

Kvarner Vienna Insurance Group

Financial statements
31 December 2010

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Management Board's report

The Management Board is submitting its report together with the audited financial statements for the year ended 31 December 2010.

The Company

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

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

Since 2006, Vienna Insurance Group has become a trade mark for the Wiener Städtische Group in the CEE region; all companies within the Group, including the Company, now use Vienna Insurance Group as a "family" name.

Vienna Insurance Group is a listed international insurance group which operates in 24 countries in Central and Eastern Europe and is based in Vienna. It has a premium volume of over EUR 8 billion, approximately 24 thousand employees and is one of the 1000 largest companies in the world.

Gross written premium of HRK 496.8 million realised in 2010 puts the Kvarner Vienna Insurance Group d.d. in fifth place among insurance companies in Croatia, with a market share of 5.5%.

In 2010, the Company realised gross written premium of HRK 496.8 million, which represents a decrease of 7% in comparison to 2009. Both the non-life and life insurance segments recorded a decrease in written premiums, the most significant of which were recorded in the Motor hull (15%), Property fire (13%) and Financial losses (47%) lines of business.

As in the previous year, for individual lines of business, the largest share in total premiums relates to Life assurance (36%) followed by Motor Third Party Liability (25%). Ceded reinsurance amounted to HRK 181.4 thousand, which represents an increase of 37% in comparison to 2009. This increase is a result of new Group instructions requiring 50% of Motor Third Party Liability premiums to be ceded to reinsurance. The number of insurance contracts in 2010 decreased by 3% compared to 2009, and at 31 December 2010 amounted to 327,935. There was an increase of 45% or HRK 23.8 million in financial income, primarily as a result of an increase in available for sale financial assets (debt and equity securities). The Company's investments in government and corporate bonds in 2010 amounted to HRK 665 million and were 55% higher than in 2009.

Further strengthening of profitability, market position, reducing costs, prompt claims payment and offering of high quality services to our clients are the main goals of the Company.

Management Board's report (continued)

The economic environment

In the first quarter of 2010, Croatian GDP was 2.5% less than in 2009, and in the third quarter economic activities rose by 0.2% compared to the previous quarter. But, according to preliminary analyses, there is a prediction of negative annual GDP movement in 2010 (preliminary unofficial data show a decline of 1.4% compared to 2009.).

The most influential factor in the decline of GDP remains the low level of investment and industrial production. Industrial production recorded a significant decline in October 2010 after 3 months of consecutive growth and, although the decline rate is decreasing compared to previous periods, trends in construction are also negative.

Although the GDP decline rate will probably be much lower in 2010 than in 2009 (when the GDP decline rate was 5.7%), all indicators show that the Croatian economy will be recovering much more slowly than any previous expectations.

Negative trends in the economy are also reflected on the labour market. In December 2010, the registered unemployment rate in Croatia was 18.8%, which is 2.1% higher compared to the same period in 2009. According to recent data from the Croatian Bureau of Statistics, in December 2010 the number of unemployed individuals reached 319.845 (an increase of 9% compared to 2009). The unemployment rate during the last few months has been lower on a monthly basis than at the end of 2009 and at the beginning of 2010, but is still high.

Growth in the Croatian economy is expected for 2011, and according to some predictions the GDP growth rate should be between 1% and 1.8%. This will be primarily a result of low economic activity in 2010, and more favourable trends in surrounding economies, especially the EU.

The insurance industry

There were 26 insurance and 2 re-insurance companies on the Croatian insurance market in 2010. As a result of the current crisis and market trends in 2010, a slight decline in premiums was recorded on the Croatian insurance market. According to statistical data from the Croatian Insurance Bureau, the total premiums charged for all Croatian insurance companies amounted to HRK 9.244 billion, representing a decline of 1.8% compared to 2009. This is the second consecutive year of decline in the Croatian insurance market. Gross written premium for non life insurance declined by 2% compared to 2009 and amounted to HRK 6.8 billion, (73% of total written premiums) and life insurance written premiums amounted to HRK 2.4 billion (24% of total written premiums), representing a decline of 1.3% compared to the previous year. Total liquidated claims declined in 2010 by 8%, which is due to a decline in liquidated claims in the non – life insurance segment (by 12.8% compared to 2009), while liquidated claims in life insurance continued the negative growth rate trend of 11.5% compared to 2009.

Corporate governance

The main responsibility of the Management Board is the management of the Company's operations and representation of the Company toward third parties. Among other duties, the Management Board is responsible for ensuring that the Company operates in accordance with risk management regulations as prescribed by the Insurance Law and related regulations which provide the regulatory framework for insurance operations. The Board is required to prepare the Company's financial statements in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time, and also for selecting suitable accounting policies to conform with applicable accounting standards and then applying them consistently; making judgements and estimates that are reasonable and prudent; realistically estimating assets and liabilities and reporting to the Croatian Financial Services Supervisory Agency.

Management Board's report (continued)

The Management Board, during the course of 2010 and up to the date of the signing of this report, comprised:

Luka Matošić	President since 21 July 2010
Igor Jeličić	President until 21 July 2010, Member from 21 July 2010 until 5 January 2011
Harald Riener	Member since 6 September 2010
Zorislav Stašek	Member until 1 March 2010
Krešimir Kolar	Member until 26 November 2010

The Supervisory Board's main responsibility is the constant supervision of the Company's business management, appointing and recalling of the President and Members of the Management Board, participating in the development of annual financial reports. Also, the Supervisory Board approves the Management Board's decisions on the Company's business policies, financial planning and the framework of the annual internal audit programme. Once a year, the Supervisory Board submits a report to the General Assembly about its own performance and the performance of the audit committee. The audit committee is a legal requirement.

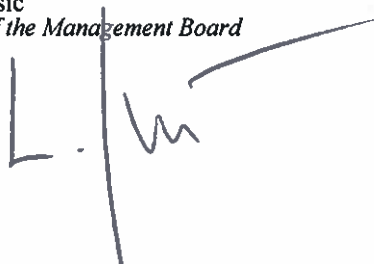
Hans Raumauf	President
Martin Simhandl	Deputy Chairman
Ivica Brčić	Member
Robert Haider	Member
Franz Kosyna	Member

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

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

KVARNER
VIENNA INSURANCE GROUP d.d.
RIJEKA 1

Luka Matošić
President of the Management Board



Harald Riener
Member of the Management Board



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

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

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

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

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

The consolidated and unconsolidated financial statements set out on pages 7 to 125 together with the schedules prepared in accordance with the Regulation of the Croatian Financial Services Supervisory Agency on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies (Official Gazette 132/10) ("the Schedules"), presented on pages 126 to 140, and a reconciliation, presented on pages 141 to 150, of the Schedules with the financial statements were authorised by the Management Board on 4 April 2011 for issue to the Supervisory Board and are signed below to signify this.

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

Luka Matošić
President of the Management Board

KVARNER
VIENNA INSURANCE GROUP d.d.
RIZIKA

Harald Riener
Member of the Management Board





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

We have audited the accompanying consolidated financial statements of Kvarner Vienna Insurance Group ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. We have also audited the accompanying unconsolidated financial statements of Kvarner Vienna Insurance Group d.d. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2010, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated and unconsolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and unconsolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated and unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated and unconsolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and unconsolidated financial statements.

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



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

Opinion

The Group

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

The Company

In our opinion, the unconsolidated financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2010, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1.2 c) and Note 1.22 in the consolidated and unconsolidated financial statements which describe that as of 31 December 2010 the Company's capital of non-life business is by HRK 3,868 thousand lower than the required statutory solvency margin and thereby does not meet minimum solvency requirements prescribed by the Croatian Financial Services Supervisory Agency, and that the capital of life assurance business is by HRK 79 thousand higher than required solvency margin of life assurance business. In view of this, the ability of the Company to fulfil statutory solvency requirements is dependent on the financial support of the parent company. As explained in Note 1.47, as of 29 March 2011, the parent company provided capital injection and increased the Company's non-life capital base in the amount of HRK 22.2 million.

Other legal and regulatory requirements

Pursuant to the Regulation of the Croatian Financial Services Supervisory Agency on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies, dated 19 November 2010 (Official Gazette 132/10), the Management Board of the Company has prepared the unconsolidated schedules of the Company set out on pages 126 to 140 ("the Schedules"), which comprise an alternative presentation of the unconsolidated statement of financial position as of 31 December 2010, and of the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a reconciliation ("the Reconciliation"), as presented on pages 141 to 150, of the Schedules with the unconsolidated financial statements as presented on pages 7 to 125. The Management Board of the Company is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the unconsolidated financial statements of the Company set out on pages 7 to 125 on which we have expressed an unqualified opinion as set out above.

Zagreb, 4 April 2011

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


Goran Horvat

Director, Croatian Certified Auditor

Statement of financial position as at

		Group 31 December 2010 HRK'000	Group 31 December 2009 HRK'000	Company 31 December 2010 HRK'000	Company 31 December 2009 HRK'000
Assets					
Property and equipment	1.11	98,562	113,972	50,048	64,629
Investment property	1.12	46,270	20,561	27,624	-
Intangible assets					
Deferred acquisition costs	1.13	32,796	38,283	32,796	38,283
Other intangible assets	1.14	23,164	21,205	23,164	21,179
Investments in subsidiaries and associates	1.15	6	12	1,702	1,702
Held-to-maturity investments	1.16	226,361	234,435	226,361	234,435
Available-for-sale financial assets	1.16	474,205	227,108	474,205	227,108
Financial assets at fair value through profit or loss	1.16	27,267	68,178	27,267	68,178
Investments for the benefit of unit and index linked life assurance	1.16	32,650	21,455	32,650	21,455
Loans and receivables	1.16	238,407	354,383	244,407	358,883
Reinsurers' share of insurance contract provisions	1.17	328,041	247,147	328,041	247,147
Deferred tax asset	1.18	2,246	2,000	2,246	2,000
Inventories		224	279	160	144
Insurance and other receivables	1.19	253,392	245,076	256,635	246,801
Current income tax prepayment		71	-	-	-
Assets held for sale	1.20	241	-	-	-
Cash and cash equivalents	1.21	13,567	13,865	13,503	13,779
Total assets		1,797,470	1,607,959	1,740,809	1,545,723
Shareholders' equity					
Share capital	1.22	120,107	120,107	120,107	120,107
Share premium	1.22	330	330	330	330
Legal reserve	1.22	1,463	1,463	1,463	1,463
Fair value reserve		(924)	890	(924)	890
Accumulated losses		(25,816)	(20,487)	(25,218)	(20,220)
Total equity attributable to equity holders of the Company		95,160	102,303	95,758	102,570
Liabilities					
Insurance contract provisions	1.24	1,181,647	1,079,598	1,181,647	1,079,598
Discretionary profit participation provision	1.25	9,335	10,463	9,335	10,463
Subordinated loan	1.26	14,770	14,565	14,770	14,565
Borrowings	1.27	55,662	60,759	-	-
Deferred tax liability	1.18	15	222	15	222
Provisions for liabilities and charges	1.28	1,500	500	1,500	500
Insurance and other payables and deferred income	1.29	439,381	339,432	437,784	337,805
Current income tax liability		-	117	-	-
Total liabilities		1,702,310	1,505,656	1,645,051	1,443,153
Total liabilities and equity		1,797,470	1,607,959	1,740,809	1,545,723

The accounting policies and other explanatory notes on pages 12 to 125 form an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December

	<i>Note</i>	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Gross premiums written	1.30	496,711	535,041	496,798	535,201
Written premiums ceded to reinsurers	1.30	(181,428)	(132,464)	(181,428)	(132,464)
Net premiums written		315,283	402,577	315,370	402,737
Change in the gross provision for unearned premiums	1.30	8,808	294	8,808	294
Reinsurers' share of change in the provision for unearned premiums	1.30	30,427	(12,537)	30,427	(12,537)
Net earned premiums		354,518	390,334	354,605	390,494
Fees and commission income	1.31	36,641	27,243	36,641	27,243
Financial income	1.32	76,953	54,406	75,912	52,083
Other operating income	1.33	4,655	5,225	3,324	4,537
Net income		472,767	477,208	470,482	474,357
Claims and benefits incurred	1.34	(326,915)	(337,737)	(327,404)	(343,012)
Reinsurers' share of claims and benefits incurred	1.34	89,270	80,722	89,270	80,722
Net policyholder claims and benefits incurred		(237,645)	(257,015)	(238,134)	(262,290)
Acquisition costs	1.35	(79,693)	(74,426)	(79,693)	(74,426)
Administrative expenses	1.36	(121,131)	(128,971)	(121,483)	(126,010)
Other operating expenses	1.37	(25,380)	(21,779)	(25,380)	(21,779)
Financial expenses	1.38	(14,165)	(14,516)	(10,790)	(10,584)
Loss before income tax		(5,247)	(19,499)	(4,998)	(20,732)
Income tax expense	1.39	(82)	(117)	-	-
Loss for the year		(5,329)	(19,616)	(4,998)	(20,732)
Other comprehensive income for the year, net of income tax					
Net change in fair value of available-for-sale financial assets, net of deferred tax		(1,814)	11,160	(1,814)	11,160
Total comprehensive income for the year		(7,143)	(8,456)	(6,812)	(9,572)
Loss for the period attributable to equity holders of the Group and Company		(5,329)	(19,616)	(4,998)	(20,732)
Total comprehensive income for the period attributable to the equity holders of the Group and Company		(7,143)	(8,456)	(6,812)	(9,572)
Loss per share		HRK	HRK		
Basic and diluted loss per share	1.28	(28)	(102.9)		

The accounting policies and other explanatory notes on pages 12 to 125 form an integral part of these financial statements.

Statement of changes in equity

Group

	Share capital	Share premium	Statutory reserve	Fair value reserve	Accumulated losses	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January 2009	120,107	12,693	1,463	(10,270)	(13,234)	110,759
Net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	-	11,382	-	11,382
Change in deferred tax	-	-	-	(222)	-	(222)
Other comprehensive income	-	-	-	11,160	-	11,160
Loss for the year	-	-	-	-	(19,616)	(19,616)
Total comprehensive income for the year	-	-	-	11,160	(19,616)	(8,456)
Appropriation of reserves upon General Assembly decision	-	(12,363)	-	-	12,363	-
Transactions with owners, recorded directly in equity	-	(12,363)	-	-	12,363	-
Balance at 31 December 2009	120,107	330	1,463	890	(20,487)	102,303
Balance at 1 January 2010	120,107	330	1,463	890	(20,487)	102,303
Net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	-	(2,267)	-	(2,267)
Change in deferred tax, net of amounts realised	-	-	-	453	-	453
Other comprehensive income	-	-	-	(1,814)	-	(1,814)
Loss for the year	-	-	-	-	(5,329)	(5,329)
Total comprehensive income for the year	-	-	-	(1,814)	(5,329)	(7,143)
Balance at 31 December 2010	120,107	330	1,463	(924)	(25,816)	95,160

The accounting policies and other explanatory notes on pages 12 to 125 form an integral part of these financial statements.

Statement of changes in equity (continued)

Company

	Share capital	Share premium	Statutory reserve	Fair value reserve	Accumulated losses	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January 2009	120,107	12,693	1,463	(10,270)	(11,851)	112,142
Net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	-	11,382	-	11,382
Change in deferred tax	-	-	-	(222)	-	(222)
Other comprehensive income	-	-	-	11,160	-	11,160
Loss for the year	-	-	-	-	(20,732)	(20,732)
Total comprehensive income for the year	-	-	-	11,160	(20,732)	(9,572)
Appropriation of reserves upon General Assembly decision	-	(12,363)	-	-	12,363	-
Transactions with owners, recorded directly in equity	-	(12,363)	-	-	12,363	-
Balance at 31 December 2009	<u>120,107</u>	<u>330</u>	<u>1,463</u>	<u>890</u>	<u>(20,220)</u>	<u>102,570</u>
Balance at 1 January 2010	120,107	330	1,463	890	(20,220)	102,570
Net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	-	(2,267)	-	(2,267)
Change in deferred tax liability, net of amounts realised	-	-	-	453	-	453
Other comprehensive income	-	-	-	(1,814)	-	(1,814)
Loss for the year	-	-	-	-	(4,998)	(4,998)
Total comprehensive income for the year	-	-	-	(1,814)	(4,998)	(6,812)
Balance at 31 December 2010	<u>120,107</u>	<u>330</u>	<u>1,463</u>	<u>(924)</u>	<u>(25,218)</u>	<u>95,758</u>

The accounting policies and other explanatory notes on pages 12 to 125 form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December

	Group	Group	Company	Company
Note	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
Cash flows from operating activities				
Insurance premiums received	510,104	515,225	510,191	515,385
Reinsurance premiums paid	(152,938)	(148,432)	(152,938)	(148,432)
Fees and commissions received	26,080	40,178	26,080	40,178
Interest received	50,475	51,253	50,813	51,547
Dividends received	196	245	196	245
Rent from investment property received	1,886	2,616	-	-
Claims and benefits paid	(216,801)	(223,531)	(217,290)	(228,806)
Reinsurance claims received	84,844	90,636	84,844	90,636
Payments to intermediaries	(66,174)	(52,356)	(66,174)	(52,356)
Payments to employees and suppliers	(131,929)	(154,058)	(133,839)	(151,557)
Interest paid	(4,110)	(3,737)	(1,028)	-
Other operating cash flows	2,139	(1,696)	(313)	(4,716)
Net (acquisition)/disposal of operating assets				
- Equities	(7,520)	6,833	(7,520)	6,833
- Debt securities	(220,658)	(63,680)	(220,658)	(63,680)
- Units in investment funds	45,927	(28,451)	45,927	(28,451)
- Deposits with banks and loans to customers	114,878	(5,709)	113,378	(4,768)
- Investments for the benefit of unit and index linked life assurance	(9,227)	(8,044)	(9,227)	(8,044)
Income taxes paid	(270)	(120)	-	-
Net cash from operations	26,902	17,172	22,442	14,014
Cash flow from investing activities				
Proceeds from sale of property and equipment	1,219	3,107	560	3,052
Proceeds from sale of investment property	1,371	-	1,371	-
Proceeds from sale of associate	6	6	-	-
Increase in investment in subsidiary	-	-	-	(1,550)
Acquisition of property and equipment	(18,123)	(25,612)	(18,061)	(27,652)
Acquisition of other intangible assets	(5,181)	(3,949)	(5,207)	(3,916)
Acquisition of investment property	(1,395)	-	(1,381)	-
Net cash from investing activities	(22,103)	(26,448)	(22,718)	(30,066)
Cash flows from financing activities				
Proceeds from subordinated loan	-	14,565	-	14,565
Repayment of borrowings	(5,097)	(6,812)	-	-
Net cash from financing activities	(5,097)	7,753	-	14,565
Net decrease in cash and cash equivalents	(298)	(1,523)	(276)	(1,487)
Cash and cash equivalents at 1 January	13,865	15,388	13,779	15,266
Cash and cash equivalents at 31 December	13,567	13,865	13,503	13,779

The accounting policies and other explanatory notes on pages 12 to 125 form an integral part of these financial statements.

1 Notes to the consolidated and separate financial statements

1.1. Reporting entity

Kvarner Vienna Insurance Group d.d. (the “Company”) is a joint stock company incorporated and domiciled in Croatia, Osječka 46, Rijeka. The Company is the parent of Kvarner Wiener Staedtische nekretnine d.o.o. and SOS Expert d.o.o. (together “the Group”).

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

The Company’s major shareholder (98.7% of voting rights) and ultimate parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe (previously Vienna Insurance Group Wiener Staedtische Versicherung AG), which is a joint stock company, incorporated and domiciled in Austria, Vienna.

1.2. Basis of preparation

(a) Statement of compliance

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

The financial statements were authorised for issue by the Management Board on 4 April 2011 for approval by the Supervisory Board.

(b) Basis of measurement

These financial statements are prepared on a historical or amortised cost basis except for the following assets which are measured at their fair value: available-for-sale financial assets and financial assets at fair value through profit or loss.

(c) Non compliance with required statutory solvency requirement in non-life business

As explained in Note 1.22, as of 31 December 2010 the capital of non-life business of the Company, calculated in accordance with the “Regulation on the manner of calculating capital, guarantee fund and capital adequacy of insurance and reinsurance companies” (Official Gazette 97/09, 42/10) (“the Capital regulation”) amounted to HRK 39,909 thousand, which was by HRK 3,868 thousand lower than required solvency margin of non-life business of the Company, calculated in accordance with the “Regulation on the manner of calculating the required solvency margin (capital adequacy) of insurance and reinsurance companies” (Official Gazette 92/09) (“the Solvency regulation”) and which represented a non-compliance with required statutory solvency requirement.

In addition, as of 31 December 2010 the capital of life assurance business of the Company, calculated in accordance with the Capital regulation amounted to HRK 35,904 thousand, which was by HRK 79 thousand higher than required solvency margin of life assurance business of the Company, calculated in accordance with the Solvency regulation.

In view of this, the ability of the Company to fulfil statutory solvency requirements is dependent on the financial support of the parent company. As explained in Note 1.47, as of 29 March 2011 the parent company provided capital injection in the amount of HRK 22.2 million in order to increase share capital of non-life business segment. Accordingly, the Management Board considers that it is appropriate to prepare financial statements on a going concern basis.

(d) Functional and presentation currency

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

1.2. Basis of preparation (continued)

(a) Use of estimates and judgements

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

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

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

(b) Basis of consolidation

Subsidiaries

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

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

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

Associates

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

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

Transactions eliminated on consolidation

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

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 for administrative purposes.

Recognition and measurement

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

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

Reclassification to investment property

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

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

Subsequent costs

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

Depreciation

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

The estimated useful lives are as follows:

	2010	2009
Buildings	40 years	40 years
Equipment and furniture	4 -10 years	4 -10 years
Motor vehicles	5 years	5 years
Leasehold improvements	10 years	10 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation methods and useful lives are reassessed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts, and are included in the profit or loss.

1.3. Significant accounting policies (continued)

(b) Investment property

Investment properties is property which is held either to earn rental income or for capital appreciation or for both.

Investment property is carried at cost less accumulated depreciation and any 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:

	2010	2009
Investment property	40 years	40 years

(c) Intangible assets: Deferred acquisition costs – insurance contracts

Acquisition costs comprise all direct and indirect costs arising from the conclusion of new insurance contracts and the renewal of existing contracts.

Deferred acquisition costs for non-life business comprise commissions paid to the external sales force and salaries of the internal sales force incurred in concluding insurance policies during a financial year but which relate to a subsequent financial year, and other variable underwriting and policy issue costs. General selling expenses and administrative costs are not deferred.

For non-life insurance business, the deferred acquisition cost asset has been calculated by applying the rate of 18.251% on unearned premiums.

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

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

(d) Other intangible assets

Goodwill

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

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is not amortised but is tested annually for impairment (Note 1.4.2). Impairment losses on goodwill are not reversed.

1.3. Significant accounting policies (continued)

(d) Other intangible assets (continued)

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

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

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete the development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

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

Other intangible assets

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

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives are as follows:

	2010	2009
Software	4 years	4 years
Acquired present value of in-force business	10 years	10 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 the carrying amount, and are included in the profit or loss.

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

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

1.3. Significant accounting policies (continued)

(f) Financial instruments

Classification and recognition

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

Reclassification

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

Pursuant to these amendments, the Group reclassified certain financial assets from fair-value through profit or loss category into available-for-sale category in 2009. The effect of this reclassification is shown in the 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 Group as at fair value through profit or loss. Derivatives are classified as held for trading. The Group does not apply hedge accounting.

As stated above, this category has two sub-categories: financial instruments held for trading, and those designated by management as at fair value through profit or loss at inception. Trading assets are those assets that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as a part of a portfolio that is managed together for short-term profit or position taking.

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

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

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

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

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.

1.3. Significant accounting policies (continued)

(f) Financial instruments (continued)

Loans and receivables (continued)

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

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

Held-to-maturity financial investments

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

Available-for-sale financial assets

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

Other financial liabilities

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

Recognition and derecognition

Purchases and sales of financial assets available for sale, financial assets at fair value through profit or loss and held-to-maturity investments are recognised on the trade date which is the date that the Group becomes a party to the contractual provisions of the investment. Loans and receivables and other financial liabilities carried at amortised cost are recognised when advanced to borrowers or received from lenders.

The Group derecognises financial assets (in full or part) when the contractual rights to receive cash flows from the financial assets have expired or when it loses control over the contractual rights on those financial assets. This occurs when the Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired.

The Group derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

1.3. Significant accounting policies (continued)

(f) Financial instruments (continued)

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Group measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reasons, the fair value cannot be reliably measured by market price, the Group establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 profit or loss.

Gains or losses arising from a change in the fair value of available-for-sale monetary assets are recognised directly in other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in profit or loss. Upon sale or other de-recognition of available-for-sale financial assets, any cumulative gains or losses on the instrument are transferred from other comprehensive income to the profit or loss.

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

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in profit or loss, when a financial instrument is derecognised or when its value is impaired.

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

Fair value measurement principles

The fair value of financial assets at fair value through profit or loss and available for sale financial assets is their quoted bid market price at the reporting date without any deductions for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Group establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, 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 related to the reporting date for a financial instrument with similar terms and conditions.

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

1.3. Significant accounting policies (continued)

(f) Financial instruments (continued)

Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at an asset-by-asset basis. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of a loan or advance due to the Group on terms that the Group would not otherwise consider, indications that a debtor 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 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.

1.3. Significant accounting policies (continued)

(f) Financial instruments (continued)

Specific instruments (continued)

Embedded derivatives within insurance and investment contracts (continued)

Embedded derivatives which satisfy the definition of an insurance contract do not need to be separated from their host contract. In addition, the Group took advantage of the following exemptions available within IFRS 4:

- not to separate and measure at fair value a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate) even if the exercise price differs from the carrying amount of the host insurance liability;
- not to separate and measure at fair value a policyholder's option to surrender contracts with discretionary participation features.

Sale and repurchase agreements

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

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

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

Debt securities

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

Deposits with banks

Deposits with banks are classified as loans and receivables and are carried at amortised cost less eventual impairment losses.

Loans to customers

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

Equity securities

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

Investments in investment funds

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

1.3. Significant accounting policies (continued)

(f) Financial instruments (continued)

Investments held on account and at risk of life assurance policyholders

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

Trade and other receivables

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

Investments in subsidiaries

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

Loans and borrowings

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

Trade and other payables

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

Offsetting of financial instruments

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

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

(g) Leased assets

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

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

(h) Cash and cash equivalents

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

(i) Employee benefits

Defined contribution plans

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

1.3. Significant accounting policies (continued)

(j) Income tax

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

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

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

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

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

(k) Provisions

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

Restructuring

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

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(l) Share capital

Ordinary share capital

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

Share premium

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

Repurchase of share capital

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

1.3. Significant accounting policies (continued)

(l) Share capital (continued)

Dividends

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

Legal reserve

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

Fair value reserve

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

Retained earnings

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

(m) Impairment

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

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

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

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

1.3. Significant accounting policies (continued)

(n) Segment reporting

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

Allocation of costs between the life assurance and non-life insurance segments

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

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

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

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

Allocation of equity and assets

Property and equipment and intangible assets are allocated to the non-life and life segment while the investment property of the Company is allocated to the non-life segment. Financial investments are allocated according to source of funds. Financial investments from equity are allocated to both non-life and life segments. Equity is allocated according to minimal regulatory capital requirements while for any excess a proportion of life and non-life premiums is used for allocation between segments. Other receivables and payables are allocated based on segments they originate from.

Investment property segment

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

(o) Revenue

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

Financial income

Interest income is recognised in the profit or loss as it accrues, taking into account the effective yield on the asset. Interest on monetary assets classified as at fair value through profit or loss is accrued at the coupon rate and presented within interest income. Dividend income is recognised in the profit or loss on the date that the dividend is declared.

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

Financial income also includes net positive foreign exchange differences resulted from translating monetary assets and liabilities using the exchange rate at the reporting date.

The accounting policy in relation to financial income recognition is disclosed in note 1.3 (f) under "Gains and losses".

