

**Helios Vienna Insurance Group d.d.**

Separate financial statements  
31 December 2010

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## **Management Board's report**

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

### **The Company**

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

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

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

Vienna Insurance Group is a listed international insurance group based in Vienna. With premium volume of over EUR 8 billion and approximately 24,000 employees, VIG is one of the largest players on the insurance market in Central and Eastern Europe. It offers its customers high-quality products and services in the life and non-life segments. Shares of the Vienna Insurance Group are listed on the Vienna and Prague stock exchanges.

In order to continue the trend of business success and growth and to meet the needs of clients and the demands of the market, the Company merged with its related company Cosmopolitan Life Vienna Insurance Group d.d. ("Cosmopolitan Life") in June 2010. This merger had an impact on the offer of insurance products in the segment of life insurance, which was enriched with Whole Life Get Well insurance – a unique product on the Croatian market. The merger of the two companies expanded the sales network and the number of branches, and increased the range and the level of service quality for the clients.

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

### **Business performance**

For 2010, the Company reported net profit of HRK 9.9 million. The Company realized gross written premium for non life insurance of HRK 45.2 million, which represents a decrease of 2% in comparison to 2009. In the same period, due to the merger with Cosmopolitan Life and significant increase of the life portfolio compared to 2009, gross written premium for life assurance business increased by 67% to the total amount of HRK 89.9 million.

Business targets of the Company, which have already been partly realised in 2010, are as follows:

- Increase in market share in terms of number of underwritten policies, total gross written premium and gross written premium in certain lines of business,
- Development of cross selling within new sales representatives which have previously been involved in selling life assurance products only,
- Combined ratio below 100%,



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

### **Business performance (continued)**

- Target structure of the Company's employees whereby 70% of employees relates to sales and 30% to administrative operations,
- Increase of efficiency of sales network measured through each sales representative,
- Development of more advanced tools for sales representatives with the aim of better service provided to policyholders (introduction of analysis of demands, constant education of sales representatives for all lines of business),
- Stabilization and increase in professionalism of sales network,
- Implementation of information system SAP in order to improve activities and quality of work, and decrease expenses of the Company.

### **The economic environment**

The financial and economic crisis took its toll on the Croatian economy in 2010, as well as in the previous year. In 2009, Croatia recorded a negative real growth rate in GDP of 5.8%. In the first quarter of 2010 Croatian GDP was 2.5% less than in 2009, and according to preliminary unofficial data it had declined a further 0.9% by the end of the year. According to the Consumer Price Index, the prices of personal consumption goods in December 2010 were about 1.9% higher than in 2009.

Negative trends in the economy are also reflected in employment. The registered unemployment rate grew from 16.7% in December 2009 to 18.8% in December 2010.

According to recent data from the Croatian Bureau of Statistics, the amount of net salaries paid in November 2010 was HRK 5,584, which is about 3% higher than in the same period in 2009. The reason for this movement is the increase in the number of unemployed people (in December 2010 the number of unemployed people in Croatia reached 319,845, which represents an increase of 9% compared to 2009) and the fact that the crisis tax on salaries, pensions and other proceeds (introduced in July 2009) was revoked (partially in July, and altogether in November 2010). Although the annual increase in the unemployment rate is slower than in 2009, growth rates are still high.

### **The insurance industry**

2010 was marked by a slight decline in premiums as a consequence of the current crisis and market trends. The closure of many companies, job losses, the drop in sales of new vehicles and stagnation in construction, resulted in a decrease in the volume of business for insurers. Therefore, previous high rates of growth have been replaced by falling premiums in the last two years.

In the middle of the year, tax relief was abolished for life and health insurance. According to the current tax regulation the tax relief for the life insurance influences the amount of the benefit paid by the maturity or the surrender of the policy. The abolishment of the tax relief was partially one of the main reasons for the decrease of the new business and increase of the lapse rates in the second half of 2010.

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

### **The insurance industry (continued)**

In 2010, the growth trend in surrendering life insurance policies slowed down in the number of the storno contracts. This slowdown was a result of the measures of the insurers themselves and the awareness of individuals about the existing pension system imperfections.

