes that the carrying value of these instruments is not significantly different from their fair value. The fair value of debt securities held to maturity, quoted on stock exchanges, was HRK 52,923 thousand higher (2011: HRK 10,291 thousand lower) than their carrying value at the reporting date.

The Company measures 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).

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	22,241	-	-	22,241
Investments backing index-linked products	44,069	-	-	44,069
Equity securities	1,157	-	-	1,157
Investment funds	17,021	-	-	17,021
Available-for-sale financial assets				
Debt securities	354,891	-	-	354,891
Investment funds	10,492	-	-	10,492
Equity securities	7,386	-	-	7,386
Total financial assets at fair value	**457,257**	-	-	**457,257**
31 December 2011				
Financial assets at fair value through profit or loss				
Debt securities	24,949	-	-	**24,949**
Investments backing index-linked products	30,346	-	-	**30,346**
Equity securities	1,208	100	-	**1,308**
Investment funds	21,457	-	-	**21,457**
Available-for-sale financial assets				
Debt securities	463,764	-	-	**463,764**
Investment funds	9,886	-	-	**9,886**
Total financial assets at fair value	**551,610**	**100**	-	**551,710**

During 2012 the Company transferred HRK 100 thousand (2011: HRK 72,900 thousand) thousand from Level 2 into Level 1 since the related securities had active market at the end of 2012 and their fair value was determined applying quoted prices in an active market. During 2012 and 2011 there were no transfers to or from Level 3.

1.39. Maturity analysis

The tables below analyses the financial assets and financial liabilities within the scope of IAS 39 of 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. Estimated remaining contractual maturities of insurance provisions are analysed in Note 1.22 g).

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
Financial assets						
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	66,310	**66,310**
Equity securities	1,157	-	-	-	-	**1,157**
Investment funds	17,021	-	-	-	-	**17,021**
Available-for-sale financial assets						
Debt securities	-	-	43,514	179,733	131,644	**354,891**
Equity securities	7,386	-	-	-	10,106	**17,492**
Investment funds	10,492	-	-	-	-	**10,492**
Held-to-maturity investments						
Debt securities	-	-	-	6,730	351,949	**358,679**
Loans and receivables						
Deposits with banks	2,000	-	30,000	-	-	**32,000**
Loans to customers	4,405	3,351	4,748	15,093	29,780	**57,377**
Insurance and other receivables	60,588	134	10,413	-	6,945	**78,080**
Cash and cash equivalents	7,331	-	-	-	-	**7,331**
Total financial assets	110,380	3,485	88,675	201,556	596,734	**1,000,830**
Financial liabilities						
Insurance and other payables and deferred income	47,417	-	-	-	-	**47,417**

1.39. Maturity analysis (continued)

2011

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	55,295	**55,295**
Equity securities	1,308	-	-	-	-	**1,308**
Investment funds	21,457	-	-	-	-	**21,457**
Available-for-sale financial assets						
Debt securities	-	-	-	137,128	326,636	**463,764**
Equity securities	-	-	-	-	10,106	**10,106**
Investment funds	9,886	-	-	-	-	**9,886**
Held-to-maturity investments						
Debt securities	-	-	-	-	219,052	**219,052**
Loans and receivables						
Deposits with banks	-	-	-	30,000	-	**30,000**
Loans to customers	15,658	4,617	5,324	6,988	29,387	**61,974**
Insurance and other receivables	52,343	535	-	7,293	5,273	**65,444**
Cash and cash equivalents	1,974	-	-	-	-	**1,974**
Total financial assets	**102,626**	**5,152**	**5,324**	**181,409**	**645,749**	**940,260**
Financial liabilities						
Insurance and other payables and deferred income	49,817	-	-	-	-	**49,817**

1.40. Interest rate repricing analysis

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

The tables are management's estimate of the interest rate risk for 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 1.22 (d)), provide some indication of the sensitivities of 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 Company has a significant proportion of interest-earning assets and interest-bearing liabilities (mathematical reserve) in foreign currency.

2012

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non – interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	-	66,310	**66,310**	-
Equity securities	n/a	-	-	-	-	-	1,157	**1,157**	-
Investment funds	n/a	-	-	-	-	-	17,021	**17,021**	-
Available-for-sale financial assets									
Debt securities	5.81	-	-	43,514	179,733	131,644	-	**354,891**	354,891
Equity securities	n/a	-	-	-	-	-	17,492	**17,492**	-
Investment funds	n/a	-	-	-	-	-	10,492	**10,492**	-
Held-to-maturity investments									
Debt securities	6.49	-	-	-	6,730	351,949	-	**358,679**	358,679
Loans and receivables									
Deposits with banks	8.70	2,000	-	30,000	-	-	-	**32,000**	32,000
Loans to customers	7.89	4,405	3,351	4,748	15,093	29,780	-	**57,377**	12,867
Insurance and other receivables	n/a	-	-	-	-	-	78,080	**78,080**	-
Cash and cash equivalents	0.33	7,294	-	-	-	-	37	**7,331**	-
Total financial assets		13,699	3,351	78,262	201,556	513,373	190,589	**1,000,830**	758,437
Financial liabilities									
Insurance and other payables and deferred income	2.32	24,834	-	-	-	-	22,583	**47,417**	-

1.40. Interest rate repricing analysis (continued)

2011

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non – interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	-	55,295	**55,295**	-
Equity securities	n/a	-	-	-	-	-	1,308	**1,308**	-
Investment funds	n/a	-	-	-	-	-	21,457	**21,457**	-
Available-for-sale financial assets									
Debt securities	6.08	-	-	-	137,128	326,636	-	**463,764**	463,764
Equity securities	n/a	-	-	-	-	-	10,106	**10,106**	-
Investment funds	n/a	-	-	-	-	-	9,886	**9,886**	-
Held-to-maturity investments									
Debt securities	6.56	-	-	-	-	219,052	-	**219,052**	219,052
Loans and receivables									
Deposits with banks	8.95	-	-	-	30,000	-	-	**30,000**	30,000
Loans to customers	7.70	4,056	4,617	5,324	18,590	29,387	-	**61,974**	18,375
Insurance and other receivables	n/a	-	-	-	-	-	65,444	**65,444**	-
Cash and cash equivalents	0.33	1,943	-	-	-	-	31	**1,974**	-
Total financial assets		**5,999**	**4,617**	**5,324**	**185,718**	**575,075**	**163,527**	**940,260**	**731,191**
Financial liabilities									
Insurance and other payables and deferred income	3.86	16,643	-	-	-	-	33,174	**49,817**	16,643

1.41. Currency risk analysis

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.

2012	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	HRK HRK'000	Total HRK'000
Financial assets						
Financial assets at fair value through profit or loss						
Debt securities	66,310	-	**66,310**	-	-	**66,310**
Equity securities	-	-	-	-	1,157	**1,157**
Investment funds	-	2,247	**2,247**	-	14,774	**17,021**
Available-for-sale financial assets						
Debt securities	18,380	178,888	**197,268**	7,509	150,114	**354,891**
Equity securities	7,386	-	**7,386**		10,106	**17,492**
Investment funds	10,492	-	**10,492**	-	-	**10,492**
Held-to-maturity investments						
Debt securities	-	133,147	**133,147**	-	225,532	**358,679**
Loans and receivables						
Deposits with banks	-	-	-	-	32,000	**32,000**
Loans to customers	-	33,988	**33,988**	293	23,096	**57,377**
Insurance and other receivables	24,367	7,809	**32,176**	76	45,828	**78,080**
Cash and cash equivalents	1,391	-	**1,391**	215	5,725	**7,331**
Total financial assets	**128,326**	**356,079**	**484,405**	**8,093**	**508,332**	**1,000,830**
Financial liabilities						
Insurance and other payables and deferred income	21,660	-	**21,660**	-	25,757	**47,417**