1.3. Significant accounting policies (continued)

(o) Revenue (continued)

Fees and commission income

Commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Group on the effective commencement or renewal dates of the related policies. Fees and commission income includes various reinsurance commission income.

(p) Expenses

Operating expenses

Operating expenses consist of policy acquisition costs, administration costs and other operating expenses.

Acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts such as sales representatives' commission and marketing and advertising expenses. Non-life commission expenses are recognised on an accruals basis, while life commission expenses are recognised on a cash basis consistent with the related income recognition criteria (see accounting policy 1.3 (q)).

For the Group's accounting policy on deferred acquisition costs, refer to accounting policy note 1.3 (c).

Administration costs

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

Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

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(f) under "Gains and losses".

(q) Classification of contracts

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

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

1.3. Significant accounting policies (continued)

(q) Classification of contracts (continued)

Contracts with discretionary participation features

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

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

Discretionary profit participation provision

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

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

(r) Premiums

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

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

The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received in the same accounting period as the premiums for the related direct insurance business.

In accordance with the exemption afforded by IFRS 4, and in line with the prevailing market practice, premiums in respect of life assurance business continue to be accounted for on a cash receipts basis.

1.3. Significant accounting policies (continued)

(s) Provision for unearned premiums

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

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

Unearned premium provision for individual insurance contract is formed in the amount of the part of written premium which relates to insurance coverage for the insurance period after the accounting period for which the provision is calculated. For the calculation of gross unearned premium for non-life insurance with equal risk dispersion, the “pro-rata temporis” method is used.

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

(t) Unexpired risk provision

Provision is made for unexpired risks arising from non-life business where the expected value of claims and expenses (including deferred acquisition costs and administrative expenses likely to arise after the end of the financial year) attributable to the unexpired periods of policies in force at the date of financial position exceeds the provision for unearned premiums related to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment returns.

(u) Claims provisions

The provision represents 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 provision for reported claims and provisions for incurred but not reported claims.

(v) Life assurance provisions

The life assurance provision has been computed by the Group’s actuary, having due regard to principles laid down in the regulation for the calculation of the mathematical provision for life insurers, issued by HANFA. The life assurance provision has been computed on an in-force premium basis, applying a Zillmer type valuation method, and taking into account actual acquisition, collection and administrative costs as well as all guaranteed benefits and bonuses already declared and proposed. The prospective net premium valuation method has been adopted with the exception of unit-linked and index-linked products where the provision is based on the fair value of the underlying assets.

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

The provision is initially measured using the assumptions used for calculating the corresponding premiums and remains unchanged except where liability inadequacy occurs. A liability adequacy test (LAT) is performed at each reporting date by the Group’s actuaries using current estimates of future cash flows under its insurance contracts (refer to accounting policy 1.3 (y)). If those estimates show that the carrying amount of the provision is insufficient in the light of the estimated future cash flows, the difference is recognised in profit or loss with a corresponding increase in the life assurance provision.

The amount of bonus allocated to policyholders has been determined at the reporting date and is presented within the discretionary profit participation provision.

1.3. Significant accounting policies (continued)

(w) Claims

Claims arising from non-life business

Claims incurred in respect of non-life business consist of claims and claims handling costs settled during the financial year, together with the movement in the provision for outstanding claims.

Claims paid are recorded in the moment of processing the claim and are recognised (determined) as the amount to be paid to settle the claim. Claims settled are increased by claims handling costs.

Collected claims recoverable from third parties and claims recoverable from third parties that are anticipated to be collected are deducted from claims settled.

Claims outstanding based on case estimates and statistical methods comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred up to but unpaid at the reporting date, whether reported or not, together with the related internal and external claims handling expenses and an appropriate margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends.

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

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

(x) 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 on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim. The cost of reinsurance related to life assurance contracts is accounted for over the life of the underlying insurance policies using assumptions consistent with those used to account for the underlying policies.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy. Reinsurance assets comprise the actual or estimated amounts, which, under contractual reinsurance arrangements, are recoverable from reinsurers in respect of technical provisions. Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date applying the same methodology as applied for loans and receivables as described in Note 1.3 (f). 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.

1.3. Significant accounting policies (continued)

(x) Reinsurance (continued)

Reinsurance commissions and profit participations

Reinsurance commissions and profit participations include commissions received or receivable from reinsurers and profit participations based on reinsurance contracts. Non-life reinsurance commissions are deferred in the amount corresponding to 15% of reinsurance share in provision for unearned premiums except for the Motor Third Party Liability line of business where premium ceded to reinsurance is based on earned premium and thus reinsurance commission is not deferred.

(y) Liabilities and related assets under liability adequacy test

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

IFRS 4 requires a test for the adequacy of liabilities arising from insurance contracts. The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under all of its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (increased by related deferred acquisition costs) are inadequate in the light of the estimated future cash flows, the entire deficiency is charged to profit or loss. The estimates of future cash flows are based on realistic actuarial assumptions taking into consideration claim occurrence experience, most recent demographic tables, aspects of mortality, morbidity, investment return, expenses and inflation.

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

Liabilities in relation to unit-linked and index-linked insurance contracts are classified at fair value through profit and loss. Transaction costs and front-end fees in respect of financial liabilities measured at fair value are not included in the initial measurement amount and are recognised as an expense where incurred. The financial liability is measured based on the carrying value of the assets and liabilities that are held to back the contract.

(aa) Insurance receivables and payables

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

(bb) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 financial statements and could change classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

1.3. Significant accounting policies (continued)

(cc) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate on the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss.

Changes in the fair value of monetary securities denominated in or linked to foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in income as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within investment income or investment expense in the profit or loss. Other changes in the carrying amount are recognised in equity. At the reporting date the Group did not have any non-monetary securities denominated in or linked to foreign currency classified as available for sale.

The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency classified as available for sale are recognised in other comprehensive income, along with other changes in fair value.

The most significant foreign currency in which the Group holds assets and liabilities is Euro. The exchange rate used for translation at 31 December 2010 was EUR 1 = HRK 7.385 (2009: EUR 1 = HRK 7.306).

1.4. Accounting estimates and judgements

These disclosures supplement the commentary on financial risk management (Note 1.42) and insurance risk management (Note 1.5).

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

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

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

Major assumptions in calculating the life assurance provision are set out in Note 1.6, whilst insurance contract provisions are analysed in Note 1.24.

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 1.3(f) on impairment of financial assets.

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

Determining fair values

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in accounting policy 1.3(f). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Estimation of uncertainty in relation to court cases

A significant source of estimation uncertainty stems from court cases. At 31 December 2010, the Group was involved in 1,245 (2009: 937) court cases for which HRK 51,900 thousand (2009: HRK 45,810 thousand) was provided as part of the claims reserve for reported but not yet settled claims. At 31 December 2010, the Group was involved in one non-insurance court cases for which HRK 500 thousand (2009: HRK 500 thousand) was provided as provision for non-insurance related legal claims. The management believes that the related provisions are sufficient.

Tax

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

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 Group's and Company's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

Joint liability

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

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

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

Financial asset and liability classification

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

Classification of products

For the Group's accounting policy on classification of contracts as insurance or investment contracts, please refer to accounting policy 1.3 (q). At the reporting date, the Group had no insurance products which would be classified as investment contracts.

Classification of property

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

Allocation of indirect expenses between life and non-life

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

Useful economic life of equipment and intangible assets

The Group continues to use certain equipment and intangible assets which have been fully depreciated. Amortisation/depreciation rates were initially determined in accordance with the best estimate of the useful life of this equipment and intangible assets. Management believes this is appropriate as the use of these assets will soon be discontinued.

1.4. Accounting estimates and judgements (continued)

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

Impairment allowance for insurance receivables

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

Deferred tax asset

Deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax asset can be utilised.

Goodwill

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

As part of annual impairment test, the Group has used the following assumptions:

- premium growth of 4.6%,
- combined non-life ratio of 90%,
- discount rate used for discounting of cash flows calculated as a pre-tax Group specific risk adjusted discount rate.

Deferred acquisition costs

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

Investment in subsidiaries and associates

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

Impairment test for AFS equity instruments

Due to the recent changes in the capital market, such as increased volatility and the declining market values, the management believes the impairment policy for AFS equity instruments to be a critical accounting judgement. The Group has applied the following policy for the impairment test:

- Impairment is obligatory, if the market value is continuously below 80% of the historical purchase costs for a 6 month period.
- For the reporting date rule, when the market value is more than 50% below the historical purchase cost as at reporting date, impairment is obligatory.

In 2010, as a result of impairment test, the Group recognised impairment loss in 2010 in the amount of HRK 613 thousand (2009: HRK 2,135 thousand).

1.5. Insurance risk management

The Group is exposed to insurance risk arising from a wide range of life and non-life products offered to customers: participating traditional life products, unit-linked products, index-linked products and all lines of non-life products (property, accident and health, motor vehicle, third party liability, marine and transport).

Insurance risk relates to the uncertainty of the insurance business. The most significant components of insurance risk are premium risk and reserve risk. These concern the adequacy of insurance premium rate levels and the adequacy of provisions with respect to insurance liabilities and the capital base.

Premium risk is present when the policy is issued before any insured event has happened. The risk is that expenses and incurred losses will be higher than the premium received. Reserve risk represents the risk that the absolute level of the technical provisions is misestimated or that the actual claims will fluctuate around the statistical mean value.

Non-life underwriting risk includes also catastrophe risk, which stems from irregular events that are not sufficiently covered by premium and reserve risk. Underwriting risk components of the life business include biometric risk (comprising mortality, morbidity and disability) and lapse risk. Lapse risk relates to unanticipated higher or lower rates of policy lapses, terminations, changes to pay up status (cessation of premium payment) and surrenders.

Risk management

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. The most of the non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Group buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure for an individual risk to less than EUR 0.25 million. For the accumulation of net property losses arising out of one occurrence, a reinsurance catastrophe agreement provides cover for the first EUR 946.85 million (*2009: EUR 946.85 million*) of losses exceeding the first EUR 0.15 million.

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

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

1.5. Insurance risk management (continued)

Concentration of insurance risk

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

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

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

Non life insurance

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as earthquake, flood or storm damage. The techniques and assumptions that the Group uses to calculate these risks are as follows:

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

Life assurance

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

Line of insurance	Value at risk			
	2010		2009	
	HRK'000	%	HRK'000	%
Life assurance – traditional products	3,296,341	45.7%	3,313,377	43.2%
Unit-linked and index-linked products	239,326	3.3%	303,018	4.0%
Supplementary risks	3,683,032	51.0%	4,048,350	52.8%
As at 31 December	7,218,699	100.0%	7,664,745	100.0%

1.5. Insurance risk management (continued)

Concentration of insurance risk (continued)

Life assurance (continued)

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

Sum insured per policy at 31 December 2010

	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 20,000	53,979	1.2%	35,817	1.2%
20,001-40,000	254,017	5.8%	191,736	6.2%
40,001-60,000	465,393	10.7%	330,925	10.7%
60,001-80,000	853,748	19.5%	648,793	21.1%
80,001-100,000	574,336	13.1%	386,135	12.5%
> 100,001	2,173,326	49.7%	1,486,867	48.3%
As at 31 December 2010	4,374,799	100.0%	3,080,273	100.0%

Sum insured per policy at 31 December 2009

	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 20,000	48,700	1.1%	14,618	1.1%
20,001-40,000	287,813	6.7%	65,885	5.0%
40,001-60,000	451,091	10.4%	122,462	9.4%
60,001-80,000	859,846	19.9%	218,717	16.7%
80,001-100,000	542,316	12.5%	182,512	14.0%
> 100,001	2,135,715	49.4%	704,231	53.8%
As at 31 December 2009	4,325,481	100.0%	1,308,425	100.0%

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

Non-life insurance

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

The liability for notified outstanding claims (NOCR) is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case reserves are reviewed regularly and are updated as and when new information arises.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are assessed by the Group's actuaries using statistical techniques such as various chain ladder methods, whereby historical data is extrapolated in order to estimate ultimate claims costs.

The key methods, which remain unchanged from prior years, are:

- chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- expected loss ratio methods, which use the Group's expectation of the loss ratio for a class of business;
- benchmarking methods, which use the experience of comparable, more mature, classes to estimate the cost of claims.

The actual method or blend of methods used varies by accident year being considered, the class of business and observed historical claims development.

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

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

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries.

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

Expected claims ratio

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

Tail factors

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

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

Non-life insurance (continued)

Discounting

Non-life claims provisions are not discounted.

In 2010 there have been no major changes in assumptions used to measure non-life insurance assets and liabilities.

Life assurance

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

The guaranteed technical rate of interest included in policies varies from 3% to 6% according to the actual technical rate used in premium determination.

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

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

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

Policyholder bonuses

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

Principal assumptions for life assurance business

Description	Product	Rates of interest for calculating reserve	Mortality tables
Endowment	AWS/C03	3.00%	MT HR 1980-82
Endowment	B/AURDC/A07/DJ/CE-N	3.00%	MT HR 1989-91
Endowment	C/CE	3.00%	MT HR 2000-02
Endowment	A11/A12/AUR20/AUR21	3.30%	MT HR 2000-02
Joint Life	AUR02	3.30%	MT HR 1980-82
Term	IK/IKD	3.00%	MT HR 1989-91
Term	IKE	3.00%	MT HR 2000-02
Term	POS	3.30%	MT HR 1980-82
Pure endowment	BR	3.00%	MT HR 1980-82
Unit linked	UL/ULS/FI	-	MT HR 1980-82
Term fix	E/VF1	3.00%	MT HR 2000-02
Index-linked	IL	-	MT HR 1989-91
Index-linked	EG	-	MT HR 2000-02

1.7. Liability adequacy test

Life assurance

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

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

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

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

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

The methodology of testing considers current estimates of all future contractual cash flows. This methodology enables quantification of the correlation between all risks factors.

The principal assumptions used are:

Segmentation

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

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

Mortality and morbidity

Mortality and morbidity are usually based on data supplied by the Croatian Statistical Bureau and amended by the Group based on a statistical investigation of the Group's mortality experience.

Persistency

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

Expenses

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

1.7. Liability adequacy test (continued)

Life assurance (continued)

Expected investment return and discount rate

Future investment returns are calculated using the risk free rate which is seven-year EUR Croatian Sovereign Bloomberg fair value curve. The projected risk free rate was 6.37%.

The risk discount rate is equal to the risk free rate, i.e. investment return.

Profit sharing

Whilst, for most life assurance policies, the amount and timing of the bonus to policyholders is at the discretion of the Group, the assessment of the liability adequacy takes into account future discretionary bonuses, calculated as a fixed percentage of the excess of the estimated investment return over the guaranteed technical interest rate on individual policies. The percentage applied is consistent with the Group's current business practice for bonus allocation.

Non-life insurance

Contrary to life assurance, insurance liabilities connected with non-life insurance are calculated by using current (not historical) assumptions.

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

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

An additional provision of HRK 2,100 thousand has been established as of 31 December 2010 (2009: HRK 3,120 thousand) as a result of the liability adequacy test and is disclosed under the unexpired risk reserve.

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

Life assurance

	LAT future cash flow - modelled HRK'000
Base run	579,375
Interest rates (discounting and investment return) –100bp	603,830
Mortality +10%	582,520
Policy maintenance expenses +10%	595,199

The portfolio modelled represents 96.5% of in force life assurance provision (HRK 739,685 thousand life assurance provision modelled together with profit participation reserve). The rest of the portfolio was not modelled since it is similar to the modelled part.

Base run represents LAT future cash flows calculated using the assumptions described under note 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 sensitivity to changes in interest rates was calculated by estimating the effect on LAT future cash flows of a 100bp decrease in the interest rates.

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

Non-life insurance

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

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

Non-life insurance contracts

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

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

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

The other significant source of uncertainty connected with non-life insurance arises from legislative regulations which entitle the policyholder to report a claim before the statute of limitation, which is effective 3 years from the date when the policyholder becomes aware of the claim but not later than 5 years from the beginning of the year following the year of occurrence. This feature is particularly significant in case of permanent disability arising from accident insurance, because of the difficulty in estimating the period between occurrence and confirmation of permanent effects.

The characteristics of particular insurance types, if they are significantly different from the above mentioned features, are described below.

Motor insurance

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

Property damage under MTPL and casco claims are generally reported and settled within a short period of the accident occurring. Reporting and payments relating to bodily injury claims, however, take longer to finalise and are more difficult to estimate. Such claims may be settled in the form of a lump-sum settlement or an annuity.

The amount of claims relating to bodily injury and related losses of earnings are influenced by directives set by the Supreme Court which 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.

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

Non-life insurance contracts (continued)

Property insurance

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

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

Liability insurance

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

Accident insurance

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

Life assurance contracts

Bonuses

Around 80% of the Group’s traditional life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Group and are recognised when proposed and approved by the Board of Directors in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are guaranteed.

Premiums

Premiums may be payable in regular instalments or as a single premium at inception of the policy. Some endowment-type insurance contracts contain a premium indexation option which may be exercised at the discretion of the policyholder annually. Where the option is not exercised, premiums are not increased by inflation.

Term life insurance products

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

Endowment products

These are traditional life insurance products providing long term financial protection. These policies had tax advantages until 30 June 2010 and had given 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, endowment, and waiver of premium in case of permanent work inability. Accident can be added as a rider to the main endowment coverage. Insurance benefits are usually paid in a lump-sum.

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)

Pure endowments

These are also traditional life insurance products providing life-long financial protection at expiry. Premiums under this product could have also given tax advantages until 30 June 2010 to the insured and give the insured the possibility to finance their needs in retirement. The premium under this product is paid annually or monthly and it covers the risk of endowment and accident rider.

Unit-linked life assurance

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

Index-linked life assurance

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

1.10. Segment reporting

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

Group

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Assets					
Property and equipment	45,709	4,339	48,804	(290)	98,562
Investment property	27,624	-	18,786	(140)	46,270
Intangible assets					
Deferred acquisition costs	32,412	384	-	-	32,796
Other intangible assets	18,645	4,519	-	-	23,164
Investments in subsidiaries and associates	1,652	50	6	(1,702)	6
Held-to-maturity investments	13,245	213,116	-	-	226,361
Available-for-sale financial assets	44,741	429,464	-	-	474,205
Financial assets at fair value through profit or loss	13,090	14,177	-	-	27,267
Investments for the benefit of unit and index linked life assurance	-	32,650	-	-	32,650
Loans and receivables	97,744	146,663	-	(6,000)	238,407
Reinsurers' share of insurance contract provisions	112,162	215,879	-	-	328,041
Deferred tax asset	2,000	246	-	-	2,246
Inventories	160	-	64	-	224
Insurance and other receivables	182,342	74,715	341	(4,006)	253,392
Current income tax prepayment	71	-	-	-	71
Assets held for sale	-	-	241	-	241
Cash and cash equivalents	2,539	10,970	58	-	13,567
Total assets	594,136	1,147,172	68,300	(12,138)	1,797,470
Shareholders' equity					
Share capital	79,311	40,816	1,600	(1,620)	120,107
Share premium	330	-	-	-	330
Statutory reserve	-	1,463	-	-	1,463
Fair value reserve	59	(983)	-	-	(924)
(Accumulated losses)/retained earnings	(34,094)	8,877	(169)	(430)	(25,816)
Total equity attributable to equity holders of the Company	45,606	50,173	1,431	(2,050)	95,160
Liabilities					
Insurance contract provisions	377,940	803,707	-	-	1,181,647
Discretionary profit participation provision	-	9,335	-	-	9,335
Subordinated loan	14,770	-	-	-	14,770
Borrowings	-	-	61,662	(6,000)	55,662
Deferred tax liability	15	-	-	-	15
Provisions for liabilities and charges	1,500	-	-	-	1,500
Insurance and other payables and deferred income	154,305	283,957	5,207	(4,088)	439,381
Total liabilities	548,530	1,096,999	66,869	(10,088)	1,702,310
Total liabilities and equity	594,136	1,147,172	68,300	(12,138)	1,797,470

1.10. Segment reporting (continued)

Statement of financial position by business segment as at 31 December 2009

Group

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Assets					
Property and equipment	60,996	4,290	48,975	(289)	113,972
Investment property	-	-	20,702	(141)	20,561
Intangible assets					
Deferred acquisition costs	37,879	404	-	-	38,283
Other intangible assets	18,556	2,649	-	-	21,205
Investments in subsidiaries and associates	1,652	50	12	(1,702)	12
Held-to-maturity investments	13,092	221,343	-	-	234,435
Available-for-sale financial assets	18,385	208,723	-	-	227,108
Financial assets at fair value through profit or loss	7,094	61,084	-	-	68,178
Investments for the benefit of unit and index linked life assurance	-	21,455	-	-	21,455
Loans and receivables	140,546	218,337	-	(4,500)	354,383
Reinsurers' share of insurance contract provisions	66,272	180,875	-	-	247,147
Deferred tax asset	2,000	-	-	-	2,000
Inventories	144	-	135	-	279
Insurance and other receivables	162,124	84,661	402	(2,111)	245,076
Cash and cash equivalents	3,068	10,734	63	-	13,865
Total assets	531,808	1,014,605	70,289	(8,743)	1,607,959
Shareholders' equity					
Share capital	72,311	47,816	1,600	(1,620)	120,107
Share premium	330	-	-	-	330
Statutory reserve	-	1,463	-	-	1,463
Fair value reserve	69	821	-	-	890
Accumulated losses	(18,757)	(823)	(477)	(430)	(20,487)
Total equity attributable to equity holders of the Company	53,953	49,277	1,123	(2,050)	102,303
Liabilities					
Insurance contract provisions	370,391	709,207	-	-	1,079,598
Discretionary profit participation provision	-	10,463	-	-	10,463
Subordinated loan	14,565	-	-	-	14,565
Borrowings	-	-	65,259	(4,500)	60,759
Deferred tax liability	17	205	-	-	222
Provisions for liabilities and charges	500	-	-	-	500
Insurance and other payables and deferred income	92,304	245,453	3,868	(2,193)	339,432
Current income tax liability	78	-	39	-	117
Total liabilities	477,855	965,328	69,166	(6,693)	1,505,656
Total liabilities and equity	531,808	1,014,605	70,289	(8,743)	1,607,959

1.10. Segment reporting (continued)

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

Company

	Non-life HRK'000	Life HRK'000	Total HRK'000
Assets			
Property and equipment	45,709	4,339	50,048
Investment property	27,624	-	27,624
Intangible assets			
Deferred acquisition costs	32,412	384	32,796
Other intangible assets	18,645	4,519	23,164
Investments in subsidiaries and associates	1,652	50	1,702
Held-to-maturity investments	13,245	213,116	226,361
Available-for-sale financial assets	44,741	429,464	474,205
Financial assets at fair value through profit or loss	13,090	14,177	27,267
Investments for the benefit of unit and index linked life assurance	-	32,650	32,650
Loans and receivables	97,744	146,663	244,407
Reinsurers' share of insurance contract provisions	112,162	215,879	328,041
Deferred tax asset	2,000	246	2,246
Inventories	160	-	160
Insurance and other receivables	181,920	74,715	256,635
Cash and cash equivalents	2,533	10,970	13,503
	<hr/>	<hr/>	<hr/>
Total assets	593,637	1,147,172	1,740,809
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Shareholders' equity			
Share capital	79,291	40,816	120,107
Share premium	330	-	330
Statutory reserve	-	1,463	1,463
Fair value reserve	59	(983)	(924)
(Accumulated losses)/retained earnings	(34,095)	8,877	(25,218)
	<hr/>	<hr/>	<hr/>
Total equity attributable to equity holders of the Company	45,585	50,173	95,758
	<hr/>	<hr/>	<hr/>
Liabilities			
Insurance contract provisions	377,940	803,707	1,181,647
Discretionary profit participation provision	-	9,335	9,335
Subordinated loan	14,770	-	14,770
Deferred tax liability	15	-	15
Provisions for liabilities and charges	1,500	-	1,500
Insurance and other payables and deferred income	153,827	283,957	437,784
	<hr/>	<hr/>	<hr/>
Total liabilities	548,052	1,096,999	1,645,051
	<hr/>	<hr/>	<hr/>
Total liabilities and equity	593,637	1,147,172	1,740,809
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1.10. Segment reporting (continued)

Statement of financial position by business segment as at 31 December 2009

Company

	Non-life HRK'000	Life HRK'000	Total HRK'000
Assets			
Property and equipment	60,339	4,290	64,629
Intangible assets			
Deferred acquisition costs	37,879	404	38,283
Other intangible assets	18,530	2,649	21,179
Investments in subsidiaries and associates	1,652	50	1,702
Held-to-maturity investments	13,092	221,343	234,435
Available-for-sale financial assets	18,385	208,723	227,108
Financial assets at fair value through profit or loss	7,094	61,084	68,178
Investments for the benefit of unit and index linked life assurance	-	21,455	21,455
Loans and receivables	140,546	218,337	358,883
Reinsurers' share of insurance contract provisions	66,272	180,875	247,147
Deferred tax asset	2,000	-	2,000
Inventories	144	-	144
Insurance and other receivables	162,140	84,661	246,801
Cash and cash equivalents	3,045	10,734	13,779
Total assets	531,118	1,014,605	1,545,723
Shareholders' equity			
Share capital	72,291	47,816	120,107
Share premium	330	-	330
Statutory reserve	-	1,463	1,463
Fair value reserve	69	821	890
Accumulated losses	(19,397)	(823)	(20,220)
Total equity attributable to equity holders of the Company	53,293	49,277	102,570
Liabilities			
Insurance contract provisions	370,391	709,207	1,079,598
Discretionary profit participation provision	-	10,463	10,463
Subordinated loan	14,565	-	14,565
Deferred tax liability	17	205	222
Provisions for liabilities and charges	500	-	500
Insurance and other payables and deferred income	92,352	245,453	337,805
Total liabilities	477,825	965,328	1,443,153
Total liabilities and equity	531,118	1,014,605	1,545,723

1.10. Segment reporting (continued)

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

Group

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	285,404	211,394	-	(87)	496,711
Written premiums ceded to reinsurers	(124,293)	(57,135)	-	-	(181,428)
Net premiums written	161,111	154,259	-	(87)	315,283
Change in the gross provision for unearned premiums	8,724	84	-	-	8,808
Reinsurers' share of change in the provision for unearned premiums	30,427	-	-	-	30,427
Net earned premiums	200,262	154,343	-	(87)	354,518
Fees and commission income	24,277	12,364	-	-	36,641
Financial income	13,775	62,137	7,565	(6,524)	76,953
Other operating income	3,971	579	2,701	(2,596)	4,655
Net income	242,285	229,423	10,266	(9,207)	472,767
Claims and benefits incurred	(162,059)	(165,345)	-	489	(326,915)
Reinsurers' share of claims and benefits incurred	39,635	49,635	-	-	89,270
Net policyholder claims and benefits incurred	(122,424)	(115,710)	-	489	(237,645)
Acquisition costs	(40,173)	(39,520)	-	-	(79,693)
Administrative expenses	(66,937)	(56,411)	(6,162)	8,379	(121,131)
Other operating expenses	(19,159)	(6,221)	-	-	(25,380)
Financial expenses	(8,929)	(1,861)	(3,714)	339	(14,165)
(Loss)/profit before income tax	(15,337)	9,700	390	-	(5,247)
Income tax expense	-	-	(82)	-	(82)
(Loss)/profit for the year	(15,337)	9,700	308	-	(5,329)
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of amounts realised	(12)	(2,255)	-	-	(2,267)
Change in deferred tax, net of amounts realised	2	451	-	-	453
Other comprehensive income for the year	(10)	(1,804)	-	-	(1,814)
Total comprehensive income for the year	(15,347)	7,896	308	-	(7,143)

1.10. Segment reporting (continued)

Statement of comprehensive income by business segment for the year ended 31 December 2009

Group (continued)