According to statistical data from the Croatian Insurance Bureau, the total premiums charged for all Croatian insurance companies amounted to HRK 9.244 billion which is 1,8% less than in the previous year. Both life and non life insurance recorded a decrease in total premiums charged. Non life insurance recorded a drop of 2%, and life insurance of 1.3%.

### **Corporate governance**

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

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

Walter Leonhartsberger	President since 28 June 2010
Hans Raumauf	Member since 16 April 2010 until 28 June 2010
Ewald Felbar	President until 31 March 2010
Ksenija Latin	Member since 28 June 2010
Azem Raković	Member

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

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

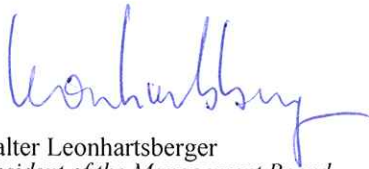
Hans Raumauf	President until 16 April 2010 and since 28 June 2010
Kurt Ebner	Member
Robert Haider	Member
Franz Kosyna	President from 16 April 2010 until 28 June 2010, Member until 16 April 2010 and since 28 June 2010

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

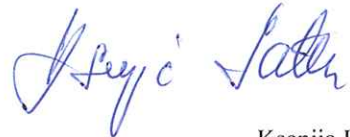
### **Corporate governance (continued)**

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

The company implements both applicable external and internal regulations, and the regulations of its parent company – Vienna Insurance Group AG Wiener Versicherung Gruppe ("VIG"), while ensuring that the latter are not in conflict with the regulations in force in the Republic of Croatia, and it also monitors the alignment of its organizational structure, to be able to modify, i.e. adjust it promptly. In accordance with the Solvency II regulations and measurements that should be applied by 2013, the Company has started with the necessary preparations and among all established the Risk management's function inside the Company.



Walter Leonhartsberger  
*President of the Management Board*



Ksenija Latin  
*Member of the Management Board*



Azem Raković  
*Member of the Management Board*

**HELIOS VIENNA INSURANCE GROUP d.d.**  
10000 ZAGREB, POLJIČKA ULICA 5



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

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

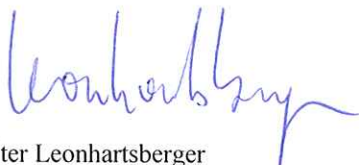
The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

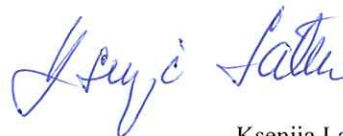
The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Company together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders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

The financial statements set out on pages 8 to 94 were authorised by the Management Board on 4 March 2011 for issue to the Supervisory Board and are signed below to signify this.

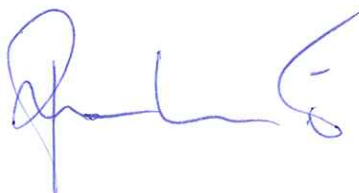
For and on behalf of Helios Vienna Insurance Group d.d.:



Walter Leonhartsberger  
*President of the Management Board*



Ksenija Latin  
*Member of the Management Board*



Azem Raković  
*Member of the Management Board*

**HELIOS VIENNA INSURANCE GROUP d.d.**  
10000 ZAGREB, POLJIČKA ULICA 5





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

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

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

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



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

### *Other legal and regulatory requirements*

Pursuant to the Regulation of the Croatian Financial Services Supervisory Agency on the Structure and Content of the Annual Financial Statements of Insurance and Reinsurance companies, dated 19 November 2010 (Official Gazette 132/10), the Management Board of the Company has prepared the schedules set out on pages 95 to 109 ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2010, and of the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a reconciliation ("the Reconciliation"), as presented on pages 110 to 119, of the Schedules with the financial statements as presented on pages 8 to 94. The Management Board of the Company is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Company set out on pages 8 to 94 on which we have expressed an unqualified opinion as set out above.