1.41. Currency risk analysis (continued)

2011	EURO	EURO linked	EURO and EURO linked total	USD	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets						
Financial assets at fair value through profit or loss						
Debt securities	55,295	-	55,295	-	-	55,295
Equity securities	-	-	-	-	1,308	1,308
Investment funds	-	8,466	8,466	-	12,991	21,457
Available-for-sale financial assets						
Debt securities	60,464	282,949	343,413	-	120,351	463,764
Equity securities	-	-	-	-	10,106	10,106
Investment funds	9,886	-	9,886	-	-	9,886
Held-to-maturity investments						
Debt securities	-	-	-	-	219,052	219,052
Loans and receivables						
Deposits with banks	-	-	-	-	30,000	30,000
Loans to customers	-	38,865	38,865	-	23,109	61,974
Insurance and other receivables	22,705	7,075	29,780	-	35,664	65,444
Cash and cash equivalents	373	-	373	13	1,588	1,974
Total financial assets	**148,723**	**337,355**	**486,078**	**13**	**454,169**	**940,260**
Financial liabilities						
Insurance and other payables and deferred income	22,700	-	22,700	-	27,117	49,817

1.42. Contingent assets and liabilities

Off-balance sheet accounts

The Company had no off-balance sheet liabilities on 31 December 2012 (2011: had a guarantee for seriousness of tender in the amount of HRK 100 thousand issued by Erste&Steiermärkische Bank d.d.).

Capital liabilities

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

Litigations and claims

The Company is sued in several litigations (excluding court claims) for which provision was made in the financial statements (Note 1.24.).

1.43. Events after reporting date

Taking into account challenges facing in the current economic environment and increased regulatory and technology demands, Vienna Insurance Group Wiener Städtische Versicherung AG, the Company's ultimate parent and 100% owner, decided to consolidate operations of subsidiaries in Croatia, and to legally merge the Company to sister company Kvarner Vienna Insurance Group d.d., 99.36% owned by Vienna Insurance Group Wiener Städtische Versicherung AG. The merger contract was signed on 29 January 2013, and the merger is expected to be performed mid-year 2013. Along with the merger, ultimate parent plans to change the name of the sister company in Wiener Osiguranje Vienna Insurance Group d.d.

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

Statement of financial position (balance sheet) 31.12.2012

ASSETS

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
001	002+003	**A**	**RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID**						
002		1	Called up capital						
003		2	Uncalled capital						
004	005+006	**B**	**INTANGIBLE ASSETS**	**106,408**	**307,329**	**413,737**	**32,075**	**108,417**	**140,492**
005		1	Goodwill						
006		2	Other intangible assets	106,408	307,329	413,737	32,075	108,417	140,492
007	008+009+010	**C**	**TANGIBLE ASSETS**	**5,723,577**	**39,965,457**	**45,689,034**	**4,677,008**	**38,983,955**	**43,660,963**
008		1	Land and buildings intended for company business operations	5,416,683	36,284,431	41,701,114	4,555,191	35,623,881	40,179,072
009		2	Equipment	305,122	3,116,642	3,421,764	121,817	2,659,657	2,781,474
010		3	Other tangible assets and stock	1,772	564,384	566,156		700,417	700,417
011	012+013+017+036	**D**	**INVESTMENTS**	**779,905,020**	**84,244,703**	**864,149,723**	**784,612,972**	**107,264,212**	**891,877,184**
012		**I**	**Investments in land and buildings not intended for company business operations**	**21,653,384**		**21,653,384**	**15,046,386**	**5,480,034**	**20,526,420**
013	014+015+016	**II**	**Investments in subsidiaries, associates and joint ventures**	**10,106,360**		**10,106,360**			
014		1	Shares and stakes in subsidiaries						
015		2	Shares and stakes in associates	10,106,360		10,106,360			
016		3	Joint venture participation						
017	018+021+026+032	**III**	**Other financial investments**	**748,145,276**	**84,244,703**	**832,389,979**	**769,566,587**	**101,784,178**	**871,350,764**

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

Statement of financial position (balance sheet) 31.12.2012

ASSETS

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
018	019+020	**1**	**Investments held-to-maturity**	**195,777,347**	**23,274,301**	**219,051,648**	**328,701,262**	**29,977,794**	**358,679,056**
019		*1.1*	*Debt securities and other securities with fixed revenue*	195,777,347	23,274,301	219,051,648	328,701,262	29,977,794	358,679,056
020		*1.2*	*Other investments held to maturity*						
021	022+023+024+025	**2**	**Investments available-for-sale**	**419,998,985**	**53,651,085**	**473,650,069**	**326,822,673**	**56,052,511**	**382,875,184**
022		*2.1*	*Shares, stakes and other securities with variable revenue*				17,492,101		17,492,101
023		*2.2*	*Debt securities and other securities with fixed revenue*	410,113,228	53,651,085	463,764,312	298,838,921	56,052,511	354,891,432
024		*2.3*	*Investment fund units*	9,885,757		9,885,757	10,491,652		10,491,652
025		*2.4*	*Other investments available for sale*						
026	027+028+029+030+031	**3**	**Investments at fair value through profit and loss account**	**40,681,024**	**7,033,444**	**47,714,467**	**24,815,734**	**15,603,680**	**40,419,414**
027		*3.1*	*Shares, stakes and other securities with variable revenue*		1,307,800	1,307,800		1,157,658	1,157,658
028		*3.2*	*Debt securities and other securities with fixed revenue*	24,949,637		24,949,637	22,240,978		22,240,978
029		*3.3*	*Derivative financial instruments*						
030		*3.4*	*Investment fund units*	15,731,387	5,725,644	21,457,031	2,574,757	14,446,022	17,020,778
031		*3.5*	*Other investments*						
032	033+034+035	**4**	**Deposits, loans and receivables**	**91,687,920**	**285,874**	**91,973,794**	**89,226,917**	**150,193**	**89,377,110**
033		*4.1*	*Deposits with credit institutions (banks)*	30,000,000		30,000,000	32,000,000		32,000,000
034		*4.2*	*Loans*	38,481,232		38,481,232	41,097,138		41,097,138
035		*4.3*	*Other loans and receivables*	23,206,688	285,874	23,492,562	16,129,779	150,193	16,279,972

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

Statement of financial position (balance sheet) 31.12.2012

in HRK

ASSETS

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
036		IV	**Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)**						
037		E	**INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS**	30,346,237		30,346,237	44,068,799		44,068,799
038	039+040+041+042 +043+044+045	F	**REINSURANCE SHARE IN TECHNICAL PROVISIONS**	1,507,738	49,677,873	51,185,611	889,085	55,811,079	56,700,164
039		1	Unearned premiums, reinsurance share	208,974	13,628,460	13,837,433	198,624	16,081,123	16,279,747
040		2	Mathematical provision, reinsurance share						
041		3	Provision for claims outstanding, reinsurance share	1,298,764	36,049,413	37,348,178	690,462	39,729,956	40,420,418
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						
044		6	Other insurance technical provisions, reinsurance share						
045		7	Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share						
046	047+048	G	**DEFERRED AND CURRENT TAX ASSET**	1,941,062	1,026,028	2,967,091			
047		1	Deferred tax asset	1,941,062	1,026,028	2,967,091			
048		2	Current tax asset						
049	050+053+054	H	**RECEIVABLES**	33,062,534	32,576,677	65,639,211	35,235,569	42,845,060	78,080,628
050	051+052	1	**Receivables from direct insurance business**		12,027,828	12,027,828		14,836,343	14,836,343
051		*1.1*	*From policyholders*		12,027,828	12,027,828		14,836,343	14,836,343
052		*1.2*	*From insurance agents, or insurance brokers*						