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	321,172	214,029	-	(160)	535,041
Written premiums ceded to reinsurers	(75,967)	(56,497)	-	-	(132,464)
Net premiums written	245,205	157,532	-	(160)	402,577
Change in the gross provision for unearned premiums	(70)	364	-	-	294
Reinsurers' share of change in the provision for unearned premiums	(12,537)	-	-	-	(12,537)
Net earned premiums	232,598	157,896	-	(160)	390,334
Fees and commission income	16,242	11,001	-	-	27,243
Financial income	13,352	38,731	9,684	(7,361)	54,406
Other operating income	4,565	236	2,575	(2,151)	5,225
Net income	266,757	207,864	12,259	(9,672)	477,208
Claims and benefits incurred	(189,701)	(153,311)	-	5,275	(337,737)
Reinsurers' share of claims and benefits incurred	35,420	45,302	-	-	80,722
Net policyholder claims and benefits incurred	(154,281)	(108,009)	-	5,275	(257,015)
Acquisition costs	(36,963)	(37,463)	-	-	(74,426)
Administrative expenses	(72,984)	(53,026)	(7,065)	4,104	(128,971)
Other operating expenses	(16,182)	(5,597)	-	-	(21,779)
Financial expenses	(5,480)	(5,102)	(4,227)	293	(14,516)
(Loss)/profit before income tax	(19,133)	(1,333)	967	-	(19,499)
Income tax expense	(78)	-	(39)	-	(117)
(Loss)/profit for the year	(19,211)	(1,333)	928	-	(19,616)
Other comprehensive income					
Net change in fair value of available-for-sale financial assets, net of amounts realised	1,139	10,243	-	-	11,382
Change in deferred tax	(17)	(205)	-	-	(222)
Other comprehensive income for the year	1,122	10,038	-	-	11,160
Total comprehensive income for the year	(18,089)	8,705	928	-	(8,456)

1.10. Segment reporting (continued)

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

Company

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	285,404	211,394	496,798
Written premiums ceded to reinsurers	(124,293)	(57,135)	(181,428)
Net premiums written	161,111	154,259	315,370
Change in the gross provision for unearned premiums	8,724	84	8,808
Reinsurers' share of change in the provision for unearned premiums	30,427	-	30,427
Net earned premiums	200,262	154,343	354,605
Fees and commission income	24,277	12,364	36,641
Financial income	13,775	62,137	75,912
Other operating income	2,745	579	3,324
Net income	241,059	229,423	470,482
Claims and benefits incurred	(162,059)	(165,345)	(327,404)
Reinsurers' share of claims and benefits incurred	39,635	49,635	89,270
Net policyholder claims and benefits incurred	(122,424)	(115,710)	(238,134)
Acquisition costs	(40,173)	(39,520)	(79,693)
Administrative expenses	(65,072)	(56,411)	(121,483)
Other operating expenses	(19,159)	(6,221)	(25,380)
Financial expenses	(8,929)	(1,861)	(10,790)
(Loss)/profit before income tax	(14,698)	9,700	(4,998)
Income tax expense	-	-	-
(Loss)/profit for the year	(14,698)	9,700	(4,998)
Other comprehensive income			
Net change in fair value of available-for-sale financial assets, net of amounts realised	(12)	(2,255)	(2,267)
Change in deferred tax liability	2	451	453
Other comprehensive income for the year	(10)	(1,804)	(1,814)
Total comprehensive income for the year	(14,708)	7,896	(6,812)

1.10. Segment reporting (continued)

Statement of comprehensive income by business segment for the year ended 31 December 2009

Company

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	321,172	214,029	535,201
Written premiums ceded to reinsurers	(75,967)	(56,497)	(132,464)
Net premiums written	245,205	157,532	402,737
Change in the gross provision for unearned premiums	(70)	364	294
Reinsurers' share of change in the provision for unearned premiums	(12,537)	-	(12,537)
Net earned premiums	232,598	157,896	390,494
Fees and commission income	16,242	11,001	27,243
Financial income	13,352	38,731	52,083
Other operating income	4,301	236	4,537
Net income	266,493	207,864	474,357
Claims and benefits incurred	(189,701)	(153,311)	(343,012)
Reinsurers' share of claims and benefits incurred	35,420	45,302	80,722
Net policyholder claims and benefits incurred	(154,281)	(108,009)	(262,290)
Acquisition costs	(36,963)	(37,463)	(74,426)
Administrative expenses	(72,984)	(53,026)	(126,010)
Other operating expenses	(16,182)	(5,597)	(21,779)
Financial expenses	(5,482)	(5,102)	(10,584)
(Loss)/profit before income tax	(19,399)	(1,333)	(20,732)
Income tax expense	-	-	-
(Loss)/profit for the year	(19,399)	(1,333)	(20,732)
Other comprehensive income			
Net change in fair value of available-for-sale financial assets, net of amounts realised	1,139	10,243	11,382
Change in deferred tax, net of amounts realised	(17)	(205)	(222)
Other comprehensive income for the year	1,122	10,038	11,160
Total comprehensive income for the year	(18,277)	8,705	(9,572)

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 Group are Non-life insurance, Life assurance and Investment property. 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 party liability
- Motor casco
- Accident and health
- Marine and transport
- Loss adjusting services

Life:

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

Investment property:

- Rent of business premises

Geographical segment

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

1.11. Property and equipment Group

	Land and buildings HRK'000	Land and buildings under construction HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Leasehold improvement HRK'000	Total HRK'000
Cost						
Balance at 1 January 2009	82,374	10,133	3,656	29,821	6,227	132,211
Additions	4,846	15,527	2,410	2,280	549	25,612
Disposals	(1,900)	(449)	(353)	(44)	(119)	(2,865)
Reclassifications from investment property (Note 1.12) and inventories	411	-	-	665	-	1,076
Reclassifications to investment property (Note 1.12)	(321)	-	-	-	-	(321)
Balance at 31 December 2009	85,410	25,211	5,713	32,722	6,657	155,713
Balance at 1 January 2010	85,410	25,211	5,713	32,722	6,657	155,713
Additions	530	13,966	1,539	1,448	640	18,123
Disposals	-	-	(1,514)	(532)	(494)	(2,540)
Transfer into use	9,716	(9,716)	-	-	-	-
Reclassifications to investment property (Note 1.12)	-	(27,772)	-	-	-	(27,772)
Reclassifications from investment property (Note 1.12)	1,348	-	-	-	-	1,348
Balance at 31 December 2010	97,004	1,689	5,738	33,638	6,803	144,872
Depreciation and impairment losses						
Balance at 1 January 2009	8,567	-	1,433	23,287	2,163	35,450
Depreciation charge for the year	1,717	-	921	2,975	631	6,244
Disposals	(326)	-	(192)	(30)	(76)	(624)
Reclassifications from investment property (Note 1.12) and inventories	21	-	-	665	-	686
Reclassifications to investment property (Note 1.12)	(15)	-	-	-	-	(15)
Balance at 31 December 2009	9,964	-	2,162	26,897	2,718	41,741
Balance at 1 January 2010	9,964	-	2,162	26,897	2,718	41,741
Depreciation charge for the year	1,991	-	1,022	2,141	624	5,778
Disposals	-	-	(796)	(343)	(182)	(1,321)
Reclassifications from investment property (Note 1.12)	112	-	-	-	-	112
Balance at 31 December 2010	12,067	-	2,388	28,695	3,160	46,310
Carrying amounts						
At 1 January 2009	73,807	10,133	2,223	6,534	4,064	96,761
At 31 December 2009	75,446	25,211	3,551	5,825	3,939	113,972
At 1 January 2010	75,446	25,211	3,551	5,825	3,939	113,972
At 31 December 2010	84,937	1,689	3,350	4,943	3,643	98,562

Included within land and buildings is non-depreciable land with a carrying amount of HRK 18,525 thousand (2009: HRK 18,525 thousand). Management believes that the fair value of land and buildings is not materially different from the carrying amount.

Land and buildings with a carrying amount of HRK 47,093 thousand (2009: HRK 48,160 thousand) are pledged as collateral for borrowings of the Group (note 1.24).

The depreciation charge is recognised in profit or loss under "Administrative expenses".

1.11. Property and equipment (continued)

Company

	Land and buildings HRK'000	Land and buildings under construction HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Leasehold improvement HRK'000	Total HRK'000
Cost						
Balance at 1 January 2009	29,627	7,854	3,365	24,817	5,082	70,745
Additions	4,846	17,806	2,403	2,103	494	27,652
Disposals	(1,900)	(449)	(353)	(15)	-	(2,717)
Reclassifications from investment property (Note 1.12) and inventories	411	-	-	665	-	1,076
Balance at 31 December 2009	32,984	25,211	5,415	27,570	5,576	96,756
Balance at 1 January 2010	32,984	25,211	5,415	27,570	5,576	96,756
Additions	530	13,966	1,539	1,386	640	18,061
Disposals	-	-	(1,243)	(82)	-	(1,325)
Transfer into use	9,716	(9,716)	-	-	-	-
Reclassifications to investment property (Note 1.12)	-	(27,772)	-	-	-	(27,772)
Balance at 31 December 2010	43,230	1,689	5,711	28,874	6,216	85,720
Depreciation and impairment losses						
Balance at 1 January 2009	5,120	-	1,408	19,684	1,857	28,069
Depreciation charge for the year	594	-	867	1,968	474	3,903
Disposals	(326)	-	(191)	(14)	-	(531)
Reclassifications from investment property (Note 1.12) and inventories	21	-	-	665	-	686
Balance at 31 December 2009	5,409	-	2,084	22,303	2,331	32,127
Balance at 1 January 2010	5,409	-	2,084	22,303	2,331	32,127
Depreciation charge for the year	867	-	1,017	1,906	520	4,310
Disposals	-	-	(723)	(42)	-	(765)
Balance at 31 December 2010	6,276	-	2,378	24,167	2,851	35,672
Carrying amounts						
At 1 January 2009	24,507	7,854	1,957	5,133	3,225	42,676
At 31 December 2009	27,575	25,211	3,331	5,267	3,245	64,629
At 1 January 2010	27,575	25,211	3,331	5,267	3,245	64,629
At 31 December 2010	36,954	1,689	3,333	4,707	3,365	50,048

Included within land and buildings is non-depreciable land with a carrying amount of HRK 6,404 thousand (2009: HRK 6,404 thousand). Management believes that the fair value of land and buildings is not materially different from the carrying amount.

The depreciation charge is recognised in profit or loss under "Administrative expenses".

1.12. Investment property

	Group	Company
	HRK'000	HRK'000
Cost		
Balance at 1 January 2009	22,657	411
Reclassifications to property and equipment (Note 1.11)	(411)	(411)
Reclassifications from property and equipment (Note 1.11)	321	-
	<hr/>	<hr/>
Balance at 31 December 2009	22,567	-
	<hr/>	<hr/>
Balance at 1 January 2010	22,567	-
Additions	1,395	1,381
Disposals	(1,381)	(1,381)
Reclassifications from property and equipment (Note 1.11)	27,772	27,772
Reclassifications to property and equipment (Note 1.11)	(1,348)	-
Reclassification to assets held for sale (Note 1.20)	(259)	-
	<hr/>	<hr/>
Balance at 31 December 2010	48,746	27,772
	<hr/>	<hr/>
Depreciation and impairment losses		
Balance at 1 January 2009	1,544	13
Depreciation charge for the year	468	8
Reclassifications to property and equipment (Note 1.11)	(21)	(21)
Reclassifications from property and equipment (Note 1.11)	15	-
	<hr/>	<hr/>
Balance at 31 December 2009	2,006	-
	<hr/>	<hr/>
Balance at 1 January 2010	2,006	-
Depreciation charge for the year	600	148
Reclassifications to property and equipment (Note 1.11)	(112)	-
Reclassification to assets held for sale (Note 1.20)	(18)	-
	<hr/>	<hr/>
Balance at 31 December 2010	2,476	148
	<hr/>	<hr/>
Carrying amounts		
At 1 January 2009	21,113	398
At 31 December 2009	20,561	-
	<hr/> <hr/>	<hr/> <hr/>
At 1 January 2010	20,561	-
At 31 December 2010	46,270	27,624
	<hr/> <hr/>	<hr/> <hr/>

No independent valuation of the Group's and Company's investment property was made at the reporting date. Management believes that the fair value of investment property is not materially different from its carrying amount.

Investment property with a carrying amount of HRK 18,787 thousand (2009: HRK 19,638 thousand) is pledged as collateral for borrowings of the Group (note 1.27).

The depreciation charge is recognised in profit or loss under "Financial expenses".

1.13. Deferred acquisition costs

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

An analysis of these deferred costs is set out below:

Group and Company

	Non-life		Life rider		Total	
	2010	2009	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	37,879	41,015	404	467	38,283	41,482
Increase	32,412	37,879	384	404	32,796	38,283
Decrease	(37,879)	(41,015)	(404)	(467)	(38,283)	(41,482)
Balance at 31 December	32,412	37,879	384	404	32,796	38,283

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

1.14. Other intangible assets

Group

	Goodwill HRK'000	Acquired value of in- force business HRK'000	Computer software HRK'000	Computer software under development HRK'000	Total HRK'000
Cost					
Balance at 1 January 2009	7,390	3,450	19,433	5,281	35,554
Additions	-	-	2,297	1,652	3,949
Transfer into use	-	-	898	(898)	-
Balance at 31 December 2009	7,390	3,450	22,628	6,035	39,503
Balance at 1 January 2010	7,390	3,450	22,628	6,035	39,503
Additions	-	-	1,784	3,397	5,181
Transfer into use	-	-	770	(770)	-
Balance at 31 December 2010	7,390	3,450	25,182	8,662	44,684
Amortisation and impairment losses					
Balance at 1 January 2009	-	1,035	14,489	-	15,524
Amortisation for the year	-	345	2,429	-	2,774
Balance at 31 December 2009	-	1,380	16,918	-	18,298
Balance at 1 January 2010	-	1,380	16,918	-	18,298
Amortisation for the year	-	345	2,877	-	3,222
Balance at 31 December 2010	-	1,725	19,795	-	21,520
Carrying amounts					
At 1 January 2009	7,390	2,415	4,944	5,281	20,030
At 31 December 2009	7,390	2,070	5,710	6,035	21,205
At 1 January 2010	7,390	2,070	5,710	6,035	21,205
At 31 December 2010	7,390	1,725	5,387	8,662	23,164

The amortisation charge is recognised in profit or loss under “Administrative expenses”.

1.14. Other intangible assets (continued)

Company

	Goodwill HRK'000	Acquired value of in- force business HRK'000	Computer software HRK'000	Computer software under development HRK'000	Total HRK'000
Cost					
Balance at 1 January 2009	7,390	3,450	19,390	5,281	35,511
Additions	-	-	2,264	1,652	3,916
Transfer into use	-	-	898	(898)	-
Balance at 31 December 2009	7,390	3,450	22,552	6,035	39,427
Balance at 1 January 2010	7,390	3,450	22,552	6,035	39,427
Additions	-	-	1,810	3,397	5,207
Transfer into use	-	-	770	(770)	-
Balance at 31 December 2010	7,390	3,450	25,132	8,662	44,634
Amortisation and impairment losses					
Balance at 1 January 2009	-	1,035	14,447	-	15,482
Amortisation for the year	-	345	2,421	-	2,766
Balance at 31 December 2009	-	1,380	16,868	-	18,248
Balance at 1 January 2010	-	1,380	16,868	-	18,248
Amortisation for the year	-	345	2,877	-	3,222
Balance at 31 December 2010	-	1,725	19,745	-	21,470
Carrying amounts					
At 1 January 2009	7,390	2,415	4,943	5,281	20,029
At 31 December 2009	7,390	2,070	5,684	6,035	21,179
At 1 January 2010	7,390	2,070	5,684	6,035	21,179
At 31 December 2010	7,390	1,725	5,387	8,662	23,164

The amortisation charge is recognised in profit or loss under "Administrative expenses".

1.15. Investments in subsidiaries and associates

- a) The Group's subsidiaries are as follows:

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

All subsidiaries are fully consolidated in the Group financial statements.

- b) Investments in subsidiaries and associates are as follows:

	Group 31 December 2010 HRK'000	Group 31 December 2009 HRK'000	Company 31 December 2010 HRK'000	Company 31 December 2009 HRK'000
Kvarner Wiener Städtische nekretnine d.o.o.	-	-	1,600	1,600
S.O.S. Expert d.o.o.	-	-	102	102
Vile Baredine (30%)	6	6	-	-
Vile Krasica (30%)	-	6	-	-
	6	12	1,702	1,702

In the unconsolidated financial statements the investment in Kvarner Wiener Städtische nekretnine d.o.o. is carried within the non-life segment in 2010 and 2009 apart from HRK 50 thousand which are carried within life segment, and the investment in S.O.S. Expert d.o.o. is carried within non-life segment.

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

	Vile Baredina 2010 HRK'000	Vile Krasica 2010 HRK'000	Vile Baredina 2009 HRK'000	Vile Krasica 2009 HRK'000
Current assets	4	-	5	35
Non-current assets	396	-	370	1,408
Current liabilities	(427)	-	(391)	(1,456)
Non-current liabilities	-	-	-	-
Net assets	(27)	-	(16)	(13)
Share of associates' revenue and profit	(10)		(22)	(2)

1.16. Financial investments

	Group	Group	Company	Company
	31 December	31 December	31 December	31 December
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
Held-to-maturity investments	226,361	234,435	226,361	234,435
Available-for-sale financial assets	474,205	227,108	474,205	227,108
Financial assets at fair value through profit or loss	27,267	68,178	27,267	68,178
Investments for the benefit of unit and index linked life assurance	32,650	21,455	32,650	21,455
Loans and receivables	238,407	354,383	244,407	358,883
	998,890	905,559	1,004,890	910,059

Held-to-maturity investments

As at 31 December 2010 there were no past due held-to-maturity investments.

As of 31 December 2009, the Group's portfolio of debt securities classified as held to maturity included debt securities issued by Ingra did. in the amount of HRK 4,998 thousand. During 2010 Ingra did. offered debt-equity swap which the Group accepted and thereby recognised equity securities and classified them as available-for-sale financial assets.

Available-for-sale financial assets

As at 31 December 2010 there were no past due available-for-sale financial assets.

In 2010, the Group recognised an impairment loss on equity securities available for sale through profit or loss, which increased the loss before tax by HRK 613 thousand (2009: HRK 2,135 thousand).

As of 31 December 2009, the Group's portfolio of debt securities classified as available for sale included debt securities issued by Ingra did. in the amount of HRK 2,125 thousand. During 2010 Ingra did. offered debt-equity swap which the Group accepted and thereby recognised equity securities within the same financial asset category.

Financial assets at fair value through profit or loss

As at 31 December 2010 there were no past due financial assets at fair value through profit or loss.

1.16. Financial investments (*continued*)

Loans and receivables

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

	Group 31 December 2010 HRK'000	Group 31 December 2009 HRK'000	Company 31 December 2010 HRK'000	Company 31 December 2009 HRK'000
Deposits with banks	133,754	244,283	133,754	244,283
Loans to customers	109,479	112,608	115,479	117,108
Impairment allowance	(4,826)	(2,508)	(4,826)	(2,508)
	<u>238,407</u>	<u>354,383</u>	<u>244,407</u>	<u>358,883</u>

Loans and receivables are analysed as shown below:

	Group 31 December 2010 HRK'000	Group 31 December 2009 HRK'000	Company 31 December 2010 HRK'000	Company 31 December 2009 HRK'000
Not due and not impaired	201,634	309,934	207,634	314,434
Due but not impaired	18,251	29,897	18,251	29,897
Due and impaired	23,348	17,060	23,348	17,060
Impairment	(4,826)	(2,508)	(4,826)	(2,508)
	<u>238,407</u>	<u>354,383</u>	<u>244,407</u>	<u>358,883</u>

Loans as disclosed in the note above are predominantly collateralised by the real estate or redemption value of life assurance policies. The fair value of collateral accepted covers the amount of loans outstanding at the reporting date.

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

	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Balance at 1 January	2,508	78	2,508	78
Impairment losses	2,318	2,508	2,318	2,508
Write off	-	(78)	-	(78)
	<u>4,826</u>	<u>2,508</u>	<u>4,826</u>	<u>2,508</u>

The impairment losses are recognised in profit or loss within "Financial expenses".

1.16. Financial investments (continued)

Group					
2010	Held-to- maturity investments HRK'000	Available- for-sale financial assets HRK'000	Financial assets at fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
Listed	-	10,241	-	-	10,241
Unlisted	-	10,106	90	-	10,196
Equity securities	-	20,347	90	-	20,437
Government bonds	223,932	419,870	-	-	643,802
Corporate bonds	-	10,020	7,557	-	17,577
Municipal bonds	2,429	1,249	-	-	3,678
Debt securities – fixed rate, listed	226,361	431,139	7,557	-	665,057
Investment funds – open ended, quoted	-	22,719	19,620	-	42,339
Unit linked – investment funds	-	-	17,412	-	17,412
Index linked – debt securities	-	-	15,238	-	15,238
Investments for the benefit of unit and index linked life assurance	-	-	32,650	-	32,650
Deposits with banks	-	-	-	133,754	133,754
Loans to customers	-	-	-	104,653	104,653
	226,361	474,205	59,917	238,407	998,890

1.16. Financial investments (continued)

Group (continued)

2009	Held-to-maturity investments HRK'000	Available-for-sale financial assets HRK'000	Financial assets at fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
Listed	-	4,408	-	-	4,408
Unlisted	-	10,106	90	-	10,196
Equity securities	-	14,514	90	-	14,604
Government bonds	221,963	182,583	-	-	404,546
Corporate bonds	9,873	8,428	2,817	-	21,118
Municipal bonds	2,599	1,323	-	-	3,922
Debt securities – fixed rate, listed	234,435	192,334	2,817	-	429,586
Investment funds – open ended, quoted	-	20,260	65,271	-	85,531
Unit linked – investment funds	-	-	10,438	-	10,438
Index linked – debt securities	-	-	11,017	-	11,017
Investments for the benefit of unit and index linked life assurance	-	-	21,455	-	21,455
Deposits with banks	-	-	-	244,283	244,283
Loans to customers	-	-	-	110,100	110,100
	234,435	227,108	89,633	354,383	905,559

1.16. Financial investments (continued)

Company					
2010	Held-to- maturity investments HRK'000	Available- for-sale financial assets HRK'000	Financial assets at fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
Listed	-	10,241	-	-	10,241
Unlisted	-	10,106	90	-	10,196
Equity securities	-	20,347	90	-	20,437
Government bonds	223,932	419,870	-	-	643,802
Corporate bonds	-	10,020	7,557	-	17,577
Municipal bonds	2,429	1,249	-	-	3,678
Debt securities – fixed rate, listed	226,361	431,139	7,557	-	665,057
Investment funds – open ended, quoted	-	22,719	19,620	-	42,339
Unit linked – investment funds	-	-	17,412	-	17,412
Index linked – debt securities	-	-	15,238	-	15,238
Investments for the benefit of unit and index linked life assurance	-	-	32,650	-	32,650
Deposits with banks	-	-	-	133,754	133,754
Loans to customers	-	-	-	110,653	110,653
	226,361	474,205	59,917	244,407	1,004,890

1.16. Financial investments (continued)

Company (continued)

2009	Held-to- maturity investments HRK'000	Available- for-sale financial assets HRK'000	Financial assets at fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
Listed	-	4,408	-	-	4,408
Unlisted	-	10,106	90	-	10,196
Equity securities	-	14,514	90	-	14,604
Government bonds	221,963	182,583	-	-	404,546
Corporate bonds	9,873	8,428	2,817	-	21,118
Municipal bonds	2,599	1,323	-	-	3,922
Debt securities – fixed rate, listed	234,435	192,334	2,817	-	429,586
Investment funds – open ended, quoted	-	20,260	65,271	-	85,531
Unit linked – investment funds	-	-	10,438	-	10,438
Index linked – debt securities	-	-	11,017	-	11,017
Investments for the benefit of unit and index linked life assurance	-	-	21,455	-	21,455
Deposits with banks	-	-	-	244,283	244,283
Loans to customers	-	-	-	114,600	114,600
	234,435	227,108	89,633	358,883	910,059

1.16. Financial investments (*continued*)

Group	Held-to-maturity investments HRK'000	Available-for-sale financial assets HRK'000	Financial assets at fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
At 1 January 2009	230,623	158,861	61,751	351,456	802,691
Additions	4,722	136,589	185,856	336,825	663,992
Disposals	-	(76,740)	(159,639)	(330,981)	(567,360)
Fair value gains recognised in profit or loss	-	-	1,699	-	1,699
Fair value gains recognised in other comprehensive income	-	11,382	-	-	11,382
Impairment recognised in profit or loss	-	(2,135)	-	(2,508)	(4,643)
Amortisation adjustments	(336)	(69)	-	-	(405)
Foreign exchange adjustments	(574)	(780)	(34)	(409)	(1,797)
At 31 December 2009	234,435	227,108	89,633	354,383	905,559
At 1 January 2010	234,435	227,108	89,633	354,383	905,559
Additions	-	442,040	197,137	277,458	916,635
Disposals	(10,212)	(196,286)	(229,448)	(392,470)	(828,416)
Fair value gains recognised in profit or loss	-	-	2,573	-	2,573
Fair value gains recognised in other comprehensive income	-	(2,267)	-	-	(2,267)
Impairment recognised in profit or loss	-	(613)	-	(2,318)	(2,931)
Amortisation adjustments	(247)	(589)	-	-	(836)
Foreign exchange adjustments	2,385	4,812	22	1,354	8,573
At 31 December 2010	226,361	474,205	59,917	238,407	998,890

1.16. Financial investments (*continued*)

Company

	Held-to- maturity investments HRK'000	Available- for-sale financial assets HRK'000	Financial assets at fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
At 1 January 2009	230,623	158,861	61,751	356,934	808,169
Additions	4,722	136,589	185,856	336,825	663,992
Disposals	-	(76,740)	(159,639)	(331,959)	(568,338)
Fair value gains recognised in profit or loss	-	-	1,699	-	1,699
Fair value gains recognised in other comprehensive income	-	11,382	-	-	11,382
Impairment recognised in profit or loss	-	(2,135)	-	(2,508)	(4,643)
Amortisation adjustments	(336)	(69)	-	-	(405)
Foreign exchange adjustments	(574)	(780)	(34)	(409)	(1,797)
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At 31 December 2009	234,435	227,108	89,633	358,883	910,059
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At 1 January 2010	234,435	227,108	89,633	358,883	910,059
Additions	-	442,040	197,137	277,458	916,635
Disposals	(10,212)	(196,286)	(229,448)	(390,970)	(826,916)
Fair value gains recognised in profit or loss	-	-	2,573	-	2,573
Fair value gains recognised in other comprehensive income	-	(2,267)	-	-	(2,267)
Impairment recognised in profit or loss	-	(613)	-	(2,318)	(2,931)
Amortisation adjustments	(247)	(589)	-	-	(836)
Foreign exchange adjustments	2,385	4,812	22	1,354	8,573
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	226,361	474,205	59,917	244,407	1,004,890
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1.16. Financial investments (*continued*)

Reclassification of financial assets

Based on the Management Board's decision, and pursuant to IAS 39.50, effective 1 July 2008, the Group and the Company reclassified financial assets from a category at fair value through profit and loss into financial assets available for sale, in an amount of HRK 8,337 thousand, representing their fair value on 24 February 2009. Following this reclassification, any further gains and losses which would previously have been recognised in income were recognised in other comprehensive income (prior to any impairment effects). Had the assets not been reclassified, the Group's and the Company's loss before tax for 2009 would have been lower by HRK 91 thousand (before impairment effects). There is no effect on equity. During 2010 there were no any reclassifications of financial assets.

Debt securities reclassified on 24 February 2009, amongst others, included debt security issued by Ingra did. During 2010 Ingra did. offered debt-equity swap which the Group accepted and thereby recognised equity securities instead of debt securities.