Zagreb, 4 March 2011

  
**KPMG Croatia d.o.o. za reviziju**  
Croatian Certified Auditors  
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1

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

  
**Goran Horvat**  
Director, Croatian Certified Auditor

## Statement of financial position

	<i>Note</i>	<b>31 December 2010 HRK'000</b>	Restated* 31 December 2009 HRK'000	Restated* 1 January 2009 HRK'000
<b>Assets</b>				
Property and equipment	1.12	47,818	32,043	33,626
Investment property	1.13	20,475	10,558	11,163
Intangible assets				
Deferred acquisition costs	1.14	1,575	1,568	1,976
Other intangible assets	1.15	727	699	822
Investment in subsidiary	1.16	3,000	4,000	5,135
Available-for-sale financial assets	1.17	705,576	283,137	212,076
Financial assets at fair value through profit or loss	1.17	28,557	62,561	90,425
Investments for the benefit of index-linked life assurance	1.17	18,474	9,226	489
Loans and receivables	1.17	103,928	133,766	138,189
Reinsurers' share of insurance contract provisions	1.18	45,160	34,016	43,354
Deferred tax assets	1.24	95	-	-
Insurance and other receivables	1.19	53,000	32,917	29,062
Cash and cash equivalents	1.20	2,142	1,678	1,504
<b>Total assets</b>		<b>1,030,527</b>	<b>606,169</b>	<b>567,821</b>
<b>Shareholders' equity</b>				
Share capital	1.21	45,003	45,003	45,003
Legal reserve	1.21	2,725	2,410	2,410
Fair value reserve		9,542	340	(6,176)
Other reserves		70,333	59,582	36,287
Retained earnings/(accumulated losses)		36,548	(19,732)	(41,029)
<b>Total equity</b>		<b>164,151</b>	<b>87,603</b>	<b>36,495</b>
<b>Liabilities</b>				
Insurance contract provisions	1.23	812,825	490,793	503,531
Deferred tax liability	1.24	2,468	117	-
Provisions for liabilities and charges	1.25	5,822	4,853	5,127
Insurance and other payables and deferred income	1.26	45,261	22,803	22,668
<b>Total liabilities</b>		<b>866,376</b>	<b>518,566</b>	<b>531,326</b>
<b>Total liabilities and equity</b>		<b>1,030,527</b>	<b>606,169</b>	<b>567,821</b>

\*See Note 1.2(f)

The accounting policies and other explanatory notes on pages 10 to 94 form an integral part of these financial statements.

## Statement of comprehensive income

for the year ended 31 December

	<i>Note</i>	<b>2010</b> <b>HRK'000</b>	Restated* 2009 HRK'000
Gross premiums written	1.27	135,160	102,429
Written premiums ceded to reinsurers	1.27	(23,691)	(13,718)
<b>Net premiums written</b>		<b>111,469</b>	<b>88,711</b>
Change in the gross provision for unearned premiums	1.27	2,163	5,613
Reinsurers' share of change in the provision for unearned premiums	1.27	3,981	(1,207)
<b>Net earned premiums</b>		<b>117,613</b>	<b>93,117</b>
Fees and commission income	1.28	6,265	2,785
Financial income	1.29	51,366	31,937
Other operating income	1.30	682	1,566
<b>Operating income</b>		<b>175,926</b>	<b>129,405</b>
Claims and benefits incurred	1.31	(105,297)	(82,782)
Reinsurers' share of claims and benefits incurred	1.31	18,454	989
<b>Net policyholder claims and benefits incurred</b>		<b>(86,843)</b>	<b>(81,793)</b>
Acquisition costs	1.32	(12,968)	(8,580)
Administrative expenses	1.33	(58,625)	(40,446)
Other operating expenses	1.34	(3,747)	(4,472)
<b>Operating profit/(loss)</b>		<b>13,743</b>	<b>(5,886)</b>
Financial expenses	1.35	(3,745)	(4,120)
<b>Profit/(loss) before income tax</b>		<b>9,998</b>	<b>(10,006)</b>
Income tax expense	1.36	-	-
<b>Profit/(loss) for the year</b>		<b>9,998</b>	<b>(10,006)</b>
<b>Other comprehensive income</b>			
Net change in fair value of available-for-sale financial assets, , net of deferred tax		1,158	6,516
<b>Total comprehensive income for the year</b>		<b>11,156</b>	<b>(3,490)</b>
<b>Profit/(loss) per share</b>		<b>HRK</b>	<b>HRK</b>
Basic and diluted profit/(loss) per share	1.22	689	(689)

\*See Note 1.2(f)

The accounting policies and other explanatory notes on pages 10 to 94 form an integral part of these financial statements.