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

Statement of financial position (balance sheet) 31.12.2012

ASSETS

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
053		**2**	**Receivables from co-insurance and reinsurance business**	2,728,885	16,148,185	18,877,070	2,095,638	21,511,558	23,607,196
054	055+056+057	**3**	**Other receivables**	**30,333,649**	**4,400,665**	**34,734,313**	**33,139,931**	**6,497,159**	**39,637,090**
055		*3.1*	*Receivables from other insurance business*	1,818,058	1,494,732	3,312,790	1,575,955	2,259,073	3,835,028
056		*3.2*	*Receivables for return on investments*	27,373,574	1,597,971	28,971,546	30,661,372	1,606,265	32,267,637
057		*3.3*	*Other receivables*	1,142,017	1,307,961	2,449,978	902,604	2,631,821	3,534,425
058	059+063+064	**I**	**OTHER ASSETS**	**1,199,816**	**774,190**	**1,974,006**	**6,474,307**	**856,714**	**7,331,021**
059	060+061+062	**1**	**Cash at bank and in hand**	**1,199,816**	**774,190**	**1,974,006**	**6,474,307**	**856,714**	**7,331,021**
060		*1.1*	*Funds in the business account*	1,028,786	743,154	1,771,940	505,869	819,427	1,325,296
061		*1.2*	*Funds in the account of assets covering mathematical provision*	171,030		171,030	5,968,438		5,968,438
062		*1.3*	*Cash in hand*		31,036	31,036		37,287	37,287
063		**2**	**Long-term assets intended for sale and business cessation**						
064		**3**	**Other**						
065	066+067+068	**J**	**PREPAYMENTS AND ACCRUED INCOME**		**1,898,574**	**1,898,574**		**2,313,722**	**2,313,722**
066		1	Deferred interest and rent						
067		2	Deferred acquisition costs		1,820,633	1,820,633		2,240,341	2,240,341
068		3	Other prepayments and accrued income		77,941	77,941		73,381	73,381
069	001+004+007+011 +037+038+046 +049+058+065	**K**	**TOTAL ASSETS (A+B+C+D+E+F+G+H+I+J)**	**853,792,392**	**210,470,831**	**1,064,263,223**	**875,989,816**	**248,183,159**	**1,124,172,974**
070		**L**	**OFF BALANCE SHEET ITEMS**		**100,000**	**100,000**			

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

Statement of financial position (balance sheet) 31.12.2012

EQUITY AND LIABILITIES

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
071	072+076+077+081+085+088	A	**CAPITAL AND RESERVES**	131,656,120	35,344,257	167,000,377	152,925,046	51,028,027	203,953,073
072	073+074+075	1	**Subscribed capital**	22,500,000	22,502,700	45,002,700	22,500,000	30,004,700	52,504,700
073		*1.1*	*Paid-up capital - ordinary shares*	22,500,000	22,502,700	45,002,700	22,500,000	30,004,700	52,504,700
074		*1.2*	*Paid-up capital - preference shares*						
075		*1.3*	*Called up capital*						
076		2	**Issued shares premiums (capital reserves)**						
077	078+079+080	3	**Revaluation reserve**	-7,764,250	-4,104,113	-11,868,362	19,038,556	3,437,867	22,476,422
078		*3.1*	*Land and buildings*						
079		*3.2*	*Financial investments*						
080		*3.3*	*Other revaluation reserves*	-7,764,250	-4,104,113	-11,868,362	19,038,556	3,437,867	22,476,422
081	082+083+084	4	**Reserves**	68,565,407	4,493,264	73,058,671	68,565,407	4,493,264	73,058,671
082		*4.1*	*Legally stipulated reserves*	2,164,447	560,571	2,725,018	2,164,447	560,571	2,725,018
083		*4.2*	*Statutory reserve*						
084		*4.3.*	*Other reserve*	66,400,960	3,932,692	70,333,653	66,400,960	3,932,692	70,333,653
085	086+087	5	**Transferred (retained) profit or loss**	24,875,398	3,172,528	28,047,926	28,397,333	4,564,510	32,961,843
086		*5.1*	*Retained profit*	24,875,398	3,172,528	28,047,926	28,397,333	4,564,510	32,961,843
087		*5.2*	*Transferred loss (-)*						
088	089+090	6	**Profit or loss of the current accounting period**	23,479,564	9,279,878	32,759,442	14,423,750	8,527,687	22,951,437
089		*6.1*	*Profit of the current accounting period*	23,479,564	9,279,878	32,759,442	14,423,750	8,527,687	22,951,437
090		*6.2*	*Loss of the current accounting period (-)*						
091		B	**SUBORDINATED LIABILITIES**						

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

Statement of financial position (balance sheet) 31.12.2012

EQUITY AND LIABILITIES

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
092	093+094+095+096+097+098	C	**TECHNICAL PROVISIONS**	**684,898,157**	**119,376,475**	**804,274,632**	**667,990,304**	**124,936,718**	**792,927,022**
093		1	Unearned premiums, gross amount	963,248	27,958,491	**28,921,739**	**885,150**	**32,589,400**	**33,474,550**
094		2	Mathematical provision, gross amount	675,309,014		**675,309,014**	**660,022,997**		**660,022,997**
095		3	Provision for claims outstanding, gross amount	8,625,896	91,060,180	**99,686,076**	**7,082,158**	**91,934,355**	**99,016,513**
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		357,804	**357,804**		**412,963**	**412,963**
098		6	Other insurance technical provisions, gross amount						
099		D	**LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount**	**30,346,237**		**30,346,237**	**44,068,799**		**44,068,799**
100	101+102	E	**OTHER RESERVES**						
101		1	Provisions for pensions and similar liabilities						
102		2	Other provisions						
103	104+105	F	**DEFERRED AND CURRENT TAX LIABILITY**				**4,759,639**	**859,467**	**5,619,106**
104		1	Deferred tax liability						
105		2	Current tax liability				**4,759,639**	**859,467**	**5,619,106**
106		G	**DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE**	**407,861**	**16,235,543**	**16,643,404**	**239,562**	**24,594,293**	**24,833,855**

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

Statement of financial position (balance sheet) 31.12.2012

EQUITY AND LIABILITIES

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
107	108+109+110	**H**	**FINANCIAL LIABILITIES**						
108		1	Liabilities on the basis of loans						
109		2	Liabilities on the basis of issued securities						
110		3	Other financial liabilities						
111	112+113+114+115	**I**	**OTHER LIABILITIES**	**6,325,818**	**23,416,613**	**29,742,431**	**5,853,354**	**26,919,982**	**32,773,336**
112		1	Liabilities from direct insurance business	3,390,189	1,682,313	**5,072,502**	**3,643,621**	**1,584,473**	**5,228,093**
113		2	Liabilities from co-insurance and reinsurance business	2,875,934	14,007,896	**16,883,831**	**2,156,168**	**19,503,981**	**21,660,149**
114		3	Liabilities for sale and ceased business						
115		4	Other liabilities	59,695	7,726,404	**7,786,098**	**53,565**	**5,831,528**	**5,885,094**
116	117+118	**J**	**ACCRUED EXPENSES AND DEFERRED INCOME**	**158,199**	**16,097,943**	**16,256,142**	**153,112**	**19,844,672**	**19,997,784**
117		1	Deferred reinsurance commission	109,636	4,309,774	**4,419,410**	**28,171**	**5,302,144**	**5,330,314**
118		2	Other accrued expenses and deferred income	48,563	11,788,169	**11,836,732**	**124,942**	**14,542,528**	**14,667,470**
119	071+091+092+099+100+103 +106+107+111 +116	**K**	**TOTAL LIABILITIES (A+B+C+D+E+F+G+H+I+J)**	**853,792,392**	**210,470,831**	**1,064,263,223**	**875,989,816**	**248,183,159**	**1,124,172,974**
120		**L**	**OFF BALANCE SHEET ITEMS**		**100,000**	**100,000**			