Group and Company	24 February 2009		31 December 2009		31 December 2010	
	Book value	Market value	Book value	Market value	Book value	Market value
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<i>Financial assets at fair value through profit and loss reclassified to Financial assets available for sale</i>						
Debt securities	8,337	8,337	8,428	8,428	5,966	5,966
Equity securities	-	-	-	-	2,093	2,093
	<u>8,337</u>	<u>8,337</u>	<u>8,428</u>	<u>8,428</u>	<u>8,059</u>	<u>8,059</u>

Following table shows amounts recognised in profit or loss and in other comprehensive income during 2009 and 2010 for reclassified financial assets:

Group and Company	2009		2009		2010	
	Before reclassification		After reclassification		Profit or loss	Other comprehensive income
	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income		
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<i>Financial assets at fair value through profit and loss reclassified to Financial assets available for sale as of 24 February 2009</i>						
Fair value gains or losses	<u>(1,063)</u>	<u>-</u>	<u>217</u>	<u>(126)</u>	<u>448</u>	<u>(817)</u>

Following table shows amounts which would have been recognised in the profit or loss during 2009 and 2010 for reclassified financial assets if reclassification was not performed:

Group and Company	2009 - After reclassification	2010
	HRK '000	HRK '000
<i>Financial assets at fair value through profit and loss reclassified to Financial assets available for sale as of 24 February 2009</i>		
Fair value gains or losses	<u>91</u>	<u>(369)</u>

1.17. Reinsurers' share of insurance contracts provisions

Group and Company

	<i>Note</i>	31 December 2010 HRK'000	31 December 2009 HRK'000
Non-life			
Reinsurance share in provision for unearned premiums	1.24 a)	58,597	28,170
Reinsurance share in notified outstanding claims reserve	1.24 b)	37,704	25,534
Reinsurance share in incurred but not reported claims reserve	1.24 c)	15,861	12,568
Total Non-life		112,162	66,272
Life			
Reinsurance share in notified outstanding claims reserve	1.24 b)	1,452	966
Reinsurance share in life assurance provision	1.24 e)	214,427	179,909
Total Life		215,879	180,875
Total reinsurers' share of insurance contracts provisions		328,041	247,147

1.18. Deferred tax asset/liability

Deferred tax asset	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Balance at 1 January	2,000	2,000	2,000	2,000
Recognised in other comprehensive income	246	-	246	-
Balance at 31 December	2,246	2,000	2,246	2,000
Deferred tax liability				
Deferred tax liability	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
As at 1 January	222	-	222	-
Recognised in other comprehensive income	(207)	222	(207)	222
As at 31 December	15	222	15	222

1.19. Insurance and other receivables

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
Insurance receivables				
- from policyholders	114,504	109,911	114,504	109,911
- from agents	2,587	11,886	2,587	11,886
- from other	40,687	38,981	40,687	38,981
Receivables from reinsurance				
- for claims recoveries	27,542	20,020	27,542	20,020
- for reinsurance commission	32,787	22,217	32,787	22,217
- for reinsurance deposits	48,816	34,594	48,816	34,594
Other receivables and prepayments	28,783	26,896	31,996	28,607
Impairment allowance				
- for insurance receivables	(36,521)	(18,577)	(36,521)	(18,577)
- for other receivables and prepayments	(5,793)	(852)	(5,763)	(838)
Total insurance and other receivables	253,392	245,076	256,635	246,801

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

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

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
Not due and not impaired	39,483	36,447	39,554	36,447
Due but not impaired	213,909	208,629	217,081	210,354
Due and impaired	42,314	19,429	42,284	19,415
Impaired	(42,314)	(19,429)	(42,284)	(19,415)
	253,392	245,076	256,635	246,801

1.19. Insurance and other receivables (continued)

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

	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Balance at 1 January	<u>18,577</u>	<u>14,359</u>	<u>18,577</u>	<u>14,359</u>
Increase in provisions	24,460	5,362	24,460	5,362
Decrease in provisions	(6,516)	(1,144)	(6,516)	(1,144)
Impairment losses	<u>17,944</u>	<u>4,218</u>	<u>17,944</u>	<u>4,218</u>
Balance at 31 December	<u><u>36,521</u></u>	<u><u>18,577</u></u>	<u><u>36,521</u></u>	<u><u>18,577</u></u>

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

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

	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Balance at 1 January	<u>852</u>	<u>145</u>	<u>838</u>	<u>145</u>
Increase in provisions	5,464	727	5,434	713
Decrease in provisions	(523)	(20)	(509)	(20)
Impairment losses	<u>4,941</u>	<u>707</u>	<u>4,925</u>	<u>693</u>
Balance at 31 December	<u><u>5,793</u></u>	<u><u>852</u></u>	<u><u>5,763</u></u>	<u><u>838</u></u>

Impairment losses for other receivables and prepayments are recognised in profit or loss within "Financial expenses".

1.20. Assets held for sale

	Group 31 December 2010 HRK'000	Group 31 December 2009 HRK'000	Company 31 December 2010 HRK'000	Company 31 December 2009 HRK'000
Property	<u><u>241</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

During the 2010, the Group transferred from investment property a property held for sale. Before the reclassification, the assets carrying value was HRK 241 thousand. The property held for sale is not depreciated.

1.21. Cash and cash equivalents

	Group 31 December 2010 HRK'000	Group 31 December 2009 HRK'000	Company 31 December 2010 HRK'000	Company 31 December 2009 HRK'000
Cash at bank	13,565	13,846	13,503	13,760
Cash in hand	2	19	-	19
Total cash and cash equivalents	13,567	13,865	13,503	13,779

1.22. Share capital

Ordinary shares

	31 December 2010 HRK'000	31 December 2009 HRK'000
<i>Authorised, issued and fully paid</i>		
190,647 (2009: 190,647) ordinary shares of HRK 630	120,107	120,107

The share capital of the Company is denominated in Croatian kuna. The nominal value of each share issued by the Company is HRK 630. During 2010 there were no new shares issued. All shares are fully paid.

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

	2010 % ownership	2009 % ownership
Vienna Insurance Group AG Wiener Versicherung Gruppe	98.7	98.7
Minority shareholders	1.3	1.3
	100.0	100.0

The parent company and the ultimate parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe (in 2009: Vienna Insurance Group Wiener Staedtsche Versicherung AG).

Share premium

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

Legal reserve

The legal reserve represents accumulated appropriations from retained earnings in accordance with the previous Insurance Law, which required a minimum of one third of the Company's net profit to be transferred to a non-distributable legal reserve. The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

1.22. Share capital (continued)

Capital management

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

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

	2010	2010	2010	2009	2009	2009
	Non-life	Life	Total	Non-life	Life	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Solvency margin	43,777	35,825	79,602	43,078	31,101	74,179
Min. Founding capital (FC)	22,500	22,500	45,000	22,500	22,500	45,000
Guarantee capital (GC)	41,651	35,954	77,605	49,259	45,807	95,066
Capital	39,909	35,904	75,813	47,517	45,757	93,274
GC >= min FC	YES	YES	YES	YES	YES	YES
Capital >= Solvency margin	NO	YES	NO	YES	YES	YES

As shown in the table above, as at 31 December 2010 regulatory requirements for non-life business (capital lower than solvency margin by HRK 3,868 thousand) are not fulfilled. The capital of life assurance business is higher than the required life assurance solvency margin by HRK 79 thousand. As of 29 March 2011, the parent company provided capital injection and increased the Company's non-life capital base in the amount of HRK 22.2 million, as explained in Note 1.47 Subsequent events.

An analysis of capital is given below

	2010	2010	2010	2009	2009	2009
	Non-life	Life	Total	Non-life	Life	Total
	HRK '000	HRK '000	HRK'000	HRK '000	HRK '000	HRK'000
Share capital, paid in	79,291	40,816	120,107	72,291	47,816	120,107
Reserves not related to liabilities from insurance	330	1,463	1,793	330	1,463	1,793
Retained earnings after paid dividends	-	-	-	-	510	510
Intangible assets	(18,645)	(4,519)	(23,164)	(18,530)	(2,649)	(21,179)
Accumulated losses including loss for the year	(34,095)	(823)	(34,918)	(19,397)	(1,333)	(20,730)
Basic capital	26,881	36,937	63,818	34,694	45,807	80,501
Subordinated loan	14,770	-	14,770	14,565	-	14,565
Fair value reserve	-	(983)	(983)	-	-	-
Supplementary capital	14,770	(983)	13,787	14,565	-	14,565
Guarantee capital	41,651	35,954	77,605	49,259	45,807	95,066
Deductions	(1,742)	(50)	(1,792)	(1,742)	(50)	(1,792)
Capital	39,909	35,904	75,813	47,517	45,757	93,274

1.23. Basic and diluted loss per share

For the purposes of calculating loss per share, loss is calculated as the loss for the period attributable to equity holders of the Company. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic and diluted earnings per share was 190,647 (2009: 190,647). Given that there are no options, convertible bonds or similar instruments, the diluted loss per share is the same as the basic loss per share.

	Group 2010 HRK'000	Group 2009 HRK'000
Loss attributable to ordinary shareholders for earnings per share	(5,329)	(19,616)
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
	31 December 2010 No of shares	31 December 2009 No of shares
Weighted average number of ordinary shares at 31 December	190,647	190,647
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

1.24. Insurance contract provisions

Group and Company

	31 December 2010 HRK'000	31 December 2009 HRK'000
<i>Non-life business</i>		
Provision for unearned premiums	146,242	154,966
Notified outstanding claims reserve	127,918	109,376
Incurred but not reported claims reserve	101,680	102,736
Unexpired risk provision	2,100	3,120
Other technical provisions	-	193
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
Total Non-life business	377,940	370,391
<i>Life assurance business</i>		
Provision for unearned premiums	2,817	2,901
Notified outstanding claims reserve	7,252	5,458
Incurred but not reported claims reserve	2,216	2,192
Life assurance provision for traditional products	758,772	677,201
Life assurance provision for unit-linked and index-linked	32,650	21,455
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Total Life assurance business	803,707	709,207
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
Total insurance contracts provisions	1,181,647	1,079,598
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1.24. Insurance contract provisions (*continued*)

a) Analysis of movement on provision for unearned premium

Group

	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000
<i>Non-life business</i>						
Balance at 1 January	154,966	28,170	126,796	154,896	40,707	114,189
Premiums written during the year	285,317	124,293	161,024	321,012	75,967	245,045
Less: premiums earned during the year	(294,041)	(93,866)	(200,175)	(320,942)	(88,504)	(232,438)
Balance at 31 December	<u>146,242</u>	<u>58,597</u>	<u>87,645</u>	<u>154,966</u>	<u>28,170</u>	<u>126,796</u>
<i>Life assurance business</i>						
Balance at 1 January	2,901	-	2,901	3,265	-	3,265
Premiums written during the year	10,812	206	10,606	11,935	229	11,706
Less: premiums earned during the year	(10,896)	(206)	(10,690)	(12,299)	(229)	(12,070)
Balance at 31 December	<u>2,817</u>	<u>-</u>	<u>2,817</u>	<u>2,901</u>	<u>-</u>	<u>2,901</u>

Company

	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000
<i>Non-life business</i>						
Balance at 1 January	154,966	28,170	126,796	154,896	40,707	114,189
Premiums written during the year	285,404	124,293	161,111	321,172	75,967	245,205
Less: premiums earned during the year	(294,128)	(93,866)	(200,262)	(321,102)	(88,504)	(232,598)
Balance at 31 December	<u>146,242</u>	<u>58,597</u>	<u>87,645</u>	<u>154,966</u>	<u>28,170</u>	<u>126,796</u>
<i>Life assurance business</i>						
Balance at 1 January	2,901	-	2,901	3,265	-	3,265
Premiums written during the year	10,812	206	10,606	11,935	229	11,706
Less: premiums earned during the year	(10,896)	(206)	(10,690)	(12,299)	(229)	(12,070)
Balance at 31 December	<u>2,817</u>	<u>-</u>	<u>2,817</u>	<u>2,901</u>	<u>-</u>	<u>2,901</u>

1.24. Insurance contract provisions (*continued*)

b) Analysis of movements in notified outstanding claims reserve

Group

	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000
<i>Non-life business</i>						
Balance at 1 January	109,376	25,534	83,842	105,753	26,683	79,070
Current year claims	160,205	36,778	123,427	166,357	34,164	132,193
Change in previous year claims	3,634	(436)	4,070	7,017	1,441	5,576
Claims paid	(145,297)	(24,172)	(121,125)	(169,751)	(36,754)	(132,997)
Balance at 31 December	<u>127,918</u>	<u>37,704</u>	<u>90,214</u>	<u>109,376</u>	<u>25,534</u>	<u>83,842</u>
<i>Life assurance business</i>						
Balance at 1 January	5,458	966	4,492	3,559	658	2,901
Current year claims	73,675	15,106	58,569	56,506	10,711	45,795
Change in previous year claims	8	11	(3)	223	(4)	227
Claims paid	(71,889)	(14,631)	(57,258)	(54,830)	(10,399)	(44,431)
Balance at 31 December	<u>7,252</u>	<u>1,452</u>	<u>5,800</u>	<u>5,458</u>	<u>966</u>	<u>4,492</u>

Company

	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000
<i>Non-life business</i>						
Balance at 1 January	109,376	25,534	83,842	105,753	26,683	79,070
Current year claims	160,678	36,778	123,900	170,184	34,164	136,020
Change in previous year claims	3,650	(436)	4,086	8,465	1,441	7,024
Claims paid	(145,786)	(24,172)	(121,614)	(175,026)	(36,754)	(138,272)
Balance at 31 December	<u>127,918</u>	<u>37,704</u>	<u>90,214</u>	<u>109,376</u>	<u>25,534</u>	<u>83,842</u>
<i>Life assurance business</i>						
Balance at 1 January	5,458	966	4,492	3,559	658	2,901
Current year claims	73,675	15,106	58,569	56,506	10,711	45,795
Change in previous year claims	8	11	(3)	223	(4)	227
Claims paid	(71,889)	(14,631)	(57,258)	(54,830)	(10,399)	(44,431)
Balance at 31 December	<u>7,252</u>	<u>1,452</u>	<u>5,800</u>	<u>5,458</u>	<u>966</u>	<u>4,492</u>

1.24. Insurance contract provisions (*continued*)

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

Group and Company

	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000
<i>Non-life business</i>						
Balance at 1 January	102,736	12,568	90,168	92,537	12,753	79,784
Additions recognised during the year	32,935	8,064	24,871	39,506	5,099	34,407
Transfer to claims reported provision	(33,991)	(4,771)	(29,220)	(29,307)	(5,284)	(24,023)
Balance at 31 December	101,680	15,861	85,819	102,736	12,568	90,168
<i>Life assurance business</i>						
Balance at 1 January	2,192	-	2,192	2,857	-	2,857
Additions recognised during the year	2,589	-	2,589	1,921	-	1,921
Transfer to claims reported provision	(2,565)	-	(2,565)	(2,586)	-	(2,586)
Balance at 31 December	2,216	-	2,216	2,192	-	2,192

d) Analysis of movements in unexpired risk provision

Group and Company

	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000
Balance as at 1 January	3,120	-	3,120	2,460	-	2,460
Release	(3,120)	-	(3,120)	(2,460)	-	(2,460)
Increase	2,100	-	2,100	3,120	-	3,120
Balance at 31 December	2,100	-	2,100	3,120	-	3,120

1.24. Insurance contract provisions *(continued)*

e) Life assurance provisions

Group and Company

	2010	2010	2010	2009	2009	2009
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	677,201	179,909	497,292	587,904	145,314	442,590
Premium allocation	116,672	38,956	77,716	117,768	40,769	76,999
Release of liabilities due to benefits paid, surrenders and other terminations	(69,148)	(14,706)	(54,442)	(53,841)	(10,705)	(43,136)
Unwinding of discount/accretion interest	21,007	5,892	15,115	19,162	4,894	14,268
Change in Zillmer adjustment	5,235	1,693	3,542	8,634	3,407	5,227
Change in provision for unearned premium	1,722	1,103	619	(2,798)	(1,094)	(1,704)
Change in negative provisions	(1,497)	(712)	(785)	(2,466)	(1,190)	(1,276)
Advance payments	934	-	934	(1,438)	-	(1,438)
Change in interest rate of Aurum portfolio (from 4% to 3.3%)	-	-	-	8,040	-	8,040
Change in mortality tables	(1,467)	-	(1,467)	(2,076)	(1,037)	(1,039)
Foreign currency translations	8,113	2,292	5,821	(1,688)	(449)	(1,239)
Balance at 31 December	758,772	214,427	544,345	677,201	179,909	497,292

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

Group and Company

	2010	2010	2010	2009	2009	2009
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January	21,455	-	21,455	12,309	-	12,309
Premium allocation	9,280	-	9,280	8,086	-	8,086
Unrealised gains on funds where policyholder investments were allocated	1,565	-	1,565	1,071	-	1,071
Foreign currency translations	350	-	350	(11)	-	(11)
Balance at 31 December	32,650	-	32,650	21,455	-	21,455

1.24. Insurance contract provisions *(continued)*

g) Development of claims reported by policyholders at 31 December 2010

Group

	Prior 2005	2005	2006	2007	2008	2009	2010	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Estimate of cumulative claims at the end of underwriting year	209,589	88,238	133,586	188,625	203,345	210,213	204,298	
One year later	215,036	93,548	130,962	182,076	203,103	201,087		
Two years later	216,566	93,115	127,809	178,663	188,454			
Three years later	221,113	94,057	124,030	173,542				
Four years later	224,698	93,554	123,135					
Five years later	225,292	95,774						
Six years later	227,551							
Current estimate of cumulative claims	227,551	95,774	123,135	173,542	188,454	201,087	204,298	1,213,841
Cumulative payments	(217,980)	(88,328)	(112,106)	(160,687)	(163,659)	(157,649)	(99,931)	(1,000,340)
Amount recognised in the current year statement of financial position	9,571	7,446	11,029	12,855	24,795	43,438	104,367	213,501
Unsettled claims at 31 December 2010 on policies transferred in at 30 December 2005 on merger with Aurum	12,950	1,401	501	-	59	50	407	15,368
Claims handling costs and recourses	-	-	-	-	-	-	-	10,197
Total value recognised in the current year balance sheet	22,521	8,847	11,530	12,855	24,854	43,488	104,774	239,066

Company

	Prior 2005	2005	2006	2007	2008	2009	2010	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Estimate of cumulative claims at the end of underwriting year	209,589	88,238	133,586	188,625	203,345	210,213	204,298	
One year later	215,036	93,548	130,962	182,076	203,103	201,087		
Two years later	216,566	93,115	127,809	178,663	188,454			
Three years later	221,113	94,057	124,030	173,542				
Four years later	224,698	93,554	123,135					
Five years later	225,292	95,774						
Six years later	227,551							
Current estimate of cumulative claims	227,551	95,774	123,135	173,542	188,454	201,087	204,298	1,213,841
Cumulative payments	(218,092)	(88,372)	(112,162)	(160,767)	(163,739)	(157,724)	(99,973)	(1,000,829)
Amount recognised in the current year statement of financial position	9,459	7,402	10,973	12,775	24,715	43,363	104,325	213,012
Unsettled claims at 31 December 2010 on policies transferred in at 30 December 2005 on merger with Aurum	12,950	1,401	501	-	59	50	407	15,368
Claims handling costs and recourses	-	-	-	-	-	-	-	10,686
Total value recognised in the current year balance sheet	22,409	8,803	11,474	12,775	24,774	43,413	104,732	239,066

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

1.24. Insurance contract provisions (*continued*)

h) Remaining maturities of insurance contracts provisions

Group and Company

2010

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

2009

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	Between 10 and 15 years HRK'000	Between 15 and 20 years HRK'000	More than 20 years HRK'000	Total HRK'000
Provision for unearned premiums	157,867	-	-	-	-	-	157,867
Notified outstanding claims reserve and Incurred but not reported claims reserve	80,530	139,232	-	-	-	-	219,762
Unexpired risk provision	3,120	-	-	-	-	-	3,120
Other technical provisions	193	-	-	-	-	-	193
Life assurance provision and provision for unit and index linked	18,377	60,016	191,266	223,740	146,657	58,600	698,656
Insurance contracts provisions	260,087	199,248	191,266	223,740	146,657	58,600	1,079,598

1.24. Insurance contract provisions *(continued)*

i) Structure of assets used for backing life assurance provision

Group and Company

	31 December 2010 HRK '000	31 December 2009 HRK '000
Assets used for backing life assurance provision		
Debt securities issued by Republic of Croatia	456,280	346,606
Debt securities issued by Croatian Bank for Reconstruction and Development	-	18,642
Municipal bonds	3,679	3,922
Bonds and other debt securities traded on regulated stock exchange in Croatia	4,054	9,873
Equities traded on regulated stock exchange in Croatia	481	477
Shares and equities of investment funds registered in Croatia	13,378	275
Advances and loans in the amount of insurance redemption value based on life insurance contract	13,716	14,165
Deposits with banks domiciled in Croatia	67,167	114,562
Loans secured by guarantees issued by banks domiciled in Croatia	8,412	8,365
Balances on giro account of the Company	33	127
	<hr/>	<hr/>
Total assets used for backing life assurance provision	567,200	517,014
	<hr/> <hr/>	<hr/> <hr/>

	31 December 2010 HRK '000	31 December 2009 HRK '000
Life assurance provision and Discretionary profit participation provision	553,680	507,755
Claims provision for risks for which it is necessary to create life assurance provision	4,187	2,746
	<hr/>	<hr/>
Requested coverage of life assurance provision	557,867	510,501
	<hr/> <hr/>	<hr/> <hr/>
Assets used for cover of life assurance provision	567,200	517,014
Requested coverage of life assurance provision	557,867	510,501
	<hr/>	<hr/>
Difference	9,333	6,513
	<hr/> <hr/>	<hr/> <hr/>

1.24. Insurance contract provisions *(continued)*

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

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

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
2010					
Asset backing life assurance provision	78,217	180,661	303,256	5,066	567,200
Life assurance provision	(22,120)	(101,692)	(173,232)	(256,636)	(553,680)
Claims provision	(2,854)	(1,333)	-	-	(4,187)
	<u>53,243</u>	<u>77,636</u>	<u>130,024</u>	<u>(251,570)</u>	<u>9,333</u>
2009					
Asset backing life assurance provision	142,602	175,215	193,906	5,291	517,014
Life assurance provision	(18,490)	(82,168)	(144,915)	(262,182)	(507,755)
Claims provisions	(1,874)	(872)	-	-	(2,746)
	<u>122,238</u>	<u>92,175</u>	<u>48,991</u>	<u>(256,891)</u>	<u>6,513</u>

As of 31 December 2010 the majority of asset used for backing life assurance provision is classified as available for sale and as financial investment hold to maturity. Financial assets classified as available for sale could be easily disposed if needed.

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

	EURO	EURO linked	EURO and EURO linked total	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
2010					
Asset backing life assurance provision	2,213	528,245	530,458	36,742	567,200
2009					
Asset backing life assurance provision	57,695	453,761	511,456	5,558	517,014

In 2010 the Company's yield on investments from mathematical provision amounted to 8.19% (2009: 5.13%).

1.24. Insurance contract provisions *(continued)*

j) Structure of assets used for backing technical provisions

Group and Company

	31 December 2010 HRK '000	31 December 2009 HRK '000
Assets used for backing technical provisions		
Securities issued by Republic of Croatia	37,144	16,395
Bonds and other debt securities traded on regulated stock exchange in Croatia	4,970	7,050
Equities traded on regulated stock exchange in Croatia	2,561	770
Equities not traded on stock exchange if issued by legal entity domiciled in Croatia	2,246	2,246
Shares of companies domiciled in Croatia	90	90
Shares and equities of investment funds registered in Croatia	18,471	12,019
Loans with a pledge over a real estate	26,597	54,754
Loans and deposits to banks domiciled in Croatia (same bank or group of related banks at most 5 %)	10,514	65,306
Loans secured by banks domiciled in Croatia	3,000	-
Real estate ownership and other entitlements (one or more related real estate combined at most 10%)	-	23,562
Balances on giro account of the Company	2,534	3,026
	<hr/>	<hr/>
Total assets used for backing technical provisions	108,127	185,218
	<hr/> <hr/>	<hr/> <hr/>
	31 December 2010 HRK '000	31 December 2009 HRK '000
Provision for unearned premiums	90,462	129,697
Claims provision	179,862	177,948
Other provisions	2,100	3,313
	<hr/>	<hr/>
Requested coverage of technical provisions other than life insurance provision	272,424	310,958
	<hr/> <hr/>	<hr/> <hr/>
Assets for the coverage of technical provisions other than life insurance provision	108,127	185,218
Coverage of technical provisions other than life insurance provision	272,424	310,958
	<hr/>	<hr/>
Difference	(164,297)	(125,740)
	<hr/> <hr/>	<hr/> <hr/>

1.24. Insurance contract provisions (*continued*)

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

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

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	More than 10 years HRK'000	Total HRK'000
2010					
Asset backing technical provisions	58,007	26,220	23,900	-	108,127
Provision for unearned premium	(90,462)	-	-	-	(90,462)
Claims provision and other provisions	(56,178)	(27,188)	(98,596)	-	(181,962)
Maturity gap	(88,633)	(968)	(74,696)	-	(164,297)
2009					
Asset backing technical provisions	148,090	37,128	-	-	185,218
Provision for unearned premium	(129,697)	-	-	-	(129,697)
Claims provision and other provisions	(67,044)	(114,217)	-	-	(181,261)
Maturity gap	(48,651)	(77,089)	-	-	(125,740)

As of 31 December 2010 the assets used for backing technical provisions is mainly classified as loans and receivables and as financial asset available for sale, which could be easily disposed to meet insurance contracts liabilities when needed.

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

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	HRK HRK'000	Total HRK'000
2010						
Asset backing technical provision	9,564	20,142	29,706	-	78,421	108,127
Provision for unearned premium	-	-	-	-	(90,462)	(90,462)
Claims provision and other provisions	-	-	-	-	(181,962)	(181,962)
	9,564	20,142	29,706	-	(194,003)	(164,297)
2009						
Asset backing technical provision	9,454	51,444	60,898	11,634	112,686	185,218
Provision for unearned premium	-	-	-	-	(129,697)	(129,697)
Claims provision and other provisions	-	-	-	-	(181,261)	(181,261)
	9,454	51,444	60,898	11,634	(198,272)	(125,740)

1.25. Discretionary profit participation provision

Group and Company

	2010 HRK'000	2009 HRK'000
Balance at 1 January	10,463	11,659
Funds released during the year due to surrenders and benefits	(1,128)	(1,196)
Balance at 31 December	9,335	10,463

1.26. Subordinated loan

	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Subordinated loan	14,770	14,565	14,770	14,565

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

1.27. Borrowings

	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Borrowings	55,662	60,759	-	-

Borrower	Currency	Contracted principal in currency	Interest rate	Maturity	Outstanding amount Group 2010 HRK'000	Outstanding amount Group 2009 HRK'000
Vienna Insurance Group	EUR	8,000,000	5%, fixed	30 June 2019	42,481	45,645
OTP Bank NYRT	EUR	1,000,000	3 month EURIBOR + 1.80%	31 December 2016	4,431	5,114
OTP banka d.d.	HRK	12,500,000	6.50%	21 December 2017	8,750	10,000
					55,662	60,759

Loans granted by Vienna Insurance Group Wiener Versicherung Gruppe AG (former Vienna Insurance Group Wiener Städtische AG) and OTP banka d.d. are secured with the property of Kvarner Wiener Städtische nekretnine d.o.o. and deposit of Kvarner Vienna Insurance Group d.d. in the amount of HRK 8,750 thousand with OTP banka d.d.