## Statement of changes in equity

	Share capital HRK'000	Legal reserve HRK'000	Fair value reserve HRK'000	Other reserves HRK'000	Retained earnings / (accumulated losses) HRK'000	Total HRK'000
<b>Balance at 1 January 2009 as previously reported</b>	<b>45,003</b>	<b>2,410</b>	<b>(6,176)</b>	<b>36,287</b>	<b>(29,951)</b>	<b>47,573</b>
Retrospective restatement to correct prior period error (Note 1.2(f))	-	-	-	-	(11,078)	(11,078)
<b>Restated balance at 1 January 2009</b>	<b>45,003</b>	<b>2,410</b>	<b>(6,176)</b>	<b>36,287</b>	<b>(41,029)</b>	<b>36,495</b>
Net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	6,633	-	-	6,633
Change in deferred tax on net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	(117)	-	-	(117)
Total other comprehensive income	-	-	6,516	-	-	6,516
Restated loss for the year	-	-	-	-	(10,006)	(10,006)
<b>Restated total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>6,516</b>	<b>-</b>	<b>(10,006)</b>	<b>(3,490)</b>
Contribution by shareholders	-	-	-	54,598	-	54,598
Coverage of accumulated losses with other reserves	-	-	-	(31,303)	31,303	-
<b>Transactions with owners recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,295</b>	<b>31,303</b>	<b>54,598</b>
<b>Restated balance at 31 December 2009</b>	<b>45,003</b>	<b>2,410</b>	<b>340</b>	<b>59,582</b>	<b>(19,732)</b>	<b>87,603</b>
<b>Restated balance at 1 January 2010</b>	<b>45,003</b>	<b>2,410</b>	<b>340</b>	<b>59,582</b>	<b>(19,732)</b>	<b>87,603</b>
Acquired on merger with Cosmopolitan Life Vienna Insurance Group osiguranje d.d. (Note 1.11)	-	315	8,044	31,835	25,198	65,392
Net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	1,252	-	-	1,252
Change in deferred tax on net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	(94)	-	-	(94)
Total other comprehensive income	-	-	1,158	-	-	1,158
Profit for the year	-	-	-	-	9,998	9,998
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>1,158</b>	<b>-</b>	<b>9,998</b>	<b>11,156</b>
Coverage of accumulated losses with other reserves	-	-	-	(21,084)	21,084	-
<b>Transactions with owners recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21,084)</b>	<b>21,084</b>	<b>-</b>
<b>Balance at 31 December 2010</b>	<b>45,003</b>	<b>2,725</b>	<b>9,542</b>	<b>70,333</b>	<b>36,548</b>	<b>164,151</b>

The accounting policies and other explanatory notes on pages 10 to 94 form an integral part of these financial statements.