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

Statement of comprehensive income (income statement) 01.01.2012- 31.12.2012

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
001	002+003 +004+005+006+007+008+009	**I**	**Earned premiums (recognized in revenue)**	**119,314,679**	**24,644,914**	**143,959,592**	**111,417,968**	**29,355,034**	**140,773,001**
002		1	Written gross premiums	123,157,015	52,915,247	**176,072,261**	**115,234,290**	**64,716,308**	**179,950,598**
003		2	Co-insurance premiums		47,447	**47,447**		**941**	**941**
004		3	Value adjustment and charged adjustment of insurance/co-insurance premium value		-96,464	**-96,464**		**-809,582**	**-809,582**
005		4	Premiums ceded to reinsurance (-)	-4,155,433	-27,617,489	**-31,772,923**	**-3,884,070**	**-32,374,389**	**-36,258,459**
006		5	Premiums ceded to co-insurance (-)						
007		6	Change in gross provisions for unearned premiums (+/-)	104,123	-2,924,095	**-2,819,972**	**78,098**	**-4,630,909**	**-4,552,811**
008		7	Change in provisions for unearned premiums, reinsurance share (+/-)	208,974	2,320,269	**2,529,243**	**-10,350**	**2,452,664**	**2,442,313**
009		8	Change in provisions for unearned premiums, co-insurance share (+/-)						
010	011+012 +016+017+018+022+023	**II**	**Income from investments**	**67,999,577**	**8,327,110**	**76,326,687**	**64,556,958**	**6,056,227**	**70,613,185**
011		1	Income from subsidiaries, associates and joint ventures						
012	013+014 +015	2	Income from investment in land and buildings	858,140		858,140	**863,483**		**863,483**
013		*2.1*	*Income from rent*	858,140		858,140	**863,483**		**863,483**
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	43,461,228	5,183,217	48,644,445	**44,827,078**	**5,343,779**	**50,170,858**
017		4	Unrealized profits from investment valued at fair value through profit and loss account	5,351,423	12,324	5,363,747	**6,773,635**	**292,788**	**7,066,423**
018	019+020 +021	5	Profits from sale (realization) of financial investments	9,714,622	2,227,876	11,942,498	**8,754,885**	**88,675**	**8,843,560**
019		*5.1*	*Investment valued at fair value through profit and loss account*	1,646,298	107,243	1,753,541	**1,227,000**	**88,675**	**1,315,675**
020		*5.2*	*Investments available-for-sale*	8,068,324	2,120,633	10,188,958	**7,527,885**		**7,527,885**
021		*5.3*	*Other profits from sale of financial investments*						
022		6	Net positive exchange rate differentials	8,297,562	563,092	8,860,654	**1,954,864**	**81,372**	**2,036,236**
023		7	Other investment profits	316,603	340,601	657,204	**1,383,012**	**249,613**	**1,632,625**
024		**III**	**Income from commissions and fees**	**1,768,802**	**7,412,514**	**9,181,316**	**1,566,254**	**11,185,136**	**12,751,390**
025		**IV**	**Other insurance-technical income, net of reinsurance**	**148,339**		**148,339**			
026		**V**	**Other income**	**177,773**	**2,461,144**	**2,638,918**	**339,671**	**2,097,101**	**2,436,772**

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

Statement of comprehensive income (income statement) 01.01.2012- 31.12.2012

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
027	028+032	**VI**	**Expenditures for insured events, net**	**-70,398,875**	**-7,557,779**	**-77,956,654**	**-95,448,401**	**-13,280,039**	**-108,728,440**
028	029+030 +031	1	Settled claims	-72,969,875	-14,482,022	-87,451,898	-96,383,836	-16,086,406	-112,470,243
029		*1.1*	*Gross amount (-)*	-73,602,404	-23,840,122	-97,442,526	-97,661,274	-27,054,208	-124,715,482
030		*1.2*	*Co-insurer share (+)*						
031		*1.3*	*Reinsurer share(+)*	632,529	9,358,100	9,990,628	1,277,438	10,967,802	12,245,239
032	033+034 +035	2	Change in provisions for claims outstanding (+/-)	2,571,000	6,924,244	9,495,244	935,435	2,806,368	3,741,803
033		*2.1*	*Gross amount (-)*	2,082,792	3,916,931	5,999,723	1,543,738	-874,175	669,563
034		*2.2*	*Co-insurer share (+)*						
035		*2.3*	*Reinsurer share(+)*	488,208	3,007,313	3,495,520	-608,303	3,680,543	3,072,240
036	037+040	**VII**	**Change in other technical provisions, net of reinsurance**	**-13,035,786**	**-66,510**	**-13,102,296**	**15,286,017**	**-55,159**	**15,230,858**
037	038+039	1	Change in mathematical provision (+/-)	-13,035,786		-13,035,786	15,286,017		15,286,017
038		*1.1*	*Gross amount (-)*	-13,035,786		-13,035,786	15,286,017		15,286,017
039		*1.2*	*Reinsurer share(+)*						
040	041+042 +043	2	Change in other technical provisions, net of reinsurance (+/-)		-66,510	-66,510		-55,159	-55,159
041		*1.1*	*Gross amount (-)*		-66,510	-66,510		-55,159	-55,159
042		*1.2*	*Co-insurer share (+)*						
043		*1.3*	*Reinsurer share(+)*						
044	045+046 +047	**VIII**	**Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)**	**-11,872,641**		**-11,872,641**	**-13,722,562**		**-13,722,562**
045		1	*Gross amount (-)*	-11,872,641		-11,872,641	-13,722,562		-13,722,562
046		2	*Co-insurer share (+)*						
047		3	*Reinsurer share(+)*						
048	**049+050**	**IX**	**Expenditures for return of premium (bonuses and rebates), net of reinsurance**						
049		1	Depending on the result (bonuses)						
050		2	Not depending on the result (rebates)						
051	**052+056**	**X**	**Business expenditures (for business operations), net**	**-65,144,300**	**-17,819,703**	**-82,964,003**	**-62,963,666**	**-20,844,698**	**-83,808,364**
052	053+054 +055	1	Acquisition costs	-5,576,153	-4,557,250	-10,133,403	-5,982,389	-5,773,273	-11,755,661
053		*1.1*	*Commission*	-3,970,065	-4,445,492	-8,415,557	-4,077,173	-5,931,934	-10,009,107
054		*1.2*	*Other acquisition costs*	-1,606,088	-357,585	-1,963,673	-1,905,216	-261,046	-2,166,262
055		*1.3*	*Change in deferred acquisition costs (+/-)*		245,826	245,826		419,708	419,708
056	057+058 +059	2	Administration costs	-59,568,147	-13,262,452	-72,830,600	-56,981,278	-15,071,425	-72,052,703
057		*2.1*	*Depreciation of tangible assets*	-2,186,595	-486,831	-2,673,426	-439,845	-2,208,308	-2,648,152