1.28. Provisions for liabilities and charges

Group and Company

	Legal provisions HRK'000	Jubilee awards HRK'000	Total HRK'000
Balance at 1 January 2009	500	-	500
Increase of provision	-	-	-
Balance at 31 December 2009	<u>500</u>	<u>-</u>	<u>500</u>
Balance at 1 January 2010	500	-	500
Increase of provision	-	1,000	1,000
Balance at 31 December 2010	<u>500</u>	<u>1,000</u>	<u>1,500</u>

1.29. Insurance and other payables and deferred income

	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Direct insurance contract payables				
- to policyholders	4,405	4,020	4,405	4,020
- to agents, brokers and intermediaries	2,358	3,812	2,358	3,812
Reinsurance contract payables	138,143	109,653	138,143	109,653
Reinsurance commission deferral	1,912	1,903	1,912	1,903
Deposits retained from reinsurance business	247,694	179,909	247,694	179,909
Trade creditors	8,988	9,261	9,383	9,541
Liabilities for salaries	6,443	7,005	6,380	6,589
Interest payable on borrowings	1,062	1,207	-	-
Commission expense accrual	2,120	1,933	2,120	1,933
Other payables and accrued expenses	26,256	20,729	25,389	20,445
Total insurance and other payables and deferred income	<u>439,381</u>	<u>339,432</u>	<u>437,784</u>	<u>337,805</u>

The Group retains deposits from reinsurance business arising from the quota share reinsurance treaties for life assurance with the parent company and Motor Third Party Liability insurance with a related company. In accordance with the reinsurance treaties, applicable from 1 January 2002 for life assurance and from 1 January 2010 for Motor Third Party Liability insurance, the Company does not cede the reinsurance share, but retains and invests the funds. Deposit retained from reinsurance business of life assurance bears a 3% fixed interest rate per annum, while for Motor Third Party Liability bears a 1.5% fixed interest rate per annum.

1.30. Premiums

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non-life insurance</i>				
Gross premium written	285,317	321,012	285,404	321,172
Reinsurance business assumed	(124,293)	(75,967)	(124,293)	(75,967)
Change in unearned premiums, gross	8,724	(70)	8,724	(70)
Change in unearned premiums, reinsurance share	30,427	(12,537)	30,427	(12,537)
	<hr/>	<hr/>	<hr/>	<hr/>
Total premium income net, (earned) from non-life insurance	200,175	232,438	200,262	232,598
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Life assurance</i>				
Gross premium written	211,394	214,029	211,394	214,029
Reinsurance business assumed	(57,135)	(56,497)	(57,135)	(56,497)
Change in unearned premiums, gross and net	84	364	84	364
	<hr/>	<hr/>	<hr/>	<hr/>
Total premium income net, (earned) from life assurance	154,343	157,896	154,343	157,896
	<hr/>	<hr/>	<hr/>	<hr/>
Total premiums	354,518	390,334	354,605	390,494
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Gross premiums written for the Group and the Company for life assurance business include premiums of HRK 15.37 million (2009: HRK 18.32 million) in respect of unit-linked products and premiums of HRK 3.57 million in respect of index-linked products (2009: HRK 5.00 million).

1.30. Premiums (*continued*)

Analysis by class of business

An analysis of written premiums and claims incurred by class of business is set out below. Gross premiums written are stated after adjusting for the net increase in provisions for premium debtors and related write-offs of HRK 24.46 million (2009: HRK 5.36 million) for the Group and Company:

Group

	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition and administrative expenses HRK'000	Reinsurance balance HRK'000
2010					
<i>Non-life insurance business</i>					
Motor (third party)	125,214	128,948	(62,376)	(35,230)	(8,390)
Motor (other classes)	38,633	42,129	(35,959)	(15,937)	(2,000)
Property	70,522	69,978	(30,972)	(27,214)	(12,923)
Personal lines	18,165	19,325	(8,729)	(11,600)	(213)
Other	32,783	33,661	(23,534)	(14,912)	(6,428)
Total non-life	285,317	294,041	(161,570)	(104,893)	(29,954)
<i>Life assurance business</i>					
Periodic premiums	176,443	176,373	(136,495)	(79,245)	5,069
Single premiums	24,139	24,139	(25,309)	(10,087)	-
Individual premiums	200,582	200,512	(161,804)	(89,332)	5,069
Life rider products	10,812	10,966	(3,541)	(6,599)	(205)
Total life	211,394	211,478	(165,345)	(95,931)	4,864
Thereof unit linked and index linked	18,941	18,941	(12,877)	(9,882)	-
Grand total	496,711	505,519	(326,915)	(200,824)	(25,090)
2009					
<i>Non-life insurance business</i>					
Motor (third party)	138,401	139,905	(89,878)	(39,006)	(3,975)
Motor (other classes)	49,273	52,394	(49,686)	(16,605)	1,787
Property	74,864	70,127	(14,152)	(26,847)	(26,463)
Personal lines	21,925	23,780	(10,680)	(10,079)	(227)
Other	36,549	34,736	(20,030)	(16,579)	(7,964)
Total non-life	321,012	320,942	(184,426)	(109,116)	(36,842)
<i>Life assurance business</i>					
Periodic premiums	182,241	182,345	(129,350)	(80,767)	33
Single premiums	19,853	19,853	(20,293)	(6,621)	-
Individual premiums	202,094	202,198	(149,643)	(87,388)	33
Life rider products	11,935	12,195	(3,668)	(5,334)	(227)
Total life	214,029	214,393	(153,311)	(92,722)	(194)
Thereof unit linked and index linked	23,327	23,327	(9,822)	(16,985)	-
Grand total	535,041	535,335	(337,737)	(201,838)	(37,036)

1.30. Premiums *(continued)*

Analysis by class of business *(continued)*

Company

	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition and administrative expenses HRK'000	Reinsurance balance HRK'000
2010					
<i>Non-life insurance business</i>					
Motor (third party)	125,217	128,963	(62,530)	(35,338)	(8,390)
Motor (other classes)	38,635	42,130	(36,096)	(15,989)	(2,000)
Property	70,605	70,048	(31,111)	(27,318)	(12,923)
Personal lines	18,165	19,325	(8,729)	(11,632)	(213)
Other	32,782	33,662	(23,593)	(14,968)	(6,428)
Total non-life	285,404	294,128	(162,059)	(105,245)	(29,954)
<i>Life assurance business</i>					
Periodic premiums	176,443	176,373	(136,495)	(79,245)	5,069
Single premiums	24,139	24,139	(25,309)	(10,087)	-
Individual premiums	200,582	200,512	(161,804)	(89,332)	5,069
Life rider products	10,812	10,966	(3,541)	(6,599)	(205)
Total life	211,394	211,478	(165,345)	(95,931)	4,864
Thereof unit linked and index linked	18,941	18,941	(12,877)	(9,882)	-
Grand total	496,798	505,606	(327,404)	(201,176)	(25,090)
2009					
<i>Non-life insurance business</i>					
Motor (third party)	138,401	139,905	(89,878)	(38,416)	(3,975)
Motor (other classes)	49,273	52,394	(49,686)	(16,330)	1,787
Property	75,024	70,287	(19,427)	(26,348)	(26,463)
Personal lines	21,925	23,780	(10,680)	(9,906)	(227)
Other	36,549	34,736	(20,030)	(16,279)	(7,964)
Total non-life	321,172	321,102	(189,701)	(107,279)	(36,842)
<i>Life assurance business</i>					
Periodic premiums	182,241	182,345	(129,350)	(80,767)	33
Single premiums	19,853	19,853	(20,293)	(6,621)	-
Individual premiums	202,094	202,198	(149,643)	(87,388)	33
Life rider products	11,935	12,195	(3,668)	(5,334)	(227)
Total life	214,029	214,393	(153,311)	(92,722)	(194)
Thereof unit linked and index linked	23,327	23,327	(9,822)	(16,985)	-
Grand total	535,201	535,495	(343,012)	(200,001)	(37,036)

1.30. Premiums (continued)

An analysis of claims ratio, costs ratio and combined ratio

2010	Claims ratio	Costs ratio	Combined ratio
Accident	44.52%	45.19%	89.71%
Health insurance	88.87%	41.98%	130.85%
Motor Hull	93.08%	31.84%	124.92%
Marine Hull	69.52%	85.15%	154.67%
Transport	22.01%	30.01%	52.02%
Property Fire	20.35%	20.28%	40.63%
Other property	31.12%	20.15%	51.27%
Motor Third Party Liability	64.08%	25.76%	89.84%
Marine liability	25.92%	43.49%	69.41%
General liability	60.34%	15.10%	75.44%
Credit insurance	71.94%	8.50%	80.44%
Guarantee insurance	(10.67%)	8.50%	(2.17%)
Financial losses	26.77%	5.37%	32.14%
Legal fees insurance	-	21.22%	21.22%
Travel insurance	86.34%	66.14%	152.48%
Total non-life	57.85%	28.30%	86.15%
2009	Claims ratio	Costs ratio	Combined ratio
Accident	42.60%	46.31%	88.91%
Health insurance	113.95%	20.70%	134.65%
Motor Hull	83.38%	36.84%	120.22%
Air Hull	-	2.21%	2.21%
Marine Hull	108.87%	74.10%	182.97%
Transport	7.43%	24.14%	31.57%
Property Fire	34.12%	25.27%	59.39%
Other property	46.47%	18.59%	65.06%
Motor Third Party Liability	47.02%	18.70%	65.72%
Air liability	-	(7.39%)	(7.39%)
Marine liability	20.49%	16.80%	37.29%
General liability	61.17%	8.92%	70.09%
Credit insurance	535.63%	10.16%	545.79%
Guarantee insurance	229.42%	10.16%	239.58%
Financial losses	0.78%	7.76%	8.54%
Legal fees insurance	-	27.63%	27.63%
Travel insurance	62.44%	66.01%	128.45%
Total non-life	52.88%	25.64%	78.52%

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

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

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

Combined ratio = Combined ratio = claims ratio + costs ratio

1.31. Fees and commission income

Group and Company

	2010	2009
	HRK'000	HRK'000
Reinsurance commission	34,181	26,357
Profit reinsurance commission	2,460	886
	36,641	27,243

1.32. Financial income

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
Interest income:				
- Held-to-maturity investments	11,995	12,050	11,995	12,050
- Available-for-sale financial assets	20,152	10,036	20,152	10,036
- At fair value through profit and loss	-	292	-	292
- Loans and receivables	20,668	26,515	21,006	26,809
Dividend income	196	245	196	245
Rental income from investment property	1,886	2,616	-	-
Net gain on remeasurement of assets at fair value through profit and loss	2,573	1,699	2,573	1,699
Net realised gain on assets at fair value through profit and loss	840	138	840	138
Net realised gain on assets available for sale	9,246	-	9,246	-
Foreign exchange translation gain	7,967	-	8,474	-
Other financial income	1,430	815	1,430	814
	76,953	54,406	75,912	52,083

Group

	Non-life	Life	Investment property	Total	Non-life	Life	Investment property	Total
	2010	2010	2010	2010	2009	2009	2009	2009
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial income								
Income from assets backing equity	1,721	3,295	1,886	6,902	175	2,127	2,616	4,918
Income from assets backing life assurance provision	-	58,842	-	58,842	-	36,604	-	36,604
Income from assets backing other technical provisions	11,209	-	-	11,209	12,884	-	-	12,884
	12,930	62,137	1,886	76,953	13,059	38,731	2,616	54,406

1.32. Financial income (continued)

Company

	Non-life 2010 HRK'000	Life 2010 HRK'000	Total 2010 HRK'000	Non-life 2009 HRK'000	Life 2009 HRK'000	Total 2009 HRK'000
Financial income						
Income from assets backing equity	2,227	3,295	5,522	175	2,127	2,302
Income from assets backing life assurance provision	-	58,842	58,842	-	36,604	36,604
Income from assets backing other technical provisions	11,548	-	11,548	13,177	-	13,177
	<u>13,775</u>	<u>62,137</u>	<u>75,912</u>	<u>13,352</u>	<u>38,731</u>	<u>52,083</u>

1.33. Other operating income

	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Income from sale of land and buildings	-	310	-	310
Income from sale of equipment and vehicles	-	556	-	556
Income from service claims	410	500	410	500
Net foreign exchange gain on translation of monetary assets and liabilities other than financial investments	1,035	706	1,035	668
Collection of previously written off receivables	12	637	12	637
Other operating income	3,198	2,516	1,867	1,866
	<u>4,655</u>	<u>5,225</u>	<u>3,324</u>	<u>4,537</u>

1.34. Net policyholder claims and benefits accrued

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non-life insurance</i>				
Claims paid				
Gross amount	(145,297)	(169,751)	(145,786)	(175,026)
Reinsurers' share	24,172	36,754	24,172	36,754
Change in notified outstanding claims reserve				
Gross amount	(18,542)	(3,623)	(18,542)	(3,623)
Reinsurers' share	12,170	(1,149)	12,170	(1,149)
Change in incurred but not reported claims reserve				
Gross amount	1,056	(10,199)	1,056	(10,199)
Reinsurers' share	3,293	(185)	3,293	(185)
Change in unexpired risk provision, gross and net				
Gross amount	1,020	(660)	1,020	(660)
Change in other technical provisions, gross and net				
Gross amount	193	(193)	193	(193)
	<hr/>	<hr/>	<hr/>	<hr/>
Total gross claims incurred from non-life insurance	(161,570)	(184,426)	(162,059)	(189,701)
Total reinsurance share in claims incurred from non-life insurance	39,635	35,420	39,635	35,420
	<hr/>	<hr/>	<hr/>	<hr/>
Total net claims incurred from non-life insurance	(121,935)	(149,006)	(122,424)	(154,281)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Life assurance</i>				
Claims paid (benefits and surrenders)				
Gross amount	(71,889)	(54,830)	(71,889)	(54,830)
Reinsurers' share	14,631	10,399	14,631	10,399
Change in life assurance provision				
Gross amount	(81,571)	(89,297)	(81,571)	(89,297)
Reinsurers' share	34,518	34,595	34,518	34,595
Change in life assurance provision for unit linked products, gross and net	(11,195)	(9,146)	(11,195)	(9,146)
Change in notified outstanding claims reserve				
Gross amount	(1,794)	(1,899)	(1,794)	(1,899)
Reinsurers' share	486	308	486	308
Change in incurred but not reported claims reserve, gross and net				
Gross amount	(24)	665	(24)	665
Change in discretionary profit participation provision, gross and net	1,128	1,196	1,128	1,196
	<hr/>	<hr/>	<hr/>	<hr/>
Total gross claims incurred from life assurance	(165,345)	(153,311)	(165,345)	(153,311)
Total reinsurance share in claims incurred from life assurance	49,635	45,302	49,635	45,302
	<hr/>	<hr/>	<hr/>	<hr/>
Total net claims incurred from life assurance	(115,710)	(108,009)	(115,710)	(108,009)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total gross claims incurred	(326,915)	(337,737)	(327,404)	(343,012)
Total reinsurance share in claims incurred	89,270	80,722	89,270	80,722
	<hr/>	<hr/>	<hr/>	<hr/>
Total	(237,645)	(257,015)	(238,134)	(262,290)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

1.35. Acquisition costs

Group and Company

	2010	2009
	HRK'000	HRK'000
<i>Non-life</i>		
Commission expenses	(21,325)	(20,984)
Other acquisition costs	(13,381)	(12,843)
Changes in deferred acquisition costs (note 1.13)	(5,467)	(3,136)
	<hr/>	<hr/>
Total acquisition costs, non-life	(40,173)	(36,963)
	<hr/>	<hr/>
<i>Life</i>		
Commission expenses	(32,955)	(31,587)
Other acquisition costs	(6,545)	(5,813)
Changes in deferred acquisition costs (note 1.13)	(20)	(63)
	<hr/>	<hr/>
Total acquisition costs, life	(39,520)	(37,463)
	<hr/>	<hr/>
	(79,693)	(74,426)
	<hr/>	<hr/>

Included within acquisition costs are internal sales staff costs amounting to HRK 12.2 million (2009: HRK 13.4 million).

Analysis by class of business

Group and Company

	2010	2009
	HRK'000	HRK'000
<i>Non life assurance business</i>		
Accident	5,470	5,662
Health	49	19
Motor Hull	6,413	7,163
Air Hull	(4)	-
Marine Hull	2,594	2,515
Transport	115	171
Property Fire	4,217	3,265
Other property	3,977	3,253
Motor Third Party Liability	15,363	13,247
Air liability	(2)	-
Marine liability	110	278
General liability	922	936
Credit insurance	24	58
Guarantee insurance	(1)	1
Financial losses	146	(344)
Legal fees insurance	6	35
Travel insurance	774	704
	<hr/>	<hr/>
Total non-life	40,173	36,963
	<hr/>	<hr/>
<i>Life assurance business</i>		
Life products	30,853	25,925
Life rider products	2,203	2,095
Index linked	6,464	9,443
	<hr/>	<hr/>
Total life	39,520	37,463
	<hr/>	<hr/>
Total non-life and life	79,693	74,426
	<hr/>	<hr/>

1.36. Administrative expenses

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
Depreciation	5,778	6,244	4,310	3,903
Amortisation	3,222	2,774	3,222	2,766
Personnel expenses	65,441	68,081	63,863	63,564
Goods and services	20,828	22,427	18,516	17,965
Rental expenses	8,073	8,570	14,228	15,565
Audit fees	656	577	549	566
Lawyer fees	587	888	501	750
Intellectual services	192	672	146	281
Other costs	16,354	18,738	16,148	20,650
	<u>121,131</u>	<u>128,971</u>	<u>121,483</u>	<u>126,010</u>

In 2010, the average number of employees of the Group was 652 (2009: 646) and of the Company was 645 (2009: 620). In 2010, the Group paid pension contributions of HRK 13.35 million (2009: HRK 13.02 million) into obligatory pension funds.

Analysis by class of business

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
<i>Non life assurance business</i>				
Accident	6,130	7,531	6,163	7,237
Health	77	87	78	84
Motor Hull	9,524	11,337	9,576	10,895
Air Hull	4	-	4	-
Marine Hull	5,364	6,868	5,393	6,601
Transport	473	512	476	492
Property Fire	9,510	10,605	9,562	10,191
Other property	9,511	10,426	9,563	10,019
Motor Third Party Liability	19,865	23,051	19,974	22,151
Air liability	2	-	2	-
Marine liability	389	820	391	788
General liability	1,984	2,068	1,995	1,988
Credit insurance	21	26	21	25
Guarantee insurance	6	2	5	2
Financial losses	509	785	512	754
Legal fees insurance	6	24	5	23
Travel insurance	1,345	1,803	1,352	1,734
Total non-life	<u>64,720</u>	<u>75,945</u>	<u>65,072</u>	<u>72,984</u>
<i>Life assurance business</i>				
Life products	48,596	42,630	48,596	42,630
Life rider products	4,397	5,270	4,397	5,270
Index linked	3,418	5,126	3,418	5,126
Total life	<u>56,411</u>	<u>53,026</u>	<u>56,411</u>	<u>53,026</u>
Total non-life and life	<u>121,131</u>	<u>128,971</u>	<u>121,483</u>	<u>126,010</u>

1.37. Other operating expenses

Group and Company

	2010	2009
	HRK'000	HRK'000
Fire brigade contributions	1,515	1,516
Technical interest rate payable on deposit retained from reinsurance	6,149	5,091
Other technical charges	5,250	2,885
Guarantee fund	2,457	2,183
Prevention costs	1,595	1,380
Compulsory motor third party liability insurance contribution to the Croatian health fund	8,414	8,724
	<u>25,380</u>	<u>21,779</u>

1.38. Financial expenses

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
Interest expense	3,965	3,509	1,028	-
Foreign exchange translation loss	-	1,570	-	1,607
Depreciation of investment property	600	468	148	8
Net realised loss on assets available for sale	-	2,836	-	2,836
Impairment of available-for-sale securities	613	2,135	613	2,135
Impairment of loans	2,318	2,508	2,318	2,508
Impairment of other receivables and prepayments	4,941	707	4,925	693
Loss from sale of investment property	10	-	10	-
Charges	1,718	783	1,748	797
	<u>14,165</u>	<u>14,516</u>	<u>10,790</u>	<u>10,584</u>

Group

	Non-life	Life	Investment property	Total	Non-life	Life	Investment property	Total
	2010	2010	2010	2010	2009	2009	2009	2009
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Expenses from assets backing share capital	1,948	-	3,375	5,323	(252)	70	3,934	3,752
Expenses from assets backing life assurance provision	-	1,861	-	1,861	-	5,032	-	5,032
Expenses from assets backing other technical provisions	6,981	-	-	6,981	5,732	-	-	5,732
	<u>8,929</u>	<u>1,861</u>	<u>3,375</u>	<u>14,165</u>	<u>5,480</u>	<u>5,102</u>	<u>3,934</u>	<u>14,516</u>

1.38. Financial expenses (continued)

Company	Non-life	Life	Total	Non-life	Life	Total
	2010	2010	2010	2009	2009	2009
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Expenses from assets backing share capital	1,948	-	1,948	(250)	70	(180)
Expenses from assets backing life assurance provision	-	1,861	1,861	-	5,032	5,032
Expenses from assets backing other technical provisions	6,981	-	6,981	5,732	-	5,732
	<u>8,929</u>	<u>1,861</u>	<u>10,790</u>	<u>5,482</u>	<u>5,102</u>	<u>10,584</u>

1.39. Income taxes

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
Current tax expense				
Current period	<u>82</u>	<u>117</u>	<u>-</u>	<u>-</u>
Total income tax expense	<u><u>82</u></u>	<u><u>117</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

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

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
Accounting loss for the period before income taxes	<u>(5,247)</u>	<u>(19,499)</u>	<u>(4,998)</u>	<u>(20,732)</u>
Income tax at 20%	1,049	3,900	1,000	4,146
Tax effect of:				
Non-deductible expenses	(1,548)	(1,591)	(1,573)	(1,480)
Tax exempt income	1,140	219	1,138	217
Utilisation of tax losses brought forward	-	238	-	-
Correction of tax return of previous year	-	3,048	-	3,048
Unrecognised portion of temporary differences and tax losses arising during the period	(723)	(5,931)	(565)	(5,931)
Total income tax expense	<u><u>(82)</u></u>	<u><u>(117)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

1.39. Income taxes (continued)

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

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
<i>At income tax rate of 20%</i>				
Unused tax losses brought forward	(23,951)	(18,258)	(23,951)	(18,020)
Expired losses brought forward	18,020	-	18,020	-
Utilisation of tax losses brought forward	-	238	-	-
Tax losses generated during period	(723)	(5,931)	(565)	(5,931)
Unused tax losses carried forward	(6,654)	(23,951)	(6,496)	(23,951)

c. Tax losses brought forward

The potential deferred tax asset, arising from tax losses, of HRK 4.7 million for the Group and HRK 4.5 million for the Company (at the income tax rate of 20%) are available for offset against future profits. A tax loss may be carried forward for five years subsequent to the year in which it was incurred. The availability of tax losses against future periods, subject to review by the Ministry of Finance, is as follows:

	Group	Group	Company	Company
	2010	2009	2010	2009
	HRK'000	HRK'000	HRK'000	HRK'000
<i>At income tax rate of 20%</i>				
No more than 1 year	-	(18,020)	-	(18,020)
No more than 2 years	-	-	-	-
No more than 3 years	-	-	-	-
No more than 4 years	(5,931)	-	(5,931)	-
No more than 5 years	(723)	(5,931)	(565)	(5,931)
Total potential benefit of tax losses carried forward*	(6,654)	(23,951)	(6,496)	(23,951)
Unrecognised benefit of tax loss carried forward	(4,654)	(21,951)	(4,496)	(21,951)
Deferred tax asset recognized in the statement of financial position	2,000	2,000	2,000	2,000

1.40. Operating leases

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

During the year ended 31 December 2010, HRK 10 million was recognised as an expense in the Group's profit or loss (2009: HRK 10.3 million) and HRK 15.7 million was recognised in the Company's profit or loss (2009: HRK 17.4 million) in respect of operating leases.

1.41. Related parties

The Company is the parent of the Kvarner Vienna Insurance Group. The key shareholder of the Company is Vienna Insurance Group Wiener Versicherung Gruppe AG (former Vienna Insurance Group Wiener Städtische AG) with a holding of 98.7% (2009: 98.7%) of the Company's shares at year end. The remaining 1.3% (2009: 1.3%) of the shares are held by minority shareholders. The Company considers that it has an immediate related party relationship with the ultimate parents of its key shareholders, and their subsidiaries; its subsidiaries and associates; the Supervisory Board members, Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

Parent company

Significant portion of the Group's reinsurance is ceded to the ultimate parent company. In addition, the Group had borrowings of HRK 42.5 million from the ultimate parent company as at 31 December 2010 (31 December 2009: HRK 45.6 million). As a result, the Group recorded HRK 2.14 million (2009: HRK 2.55 million) of interest expenses in relation to the ultimate parent company borrowings.

Related companies

In addition to parent company, the Group cedes reinsurance to other related companies, VIG Re and DONAU.

Reinsurance transactions with the parent company and related companies being VIG Re, VIG Holding and DONAU gave rise to reinsurance premiums and recoveries during the year as well as receivable and payable balances at the end of the year, as follows:

	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Premium ceded:				
Reinsurance premiums payable at beginning of the year	(98,156)	(113,065)	(98,156)	(113,065)
Reinsurance premiums ceded during the year	(156,598)	(125,040)	(156,598)	(125,040)
Reinsurance premiums paid during the year	171,888	139,949	171,888	139,949
	<hr/>	<hr/>	<hr/>	<hr/>
Reinsurance premiums payable at the end of the year	(82,866)	(98,156)	(82,866)	(98,156)
	<hr/>	<hr/>	<hr/>	<hr/>
Reinsurance recoveries:				
At the beginning of the year	18,427	24,488	18,427	24,488
Invoiced during the year	34,248	42,581	34,248	42,581
Received during the year	(27,981)	(48,642)	(27,981)	(48,642)
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	24,694	18,427	24,694	18,427
	<hr/>	<hr/>	<hr/>	<hr/>
Reinsurance commission:				
At the beginning of the year	21,043	34,903	21,043	34,903
Invoiced during the year	35,461	39,995	35,461	39,995
Received during the year	(31,135)	(53,855)	(31,135)	(53,855)
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	25,369	21,043	25,369	21,043
	<hr/>	<hr/>	<hr/>	<hr/>
Receivables from deposit retained from reinsurance business	48,816	34,594	48,816	34,594
	<hr/>	<hr/>	<hr/>	<hr/>
Deposit retained from reinsurance business	(247,694)	(179,909)	(247,694)	(179,909)
	<hr/>	<hr/>	<hr/>	<hr/>

1.41. Related parties (continued)

Subsidiaries

During 2010 the Company charged to Kvarner Wiener Städtische nekretnine d.o.o. property insurance gross written premiums of HRK 74 thousand (2009: HRK 101 thousand) and HRK 13 thousand was charged to S.O.S. Expert d.o.o. (2009: HRK 39 thousand).

In the same period the Company incurred HRK 8.26 million (2009: HRK 9.26 million) of rent expense from Kvarner Wiener Städtische nekretnine d.o.o. and HRK 428 thousand (2009: HRK 5.2 million) from S.O.S. Expert d.o.o. for loss adjusting services. In 2010 there was no dividend paid by Kvarner Wiener Städtische nekretnine d.o.o. and S.O.S. Expert d.o.o. to the Company (2009: nil).

Key management personnel

Included in key management personnel are Management and Supervisory Board members. The remuneration of the Management Board amounted to HRK 3.1 million (2009: HRK 2.9 million), and comprises the total gross amount of their compensation including short-term and long-term benefits, such as basic pay and bonuses, benefits in kind, pension and other retirement benefits, and life assurance.

Group 2010	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key management personnel (including remuneration)	-	253	-	3,117
Parent company				
Vienna Insurance Group Wiener Versicherung Gruppe AG	-	45,496	51,365	52,944
Associates				
Vile Baredine	1,297	-	99	-
Related companies				
Wiener Staedtische Versicherung AG	5,697	15,216	12,865	21,834
VIG Re	75,704	82,480	81,391	89,906
DONAU	36	376	174	565
Erste Osiguranje Vienna Insurance Group d.d.	-	6	-	66
Helios Vienna Insurance Group d.d.	282	7	319	53
	83,016	143,834	146,213	168,485
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Company 2010	Assets	Liabilities	Income	Expense
	HRK'000	HRK'000	HRK'000	HRK'000
Key management personnel (including remuneration)	-	226	-	2,746
Parent company				
Vienna Insurance Group Wiener Versicherung Gruppe AG	-	1,953	49,224	52,944
Associates				
Vile Baredine	1,291	-	87	-
Subsidiaries				
Kvarner Wiener Staedtische nekretnine d.o.o.	10,760	62	412	8,320
S.O.S. Expert d.o.o.	568	318	13	428
Related companies				
Wiener Staedtische Versicherung AG	5,697	15,216	12,865	21,834
VIG Re	75,704	82,480	81,391	89,906
DONAU	36	376	174	565
Erste Osiguranje Vienna Insurance Group d.d.	-	6	-	66
Helios Vienna Insurance Group d.d.	282	7	319	53
	94,338	100,644	144,485	176,862
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Loans to associate Vile Baredine became due in 2009 but were not collected until 31 December 2009. During 2010 the Company approved new loan to Vile Baredine which covered due loan and became due on 31 December 2010 and not collected. The interest rate charged for loans to KWS Nekretnine is 6% and to Vile Baredine is 7%.