## Statement of cash flow

### For the year ended 31 December

	<i>Note</i>	2010 HRK'000	Restated* 2009 HRK'000
<b>Cash flows from/(used in) operating activities</b>			
Insurance premiums received		135,470	99,233
Reinsurance premiums paid		(23,450)	(13,219)
Fees and commissions received		4,403	1,876
Interest received		35,309	23,456
Claims and benefits paid		(95,948)	(89,817)
Reinsurance claims received		7,737	11,299
Payments to intermediaries		(13,239)	(8,334)
Payments to employees and suppliers		(52,732)	(36,771)
Other operating cash flows		14,263	(3,439)
Net (acquisition)/disposal of operating assets			
- Equity securities		107	-
- Debt securities		(123,209)	(83,052)
- Units in investment funds		17,944	51,823
- Deposits with banks and loans to customers		91,035	2,835
- Investments for the benefit of index linked life assurance		(4,239)	(9,259)
<b>Net cash used in operations</b>		<b>(6,549)</b>	<b>(53,369)</b>
<b>Cash flow from/(used in) investing activities</b>			
Dividends received		172	-
Acquisition of property and equipment		(1,942)	(1,159)
Proceeds from sale of property and equipment		21	410
Acquisition of other intangible assets		(86)	(234)
Acquisition of investment property		(241)	-
Proceeds from sale of investment property		828	-
<b>Net cash used in investing activities</b>		<b>(1,248)</b>	<b>(983)</b>
<b>Cash flows from financing activities</b>			
Receipts of shareholders' contributions directly to reserves		-	54,598
<b>Net cash from financing activities</b>		<b>-</b>	<b>54,598</b>
Effect of exchange rate changes on cash held		28	(72)
<b>Cash acquired on merger with Comopolitan Life</b>		<b>8,233</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>		<b>464</b>	<b>174</b>
Cash and cash equivalents at 1 January		1,678	1,504
<b>Cash and cash equivalents at 31 December</b>	1.20	<b>2,142</b>	<b>1,678</b>

See Note 1.2(f)

The accounting policies and other explanatory notes on pages 10 to 94 form an integral part of these financial statements.

# **1 Notes to the financial statements**

## **1.1. Reporting entity**

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

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

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

As of 11 June 2010, following a decision by the sole shareholder to undertake a reorganisation of its operations in Croatia, a related company, Cosmopolitan Life Vienna Insurance Group osiguranje d.d. ("Cosmopolitan Life") was legally and operationally merged into the Company, as a result of which Cosmopolitan Life ceased to exist as a separate legal entity. Prior to the merger Cosmopolitan Life was a separate life insurance joint stock company domiciled in Croatia, also 100% owned by Vienna Insurance Group Wiener Städtische Versicherung AG. The effects of the merger are set out in notes 1.2(e) and 1.11.

## **1.2. Basis of preparation**

### **(a) Statement of compliance**

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

### **(b) Basis of measurement**

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

### **(c) Functional and presentation currency**

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



## **1.2. Basis of preparation (continued)**

### **(d) Use of estimates and judgements**

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

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

### **(e) Legal merger with Cosmopolitan Life Vienna Insurance Group osiguranje d.d.**

As of 11 June 2010, based on a decision of their common sole shareholder, Cosmopolitan Life was legally merged into the Company and ceased to exist as a separate legal and operational entity. The Company's statement of comprehensive income for 2010 does not include the results of Cosmopolitan Life prior to the merger, nor has the comparative information been restated to include Cosmopolitan Life.

The assets and liabilities acquired as a result of the merger are recognised at the carrying amounts recognised immediately prior to the merger in the financial statements of Cosmopolitan Life. The components of equity of Cosmopolitan Life are added to the same components within the Company's equity except that issued capital is recognised as part of other reserves. The assets, liabilities and equity assumed on merger are summarised in Note 1.11.

### **(f) Retrospective restatement to correct prior period error**

As at 31 December 2008, the Company had not recognised life assurance provisions of HRK 11,078 thousand representing the calculated surrender value of life assurance policies that had expired as at 31 December 2008 for which the policyholders still had the right to demand payment of the surrender value of these policies at that date. The Company recorded the required life assurance provisions of HRK 11,078 thousand as incurred during 2009 without recognising a prior year adjustment in its financial statements as of and for the year ended 31 December 2009 and without restatement of the corresponding figures for 31 December 2008 as required by International Accounting Standard 8 "*Accounting Policies, Changes in Accounting Estimates and Errors*". In 2010, the Company corrected the prior period error by recognising a prior year adjustment to restate the corresponding figures for 31 December 2009 in its financial statements for 2010 in order to present the life assurance provisions as having been presented as incurred in 2008.