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

Statement of comprehensive income (income statement) 01.01.2012- 31.12.2012

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
058		*2.3.*	*Salaries, taxes and contributions to and from salaries*	-31,163,627	-6,938,374	-38,102,001	**-32,161,313**	**-8,176,252**	**-40,337,565**
059		*2.4.*	*Other administration costs*	-26,217,926	-5,837,247	-32,055,173	**-24,380,120**	**-4,686,866**	**-29,066,986**
060	061+062+063+064+065+066+067	**XI**	**Investment expenses**	**-5,069,635**	**-4,609,342**	**-9,678,977**	**-6,403,396**	**-570,184**	**-6,973,580**
061		1	Depreciation (buildings not intended for business operations of the company)	-312,003		-312,003	**-340,800**		**-340,800**
062		2	Interest						
063		3	Investment value adjustment (reduction)	-919,356	-3,000,000	-3,919,356	**-1,853,249**	**-92,300**	**-1,945,549**
064		4	Losses from sale (realization) of financial assets	-1,833,366	-457,190	-2,290,557	**-2,144,397**	**-144,885**	**-2,289,282**
065		5	Adjustment of financial assets at fair value through profit and loss account	-267,681	-799,100	-1,066,781		**-215,142**	**-215,142**
066		6	Net negative exchange rate differences	-796,065	-73,648	-869,713	**-1,161,882**	**-59,979**	**-1,221,862**
067		7	Other investment expenses	-941,164	-279,404	-1,220,568	**-903,067**	**-57,878**	**-960,945**
068	069+070	**XII**	**Other technical expenses, net of reinsurance**	**-395,602**	**-3,511,194**	**-3,906,796**	**-205,092**	**-5,291,191**	**-5,496,283**
069		1	Expenses for preventive operations						
070		2	Other technical expenses of insurance	-395,602	-3,511,194	-3,906,796	**-205,092**	**-5,291,191**	**-5,496,283**
071		**XIII**	**Other expenses including value adjustments**		**-1,277**	**-1,277**		**-124,540**	**-124,540**
072	001+010+024+025+026+027+036+044+048+051+060+068+071	**XIV**	**Profit or loss of the accounting period before taxation (+/-)**	**23,492,328**	**9,279,878**	**32,772,206**	**14,423,750**	**8,527,687**	**22,951,437**
073	074+075	**XV**	**Profit or loss tax**	**-12,764**		**-12,764**			
074		1	Current tax expense						
075		2	Deferred tax expense (income)	-12,764		-12,764			
076	072+073	**XVI**	**Profit or loss of the accounting period after taxation (+/-)**	**23,479,564**	**9,279,878**	**32,759,442**	**14,423,750**	**8,527,687**	**22,951,437**
077		1	Attributable to owners of the parent						
078		2	Attributable to non-controlling interests						
079	001+010+024+025+026+075	**XVII**	**TOTAL INCOME**	189,396,405	42,845,682	232,242,087	**177,880,851**	**48,693,498**	**226,574,349**
080	027+036+044+048+051+060+068+071+074	**XVIII**	**TOTAL EXPENDITURE**	-165,916,840	-33,565,805	-199,482,645	**-163,457,101**	**-40,165,811**	**-203,622,912**

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

Statement of comprehensive income (income statement) 01.01.2012- 31.12.2012

in HRK

Position no.	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
081	082+083+084+085+086+087+088+089	**XIX**	**Other comprehensive income**	**-17,636,207**	**-3,774,342**	**-21,410,549**	**26,802,805**	**7,541,979**	**34,344,785**
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	-22,045,258	-4,717,928	**-26,763,186**	**33,503,507**	**9,427,474**	**42,930,981**
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	4,409,052	943,586	**5,352,637**	**-6,700,701**	**-1,885,495**	**-8,586,196**
090	076+081	**XX**	**Total comprehensive income**	**5,843,358**	**5,505,536**	**11,348,893**	**41,226,555**	**16,069,666**	**57,296,221**
091		1	Attributable to owners of the parent				**41,226,555**	**16,069,666**	**57,296,221**
092		2	Attributable to non-controlling interests						
093		**XXI**	**Reclassification adjustments**						

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

STATEMENT OF CASH FLOW (INDIRECT METHOD) for period 01.01.2012 - 31.12.2012

in HRK

Position no.	Sum elements	Position code	Position description	Current business period	The same period of the previous year
001	002+013+031	**I**	**CASH FLOW FROM OPERATING ACTIVITIES**	**-37,806,862**	**2,970,402**
002	003+004	**1**	**Cash flow before the change in assets and liabilities**	**-40,063,799**	**-13,398,789**
003		1.1	Profit/loss before taxation	22,951,437	32,772,206
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments	-63,015,236	-46,170,995
005		*1.2.1*	*Depreciation of real estate and equipment*	2,684,781	2,609,251
006		*1.2.2*	*Depreciation of intangible assets*	304,172	376,177
007		*1.2.3*	*Value impairment and profits/losses on reduction to fair value*	-11,460,010	-377,610
008		*1.2.4*	*Interest expense*		174,665
009		*1.2.5*	*Interest income*	-50,170,858	-48,644,445
010		*1.2.6*	*Shares in profit of associated companies*		
011		*1.2.7*	*Profits/losses on sale of tangible assets (including land and buildings)*	-181,751	29,616
012		*1.2.8*	*Other adjustments*	-4,191,569	-338,651
013	014+015+...+030	**2**	**Increase/decrease in assets and liabilities**	**2,256,936**	**16,369,191**
014		2.1	*Increase/decrease in investments available-for-sale*		
015		2.2	*Increase/decrease in investment valued at fair value through profit and loss account*		
016		2.3	*Increase/decrease in deposits, loans and receivables*	-2,000,000	0
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*		
019		2.6	*Increase/decrease in reinsurance share in technical provisions*	-5,514,553	-6,024,763
020		2.7	*Increase/decrease in tax assets*	2,967,091	-2,967,091
021		2.8	*Increase/decrease in receivables*	-15,737,508	-5,341,621
022		2.9	*Increase/decrease in other assets*	0	84,098
023		2.10	*Increase/decrease in prepayments and accrued income*	-415,148	-268,300
024		2.11	*Increase/decrease in technical provisions*	-11,347,610	9,922,545
025		2.12	*Increase decrease in life assurance technical provisions where the policyholder bears the investment risk*	13,722,562	11,872,641
026		2.13	*Increase/decrease in tax liabilities*	5,619,106	-2,467,989
027		2.14	*Increase/decrease in deposits retained from business ceded to reinsurance*	8,190,451	8,377,191
028		2.15	*Increase/decrease in financial liabilities*	0	
029		2.16	*Increase/decrease in other liabilities*	3,030,905	-348,527
030		2.17	*Increase/decrease in accruals and deferred income*	3,741,642	3,531,005
031		**3**	**Paid profit tax**	**0**	

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

STATEMENT OF CASH FLOW (INDIRECT METHOD) for period 01.01.2012 - 31.12.2012

in HRK

Position no.	Sum elements	Position code	Position description	Current business period	The same period of the previous year
032	033+034+...+046	**II**	**CASH FLOW FROM INVESTING ACTIVITIES**	**63,507,403**	**5,313,821**
033		1	Inflows from sale of tangible assets	975,402	76,265
034		2	Outflows for purchase of tangible assets	-1,125,219	-1,940,661
035		3	Inflows from sale of intangible assets		
036		4	Outflows for purchase of intangible assets	-30,927	-62,680
037		5	Inflows from sale of land and buildings not intended for business operations of the company		
038		6	Outflows for purchase of land and buildings not intended for business operations of the company		
039		7	Increase/decrease in investments in subsidiaries, associates and joint ventures		-10,106,360
040		8	Inflows from investments held to maturity		10,591,565
041		9	Outflows for investments held to maturity		
042		10	Inflows from sale of securities and stakes	179,629,187	458,854,686
043		11	Outflows for investments in securities and stakes	-123,571,020	-457,298,532
044		12	Inflows from dividends and shares in profit	324,450	113,800
045		13	Inflows on the basis of payment of given short-term and long-term loans	23,236,947	27,631,923
046		14	Outflows for given short-term and long-term loans	-15,931,417	-22,546,185
047	048+049+050 +051+052	**III**	**CASH FLOW FROM FINANCING ACTIVITIES**	**-20,343,525**	**-8,500,000**
048		1	Cash inflows on the basis of initial capital increase	7,502,000	
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	-27,845,525	-8,500,000
053	001+032+047		**NET CASH FLOW**	**5,357,015**	**-215,777**
054		**IV**	**EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS**		**47,702**
055	053+054	**V**	**NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS**	**5,357,015**	**-168,075**
056		1	Cash and cash equivalents at the beginning of the period	1,974,006	2,142,081
057	**055+056**	**2**	**Cash and cash equivalents at the end of the period**	**7,331,021**	**1,974,006**