1.41. Related parties *(continued)*

Group 2009	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel (including remuneration)</i>	-	257	-	2,950
<i>Parent company</i>				
Vienna Insurance Group Wiener Staedtische AG	9,265	84,660	34,079	40,418
<i>Associates</i>				
Vile Baredine	1,157	-	95	-
Vile Krasica	4,121	-	304	-
<i>Related companies</i>				
VIG Re	30,206	75,683	75,244	80,972
DONAU	13	219	116	247
Erste Osiguranje Vienna Insurance Group d.d.	10,106	-	-	66
Cosmopolitan Life Vienna Insurance Group d.d.	76	-	109	-
Helios Vienna Insurance Group d.d.	150	-	520	-
	55,094	160,819	110,467	124,653

Company 2009	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel (including remuneration)</i>	-	209	-	2,386
<i>Parent company</i>				
Vienna Insurance Group Wiener Staedtische AG	9,265	37,808	31,528	40,418
<i>Associates</i>				
Vile Baredine	1,151	-	95	-
Vile Krasica	4,115	-	304	-
<i>Subsidiaries</i>				
Kvarner Wiener Staedtische nekretnine d.o.o.	6,604	67	395	9,264
S.O.S. Expert d.o.o.	460	562	357	5,213
<i>Related companies</i>				
VIG Re	30,206	75,683	75,244	80,972
DONAU	13	219	116	247
Erste Osiguranje Vienna Insurance Group d.d.	10,106	-	-	66
Cosmopolitan Life Vienna Insurance Group d.d.	76	-	109	-
Helios Vienna Insurance Group d.d.	150	-	520	-
	62,146	114,548	108,668	138,566

1.42. Financial Risk Management

The primary objective of the Group's risk and financial management framework is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Group is satisfactorily managing affairs for their benefit.

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

Market risk

Market risk includes three types of risk:

- interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.
- price risk – 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.
- currency risk – the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

Asset/liability matching

The Group manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise the after-tax, risk-adjusted investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash-flow and duration basis. Management reviews and approves target portfolios on a periodic basis, establishing investment guidelines and limits, and providing oversight of the asset/liability management process. Due attention is also given to the compliance with the rules established by the Insurance Law.

The Group establishes target asset portfolios for each business segment, which represents the investment strategies used to profitably fund its liabilities within acceptable levels of risk. These strategies include objectives for effective duration, yield curve, liquidity, asset sector concentration and credit quality. The estimates used in determining the approximate amounts and timing of payments to or on behalf of policyholders for insurance liabilities are regularly re-evaluated.

Many of these estimates are inherently subjective and could affect the Group's ability to achieve its asset/liability management goals and objectives

Interest rate risk

The Group's exposure to market risk for changes in interest rates is concentrated in its investment portfolio and debt obligations. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in different amounts.

The Group is also exposed to the risk of changes in future cash flows arising from the changes in market interest rates. This risk is, however, limited, considering that the majority of the Group's interest bearing investments at the date of financial position bear fixed interest rates.

1.42. Financial risk management (*continued*)

Interest rate risk (*continued*)

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 date of financial position. The life assurance provision is discounted using the lower of the technical interest rate or regulatory prescribed rate. The prescribed discount rate to some extent reflects the expected movement in interest yields over a longer period of time. Therefore, changes in investment values attributable to interest rate changes will not be mitigated by corresponding and partially offsetting changes in the economic value of insurance provisions.

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

The Group attempts to match the future receipts from these assets with its insurance liabilities by purchasing Government bonds. However, due to the relatively short duration of such bonds, and the longer duration of life assurance liabilities, and the inability of the Group to purchase interest rate swaps in Croatia, the Group is exposed to interest rate risk.

The Group is presently contractually committed to accrue interest at rates of 3% to 6% per annum on premiums paid under life assurance policies for distribution to policyholders upon maturity of such policies, and is not able currently to hedge the future interest rate on assets invested to meet those future liabilities.

Note 1.43 discloses the effective interest rates and reprising analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, the variables had to be changed on an individual basis.

An assumption of a change of 25 basis points in the yield curve is taken in the analysis, which is done separately for the domestic currency yield curve and for the euro and euro-linked yield curve. Those are the only currencies in which the Group's investments are denominated. Only fair value and available-for-sale fixed income instruments were taken into consideration.

	Change in variables	Impact on result 2010 HRK'000	Impact on other comprehensive income 2010 HRK'000	Impact on result 2009 HRK'000	Impact on other comprehensive income 2009 HRK'000
HRK	+25/-25 basis	-	50/(50)	-	21/(21)
EUR	+25/-25 basis	-	750/(750)	-	460/(460)

1.42. Financial risk management (*continued*)

Equity price risk

The Group's portfolio of marketable equity securities carried in the statement of financial position at fair value gives exposure to price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Group's objective is to earn competitive returns by investing in a diverse portfolio of securities. Portfolio characteristics are analysed regularly. The Group's holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by senior management, as well as by statutory requirements.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit. The correlation of variables will have a significant effect in determining the ultimate impact on equity price risk, but to demonstrate the impact due to changes in variables, the variables had to be changed on an individual basis.

Equity market risk exists as a result of investments into equity securities. Direct equity investments are restricted to the domestic market, therefore Crobex, the domestic equity index, can be used as a suitable benchmark for the calculation of equity price sensitivity. Correlation between Crobex and the direct equity exposure is assumed as 1. At the reporting date total exposure to listed equity securities amounted to HRK 4.4 million or 0.5% of total investment portfolio and represents the fair value of these securities. A change of Crobex of 3% would result in the change of the portfolio value and other comprehensive income of HRK 132 thousand.

	Change in variables	Impact on portfolio value 2010 HRK'000	Impact on portfolio value 2009 HRK'000
CROBEX	3%	310	132

Foreign exchange risk

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

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

The Group manages foreign currency risk by trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency. Investments backing the life assurance provision are mostly denominated in Euro, as most of the life assurance provision is denominated in Euro.

Note 1.45 discloses the currency analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit. The correlation of variables will have a significant effect in determining the ultimate impact on foreign exchange risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

1.42. Financial risk management (continued)

Foreign exchange risk (continued)

Since there are only two currencies in the portfolio, only foreign exchange rate that includes euro and kuna is analysed. The EUR/HRK rate is targeted in the interval of HRK 7.20 and HRK 7.50 for 1 EUR. The EUR/HRK rate has most of the time in the past been within that interval. This change of approximately 4.0% is therefore analysed:

	Change in variables	Impact on result 2010 HRK'000	Impact on result 2010 EUR'000
EUR / HRK rate	4.00%	27,085	3,668
	Change in variables	Impact on result 2009 HRK'000	Impact on result 2009 EUR'000
EUR / HRK rate	4.00%	24,627	3,370

Credit risk

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

The Group's portfolios of fixed income securities, mortgage loans and to a lesser extent short-term deposits with banks and other investments are subject to credit risk. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all policyholders and collateral is secured prior to the disbursement or extension of approved policyholder loans.

Maximum exposure to credit risk at the reporting date

	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Cash at bank	13,565	13,846	13,503	13,760
Debt securities	680,295	440,603	680,295	440,603
Bank deposits	133,754	244,283	133,754	244,283
Loans to customers	104,653	110,100	110,653	114,600
Current income tax prepayment	71	-	-	-
Insurance and other receivables	253,392	245,076	256,635	246,801
	<u>1,185,730</u>	<u>1,053,908</u>	<u>1,194,840</u>	<u>1,060,047</u>

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

	Group 2010 HRK'000	Group 2009 HRK'000	Company 2010 HRK'000	Company 2009 HRK'000
Government bonds	643,802	404,546	643,802	404,546
Accrued interest thereon	10,710	6,493	10,710	6,493
Current income tax prepayment	71	-	-	-
	<u>654,583</u>	<u>411,039</u>	<u>654,512</u>	<u>411,039</u>

1.42. Financial risk management *(continued)*

Credit risk *(continued)*

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

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

	AAA - A HRK'000	BBB - B HRK'000	Not rated HRK'000	Total HRK'000
Group 2010				
Held-to-maturity investments				
Debt securities	-	223,932	2,429	226,361
Available-for-sale investments				
Debt securities	-	419,870	11,269	431,139
Financial assets at fair value through profit or loss				
Debt securities	7,557	-	-	7,557
Investments for the benefit of unit and index linked life assurance				
Index linked	15,238	-	-	15,238
Loans and receivables				
Deposits with banks	-	-	133,754	133,754
Loans to customers	-	-	104,653	104,653
Insurance and other receivables	136,374	10,732	106,286	253,392
Current income tax prepayment	-	71	-	71
Cash at bank	-	-	13,565	13,565
Total exposure to credit risk	159,169	654,605	371,956	1,185,730
Group 2009				
Held-to-maturity investments				
Debt securities	-	221,963	12,472	234,435
Available-for-sale investments				
Debt securities	-	182,583	9,751	192,334
Financial assets at fair value through profit or loss				
Debt securities	2,817	-	-	2,817
Investments for the benefit of unit and index linked life assurance				
Index linked	11,017	-	-	11,017
Loans and receivables				
Deposits with banks	-	-	244,283	244,283
Loans to customers	-	-	110,100	110,100
Insurance and other receivables	76,656	6,586	161,834	245,076
Cash in bank	-	-	13,846	13,846
Total exposure to credit risk	90,490	411,132	552,286	1,053,908

1.42. Financial risk management (continued)

Credit risk (continued)

	AAA – A HRK'000	BBB – B HRK'000	Not rated HRK'000	Total HRK'000
Company 2010				
Held-to-maturity investments				
Debt securities	-	223,932	2,429	226,361
Available-for-sale investments				
Debt securities	-	419,870	11,269	431,139
Financial assets at fair value through profit or loss				
Debt securities	7,557	-	-	7,557
Investments for the benefit of unit and index linked life assurance				
Index linked	15,238	-	-	15,238
Loans and receivables				
Deposits with banks	-	-	133,754	133,754
Loans to customers	-	-	110,653	110,653
Insurance and other receivables	136,374	10,732	109,529	256,635
Cash in bank	-	-	13,503	13,503
Total exposure to credit risk	159,169	654,534	381,137	1,194,840
Company 2009				
Held-to-maturity investments				
Debt securities	-	221,963	12,472	234,435
Available-for-sale investments				
Debt securities	-	182,583	9,751	192,334
Financial assets at fair value through profit or loss				
Debt securities	2,817	-	-	2,817
Investments for the benefit of unit and index linked life assurance				
Index linked	11,017	-	-	11,017
Loans and receivables				
Deposits with banks	-	-	244,283	244,283
Loans to customers	-	-	114,600	114,600
Insurance and other receivables	76,656	6,586	163,559	246,801
Cash in bank	-	-	13,760	13,760
Total exposure to credit risk	90,490	411,132	558,425	1,060,047

1.42. Financial risk management (continued)

Credit risk (continued)

Reinsurers as of 31 December 2010	Credit rating (Standard&Poor's)
American Agricultural Insurance Company	A
ACE Tempest Re Europe	A+
AIG / Chartis Europe S. A.	A-
CCR / Caisse Centrale de Reassurance	AAA
Chevanstell Limited	Not rated
Converium Rückversicherung (Deutschland) AG	A-
DONAU Allgemeine Versicherungs-Aktiengesellschaft	Not rated
Gerling-Konzern Allgemeine Versicherungs-AG	A+
Glacier Reinsurance AG	AA
Gothaer Allgemeine Versicherung AG	A-
Hannover Rückversicherungs-AG	AA-
Helvetia Schweizerische Versicherungsgesellschaft AG	A-
Korean Reinsurance Co.	A-
Liberty Mutual Insurance Europe Ltd.	A-
Mapfre Re, Compania de Reaseguros, S.A.	AA
Mutuelle Centrale de Reassurance	AA
Münchener Rückversicherungsgesellschaft	AA-
New Reinsurance Company	AA-
Odyssey America Reinsurance Corporation	A-
Partner Reinsurance Europe Ltd.	AA-
Polskie Towarzystwo Reasekuracyjne S.A.	BBB
R + V Versicherung AG	A+
RFIB Group Limited (broker)	Not rated
Pozavarovalnica Sava, did.	A-
Swiss Re Europe S.A.	A+
Toa Reinsurance Company Limited	A+
Transatlantic Reinsurance Company Ltd.	A+
Pozavarovalnica Triglav Re, did.	A
VIG Re zajištovna a.s.	A+
Wiener Städtische Versicherung AG Vienna Insurance Group	A+
XL Re Europe Limited	A
SCOR Switzerland AG	A
VIG Holding	A+
SCOR Global P&C	A

1.42. Financial risk management (*continued*)

Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe.

The Group holds a portfolio of liquid assets as part of its liquidity risk management strategy, to ensure continuous operations and to meet legal requirements.

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

Note 1.43 discloses the maturity analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities.

Note 1.24 discloses the maturity analysis of the Group's and the Company's technical provisions.

Fair values

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

Financial assets at fair value through profit or loss are measured at fair value based on quoted bid prices at the date of financial position.

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

The market value of held-to-maturity assets is estimated to be HRK 5.4 million lower than the carrying amount (2009: HRK 7.4 million lower).

Financial assets available for sale are measured at fair values based on quoted market prices at the reporting date with the exception of the investment into unquoted shares of Erste osiguranje Vienna Insurance Group did., which are carried at cost. The management believes that the fair value of the investment in Erste osiguranje is equal to its purchase cost from September 2008.

Hierarchy of fair values

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

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

1.42. Financial risk management (*continued*)

Hierarchy of fair values (continued)

Group and Company

31 December 2010	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Available-for-sale financial assets				
Debt securities	420,865	10,274	-	431,139
Equity securities	10,241	10,106	-	20,347
Investment funds	22,719	-	-	22,719
Financial assets at fair value through profit or loss				
Debt securities	5,031	2,526	-	7,557
Equity securities	-	90	-	90
Investment funds	19,620	-	-	19,620
Investments for the benefit of index-linked life assurance	15,238	-	-	15,238
Investments for the benefit of unit-linked life assurance	17,412	-	-	17,412
Total financial assets	511,126	22,996	-	534,122
31 December 2009	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Available-for-sale financial assets				
Debt securities	149,928	42,406	-	192,334
Equity securities	4,408	10,106	-	14,514
Investment funds	20,260	-	-	20,260
Financial assets at fair value through profit or loss				
Debt securities	2,817	-	-	2,817
Equity securities	-	90	-	90
Investment funds	65,271	-	-	65,271
Investments for the benefit of index-linked life assurance	11,017	-	-	11,017
Investments for the benefit of unit-linked life assurance	10,438	-	-	10,438
Total financial assets	264,139	52,602	-	316,741

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

1.43. Maturity analyses

The tables below analyses the financial assets and liabilities within the scope of IAS 39 of the Group and the Company at 31 December 2010 and 31 December 2009 into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date, except for non-monetary financial assets at fair value through profit or loss which are classified as short term and non-monetary financial assets available for sale carried at cost which are classified as long term. The estimated remaining contractual maturities of insurance provisions are analysed in Note 1.24 h).

Group - 2010

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
Held-to-maturity investments						
Debt securities	-	-	-	109,806	116,555	226,361
Available-for-sale investments						
Debt securities	1,965	-	49,059	21,976	358,139	431,139
Equity securities	10,241	-	-	-	10,106	20,347
Investment funds	22,719	-	-	-	-	22,719
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	7,557	7,557
Equity securities	-	-	-	-	90	90
Investment funds	19,620	-	-	-	-	19,620
Investments for the benefit of unit and index linked life assurance						
Unit linked	-	-	-	-	17,412	17,412
Index linked	-	-	-	-	15,238	15,238
Loans and receivables						
Deposits with banks	91,537	24,362	6,408	11,447	-	133,754
Loans to customers	44,802	35,932	7,648	8,367	7,904	104,653
Cash and cash equivalents	13,567	-	-	-	-	13,567
Total financial assets	204,451	60,294	63,115	151,596	533,001	1,012,457
Financial liabilities						
Subordinated loan	-	-	-	-	14,770	14,770
Borrowings	3,606	4,219	6,127	19,680	22,030	55,662
Financial liabilities	3,606	4,219	6,127	19,680	36,800	70,432
Maturity gap on financial assets and financial liabilities	200,845	56,075	56,988	131,916	496,201	942,025

1.43. Maturity analysis (continued)

Group - 2009

	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						
Held-to-maturity investments						
Debt securities	4,875	-	4,998	89,841	134,721	234,435
Available-for-sale investments						
Debt securities	3,304	36,159	33,924	62,593	56,354	192,334
Equity securities	4,408	-	-	-	10,106	14,514
Investment funds	20,260	-	-	-	-	20,260
Financial assets at fair value through profit or loss						
Equity securities	-	-	-	-	90	90
Debt securities	-	-	-	-	2,817	2,817
Investment funds	65,271	-	-	-	-	65,271
Investments for the benefit of unit and index linked life assurance						
Unit linked	-	-	-	-	10,438	10,438
Index linked	-	-	-	-	11,017	11,017
Loans and receivables						
Deposits with banks	114,837	119,053	-	10,393	-	244,283
Loans to customers	62,649	11,182	18,952	9,196	8,121	110,100
Cash and cash equivalents	13,865	-	-	-	-	13,865
Total financial assets	289,469	166,394	57,874	172,023	233,664	919,424
Financial liabilities						
Subordinated loan	-	-	-	14,565	-	14,565
Borrowings	3,618	3,858	5,878	16,568	30,837	60,759
Financial liabilities	3,618	3,858	5,878	31,133	30,837	75,324
Maturity gap on financial assets and financial liabilities	285,851	162,536	51,996	140,890	202,827	844,100

1.43. Maturity analysis (continued)

Company – 2010

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
Financial assets						
Held-to-maturity investments						
Debt securities	-	-	-	109,806	116,555	226,361
Available-for-sale investments						
Debt securities	1,965	-	49,059	21,976	358,139	431,139
Equity securities	10,241	-	-	-	10,106	20,347
Investment funds	22,719	-	-	-	-	22,719
Financial assets at fair value through profit or loss						
Equity securities	-	-	-	-	90	90
Debt securities	-	-	-	-	7,557	7,557
Investment funds	19,620	-	-	-	-	19,620
Investments for the benefit of unit and index linked life assurance						
Unit linked	-	-	-	-	17,412	17,412
Index linked	-	-	-	-	15,238	15,238
Loans and receivables						
Deposits with banks	91,537	24,362	6,408	11,447	-	133,754
Loans to customers	45,802	40,932	7,648	8,367	7,904	110,653
Cash and cash equivalents	13,503	-	-	-	-	13,503
Total financial assets	205,387	65,294	63,115	151,596	533,001	1,018,393
Financial liabilities						
Subordinated loan	-	-	-	-	14,770	14,770
Financial liabilities	-	-	-	-	14,770	14,770
Maturity gap on financial assets and financial liabilities	205,387	65,294	63,115	151,596	518,231	1,003,623

1.43. Maturity analysis *(continued)*

Company – 2009

	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						
Held-to-maturity investments						
Debt securities	4,875	-	4,998	89,841	134,721	234,435
Available-for-sale investments						
Debt securities	3,304	36,159	33,924	62,593	56,354	192,334
Equity securities	4,408	-	-	-	10,106	14,514
Investment funds	20,260	-	-	-	-	20,260
Financial assets at fair value through profit or loss						
Equity securities	-	-	-	-	90	90
Debt securities	-	-	-	-	2,817	2,817
Investment funds	65,271	-	-	-	-	65,271
Investments for the benefit of unit and index linked life assurance						
Unit linked	-	-	-	-	10,438	10,438
Index linked	-	-	-	-	11,017	11,017
Loans and receivables						
Deposits with banks	114,837	119,053		10,393		244,283
Loans to customers	62,649	15,682	18,952	9,196	8,121	114,600
Cash and cash equivalents	13,779	-	-	-	-	13,779
Total financial assets	289,383	170,894	57,874	172,023	233,664	923,838
Financial liabilities						
Subordinated loan	-	-	-	14,565	-	14,565
Financial liabilities	-	-	-	14,565	-	14,565
Maturity gap on financial assets and financial liabilities	289,383	170,894	57,874	157,458	233,664	909,273

1.44. Interest rate reprising analysis

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

The tables are management's estimate of the interest rate risk for the Group and the Company as at 31 December 2010 and 31 December 2009 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 1.6), provide some indication of the sensitivities of the Group's and the Company's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity. The Group and the Company have a significant proportion of interest-earning assets and interest-bearing liabilities in foreign currency.

Group – 2010

	Effective interest rate	Up to 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Non – interest bearing	Total	Amounts subject to fixed rates
	%	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Financial assets									
Held-to-maturity investments									
Debt securities	5.03	-	-	-	109,806	116,555	-	226,361	226,361
Available-for-sale investments									
Debt securities	6.04	6,935	-	44,089	21,976	358,139	-	431,139	426,169
Equity securities	n/a	-	-	-	-	-	20,347	20,347	-
Investment funds	n/a	-	-	-	-	-	22,719	22,719	-
Financial assets at fair value through profit or loss									
Equity securities	n/a	-	-	-	-	-	90	90	-
Debt securities	n/a	-	-	-	-	7,557	-	7,557	7,557
Investment funds	n/a	-	-	-	-	-	19,620	19,620	-
Investments for the benefit of unit and index linked life assurance									
Unit linked	n/a	-	-	-	-	-	17,412	17,412	-
Index linked	n/a	-	-	-	-	15,238	-	15,238	15,238
Loans and receivables									
Deposits with banks	6.10	91,537	24,362	6,408	11,447	-	-	133,754	133,754
Loans to customers	8.64	44,802	35,932	7,648	8,367	7,904	-	104,653	104,653
Cash and cash equivalents	0.21	13,565	-	-	-	-	2	13,567	-
Total financial assets		156,839	60,294	58,145	151,596	505,393	80,190	1,012,457	913,732
Financial liabilities									
Subordinated loan	6.00	-	-	-	-	14,770	-	14,770	14,770
Borrowings	5.27	8,038	10,980	4,138	13,714	18,792	-	55,662	42,481
Financial liabilities		8,038	10,980	4,138	13,714	33,562	-	70,432	57,251
Interest rate reprising gap on financial assets and financial liabilities		148,801	49,314	54,007	137,882	471,831	80,190	942,025	856,481

1.44. Interest rate reprising analysis *(continued)*

Group – 2009

	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									
Held-to-maturity investments									
Debt securities	5.18	4,875	-	4,998	89,841	134,721	-	234,435	234,435
Available-for-sale investments									
Debt securities	6.52	3,304	36,159	33,924	62,593	56,354	-	192,334	187,409
Equity securities	n/a	-	-	-	-	-	14,514	14,514	-
Investment funds	n/a	-	-	-	-	-	20,260	20,260	-
Financial assets at fair value through profit or loss									
Equity securities	n/a	-	-	-	-	-	90	90	-
Debt securities	n/a	-	-	-	-	2,817	-	2,817	2,817
Investment funds	n/a	-	-	-	-	-	65,271	65,271	-
Investments for the benefit of unit and index linked life assurance									
Unit linked	n/a	-	-	-	-	-	10,438	10,438	-
Index linked	n/a	-	-	-	-	11,017	-	11,017	11,017
Loans and receivables									
Deposits with banks	5.89	114,837	119,053	-	10,393	-	-	244,283	244,283
Loans to customers	8.58	62,649	11,182	18,952	9,196	8,121	-	110,100	110,100
Cash and cash equivalents	0.50	13,846	-	-	-	-	19	13,865	-
Total financial assets		199,511	166,394	57,874	172,023	213,030	110,592	919,424	790,061
Financial liabilities									
Subordinated loan	6.00	-	-	-	14,565	-	-	14,565	14,565
Borrowings	5.24	8,732	11,877	3,897	10,627	25,626	-	60,759	45,645
Financial liabilities		8,732	11,877	3,897	25,192	25,626	-	75,324	60,210
Interest rate reprising gap on financial assets and financial liabilities		190,779	154,517	53,977	146,831	187,404	110,592	844,100	729,851

1.44. Interest rate reprising analysis *(continued)*

Company – 2010

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non - interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
Financial assets									
Held-to-maturity investments									
Debt securities	5,03	-	-	-	109,806	116,555	-	226,361	226,361
Available-for-sale investments									
Debt securities	6,04	6,935	-	44,089	21,976	358,139	-	431,139	426,169
Equity securities	n/a	-	-	-	-	-	20,347	20,347	-
Investment funds	n/a	-	-	-	-	-	22,719	22,719	-
Financial assets at fair value through profit or loss									
Equity securities	n/a	-	-	-	-	-	90	90	-
Debt securities	n/a	-	-	-	-	7,557	-	7,557	7,557
Investment funds	n/a	-	-	-	-	-	19,620	19,620	-
Investments for the benefit of unit and index linked life assurance									
Unit linked	n/a	-	-	-	-	-	17,412	17,412	-
Index linked	n/a	-	-	-	-	15,238	-	15,238	15,238
Loans and receivables									
Deposits with banks	6,10	91,537	24,362	6,408	11,447	-	-	133,754	133,754
Loans to customers	8,64	45,802	40,932	7,648	8,367	7,904	-	110,653	110,653
Cash and cash equivalents	0,21	13,503	-	-	-	-	-	13,503	-
Total financial assets		157,777	65,294	58,145	151,596	505,393	80,188	1,018,393	919,732
Financial liabilities									
Subordinated loan	6,00	-	-	-	-	14,770	-	14,770	14,770
Financial liabilities		-	-	-	-	14,770	-	14,770	14,770
Interest rate reprising gap on financial assets and financial liabilities		157,777	65,294	58,145	151,596	490,623	80,188	1,003,623	904,962

1.44. Interest rate reprising analysis *(continued)*

Company – 2009

	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									
Held-to-maturity investments									
Debt securities	5,18	4,875	-	4,998	89,841	134,721	-	234,435	234,435
Available-for-sale investments									
Debt securities	6,52	3,304	36,159	33,924	62,593	56,354	-	192,334	187,409
Equity securities	n/a	-	-	-	-	-	14,514	14,514	-
Investment funds	n/a	-	-	-	-	-	20,260	20,260	-
Financial assets at fair value through profit or loss									
Equity securities	n/a	-	-	-	-	-	90	90	-
Debt securities	n/a	-	-	-	-	2,817	-	2,817	2,817
Investment funds	n/a	-	-	-	-	-	65,271	65,271	-
Investments for the benefit of unit and index linked life assurance									
Unit linked	n/a	-	-	-	-	-	10,438	10,438	-
Index linked	n/a	-	-	-	-	11,017	-	11,017	11,017
Loans and receivables									
Deposits with banks	5,89	114,837	119,053	-	10,393	-	-	244,283	244,283
Loans to customers	8,58	62,649	15,682	18,952	9,196	8,121	-	114,600	114,600
Cash and cash equivalents	0,50	13,760	-	-	-	-	19	13,779	-
Total financial assets		199,425	170,894	57,874	172,023	213,030	110,592	923,838	794,561
Financial liabilities									
Subordinated loan	6,00	-	-	-	14,565	-	-	14,565	14,565
Financial liabilities		-	-	-	14,565	-	-	14,565	14,565
Interest rate reprising gap on financial assets and financial liabilities		199,425	170,894	57,874	157,458	213,030	110,592	909,273	779,996

1.45. Currency risk analysis

The Group's and the Company's financial assets and financial liabilities within the scope of IAS 39 were denominated as follows as at 31 December 2010 and 31 December 2009.