## 1.2. Basis of preparation (continued)

### (f) Retrospective restatement to correct prior period error (continued)

The following tables summarise the adjustments made to the equity and to the statements of financial position and comprehensive income upon correction of prior period error:

	Before restatement 31.12.2009 HRK'000	Adjustment 31.12.2009 HRK'000	Restated 31.12.2009 HRK'000	Before restatement 1.1.2009 HRK'000	Adjustment 1.1.2009 HRK'000	Restated 1.1.2009 HRK'000
<i>Effect on statement of financial position</i>						
<b>Total assets</b>	<b>606,169</b>	<b>-</b>	<b>606,169</b>	<b>567,821</b>	<b>-</b>	<b>567,821</b>
<b>Shareholders' equity</b>						
Share capital	45,003	-	45,003	45,003	-	45,003
Legal reserve	2,410	-	2,410	2,410	-	2,410
Fair value reserve	340	-	340	(6,176)	-	(6,176)
Other reserves	59,582	-	59,582	36,287	-	36,287
Accumulated losses	(19,732)	-	(19,732)	(29,951)	(11,078)	(41,029)
<b>Total equity</b>	<b>87,603</b>	<b>-</b>	<b>87,603</b>	<b>47,573</b>	<b>(11,078)</b>	<b>36,495</b>
<b>Liabilities</b>						
Insurance contract provisions	490,793	-	490,793	492,453	11,078	503,531
Other liabilities	27,773	-	27,773	27,795	-	27,795
<b>Total liabilities</b>	<b>518,566</b>	<b>-</b>	<b>518,566</b>	<b>520,248</b>	<b>11,078</b>	<b>531,326</b>
<b>Total liabilities and equity</b>	<b>606,169</b>	<b>-</b>	<b>606,169</b>	<b>567,821</b>	<b>-</b>	<b>567,821</b>
<i>Effect on statement of other comprehensive income</i>						
Operating income	129,405	-	129,405	140,014	-	140,014
Claims and benefits incurred	(93,860)	11,078	(82,782)	(114,306)	(11,078)	(125,384)
Reinsurers' share of claims	989	-	989	13,819	-	13,819
Acquisition, administration and financial expenses	(57,618)	-	(57,618)	(70,830)	-	(70,830)
<b>Loss before income tax</b>	<b>(21,084)</b>	<b>11,078</b>	<b>(10,006)</b>	<b>(31,303)</b>	<b>(11,078)</b>	<b>(42,381)</b>
Income tax expense	-	-	-	-	-	-
<b>Loss for the year</b>	<b>(21,084)</b>	<b>11,078</b>	<b>(10,006)</b>	<b>(31,303)</b>	<b>(11,078)</b>	<b>(42,381)</b>
Other comprehensive income for the year	6,516	-	6,516	(6,176)	-	(6,176)
<b>Total comprehensive income for the year</b>	<b>(14,568)</b>	<b>11,078</b>	<b>(3,490)</b>	<b>(37,479)</b>	<b>(11,078)</b>	<b>(48,557)</b>
<b>Basic and diluted loss per share (in HRK)</b>	<b>(1,452)</b>	<b>-</b>	<b>(689)</b>	<b>(2,156)</b>	<b>-</b>	<b>(2,919)</b>

## **1.2. Basis of preparation (continued)**

### **(g) Comparatives**

Apart from the restatement of comparative amounts explained in Note 1.2(f), some other comparatives have been reclassified to conform to the current year presentation of which the most significant are as follows:

- Reclassification of impairment loss of other receivables from financial expenses to administrative expenses in the amount of HRK 1,036 thousand;
- Provisions for liabilities and charges have been excluded from "Insurance and other payables and deferred income" line to separate line in the statement of financial position in the amount of HRK 5,134 thousand.

The above reclassifications did not have any effect on the shareholders' equity or financial performance for the year 2009.

### 1.3. Significant accounting policies

#### (a) Property and equipment

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

##### *Recognition and measurement*

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

Cost includes 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*

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 Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

##### *Depreciation*

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

The estimated useful lives are as follows:

	<b>2010</b>	<b>2009</b>
Buildings	50 years	20 years
Equipment and furniture	2-10 years	2-10 years
Motor vehicles	5 years	5 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 reviewed, and adjusted if appropriate, at each reporting date. Estimate in respect of useful lives of buildings was revised in 2010 (see Note 1.12).