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

STATEMENT OF CHANGES IN EQUITY for period 1.1.2012 - 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		
I.	**Balance as at 1 January of previous year**	**45,002,700**		**9,542,186**	**73,058,671**	**26,549,921**	**9,998,005**	**164,151,483**		**164,151,483**
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
II.	**Balance as at 1 January of previous year (corrected)**	**45,002,700**		**9,542,186**	**73,058,671**	**26,549,921**	**9,998,005**	**164,151,483**		**164,151,483**
III.	**Comprehensive income/loss of the previous year**			**-21,410,549**		**9,998,005**	**22,761,437**	**11,348,893**		**11,348,893**
1.	Profit or loss of the period						32,759,442	32,759,442		32,759,442
2.	**Other comprehensive income or loss of the previous year**			**-21,410,549**		**9,998,005**	**-9,998,005**	**-21,410,549**		**-21,410,549**
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			-21,410,549				-21,410,549		-21,410,549
2.3.	Realised gains or losses from financial assets available for sale									
2.4.	Other non-owner changes in equity					9,998,005	-9,998,005			
IV.	**Transactions with owners (previous period)**					**-8,500,000**		**-8,500,000**		**-8,500,000**
1.	Increase/decrease in subscribed capital									
2.	Other payments by owners									
3.	Payment of shares in profit /dividends					-8,500,000		-8,500,000		-8,500,000
4.	Other distributions to owners									
V.	**Balance as at the last day of the reporting period in previous year**	**45,002,700**		**-11,868,362**	**73,058,671**	**28,047,926**	**32,759,442**	**167,000,377**		**167,000,377**

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

STATEMENT OF CHANGES IN EQUITY for period 1.1.2012 - 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		
VI.	**Balance as at 1 January of the current year**	**45,002,700**		**-11,868,362**	**73,058,671**	**28,047,926**	**32,759,442**	**167,000,377**		**167,000,377**
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
VII.	**Balance as at 1 January of the current year (corrected)**	**45,002,700**		**-11,868,362**	**73,058,671**	**28,047,926**	**32,759,442**	**167,000,377**		**167,000,377**
VIII.	**Comprehensive income/loss of the current year**			**34,344,785**		**32,759,442**	**-9,808,005**	**57,296,221**		**57,296,221**
1.	Profit or loss of the previous period						22,951,437	22,951,437		22,951,437
2.	**Other comprehensive income or loss of the current year**			**34,344,785**		**32,759,442**	**-32,759,442**	**34,344,785**		**34,344,785**
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			34,344,785				34,344,785		34,344,785
2.3.	Realised gains or losses from financial assets available for sale									
2.4.	Other non-owner changes in equity					32,759,442	-32,759,442			
IX.	**Transactions with owners (current period)**	**7,502,000**				**-27,845,525**		**-20,343,525**		**-20,343,525**
1.	Increase/decrease in subscribed capital	7,502,000						7,502,000		7,502,000
2.	Other payments by owners									
3.	Payment of shares in profit /dividends					-27,845,525		-27,845,525		-27,845,525
4.	Other transactions with owners									
X.	**Balance as at the last day of the reporting period in the current year**	**52,504,700**		**22,476,422**	**73,058,671**	**32,961,843**	**22,951,437**	**203,953,073**		**203,953,073**

Reconciliation between financial statements and Croatian Financial Services Supervisory Agency Schedules

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 deferred acquisition costs to intangible assets	Transfer of shares and stakes in associates to Available-for-sale financial assets	Transfer of investments for the account and risk of life assurance policyholders to Financial assets at fair value through profit or loss	Transfer of Other prepayments and accrued income to insurance and other receivables	Statutory financial statements	
RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID							
Called up capital	-					-	
Uncalled capital	-					-	
INTANGIBLE ASSETS	**141**					-	**Intangible assets**
Goodwill	-	2,240				2,240	Deferred acquisition costs
Other intangible assets	141					141	Other intangible assets
TANGIBLE ASSETS	**43,662**					**43,662**	**Property and equipment**
Land and buildings intended for company business operations	40,179					-	
Equipment	2,782					-	
Other tangible assets and stock	701					-	
INVESTMENTS	**891,876**					-	
Investments in land and buildings not intended for company business operations	**20,526**					**20,526**	**Investment property**
Investments in subsidiaries, associates and joint ventures	-					-	
Shares and stakes in subsidiaries	-					-	
Shares and stakes in associates	-					-	
Joint venture participation	-					-	
Other financial investments	**871,350**					-	
Investments held-to-maturity	**358,679**					**358,679**	**Held-to-maturity investments**
Debt securities and other securities with fixed revenue	358,679					-	
Other investments held to maturity	-					-	
Investments available-for-sale	**382,875**					**382,875**	**Available-for-sale financial assets**
Shares, stakes and other securities with variable revenue	17,492					-	
Debt securities and other securities with fixed revenue	354,891					-	
Investment fund units	10,492					-	
Other investments available for sale	-					-	

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

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 deferred acquisition costs to intangible assets	Transfer of shares and stakes in associates to Available-for-sale financial assets	Transfer of investments for the account and risk of life assurance policyholders to Financial assets at fair value through profit or loss	Transfer of Other prepayments and accrued income to insurance and other receivables	Statutory financial statements	
Investments at fair value through profit and loss account	**40,419**			44,069		**84,488**	**Financial assets at fair value through profit or loss**
Shares, stakes and other securities with variable revenue	**1,157**					-	
Debt securities and other securities with fixed revenue	**22,241**					-	
Derivative financial instruments	-					-	
Investment fund units	**17,021**					-	
Other investments	-					-	
Deposits, loans and receivables	**89,377**					**89,377**	**Loans and receivables**
Deposits with credit institutions (banks)	**32,000**					-	
Loans	**41,097**					-	
Other loans and receivables	**16,280**					-	
Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)	-					-	
INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS	**44,069**			(44,069)		-	
REINSURANCE SHARE IN TECHNICAL PROVISIONS	**56,700**					**56,700**	**Reinsurers' share of insurance contract provisions**
Unearned premiums, reinsurance share	**16,280**					-	
Mathematical provision, reinsurance share	-					-	
Provision for claims outstanding, reinsurance share	**40,420**					-	
Provisions for return of premiums depending and not depending on the result (bonuses and rebates), reinsurance share	-					-	
Equalisation provisions, reinsurance share	-					-	
Other insurance technical provisions, reinsurance share	-					-	
Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share	-					-	

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

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 deferred acquisition costs to intangible assets	Transfer of shares and stakes in associates to Available-for-sale financial assets	Transfer of investments for the account and risk of life assurance policyholders to Financial assets at fair value through profit or loss	Transfer of Other prepayments and accrued income to insurance and other receivables	Statutory financial statements	
DEFERRED AND CURRENT TAX ASSET	-					-	**Deferred tax assets**
Deferred tax asset	-					-	
Current tax asset	-					-	
RECEIVABLES	**78,080**				74	**78,154**	**Insurance and other receivables**
Receivables from direct insurance business	**14,836**					-	
From policyholders	14,836					-	
From insurance agents, or insurance brokers	-					-	
Receivables from co-insurance and reinsurance business	23,607					-	
Other receivables	39,637					-	
Receivables from other insurance business	3,835					-	
Receivables for return on investments	32,268					-	
Other receivables	3,534					-	
OTHER ASSETS	7,331					**7,331**	**Cash and cash equivalents**
Cash at bank and in hand	7,331					-	
Funds in the business account	1,325					-	
Funds in the account of assets covering mathematical provision	5,969					-	
Cash in hand	37					-	
Long-term assets intended for sale and business cessation	-					-	
Other	-					-	
PREPAYMENTS AND ACCRUED INCOME	2,314					-	
Deferred interest and rent	-					-	
Deferred acquisition costs	2,240	(2,240)				-	
Other prepayments and accrued income	74				(74)	-	
TOTAL ASSETS	1,124,173					**1,124,173**	**Total assets**
OFF BALANCE SHEET ITEMS	-					-	