Group - 2010

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
Financial assets					
Held-to-maturity investments					
Debt securities	11,778	214,583	226,361	-	226,361
Available-for-sale investments					
Debt securities	-	359,448	359,448	71,691	431,139
Equity securities	-	-	-	20,347	20,347
Investment funds	-	11,620	11,620	11,099	22,719
Financial assets at fair value through profit or loss					
Equity securities	-	-	-	90	90
Debt securities	7,557	-	7,557	-	7,557
Investment funds	-	3,000	3,000	16,620	19,620
Investments for the benefit of unit and index linked life assurance					
Unit linked		17,412	17,412	-	17,412
Index linked	15,238	-	15,238	-	15,238
Loans and receivables					
Deposits with banks	73,391	32,478	105,869	27,885	133,754
Loans to customers	-	97,371	97,371	7,282	104,653
Cash and cash equivalents	70	-	70	13,497	13,567
Total financial assets	108,034	735,912	843,946	168,511	1,012,457
Financial liabilities					
Subordinated loan	14,770	-	14,770	-	14,770
Borrowings	46,912	-	46,912	8,750	55,662
Financial liabilities	61,682	-	61,682	8,750	70,432
Currency gap on financial assets and financial liabilities	46,352	735,912	782,264	159,761	942,025

1.45. Currency risk analysis (continued)

Group - 2009

	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						
Held-to-maturity investments						
Debt securities	11,643	217,794	229,437	-	4,998	234,435
Available-for-sale investments						
Debt securities	63,110	120,796	183,906	-	8,428	192,334
Equity securities	-	-	-	-	14,514	14,514
Investment funds	-	10,086	10,086	-	10,174	20,260
Financial assets at fair value through profit or loss						
Equity securities	-	-	-	-	90	90
Debt securities	2,817	-	2,817	-	-	2,817
Investment funds		24,004	24,004		41,267	65,271
Investments for the benefit of unit and index linked life assurance						
Unit linked	-	10,438	10,438	-	-	10,438
Index linked	11,017	-	11,017	-	-	11,017
Loans and receivables						
Deposits with banks	77,518	99,458	176,976	11,634	55,673	244,283
Loans to customers	-	101,746	101,746	-	8,354	110,100
Cash and cash equivalents	81	-	81	-	13,784	13,865
Total financial assets	166,186	584,322	750,508	11,634	157,282	919,424
Financial liabilities						
Subordinated loan	14,565	-	14,565	-	-	14,565
Borrowings	50,759	-	50,759	-	10,000	60,759
Financial liabilities	65,324	-	65,324	-	10,000	75,324
Currency gap on financial assets and financial liabilities	100,862	584,322	685,184	11,634	147,282	844,100

1.45. Currency risk analysis (continued)

Company – 2010

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
Financial assets					
Held-to-maturity investments					
Debt securities	11,778	214,583	226,361	-	226,361
Available-for-sale investments					
Debt securities	-	359,448	359,448	71,691	431,139
Equity securities	-	-	-	20,347	20,347
Investment funds	-	11,620	11,620	11,099	22,719
Financial assets at fair value through profit or loss					
Equity securities	-	-	-	90	90
Debt securities	7,557	-	7,557	-	7,557
Investment funds	-	3,000	3,000	16,620	19,620
Investments for the benefit of unit and index linked life assurance					
Unit linked		17,412	17,412	-	17,412
Index linked	15,238	-	15,238	-	15,238
Loans and receivables					
Deposits with banks	73,391	32,478	105,869	27,885	133,754
Loans to customers	-	97,371	97,371	13,282	110,653
Cash and cash equivalents	70	-	70	13,433	13,503
Total financial assets	108,034	735,912	843,946	174,447	1,018,393
Financial liabilities					
Subordinated loan	14,770	-	14,770	-	14,770
Financial liabilities	14,770	-	14,770	-	14,770
Currency gap on financial assets and financial liabilities	93,264	735,912	829,176	174,447	1,003,623

1.45. Currency risk analysis (continued)

Company – 2009

	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						
Held-to-maturity investments						
Debt securities	11,643	217,794	229,437	-	4,998	234,435
Available-for-sale investments						
Debt securities	63,110	120,796	183,906	-	8,428	192,334
Equity securities	-	-	-	-	14,514	14,514
Investment funds	-	10,086	10,086	-	10,174	20,260
Financial assets at fair value through profit or loss						
Equity securities	-	-	-	-	90	90
Debt securities	2,817	-	2,817	-	-	2,817
Investment funds	-	24,004	24,004	-	41,267	65,271
Investments for the benefit of unit and index linked life assurance						
Unit linked	-	10,438	10,438	-	-	10,438
Index linked	11,017	-	11,017	-	-	11,017
Loans and receivables						
Deposits with banks	77,518	99,458	176,976	11,634	55,673	244,283
Loans to customers	-	101,746	101,746	-	12,854	114,600
Cash and cash equivalents	81	-	81	-	13,698	13,779
Total financial assets	166,186	584,322	750,508	11,634	161,696	923,838
Financial liabilities						
Subordinated loan	14,565	-	14,565	-	-	14,565
Financial liabilities	14,565	-	14,565	-	-	14,565
Currency gap on financial assets and financial liabilities	151,621	584,322	735,943	11,634	161,696	909,273

1.46. Contingent assets and liabilities

Off-balance sheet accounts

The Group had no off-balance sheet accounts as at 31 December 2010 (2009: -).

Capital liabilities

The Group had no capital liabilities as at 31 December 2010 (2009: -).

Litigations and claims

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

1.47. Subsequent events

As of 29 March 2011, the parent and ultimate parent company Vienna Insurance Group Wiener Versicherung Gruppe AG provided capital injection in the amount of HRK 22.2 million in order to increase share capital of the non-life business segment. As of the date of the financial statements the consideration paid by shareholders has not yet been registered. Upon registration by the Commercial Court the share capital of the Company will be increased by 35,238 ordinary shares, with a nominal value of HRK 630 kuna per share.

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

Unconsolidated statement of financial position (balance sheet) 31.12.2010.

ASSETS				<i>in HRK</i>					
Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
001	002+003	A	RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID						
002		1	Called up capital						
003		2	Uncalled capital						
004	005+006	B	INTANGIBLE ASSETS	2,648,699	18,529,931	21,178,630	4,519,427	18,644,330	23,163,757
005		1	Goodwill		9,459,981	9,459,981		9,114,933	9,114,933
006		2	Other intangible assets	2,648,699	9,069,950	11,718,649	4,519,427	9,529,397	14,048,824
007	008+009+010	C	TANGIBLE ASSETS	4,289,680	36,922,693	41,212,373	4,339,052	45,870,736	50,209,787
008		1	Land and buildings intended for company business operations	4,289,680	25,384,575	29,674,255	4,339,052	34,305,206	38,644,258
009		2	Equipment		11,393,787	11,393,787		11,405,378	11,405,378
010		3	Other tangible assets and stock		144,331	144,331		160,152	160,152
011	012+013+017+036	D	INVESTMENTS	709,537,971	204,330,284	913,868,255	803,469,974	198,095,685	1,001,565,659
012		I	Investments in land and buildings not intended for company business operations		23,561,592	23,561,592		27,623,567	27,623,567
013	014+015+016	II	Investments in subsidiaries, associates and joint ventures	7,910,502	3,897,858	11,808,360	7,910,502	3,897,858	11,808,360
014		1	Shares and stakes in subsidiaries	7,860,502	2,245,858	10,106,360	7,860,502	2,245,858	10,106,360
015		2	Shares and stakes in associates	50,000	1,652,000	1,702,000	50,000	1,652,000	1,702,000
016		3	Joint venture participation						
017	018+021+026+032	III	Other financial investments	701,627,469	176,870,835	878,498,303	795,559,472	166,574,260	962,133,732
018	019+020	1	Investments held-to-maturity	221,343,509	13,091,730	234,435,239	213,116,125	13,244,723	226,360,848
019		1.1	<i>Debt securities and other securities with fixed revenue</i>	221,343,509	13,091,730	234,435,239	213,116,125	13,244,723	226,360,848
020		1.2	<i>Other investments held to maturity</i>						
021	022+023+024+025	2	Investments available-for-sale	200,863,467	16,138,801	217,002,269	421,604,120	42,495,312	464,099,432
022		2.1	<i>Shares, stakes and other securities with variable revenue</i>	3,638,700	769,696	4,408,395	7,679,692	2,561,456	10,241,148
023		2.2	<i>Debt securities and other securities with fixed revenue</i>	181,980,088	10,353,630	192,333,718	396,676,603	34,463,000	431,139,603

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

Unconsolidated statement of financial position (balance sheet) 31.12.2010

ASSETS										in HRK
Position number	Sum elements	Position code	Position description	Previous business period			Current business period			
				Life	Non life	Total	Life	Non life	Total	
024		2.3	Investment fund units	15,244,680	5,015,476	20,260,155	17,247,825	5,470,856	22,718,681	
025		2.4	Other investments available for sale							
026	027+028+029+030+031	3	Investments at fair value through profit and loss account	61,083,688	7,093,945	68,177,633	14,176,671	13,090,000	27,266,671	
027		3.1	Shares, stakes and other securities with variable revenue		90,000	90,000		90,000	90,000	
028		3.2	Debt securities and other securities with fixed revenue	2,817,130		2,817,130	7,557,260		7,557,260	
029		3.3	Derivative financial instruments							
030		3.4	Investment fund units	58,266,558	7,003,945	65,270,503	6,619,411	13,000,000	19,619,411	
031		3.5	Other investments							
032	033+034+035	4	Deposits, loans and receivables	218,336,804	140,546,359	358,883,162	146,662,556	97,744,226	244,406,782	
033		4.1	Deposits with credit institutions (banks)	178,976,894	65,306,442	244,283,336	114,239,907	19,513,800	133,753,707	
034		4.2	Loans	30,222,792	75,239,916	105,462,708	22,855,414	78,230,426	101,085,841	
035		4.3	Other loans and receivables	9,137,118		9,137,118	9,567,234		9,567,234	
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	21,455,333		21,455,333	32,649,866		32,649,866	
038	039+040+041+042+043+044+045	F	REINSURANCE SHARE IN TECHNICAL PROVISIONS	180,874,727	66,272,095	247,146,822	215,879,281	112,161,783	328,041,064	
039		1	Unearned premiums, reinsurance share		28,170,274	28,170,274		58,597,247	58,597,247	
040		2	Mathematical provision, reinsurance share	179,908,591		179,908,591	214,427,084		214,427,084	
041		3	Provision for claims outstanding, reinsurance share	966,136	38,101,821	39,067,956	1,452,197	53,564,536	55,016,733	
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							

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

Unconsolidated statement of financial position (balance sheet) 31.12.2010

ASSETS				in HRK					
Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
044		6	Other insurance technical provisions, reinsurance share						
045		7	Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share						
046	047+048	G	DEFERRED AND CURRENT TAX ASSET		2,000,000	2,000,000	245,866	2,000,000	2,245,866
047		1	Deferred tax asset		2,000,000	2,000,000	245,866	2,000,000	2,245,866
048		2	Current tax asset						
049	050+053+054	H	RECEIVABLES	82,348,575	161,116,370	243,464,945	71,279,827	181,289,429	252,569,256
050	051+052	1	Receivables from direct insurance business	11,885,501	92,442,054	104,327,554	2,586,759	78,998,719	81,585,478
051		1.1	From policyholders		92,442,054	92,442,054		78,998,719	78,998,719
052		1.2	From insurance agents, or insurance brokers	11,885,501		11,885,501	2,586,759		2,586,759
053		2	Receivables from co-insurance and reinsurance business	55,994,090	20,837,356	76,831,446	61,512,663	47,631,730	109,144,393
054	055+056+057	3	Other receivables	14,468,984	47,836,961	62,305,945	7,180,405	54,658,980	61,839,385
055		3.1	Receivables from other insurance business		37,872,949	37,872,949		39,629,495	39,629,495
056		3.2	Receivables for return on investments	10,602,247	4,621,959	15,224,206	5,341,086	3,801,791	9,142,877
057		3.3	Other receivables	3,866,737	5,342,053	9,208,790	1,839,319	11,227,694	13,067,013
058	059+063+064	I	OTHER ASSETS	10,734,056	3,045,366	13,779,422	10,969,581	2,533,538	13,503,119
059	060+061+062	1	Cash at bank and in hand	10,734,056	3,045,366	13,779,422	10,969,581	2,533,538	13,503,119
060		1.1	Funds in the business account	1,688,986	3,026,315	4,715,300	1,287,474	2,533,538	3,821,011
061		1.2	Funds in the account of assets covering mathematical provision	9,045,070		9,045,070	9,682,108		9,682,108
062		1.3	Cash in hand		19,052	19,052			
063		2	Long-term assets intended for sale and business cessation						
064		3	Other						
065	066+067+068	J	PREPAYMENTS AND ACCRUED INCOME	2,715,781	38,901,670	41,617,450	3,819,047	33,041,987	36,861,034
066		1	Deferred interest and rent						
067		2	Deferred acquisition costs	403,955	28,298,261	28,702,216	384,033	26,705,291	27,089,324

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

Unconsolidated statement of financial position (balance sheet) 31.12.2010

ASSETS				in HRK					
Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
068		3	Other prepayments and accrued income	2,311,825	10,603,409	12,915,234	3,435,014	6,336,696	9,771,710
069	001+004+00 7+011 +037+038+0 46 +049+058+0 65	K	TOTAL ASSETS (A+B+C+D+E+F+G+H +I+J)	1,014,604,821	531,118,410	1,545,723,231	1,147,171,922	593,637,487	1,740,809,408
070		L	OFF BALANCE SHEET ITEMS						

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

Unconsolidated statement of financial position (balance sheet) 31.12.2010.

EQUITY AND LIABILITIES

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
071	072+076 +077+08 1+085+0 88	A	CAPITAL AND RESERVES	49,276,183	53,292,322	102,568,505	50,171,855	45,584,883	95,756,738
072	073+074 +075	1	Subscribed capital	47,816,235	72,291,375	120,107,610	40,816,235	79,291,375	120,107,610
073		1.1	<i>Paid-up capital - ordinary shares</i>	47,816,235	72,291,375	120,107,610	40,816,235	79,291,375	120,107,610
074		1.2	<i>Paid-up capital - preference shares</i>						
075		1.3	<i>Called up capital</i>						
076		2	Issued shares premiums (capital reserves)		330,462	330,462		330,462	330,462
077	078+079 +080	3	Revaluation reserve	820,493	68,890	889,382	-983,448	59,231	-924,217
078		3.1	<i>Land and buildings</i>						
079		3.2	<i>Financial investments</i>	820,493	68,890	889,382	-983,448	59,231	-924,217
080		3.3	<i>Other revaluation reserves</i>						
081	082+083 +084	4	Reserves	1,462,698		1,462,698	1,462,698		1,462,698
082		4.1	<i>Legally stipulated reserves</i>	591,136		591,136	591,136		591,136
083		4.2	<i>Statutory reserve</i>	871,562		871,562	871,562		871,562
084		4.3.	<i>Other reserve</i>						
085	086+087	5	Transferred (retained) profit or loss	510,163		510,163	-823,243	-19,398,404	-20,221,647
086		5.1	<i>Retained profit</i>	510,163		510,163			
087		5.2	<i>Transferred loss (-)</i>				-823,243	-19,398,404	-20,221,647
088	089+090	6	Profit or loss of the current accounting period	-1,333,406	-19,398,404	-20,731,810	9,699,613	-14,697,781	-4,998,167
089		6.1	<i>Profit of the current accounting period</i>				9,699,613		9,699,613
090		6.2	<i>Loss of the current accounting period (-)</i>	-1,333,406	-19,398,404	-20,731,810		-14,697,781	-14,697,781
091		B	SUBORDINATED LIABILITIES		14,565,120	14,565,120		14,770,340	14,770,340
092	093+094 +095+09 6+097+0 98	C	TECHNICAL PROVISIONS	698,214,919	370,390,954	1,068,605,873	780,392,290	377,939,968	1,158,332,258

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

Unconsolidated statement of financial position (balance sheet) 31.12.2010.

EQUITY AND LIABILITIES

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
093		1	Unearned premiums, gross amount	2,900,931	154,965,560	157,866,491	2,817,355	146,242,214	149,059,569
094		2	Mathematical provision, gross amount	687,663,802		687,663,802	768,106,982		768,106,982
095		3	Provision for claims outstanding, gross amount	7,650,185	212,111,870	219,762,055	9,467,953	229,597,754	239,065,707
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		193,155	193,155			
098		6	Other insurance technical provisions, gross amount		3,120,369	3,120,369		2,100,000	2,100,000
099		D	LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount	21,455,333		21,455,333	32,649,866		32,649,866
100	101+102	E	OTHER RESERVES					1,400,000	1,400,000
101		1	Provisions for pensions and similar liabilities					1,400,000	1,400,000
102		2	Other provisions						
103	104+105	F	DEFERRED AND CURRENT TAX LIABILITY	205,123	17,222	222,346	4	14,808	14,812
104		1	Deferred tax liability	205,123	17,222	222,346	4	14,808	14,812
105		2	Current tax liability						
106		G	DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE	179,908,591		179,908,591	214,427,084	33,266,998	247,694,082
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	65,344,290	72,222,037	137,566,327	69,508,502	95,531,561	165,040,063
112		1	Liabilities from direct insurance business	3,689,266	7,812,844	11,502,110	3,571,211	5,995,539	9,566,749
113		2	Liabilities from co-insurance and reinsurance business	61,330,668	48,321,900	109,652,567	63,207,374	74,935,374	138,142,748

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

Unconsolidated statement of financial position (balance sheet) 31.12.2010.

EQUITY AND LIABILITIES

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
114		3	Liabilities for sale and ceased business						
115		4	Other liabilities	324,356	16,087,293	16,411,649	2,729,917	14,600,648	17,330,565
116	117+118	J	ACCRUED EXPENSES AND DEFERRED INCOME	200,382	20,630,755	20,831,137	22,320	25,128,929	25,151,249
117		1	Deferred reinsurance commission		1,902,418	1,902,418		1,911,801	1,911,801
118		2	Other accrued expenses and deferred income	200,382	18,728,337	18,928,719	22,320	23,217,128	23,239,448
119	071+091+092+099+100+103+106+107+111+116	K	TOTAL LIABILITIES (A+B+C+D+E+F+G+H+I+J)	1,014,604,821	531,118,410	1,545,723,231	1,147,171,922	593,637,487	1,740,809,408
120		L	OFF BALANCE SHEET ITEMS						

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

Unconsolidated statement of comprehensive income (income statement) for period 01.01.2010.- 31.12.2010.

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
001	002+003 +004+005 +006+007 +008+009	I	Earned premiums (recognized in revenue)	157,895,839	232,598,443	390,494,281	154,342,757	200,262,088	354,604,845
002		1	Written gross premiums	214,029,127	326,506,634	540,535,761	211,394,452	300,026,270	511,420,722
003		2	Co-insurance premiums						
004		3	Value adjustment and charged adjustment of insurance/co-insurance premium value		-5,334,678	-5,334,678		-14,622,157	-14,622,157
005		4	Premiums ceded to reinsurance (-)	-56,497,595	-73,568,611	-130,066,206	-57,135,271	-124,292,344	-181,427,615
006		5	Premiums ceded to co-insurance (-)		-2,398,732	-2,398,732			
007		6	Change in gross provisions for unearned premiums (+/-)	364,307	-69,616	294,691	83,576	8,723,346	8,806,922
008		7	Change in provisions for unearned premiums, reinsurance share (+/-)		-12,418,450	-12,418,450		30,433,368	30,433,368
009		8	Change in provisions for unearned premiums, co-insurance share (+/-)		-118,104	-118,104		-6,396	-6,396
010	011+012 +016+017 +018+022 +023	II	Income from investments	43,307,282	14,765,840	58,073,123	64,605,902	14,035,523	78,641,425
011		1	Income from subsidiaries, associates and joint ventures						
012	013+014 +015	2	Income from investment in land and buildings		309,854	309,854		-9,632	-9,632
013		2.1	Income from rent						
014		2.2	Income from increased value of land and buildings						
015		2.3	Income from sale of land and buildings		309,854	309,854		-9,632	-9,632
016		3	Interest income	36,528,897	13,243,826	49,772,723	41,630,188	12,359,261	53,989,448
017		4	Unrealized profits from investment valued at fair value through profit and loss account	1,726,962	3,945	1,730,906	2,572,987		2,572,987
018	019+020 +021	5	Profits from sale (realization) of financial investments	3,574,775	350,560	3,925,335	10,087,270	405,720	10,492,990
019		5.1	Investment valued at fair value through profit and loss account	3,443,445	350,560	3,794,005	746,038	167,638	913,676
020		5.2	Investments available-for-sale	131,330		131,330	9,311,302	238,082	9,549,384
021		5.3	Other profits from sale of financial investments				29,930		29,930
022		6	Net positive exchange rate differentials	1,160,106	627,749	1,787,855	10,019,511	788,936	10,808,447

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

Unconsolidated statement of comprehensive income (income statement) for period 01.01.2010.- 31.12.2010.

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
023		7	Other investment profits	316,542	229,906	546,449	295,946	491,237	787,184
024		III	Income from commissions and fees	11,000,447	16,242,245	27,242,692	12,363,585	24,276,999	36,640,583
025		IV	Other insurance-technical income, net of reinsurance	208,255	1,576,093	1,784,349	576,495	1,740,563	2,317,057
026		V	Other income	27,688	2,415,122	2,442,810	2,698	1,004,394	1,007,092
027	028+032	VI	Expenditures for insured events, net	-45,357,218	-153,427,760	-198,784,978	-58,590,315	-123,637,538	-182,227,852
028	029+030+031	1	Settled claims	-44,430,400	-138,271,986	-182,702,386	-57,258,608	-121,614,368	-178,872,977
029		1.1	Gross amount (-)	-54,829,900	-175,026,332	-229,856,231	-71,889,194	-145,786,436	-217,675,629
030		1.2	Co-insurer share (+)		11,832	11,832		2,574	2,574
031		1.3	Reinsurer share(+)	10,399,500	36,742,513	47,142,013	14,630,585	24,169,493	38,800,079
032	033+034+035	2	Change in provisions for claims outstanding (+/-)	-926,818	-15,155,774	-16,082,592	-1,331,706	-2,023,169	-3,354,876
033		2.1	Gross amount (-)	-1,234,649	-13,821,912	-15,056,561	-1,817,768	-17,485,884	-19,303,652
034		2.2	Co-insurer share (+)		38,130	38,130		192,172	192,172
035		2.3	Reinsurer share(+)	307,831	-1,371,992	-1,064,161	486,062	15,270,543	15,756,605
036	037+040	VII	Change in other technical provisions, net of reinsurance	-53,507,057	-853,560	-54,360,617	-45,924,687	1,213,524	-44,711,163
037	038+039	1	Change in mathematical provision (+/-)	-53,507,057		-53,507,057	-45,924,687		-45,924,687
038		1.1	Gross amount (-)	-88,101,200		-88,101,200	-80,443,180		-80,443,180
039		1.2	Reinsurer share(+)	34,594,143		34,594,143	34,518,493		34,518,493
040	041+042+043	2	Change in other technical provisions, net of reinsurance (+/-)		-853,560	-853,560		1,213,524	1,213,524
041		1.1	Gross amount (-)		-853,560	-853,560		1,213,524	1,213,524
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 (+/-)	-9,146,242		-9,146,242	-11,194,533		-11,194,533
045		1	Gross amount (-)	-9,146,242		-9,146,242	-11,194,533		-11,194,533
046		2	Co-insurer share (+)						
047		3	Reinsurer share(+)						

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

Unconsolidated statement of comprehensive income (income statement) for period 01.01.2010.- 31.12.2010.

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
048			Expenses for premium refund (bonuses and discounts), net of reinsurance						
049		1	Depending on the result (bonuses)						
050		2	Not depending on the result (rebates)						
051	052+056	X	Business expenditures (for business operations), net	-90,487,116	-107,278,676	-197,765,793	-95,929,819	-102,784,730	-198,714,549
052	053+054+055	1	Acquisition costs	-37,463,167	-34,295,099	-71,758,267	-39,520,262	-37,712,984	-77,233,247
053		1.1	Commission	-31,587,108	-20,983,901	-52,571,010	-32,955,395	-21,324,597	-54,279,992
054		1.2	Other acquisition costs	-5,813,244	-14,661,695	-20,474,939	-6,544,945	-14,795,418	-21,340,363
055		1.3	Change in deferred acquisition costs (+/-)	-62,815	1,350,497	1,287,682	-19,922	-1,592,970	-1,612,892
056	057+058+059	2	Administration costs	-53,023,949	-72,983,577	-126,007,526	-56,409,557	-65,071,745	-121,481,302
057		2.1	Depreciation of tangible assets	-2,829,777	-4,867,810	-7,697,587	-3,808,420	-4,002,438	-7,810,859
058		2.3.	Salaries, taxes and contributions to and from salaries	-24,582,533	-38,981,450	-63,563,982	-29,738,422	-34,124,737	-63,863,159
059		2.4.	Other administration costs	-25,611,639	-29,134,317	-54,745,956	-22,862,715	-26,944,570	-49,807,285
060	061+062+063+064+065+066+067	XI	Investment expenses	-9,678,696	-6,585,606	-16,264,302	-4,329,892	-9,190,412	-13,520,304
061		1	Depreciation (buildings not intended for business operations of the company)		-7,711	-7,711		-148,283	-148,283
062		2	Interest					-1,027,883	-1,027,883
063		3	Investment value adjustment (reduction)	-1,586,287	-642,478	-2,228,765	-319,412	-294,038	-613,449
064		4	Losses from sale (realization) of financial assets	-4,870,601	-1,753,035	-6,623,635	-364,784	-42,655	-407,438
065		5	Adjustment of financial assets at fair value through profit and loss account						
066		6	Net negative exchange rate differences	-2,784,376	-548,609	-3,332,985	-2,105,413	-228,663	-2,334,076
067		7	Other investment expenses	-437,433	-3,633,773	-4,071,206	-1,540,283	-7,448,892	-8,989,175
068	069+070	XII	Other technical expenses, net of reinsurance	-5,090,778	-18,572,120	-23,662,898	-6,220,429	-21,152,303	-27,372,732
069		1	Expenses for preventive operations		-1,379,967	-1,379,967		-1,595,425	-1,595,425
070		2	Other technical expenses of insurance	-5,090,778	-17,192,152	-22,282,930	-6,220,429	-19,556,878	-25,777,307
071		XIII	Other expenses including value adjustments	-505,811	-278,425	-784,236	-2,148	-465,888	-468,036
072	001+010+024+025+026+027+036+044+048+051+060+068+071	XIV	Profit or loss of the accounting period before taxation (+/-)	-1,333,406	-19,398,404	-20,731,810	9,699,613	-14,697,781	-4,998,167

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

Unconsolidated statement of comprehensive income (income statement) for period 01.01.2010.- 31.12.2010.

in HRK

Position number	Sum elements	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
073	074+075	XV	Profit or loss tax						
074		1	Current tax expense						
075		2	Deferred tax expense (income)						
076	072+073	XVI	Profit or loss of the accounting period after taxation (+/-)	-1,333,406	-19,398,404	-20,731,810	9,699,613	-14,697,781	-4,998,167
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	212,439,512	267,597,743	480,037,255	231,891,436	241,319,566	473,211,002
080	027+036+044+048+051+060+068+071+074	XVIII	TOTAL EXPENDITURE	-213,772,918	-286,996,147	-500,769,065	-222,191,823	-256,017,347	-478,209,170
081	082+083+084+085+086+087+088+089	XIX	Other comprehensive income				-1,803,941	-9,658	-1,813,559
082		1	Profits/losses on translation of financial statements on foreign operating activities						
083		2	Profits/losses on revaluation of financial assets available for sale				-1,803,941	-9,658	-1,813,559
084		3	Profits/losses on revaluation of land and buildings intended for business activities of the company						
085		4	Profits/losses on revaluation of other tangible and (except land and real estate) intangible assets						
086		5	Effects from cash flow hedging instruments						
087		6	Actuarial profits/losses on defined benefit pension plans						
088		7	Share in other comprehensive income of associated companies						
089		8	Profit tax on other comprehensive income						
090	076+081	XX	Total comprehensive income	-1,333,406	-19,398,404	-20,731,810	7,895,672	-14,707,439	-6,811,767
091		1	Attributable to owners of the parent						
092		2	Attributable to non-controlling interests						
093		XXI	Reclassification adjustments						