Gains and losses on disposal are determined by comparing proceeds with carrying amount, and are included in profit or loss.

### 1.3. Significant accounting policies (continued)

#### (b) Investment property

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

Investment property is measured 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:

	<b>2010</b>	<b>2009</b>
Investment property	50 years	20 years

Estimate in respect of useful life of investment property was revised in 2010 (see Note 1.13).

#### (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 are not deferred. For the non-life insurance business, the deferred acquisition costs have been calculated by applying the commission percentage to the invoiced unearned premium for each line of business.

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

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

#### (d) Other intangible assets

##### *Other intangible assets*

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

##### *Subsequent expenditure*

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

##### *Amortisation*

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

	<b>2010</b>	<b>2009</b>
Software	4 years	4 years

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



### **1.3. Significant accounting policies (continued)**

#### **(e) Financial instruments**

##### *Classification*

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

During 2008, following a review of its investment policy, held-to-maturity securities held by the Company were reclassified as available-for-sale financial investments. In accordance with International Accounting Standard 39 “*Financial instruments: Recognition and Measurement*”, following such reclassification, the Company is not eligible to classify any financial asset as held to maturity for the next two financial years following 31 December 2008.

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

Financial assets at fair value through profit or loss are financial assets which are classified as held for trading or on initial recognition designated by the Company as at fair value through profit or loss. The Company does not apply hedge accounting.

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

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

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

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

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.

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

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

### **1.3. Significant accounting policies (continued)**

#### **(e) Financial instruments (continued)**

##### *Classification (continued)*

##### ***Available-for-sale financial investments***

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

##### ***Other financial liabilities***

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

##### *Recognition and derecognition*

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

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

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

##### *Initial and subsequent measurement*

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

After initial recognition, the Company measures financial 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 Company establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Loans and receivables 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.



## **1.3. Significant accounting policies (continued)**

### **(e) Financial instruments (continued)**

#### *Gains and losses*

Gains and losses arising from a change in the fair value of financial assets at fair value through profit or loss are recognised in the profit or loss.

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

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

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

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

#### *Fair value measurement principles*

The fair value of financial assets at fair value through profit or loss and of available for sale financial assets is their quoted bid market price at reporting date without any deductions for selling costs. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Company establishes fair value by using valuation techniques. 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 applicable at the reporting date for a financial instrument with similar terms and conditions.

At the reporting date the Company did not have any financial assets or liabilities the fair value of which was measured by valuation techniques.

#### *Impairment of financial assets*

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

### **1.3. Significant accounting policies (continued)**

#### **(e) Financial instruments (continued)**

##### *Impairment of financial assets (continued)*

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest income on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss for a financial asset carried at amortised cost to decrease, the impairment loss is reversed through profit or loss.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its original cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equity securities, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity securities are not subsequently reversed through profit or loss, but all value increases until the final sale are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Changes in impairment provisions attributable to the time value of money are reflected as a component of interest income.

##### *Specific instruments*

##### *Embedded derivatives within insurance and investment contracts*

Sometimes, a derivative may be a component of a hybrid (combined) financial instrument or insurance contract that includes both the derivative and host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Such derivatives are sometimes known as 'embedded derivatives'.

Embedded derivatives are separated from their host contract, measured at fair value and changes in their fair value included in profit or loss if they meet the following conditions:

- the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and,
- the hybrid instrument is not measured at fair value and changes in its fair value are not recognised in profit or loss.

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

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

##### *Debt securities*

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



### **1.3. Significant accounting policies (continued)**

#### **(e) Financial instruments (continued)**

##### *Specific instruments (continued)*

##### *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 are presented net of eventual impairment allowances to reflect the estimated recoverable amounts.

##### *Equity securities*

Equity securities are classified as financial assets at fair value through profit or loss and carried at fair value.