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

Statement of financial position – Equity and liabilities as at 31 December 2012

Supplementary information prescribed by a decision of the Croatian Agency for Financial Services		Transfer current period profit to retained earnings	Transfer life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer deposits from reinsurance and part of deferred expenses to other payables	Statutory financial statements	
CAPITAL AND RESERVES	**203,953**				-	
Subscribed capital	**52,505**				**52,505**	**Share capital**
Paid-up capital - ordinary shares	**52,505**				-	
Paid-up capital - preference shares	-				-	
Called up capital	-				-	
Issued shares premiums (capital reserves)	-				-	
Revaluation reserve	**22,477**				**22,477**	**Fair value reserve**
Land and buildings	-				-	
Financial investments	**22,477**				-	
Other revaluation reserves	-				-	
Reserves	**73,058**				-	
Legally stipulated reserves	**2,725**				**2,725**	**Legal reserve**
Statutory reserve	-					
Other reserve	**70,333**				**70,333**	**Other reserves**
Transferred (retained) profit or loss	**32,961**	22,952			**55,913**	**Retained earnings**
Retained profit	**32,961**				-	
Transferred loss (-)	-				-	
Profit or loss of the current accounting period	**22,952**	(22,952)			-	
Profit of the current accounting period	**22,952**				-	
Loss of the current accounting period (-)	-				-	
SUBORDINATED LIABILITIES	-				-	
TECHNICAL PROVISIONS	**792,927**		44,069		**836,996**	**Insurance contract provisions**
Unearned premiums, gross amount	**33,474**				-	
Mathematical provision, gross amount	**660,023**				-	
Provision for claims outstanding, gross amount	**99,017**				-	
Provisions for return of premiums depending and not depending on the result (bonuses and rebates), gross amount	-				-	
Equalisation provision, gross amount	**413**				-	
Other insurance technical provisions, gross amount	-				-	

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

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 current period profit to retained earnings	Transfer life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer deposits from reinsurance and part of deferred expenses to other payables	Statutory financial statements	
LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount	**44,069**		(44,069)		-	
OTHER RESERVES	-				-	
Provisions for pensions and similar liabilities	-				-	
Other provisions	-				-	
DEFERRED AND CURRENT TAX LIABILITY	**5,619**				-	
Deferred tax liability	5,619				**5,619**	**Deferred tax liability**
Current tax liability	-				-	
DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE	**24,834**			(24,834)	-	
FINANCIAL LIABILITIES	-				-	
Liabilities on the basis of loans	-				-	
Liabilities on the basis of issued securities	-				-	
Other financial liabilities	-				-	
OTHER LIABILITIES	**32,773**			39,263	**72,036**	**Insurance and other payables and deferred income**
Liabilities from direct insurance business	5,228				-	
Liabilities from co-insurance and reinsurance business	21,660				-	
Liabilities for sale and ceased business	-				-	
Other liabilities	5,885				-	
ACCRUED EXPENSES AND DEFERRED INCOME	**19,998**			(14,429)	**5,569**	**Provisions for liabilities and charges**
Deferred reinsurance commission	5,330				-	
Other accrued expenses and deferred income	14,668					
TOTAL LIABILITIES	**1,124,173**				**1,124,173**	**Total liabilities**
OFF BALANCE SHEET ITEMS	-				-	

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

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 coinsurance premium and premium impairment with gross premium written	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	Transfer of other technical income to other operating income	Transfer of gross changes in provisions to claims and benefits incurred	Transfer of reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Transfer of other expenses to other technical expenses	Netting of gross fair value reserve with changes in deferred tax liability	**Statutory financial statements**	
Earned premiums (recognized in revenue)	**140,774**								-	
Written gross premiums	**179,951**	(809)							**179,142**	**Gross premiums written**
Co-insurance premiums	**1**	(1)							-	
Value adjustment and charged adjustment of insurance/co-insurance premium value	**(810)**	810							-	
Premiums ceded to reinsurance (-)	**(36,258)**								**(36,258)**	**Written premiums ceded to reinsurers**
Premiums ceded to co-insurance (-)	-								-	
Change in gross provisions for unearned premiums (+/-)	**(4,553)**								**(4,553)**	**Change in the gross provision for unearned premiums**
Change in provisions for unearned premiums, reinsurance share (+/-)	**2,443**								**2,443**	**Reinsurers' share of change in the provision for unearned premiums**
Change in provisions for unearned premiums, co-insurance share (+/-)	-								-	
Income from investments	**70,612**		(3,726)						**66,886**	**Financial income**
Income from subsidiaries, associates and joint ventures	-								-	
Income from investment in land and buildings	863								-	
Income from rent	863								-	
Income from increased value of land and buildings	-								-	
Income from sale of land and buildings	-								-	
Interest income	50,171								-	
Unrealized profits from investment valued at fair value through profit and loss account	7,066								-	
Profits from sale (realization) of financial investments	8,844								-	
Investment valued at fair value through profit and loss account	1,316								-	
Investments available-for-sale	7,528								-	
Other profits from sale of financial investments	-								-	
Net positive exchange rate differentials	2,036								-	
Other investment profits	1,632								-	

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

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 coinsurance premium and premium impairment with gross premium written	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	Transfer of other technical income to other operating income	Transfer of gross changes in provisions to claims and benefits incurred	Transfer of reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Transfer of other expenses to other technical expenses	Netting of gross fair value reserve with changes in deferred tax liability		Statutory financial statements
Income from commissions and fees	**12,751**								**12,751**	**Fee and commission income**
Other insurance-technical income, net of reinsurance	-								-	
Other income	**2,437**								**2,437**	**Other operating income**
Expenditures for insured events, net	**(108,728)**								-	
Settled claims	(112,470)								-	
Gross amount (-)	(124,715)				2,178				**(122,537)**	**Claims and benefits incurred**
Co-insurer share (+)	-								-	
Reinsurer share(+)	12,245					3,072			**15,317**	**Reinsurers' share of claims and benefits incurred**
Change in provisions for claims outstanding (+/-)	3,742								-	
Gross amount (-)	670				(670)				-	
Co-insurer share (+)	-								-	
Reinsurer share(+)	3,072					(3,072)			-	
Change in other technical provisions, net of reinsurance	**15,231**								-	
Change in mathematical provision (+/-)	15,286								-	
Gross amount (-)	15,286				(15,286)				-	
Reinsurer share(+)	-								-	
Change in other technical provisions, net of reinsurance (+/-)	(55)								-	
Gross amount (-)	(55)				55				-	
Co-insurer share (+)	-								-	
Reinsurer share(+)	-								-	
Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)	**(13,723)**								-	
Gross amount (-)	(13,723)				13,723				-	
Co-insurer share (+)	-								-	
Reinsurer share(+)	-								-	