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

Unconsolidated statement of cash flow (indirect method) for period 01.01.2010. - 31.12.2010.

in HRK

Position no.	Elements of sum	Position code	Position description	Current business period	The same period of the previous year
001	002+013+031	1	CASH FLOW FROM OPERATING ACTIVITIES	22,443,243	13,212,599
002	003+004	1	Cash flow before the change in assets and liabilities	10,542,876	-2,153,634
003		1.1	Profit/loss before taxation	4,998,167	-20,731,810
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments	5,544,708	18,578,176
005		1.2.1	<i>Depreciation of real estate and equipment</i>	4,589,096	4,939,140
006		1.2.2	<i>Depreciation of intangible assets</i>	3,221,763	2,766,159
007		1.2.3	<i>Value impairment and profits/losses on reduction to fair value</i>	-1,959,538	-2,042,988
008		1.2.4	<i>Interest expense</i>		
009		1.2.5	<i>Interest income</i>		
010		1.2.6	<i>Shares in profit of associated companies</i>		
011		1.2.7	<i>Profits/losses on sale of tangible assets (including land and buildings)</i>	-10,289	-297,863
012		1.2.8	<i>Other adjustments</i>	-296,324	13,213,728
013	014+015+...+03 0	2	Increase/decrease in assets and liabilities	11,900,367	15,366,233
014		2.1	<i>Increase/decrease in investments available-for-sale</i>	-247,097,163	-68,247,810
015		2.2	<i>Increase/decrease in investment valued at fair value through profit and loss account</i>	40,910,962	-21,736,357
016		2.3	<i>Increase/decrease in deposits, loans and receivables</i>	114,476,380	-4,426,717
017		2.4	<i>Increase/decrease of deposits in insurance business ceded to reinsurance</i>		
018		2.5	<i>Increase/decrease in investments for the account and risk of life assurance policyholders</i>	-11,194,533	-9,146,242
019		2.6	<i>Increase/decrease in reinsurance share in technical provisions</i>	-80,894,242	-21,031,559
020		2.7	<i>Increase/decrease in tax assets</i>	-245,866	
021		2.8	<i>Increase/decrease in receivables</i>	-9,104,311	1,629,785
022		2.9	<i>Increase/decrease in other assets</i>		116,429
023		2.10	<i>Increase/decrease in prepayments and accrued income</i>	4,756,416	773,049
024		2.11	<i>Increase/decrease in technical provisions</i>	89,726,385	103,716,630
025		2.12	<i>Increase decrease in life assurance technical provisions where the policyholder bears the investment risk</i>	11,194,533	9,146,242
026		2.13	<i>Increase/decrease in tax liabilities</i>	-207,533	222,346
027		2.14	<i>Increase/decrease in deposits retained from business ceded to reinsurance</i>	67,785,491	34,594,143
028		2.15	<i>Increase/decrease in financial liabilities</i>		
029		2.16	<i>Increase/decrease in other liabilities</i>	27,473,736	-15,899,309
030		2.17	<i>Increase/decrease in accruals and deferred income</i>	4,320,112	5,655,603
031		3	Paid profit tax		

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

Unconsolidated statement of cash flow (indirect method) for period 01.01.2010. - 31.12.2010.

in HRK

Position no.	Elements of sum	Position code	Position description	Current business period	The same period of the previous year
032	033+034+...+046	II	CASH FLOW FROM INVESTING ACTIVITIES	-22,719,546	-29,264,613
033		1	Inflows from sale of tangible assets	558,997	1,718,682
034		2	Outflows for purchase of tangible assets	-18,062,022	-10,019,850
035		3	Inflows from sale of intangible assets		
036		4	Outflows for purchase of intangible assets	-5,206,890	-3,916,197
037		5	Inflows from sale of land and buildings not intended for business operations of the company	1,371,748	758,931
038		6	Outflows for purchase of land and buildings not intended for business operations of the company	-1,381,380	-17,806,180
039		7	Increase/decrease in investments in subsidiaries, associates and joint ventures		
040		8	Inflows from investments held to maturity		
041		9	Outflows for investments held to maturity		
042		10	Inflows from sale of securities and stakes		
043		11	Outflows for investments in securities and stakes		
044		12	Inflows from dividends and shares in profit		
045		13	Inflows on the basis of payment of given short-term and long-term loans		
046		14	Outflows for given short-term and long-term loans		
047	048+049+050 +051+052	III	CASH FLOW FROM FINANCING ACTIVITIES		14,565,120
048		1	Cash inflows on the basis of initial capital increase		
049		2	Cash inflows from received short-term and long-term loans		14,565,120
050		3	Cash outflows for payment of received short-term and long-term loans		
051		4	Cash outflows for repurchase of own shares		
052		5	Cash outflows for payment of dividends		
053	001+032+047		NET CASH FLOW	-276,303	-1,486,894
054		IV	EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS		
055	053+054	V	NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	-276,303	-1,486,894
056		1	Cash and cash equivalents at the beginning of the period	13,779,422	15,266,317
057	055+056	2	Cash and cash equivalents at the end of the period	13,503,119	13,779,422

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

Unconsolidated statement of changes in equity for period 1.1.2010. - 31.12.2010.

in HRK

Position code	Position description	Attributable to owners of the parent						Attributable to non-controlling interest	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year		
I.	Balance as at 1 January of previous year	120,107,610	12,693,216	-10,270,247	1,462,698	-11,852,591		112,140,686	
1.	Changes in accounting policies								
2.	Correction of errors from previous periods								
II.	Balance as at 1 January of previous year (corrected)	120,107,610	12,693,216	-10,270,247	1,462,698	-11,852,591		112,140,686	
III.	Comprehensive income/loss of the previous year			11,159,629		-20,731,810		-9,572,180	
1.	Profit or loss of the period					-20,731,810		-20,731,810	
2.	Other comprehensive income or loss of the previous year			11,159,629				11,159,629	
2.1.	Unrealised gains or losses from tangible assets (land and buildings)								
2.2.	Unrealised gains or losses from financial assets available for sale			11,159,629				11,159,629	
2.3.	Realised gains or losses from financial assets available for sale								
2.4.	Other non-owner changes in equity								
IV.	Transactions with owners (previous period)		-12,362,754			12,362,754			
1.	Increase/decrease in subscribed capital		-12,362,754			12,362,754			
2.	Other payments by owners								
3.	Payment of shares in profit /dividends								
4.	Other distributions to owners								
V.	Balance as at the last day of the reporting period in previous year	120,107,610	330,462	889,382	1,462,698	-20,221,647		102,568,505	

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

Unconsolidated statement of changes in equity for period 1.1.2010. - 31.12.2010.

in HRK

Position code	Position description	Attributable to owners of the parent						Total capital and reserves	Attributable to non-controlling interest	Total capital and reserves
		Paid-up capital (ordinary and preference shares)	Premiums for issued shares	Revaluation reserves	Reserves (legal, statutory, other)	Retained profit or transferred loss	Profit/loss of the current year			
VI.	Balance as at 1 January of the current year	120,107,610	330,462	889,382	1,462,698	-20,221,647		102,568,505		
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
VII.	Balance as at 1 January of the current year (corrected)	120,107,610	330,462	889,382	1,462,698	-20,221,647		102,568,505		
VIII.	Comprehensive income/loss of the current year			-1,813,599			-4,998,167	-6,811,767		
1.	Profit or loss of the previous period						-4,998,167	-4,998,167		
2.	Other comprehensive income or loss of the current year			-1,813,599				-1,813,599		
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			-1,813,599				-1,813,599		
2.3.	Realised gains or losses from financial assets available for sale									
2.4.	Other non-owner changes in equity									
IX.	Transactions with owners (current period)									
1.	Increase/decrease in subscribed capital									
2.	Other payments by owners									
3.	Payment of shares in profit /dividends									
4.	Other transactions with owners									
X.	Balance as at the last day of the reporting period in the current year	120,107,610	330,462	-924,217	1,462,698	-20,221,647	-4,998,167	95,756,738		

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

Unconsolidated statement of financial position – Assets as at 31 December 2010

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

Statutory financial statements

		Transfer of shares and stakes in subsidiaries to available for sale financial assets	Transfer of other tangible assets to inventories	Transfer of deferred acquisition costs	Transfer of other prepaid expenses and other assets to insurance and other receivables	
RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	-					
Called up capital	-					
Uncalled capital	-			32,796,366		32,796,366
INTANGIBLE ASSETS	23,163,757					23,163,757
Goodwill	9,114,933					
Other intangible assets	14,048,824					
TANGIBLE ASSETS	50,209,787		(160,152)			50,049,635
Land and buildings intended for company business operations	38,644,258					
Equipment	11,405,378					
Other tangible assets and stock	160,152					
INVESTMENTS	1,001,565,659					
Investments in land and buildings not intended for company business operations	27,623,567					27,623,567
Investments in subsidiaries, associates and joint ventures	11,808,360					
Shares and stakes in subsidiaries	10,106,360	(10,106,360)				
Shares and stakes in associates	1,702,000					1,702,000
Joint venture participation	-					
Other financial investments	962,133,732					
Held-to-maturity financial assets	226,360,848					226,360,848
<i>Fixed income debt and other securities</i>	226,360,848					
<i>Other investments held to maturity</i>	-					
Available-for-sale financial assets	464,099,432		10,106,360			474,205,792
<i>Equities, shares and other securities bearing variable income</i>	10,241,148					
<i>Fixed income debt and other securities</i>	431,139,603					
<i>Units in investment funds</i>	22,718,681					
Other investments available for sale	-					

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

Unconsolidated statement of financial position – Assets as at 31 December 2010 (continued)

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

Statutory financial statements

		Transfer of shares and stakes in subsidiaries to available for sale financial assets	Transfer of other tangible assets to inventories	Transfer of deferred acquisition costs	Transfer of other prepaid expenses and other assets to insurance and other receivables		
Financial assets at fair value through profit or loss	27,266,671					27,266,671	Financial assets at fair value through profit or loss
<i>Equities, shares and other securities bearing variable income</i>	90,000						
<i>Fixed income debt and other securities</i>	7,557,260						
<i>Derivative financial instruments</i>	-						
<i>Units in investment funds</i>	19,619,411						
<i>Other investments</i>	-						
Deposits, loans and receivables	244,406,782					244,406,782	Loans and receivables
<i>Deposits with banks</i>	133,753,707						
<i>Loans</i>	101,085,841						
<i>Other loans and receivables</i>	9,567,234						
Deposits assumed in reinsurance business (deposits with ceding company)	-						
INVESTMENTS FOR AND ON BEHALF OF LIFE ASSURANCE POLICYHOLDERS	32,649,866					32,649,866	Investments for the benefit of index-linked life assurance
REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS	328,041,064					328,041,064	Reinsurers' share of insurance contract provisions
Provision for unearned premium, reinsurance share	58,597,247						
Life assurance provision, reinsurance share	214,427,084						
Claims reserve, reinsurance share	55,016,733						
Provision for premium refund dependant and not dependant on result (bonuses and discounts), reinsurance share	-						
Equalisation reserve, reinsurance share	-						
Other technical insurance contract provisions, reinsurance share	-						
Life assurance provision for products where policyholders bear investment risk, reinsurance share	-						

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

Unconsolidated statement of financial position – Assets as at 31 December 2010 (continued)

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

Statutory financial statements

		Transfer of shares and stakes in subsidiaries to available for sale financial assets	Transfer of other tangible assets to inventories	Transfer of deferred acquisition costs	Transfer of other prepaid expenses and other assets to insurance and other receivables		
DEFERRED AND CURRENT TAX ASSET	2,245,866					2,245,866	Deferred tax assets
Deferred tax asset	2,245,866						
Current tax asset	-		160,152			160,152	Inventories
RECEIVABLES	252,569,256				4,064,668	256,633,924	Insurance and other receivables
Receivables from direct insurance business	81,585,478						
<i>From policyholders</i>	78,998,719						
<i>From sales representatives</i>	2,586,759						
Receivables from coinsurance and reinsurance	109,144,393						
Other receivables	61,839,385						
<i>Receivables from other insurance business</i>	39,629,495						
<i>Receivables for investment yields</i>	9,142,877						
<i>Other receivables</i>	13,067,013						
OTHER ASSETS	13,503,119						
Cash at bank and in hand	13,503,119					13,503,119	Cash and cash equivalents
<i>Amounts on business account</i>	3,821,011						
<i>Amounts on account for backing life assurance provision</i>	9,682,108						
<i>Cash in hand</i>	-						
Long term assets held for sale	-						
Other	-						
PREPAID EXPENSES AND ACCRUED INCOME	36,861,034						
Accrued interest and rent income	-						
Deferred acquisition costs	27,089,324			(27,089,324)			
Other prepaid expenses and accrued income	9,771,710			(5,707,042)	(4,064,668)		
TOTAL ASSETS	1,740,809,408					1,740,809,408	Total assets
OFF BALANCE SHEET RECORDS	-						

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

Unconsolidated statement of financial position – Equity and liabilities as at 31 December 2010

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

		Transfer of current period loss to accumulated losses	Transfer of discretionary profit participation from life assurance provision to separate line	Transfer of life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer of other liabilities to Provisions for liabilities and charges	Transfer deposits from reinsurance, accrued expenses and other liabilities to insurance and other payables		Statutory financial statements
								Total equity attributable to equity holders of the Company
EQUITY	95,756,738							95,756,738
Share capital	120,107,610							120,107,610
<i>Paid in share capital - ordinary shares</i>	120,107,610							
<i>Paid in share capital - preference shares</i>	-							
<i>Called up share capital</i>	-							
Share premium (capital reserves)	330,462							330,462
Revaluation reserve	(924,217)							(924,217)
<i>Land and buildings</i>	-							
<i>Financial investments</i>	(924,217)							
<i>Other revaluation reserves</i>	-							
Reserves	1,462,698							1,462,698
<i>Legal reserve</i>	591,136							
<i>Statutory reserve</i>	871,562							
<i>Other reserve</i>	-							
Retained earnings or accumulated losses	(20,221,647)	(4,998,167)						(25,219,814)
<i>Retained earnings</i>	-							
<i>Accumulated losses (-)</i>	(20,221,647)							
Profit or loss of current reporting period	(4,998,167)	4,998,167						
<i>Profit of current reporting period</i>	9,699,613							
<i>Loss of current reporting period (-)</i>	(14,697,781)							
SUBORDINATED DEBT	14,770,340							14,770,340
TECHNICAL PROVISIONS	1,158,332,258			32,649,866				1,181,646,719
<i>Provision for unearned premiums, gross</i>	149,059,569							
<i>Life assurance provision, gross</i>	768,106,982		(9,335,406)					
<i>Claims reserve, gross</i>	239,065,707							
<i>Provisions for premium refund dependant and not dependant on result (bonuses and discounts), gross</i>	-		9,335,406					9,335,406
<i>Equalisation reserve, gross</i>	-							
<i>Other technical insurance contract provisions, gross</i>	2,100,000							
								Subordinated loan Insurance contract provisions
								Discretionary profit participation provision

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

Unconsolidated statement of financial position – Equity and liabilities as at 31 December 2010 (continued)

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

Statutory financial statements

		Transfer of current period loss to accumulated losses	Transfer of discretionary profit participation from life assurance provision to separate line	Transfer of life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer of other liabilities to Provisions for liabilities and charges	Transfer deposits from reinsurance, accrued expenses and other liabilities to insurance and other payables		
LIFE ASSURANCE PROVISION FOR PRODUCTS WHERE POLICYHOLDERS BEAR INVESTMENT RISK, gross	32,649,866			(32,649,866)				
OTHER PROVISIONS	1,400,000				100,000		1,500,000	Provisions for liabilities and charges
Provision for pension contributions and similar liabilities	1,400,000							
Other provisions	-							
DEFERRED AND CURRENT TAX LIABILITY	14,812						14,812	Deferred tax liability
Deferred tax liability	14,812							
Current tax liability	-							
DEPOSIT FROM REINSURANCE	247,694,082					(247,694,082)		
FINANCIAL LIABILITIES	-							
Liabilities for loans	-							
Liabilities for issued securities	-							
Other financial liabilities	-					437,785,393	437,785,393	Insurance and other payables and deferred income
OTHER LIABILITIES	165,040,063				(100,000)	(164,940,063)		
Liabilities arising from direct insurance business	9,566,749							
Liabilities from coinsurance and reinsurance business	138,142,748							
Liabilities for discontinued operations	-							
Other liabilities	17,330,565							
ACCRUED EXPENSES AND DEFERRED INCOME	25,151,249					(25,151,249)		
Deferred reinsurance commission	1,911,801							
Other accrued expenses and deferred income	23,239,448							
TOTAL LIABILITIES	1,740,809,408						1,740,809,408	Total liabilities and equity
OFF BALANCE SHEET RECORDS	-						-	

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

Unconsolidated statement of comprehensive income for year ended 31 December 2010

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	Comprising coinsurer's share with reinsurer's share of change in UPR	Comprising other technical income with other operating income	Comprising gross changes in provisions with claims and benefits incurred	Comprising reinsurers share of technical provisions with reinsurers share of claims and benefits incurred	Adding change in other deferred acquisition costs to acquisition costs	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealised and realised gains and losses and income from sale of real estate with net book value of asset sold	Statutory financial statements	
Earned premiums	354,604,845									354,604,845	Net earned premiums
Gross premiums written	511,420,722	-14,622,157								496,798,565	Gross premiums written
Coinsurance premiums	-										
Impairment loss and collected impairment loss of premium receivables/coinsurance premium	(14,622,157)	14,622,157									
Written premiums ceded to reinsurance (-)	(181,427,615)									(181,427,615)	Written premiums ceded to reinsurers
Premiums ceded to coinsurance (-)	-										
Change in gross provision for unearned premium (+/-)	8,806,922									8,806,922	Change in the gross provision for unearned premiums Reinsurers' share of change in the provision for unearned premiums
Reinsurers' share of change in the provisions for unearned premiums (+/-)	30,433,368		(6,396)							30,426,973	
Coinsurers' share of change in the provisions for unearned premiums (+/-)	(6,396)		6,396								
Investment income	78,641,425								(2,731,882)	75,909,543	Financial income
Income from subsidiaries, associates and joint ventures	-										
Income from investment in land and buildings	(9,632)										
Rental income	-										
Capital appreciation of land and buildings	-										
Gain on disposal of land and buildings	(9,632)										
Interest income	53,989,448										
Unrealised gains of financial assets at fair value through profit or loss	2,572,987										
Income from disposal of financial investments (realised)	10,492,990										
Investment in financial assets at fair value through profit or loss	913,676										
Available-for-sale financial assets	9,549,384										
Other income from sale of financial investments	29,930										
Net positive foreign exchange differences	10,808,447										
Other investment income	787,184										

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

Unconsolidated statement of comprehensive income for year ended 31 December 2010 (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	Comprising coinsurer's share with reinsurer's share of change in UPR	Comprising other technical income with other operating income	Comprising gross changes in provisions with claims and benefits incurred	Comprising reinsurers share of technical provisions with reinsurers share of claims and benefits incurred	Adding change in other deferred acquisition costs to acquisition costs	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealised and realised gains and losses and income from sale of real estate with net book value of asset sold		Statutory financial statements
Fees and commission income	36,640,583									36,640,583	Fees and commission income
Other technical income, net of reinsurance	2,317,057			(2,317,057)							
Other income	1,007,092			2,317,057						3,324,149	Other operating income
Net claims incurred	(182,227,852)										
Claims paid	(178,872,977)										
Gross amount (-)	(217,675,629)				(109,727,842)					(327,403,471)	Claims and benefits incurred
Coinsurers' share (+)	2,574										
Reinsurers' share(+)	38,800,079							(2,574)		50,469,844	Reinsurers' share of claims and benefits incurred
Change in claims reserves (+/-)	(3,354,876)										
Gross amount (-)	(19,303,652)					19,303,652					
Coinsurers' share (+)	192,172										
Reinsurers' share(+)	15,756,605									(15,756,605)	
Net change in life assurance provision and other technical provisions	(44,711,163)										
Change in life assurance provision (+/-)	(45,924,687)										
Gross amount (-)	(80,443,180)					80,443,180					
Reinsurers' share(+)	34,518,493									(34,518,493)	
Change in other technical provisions (+/-)	1,213,524									(1,213,524)	
Gross amount (-)	1,213,524										
Coinsurers' share (+)	-										
Reinsurers' share(+)	-										
Change in life assurance provisions for products where policyholders bear investment risk, net of reinsurance (+/-)	(11,194,533)										
Gross amount (-)	(11,194,533)					11,194,533					
Coinsurers' share (+)	-										
Reinsurers' share(+)	-										
Expenses for premium refund (bonuses and discounts), net of reinsurance	-										
Dependant on result (bonuses)	-										
Not dependant of result (discounts)	-										
Operating expenses (expenses for operations), net	(198,714,549)										
Acquisition costs	(77,233,247)									(2,459,568)	
Commission	(54,279,992)										
Other acquisition costs	(21,340,363)										
Change in deferred acquisition costs (+/-)	(1,612,892)									(79,692,814)	Acquisition costs

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

Unconsolidated statement of comprehensive income for year ended 31 December 2010 (continued)

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

		Netting off of coinsurance premium and impairment with gross premium written	Comprising coinsurer's share with reinsurer's share of change in UPR	Comprising other technical income with other operating income	Comprising gross changes in provisions with claims and benefits incurred	Comprising reinsurers share of technical provisions with reinsurers share of claims and benefits incurred	Adding change in other deferred acquisition costs to acquisition costs	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealised and realised gains and losses and income from sale of real estate with net book value of asset sold	Statutory financial statements	
Administrative expenses	(121,481,302)								(121,481,302)	Administrative expenses	
Depreciation of tangible assets	(7,810,859)										
Salaries and taxes and contributions on and from salaries	(63,863,159)										
Other administration costs	(49,807,285)										
Investment expenses	(13,520,304)								2,731,882	(10,788,422)	Financial expenses
Depreciation of investment property	(148,283)										
Interest expense	(1,027,883)										
Impairment loss of investments	(613,449)										
Realised loss on disposal of financial investments	(407,438)										
Unrealised losses and other adjustments of financial assets at fair value through profit or loss	-										
Net negative foreign exchange differences	(2,334,076)										
Other investment expenses	(8,989,175)										
Other technical expenses, net of reinsurance	(27,372,732)						2,459,568	(468,036)		(25,381,201)	Other operating expenses
Prevention expenses	(1,595,425)										
Other technical charges	(25,777,307)										
Other expenses, including impairment losses	(468,036)							468,036			
Profit or loss for the period before income tax (+/-)	(4,998,167)									(4,998,167)	Profit/(loss) before income tax
Income tax on profit or loss	-										
Current tax expense	-										
Deferred tax expense (benefit)	-										
Profit or loss for the period after income tax (+/-)	(4,998,167)									(4,998,167)	Profit/(loss) for the year
Attributable to owners of the company											
Attributable to non-controlling interests											
TOTAL INCOME	473,211,002										
TOTAL EXPENSES	(478,209,170)										

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

Unconsolidated statement of comprehensive income for year ended 31 December 2010 (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	Comprising coinsurer's share with reinsurer's share of change in UPR	Comprising other technical income with other operating income	Comprising gross changes in provisions with claims and benefits incurred	Comprising reinsurers share of technical provisions with reinsurers share of claims and benefits incurred	Adding change in other deferred acquisition costs to acquisition costs	Comprising other expenses and other technical expenses	Netting off of positive and negative foreign exchange differences, unrealised and realised gains and losses and income from sale of real estate with net book value of asset sold		Statutory financial statements
Other comprehensive income	(1,813,599)									(1,813,599)	Other comprehensive income
Foreign currency translation gains/losses of financial statements of foreign operations											
Gains/losses from changes in fair value of available-for-sale financial assets	(1,813,599)									(1,813,599)	Net change in fair value of available-for-sale financial assets, net of deferred tax
Gains/losses from revaluation of land and buildings used by the company in operations											
Gains/losses from revaluation of other tangible and intangible assets (excluding land and buildings)											
Effects of cash flow hedges											
Actuarial gains/(losses) of defined benefit plan											
Share in other comprehensive income of associates											
Income tax on other comprehensive income											
Total comprehensive income	(6,811,767)									(6,811,767)	Total comprehensive income for the year
Attributable to owners of the company											
Attributable to non-controlling interests											
Reclassification adjustments											

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

Unconsolidated statement of cash flows for year ended 31 December 2010

Supplementary information prescribed by a decision of the Croatian Agency for Financial Services		Statutory financial statements	
CASH FLOW FROM OPERATING ACTIVITIES	22,443,243	22,443,243	Net cash from operations
	10,542,876		
Cash flow before changes in operating assets and liabilities			
Profit/loss before taxes	4,998,167		
Adjustments	5,544,708		
Depreciation of real estate and equipment	4,589,096		
Depreciation of intangible assets	3,221,763		
Value impairment and profits/losses on reduction to fair value	-1,959,538		
Interest expense			
Interest income			
Shares in profit of associated companies			
Profits/losses on sale of tangible assets (including land and buildings)	-10,289		
Other adjustments	-296,324		
Increase/decrease of operating assets and liabilities	11,900,367		
Increase/decrease of available-for-sale financial assets	-247,097,163		
Increase/decrease of financial assets at fair value through profit or loss	40,910,962		
Increase/decrease of deposits, loans and receivables	114,476,380		
Increase/decrease of deposit assumed in reinsurance business			
Increase/decrease of investments for and on behalf of life assurance policyholders	-11,194,533		
Increase/decrease of reinsurers' share of insurance contract provisions	-80,894,242		
Increase/decrease of tax assets	-245,866		
Increase/decrease of receivables	-9,104,311		
Increase/decrease of other assets			
Increase/decrease of prepaid expenses and accrued income	4,756,416		
Increase/decrease of technical provisions	89,726,385		
Increase decrease of life assurance provision for products where policyholders bear investment risk	11,194,533		
Increase/decrease of tax liabilities	-207,533		
Increase/decrease of deposit from reinsurance	67,785,491		
Increase/decrease of financial liabilities			
Increase/decrease of other liabilities	27,473,736		
Increase/decrease in accrued expenses and deferred income	4,320,112		
Income taxes paid			
CASH FLOW FROM INVESTING ACTIVITIES	-22,719,546	-22,719,546	Net cash from investing activities
Proceeds from sale of tangible assets	558,997	558,997	Proceeds from sale of property and equipment
Payments for acquisition of tangible assets	-18,062,022	-18,062,022	Acquisition of property and equipment
Proceeds from sale of intangible assets			
Payments for acquisition of intangible assets	-5,206,890	-5,206,890	Acquisition of other intangible assets
Proceeds from sale of investment property	1,371,748	1,371,748	Proceeds from sale of investment property
Payments for acquisition of investment property	-1,381,380	-1,381,380	Acquisition of investment property
Increase/decrease of investments in subsidiaries, associates and participation in joint ventures			
Receipts from investments held to maturity			
Payments for investments held to maturity			
Proceeds from sale of securities and shares			
Payments for investments in securities and shares			
Receipts from dividends and profit shares			
Receipts from repayment of short and long term loans given			
Payments for short and long term loans given			
CASH FLOW FROM FINANCING ACTIVITIES			
Receipts from increase in share capital			
Receipts from short and long term borrowings			
Payments for repayment of short and long term borrowings			
Payments for repurchase of treasury shares			
Dividend payments			
CASH FLOW	-276,303	-276,303	
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	-276,303	-276,303	Net decrease in cash and cash equivalents
Cash and cash equivalents at the beginning of the period	13,779,422	13,779,422	Cash and cash equivalents at 1 January
Cash and cash equivalents at the end of the period	13,503,119	13,503,119	Cash and cash equivalents at 31 December