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

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 coinsurance premium and premium impairment with gross premium written	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	Transfer of other technical income to other operating income	Transfer of gross changes in provisions to claims and benefits incurred	Transfer of reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Transfer of other expenses to other technical expenses	Netting of gross fair value reserve with changes in deferred tax liability	**Statutory financial statements**	
Expenditures for return of premium (bonuses and rebates), net of reinsurance	-								-	
Depending on the result (bonuses)	-								-	
Not depending on the result (rebates)	-								-	
Business expenditures (for business operations), net	**(83,808)**								-	
Acquisition costs	(11,755)								**(11,755)**	**Acquisition costs**
Commission	(10,009)								-	
Other acquisition costs	(2,166)								-	
Change in deferred acquisition costs (+/-)	420								-	
Administration costs	(72,053)								**(72,053)**	**Administrative expenses**
Depreciation of tangible assets	(2,648)								-	
Salaries, taxes and contributions to and from salaries	(40,338)								-	
Other administration costs	(29,067)								-	
Investment expenses	**(6,974)**								**(3,248)**	**Financial expenses**
Depreciation (buildings not intended for business operations of the company)	(341)								(341)	
Interest	-								-	
Investment value adjustment (reduction)	(1,946)								(1,946)	
Losses from sale (realization) of financial assets	(2,289)		2,289						-	
Adjustment of financial assets at fair value through profit and loss account	(215)		215						-	
Net negative exchange rate differences	(1,222)		1,222						-	
Other investment expenses	(961)								(961)	
Other technical expenses, net of reinsurance	**(5,496)**						(125)		**(5,621)**	**Other operating expenses**
Expenses for preventive operations	-								-	
Other technical expenses of insurance	(5,496)								-	
Other expenses including value adjustments	**(125)**						125		-	
Profit or loss of the accounting period before taxation (+/-)	**22,951**								**22,951**	**Profit before income tax**
Profit or loss tax	-								-	
Current tax expense	-								-	
Deferred tax expense (income)	-								-	
Profit or loss of the accounting period after taxation (+/-)	**22,951**								-	

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

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 coinsurance premium and premium impairment with gross premium written	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	Transfer of other technical income to other operating income	Transfer of gross changes in provisions to claims and benefits incurred	Transfer of reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Transfer of other expenses to other technical expenses	Netting of gross fair value reserve with changes in deferred tax liability		**Statutory financial statements**
Attributable to owners of the parent	-								-	
Attributable to non-controlling interests	-								-	
TOTAL INCOME	226,574								-	
TOTAL EXPENDITURE	(203,623)								-	
Other comprehensive income	**34,345**								**34,345**	**Other comprehensive income for the year, net of income tax**
Profits/losses on translation of financial statements on foreign operating activities	-								-	
Profits/losses on revaluation of financial assets available for sale	**42,931**							34,345 (42,931)	34,345	Net change in fair value of available-for-sale financial assets, net of deferred tax
Profits/losses on revaluation of land and buildings intended for business activities of the company	-								-	
Profits/losses on revaluation of other tangible and (except land and real estate) intangible assets	-								-	
Effects from cash flow hedging instruments	-								-	
Actuarial profits/losses on defined benefit pension plans	-								-	
Share in other comprehensive income of associated companies	-								-	
Profit tax on other comprehensive income	(8,586)							8,586	-	
Total comprehensive income	**57,296**								**57,296**	**Total comprehensive income for the year**
Attributable to owners of the parent	57,296								-	
Attributable to non-controlling interests	-								-	
Reclassification adjustments	-								-	

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

Statement of cash flows for year ended 31 December 2012

Supplementary information prescribed by a decision of the Croatian Agency for Financial Services		Netting off of receipts and payments for debt securities	Netting of payments for equities	Netting off of receipts and payments for investment funds	Transfer of net receipts from loans and net payments for deposits in loans and receivables	Excluding collected interest from receipts from loans		Statutory financial statements
CASH FLOW FROM OPERATING ACTIVITIES	**(37,807)**							
Cash flow before the change in assets and liabilities	**(40,064)**						-	
Profit/loss before taxation	22,951						-	
Adjustments:	(63,015)						-	
Depreciation of real estate and equipment	2,685						-	
Depreciation of intangible assets	304						-	
Value impairment and profits/losses on reduction to fair value	(11,460)						-	
Interest expense	-						-	
Interest income	(50,171)						-	
Shares in profit of associated companies	-						-	
Profits/losses on sale of tangible assets (including land and buildings)	(182)						-	
Other adjustments	(4,192)						-	
Increase/decrease of operating assets and liabilities	**2,257**						-	
Increase/decrease in investments available-for-sale	-		(7,406)				(7,406)	Equity securities
Increase/decrease in investment valued at fair value through profit and loss account	-	23,950					23,950	Debt securities
Increase/decrease in deposits, loans and receivables	(2,000)			5,238	2,000		5,238	Units in investment funds
Increase/decrease of deposits in insurance business ceded to reinsurance	-						-	
Increase/decrease in investments for the account and risk of life assurance policyholders	-	(9,466)					(9,466)	Investments for the benefit of index linked life assurance
Increase/decrease in reinsurance share in technical provisions	(5,515)						-	
Increase/decrease in tax assets	2,967						-	
Increase/decrease in receivables	(15,737)						-	
Increase/decrease in other assets	-						-	
Increase/decrease in prepayments and accrued income	(415)						-	
Increase/decrease in technical provisions	(11,348)						-	
Increase decrease in life assurance technical provisions where the policyholder bears the investment risk	13,723						-	
Increase/decrease in tax liabilities	5,619						-	
Increase/decrease in deposits retained from business ceded to reinsurance	8,190						-	
Increase/decrease in financial liabilities	-						-	

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

Statement of cash flows for year ended 31 December 2012 (continued)

Supplementary information prescribed by a decision of the Croatian Agency for Financial Services		Netting off of receipts and payments for debt securities	Netting of payments for equities	Netting off of receipts and payments for investment funds	Transfer of net receipts from loans and net payments for deposits in loans and receivables	Excluding collected interest from receipts from loans		Statutory financial statements
Increase/decrease in other liabilities	3,031						-	
Increase/decrease in accruals and deferred income	3,742						-	
Paid profit tax	-						-	
CASH FLOW FROM INVESTING ACTIVITIES	**63,507**						-	
Inflows from sale of tangible assets	975						975	Proceeds from sale of property and equipment
Outflows for purchase of tangible assets	(1,125)						(1,125)	Acquisition of property and equipment
Inflows from sale of intangible assets	-						-	
Outflows for purchase of intangible assets	(31)						(31)	Acquisition of other intangible assets
Inflows from sale of land and buildings not intended for business operations of the company	-						-	
Outflows for purchase of land and buildings not intended for business operations of the company	-						-	
Increase/decrease in investments in subsidiaries, associates and joint ventures	-						-	
Inflows from investments held to maturity	-						-	
Outflows for investments held to maturity	-						-	
Inflows from sale of securities and stakes	179,629	(75,746)		(60,140)		3,134	46,877	Interest received
Outflows for investments in securities and stakes	(123,571)	61,262	7,406	54,902			-	
Inflows from dividends and shares in profit	324						324	Dividends received
Inflows on the basis of payment of given short-term and long-term loans	23,237				(17,931)	(3,134)	2,171	Deposits with banks and loans to customers
Outflows for given short-term and long-term loans	(15,931)				15,931		-	

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

Statement of cash flows for year ended 31 December 2012 (continued)

Supplementary information prescribed by a decision of the Croatian Agency for Financial Services		Netting off of receipts and payments for debt securities	Netting of payments for equities	Netting off of receipts and payments for investment funds	Transfer of net receipts from loans and net payments for deposits in loans and receivables	Excluding collected interest from receipts from loans		Statutory financial statements
CASH FLOW FROM FINANCING ACTIVITIES	**(20,343)**						**(20,343)**	**<u>Cash flow from financing activities</u>**
Cash inflows on the basis of initial capital increase	7,502						7,502	Proceeds from increase in share capital
Cash inflows from received short-term and long-term loans	-						-	
Cash outflows for payment of received short-term and long-term loans	-						-	
Cash outflows for repurchase of own shares	-						-	
Cash outflows for payment of dividends	(27,845)						(27,845)	Dividends paid
NET CASH FLOW	**5,357**						**5,357**	**Net inflow from financing activities**
EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS	-						-	**Effect of exchange rate changes on cash held**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**5,357**						**5,357**	**Net increase in cash and cash equivalents**
Cash and cash equivalents at the beginning of the period	1,974						1,974	**Cash and cash equivalents at 1 January**
Cash and cash equivalents at the end of the period	**7,331**						**7,331**	**Cash and cash equivalents at 31 December**