##### *Investments in funds*

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

##### *Investments held on account and at risk of life assurance policyholders*

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

##### *Trade and other receivables*

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

##### *Investments in subsidiaries*

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

##### *Trade and other payables*

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

##### *Offsetting of financial instruments*

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

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

### **1.3. Significant accounting policies (continued)**

#### **(f) Leased assets**

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

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

#### **(g) Cash and cash equivalents**

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

#### **(h) Employee benefits**

##### *Defined contribution plans*

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

#### **(i) Income tax**

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

### **1.3. Significant accounting policies (continued)**

#### **(j) Provisions**

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

##### *Restructuring*

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

#### **(k) Share capital**

##### *Ordinary share capital*

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

##### *Repurchase of share capital*

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

##### *Dividends*

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

##### *Legal reserve*

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

##### *Fair value reserve*

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

##### *Other reserves*

Other reserves are formed on the basis of the Company's Statute and can be used for share capital increase, dividend payment, loss coverage or other purposes at the discretion of the Company's General Assembly. Other reserve also include the share capital of Cosmoplitan Life in the amount of HRK 22,500 thousand, recognised as part of merger accounting. In 2009, the parent company has paid HRK 54,598 thousand in other reserve to be used for coverage of accumulated losses.

##### *Retained earnings*

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



### **1.3. Significant accounting policies (continued)**

#### **(l) Impairment**

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

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

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

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

#### **(m) Segment reporting**

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

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

Investment income, realised and unrealised gains and losses, expenses and charges representing shareholders' and 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, administration costs, marketing and other acquisition costs are charged to the non-life segment. Allocation to life assurance segment is performed automatically based on cost allocation keys. The principal categories used in the calculation of allocation keys for life and non-life segments are: premium key (portfolio), number of man-days, number of training days, number of new policies, number of claims, premium new business and investment key.

Commissions and part of personnel expenses are allocated directly to the life assurance and non-life insurance segments. Other acquisition costs are allocated based on cost allocation keys described above.

##### *Allocation of equity and assets*

Property and equipment and intangible assets are allocated to the non-life segment while the investment property is allocated to the life assurance segment. Financial investments are allocated according to source of funds. 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 to these segments which they originate from.



### **1.3. Significant accounting policies (continued)**

#### **(n) Revenue**

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

##### *Financial income*

Interest income is recognised in the income statement 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.

Financial income also includes net positive foreign exchange differences resulting from translation of monetary assets and liabilities using the exchange rate applicable at the reporting date, dividends, net gains on the change in the fair value of financial assets at fair value through profit or loss and realised net gains from derecognition financial assets available for sale.

Dividend income is recognised in the profit or loss on the date that the dividend is declared. The accounting policy in relation to financial income recognition is disclosed in Note 1.3 (e) under “*Gains and losses*”.

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

##### *Fees and commission income*

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

#### **(o) Expenses**

##### *Operating expenses*

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

##### *Acquisition costs*

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts such as sales representatives' commission 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. The Company's accounting policy for deferred acquisition costs is disclosed in accounting policy note 1.3 (c).

##### *Administration costs*

Administration costs include personnel expenses, depreciation of property and equipment, electricity and other costs. Other costs consist mainly of costs of premium collection, policy termination costs, portfolio management costs and administrative costs relating to reinsurance.

##### *Operating lease payments*

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

### **1.3. Significant accounting policies (continued)**

#### **(o) Expenses (continued)**

##### *Financial expenses*

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

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

#### **(p) Classification of contracts**

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

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

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

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

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

##### *Discretionary bonuses*

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

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

The provision for discretionary bonus within life assurance provision may comprise amounts arising in relation to participating policies, for which the allocation of funds has not been determined at the reporting date. When the allocation of funds is determined, appropriate transfers are made out of this fund.

At the reporting date the Company accounted for HRK 52.14 million (acquired on merger with Cosmopolitan Life HRK 35.55 million) of provision for discretionary profit participation bonuses (2009: HRK 21.76 million) which is included within the life assurance provision. During 2010, the Company allocated HRK 0.22 million to individual policyholders (2009: HRK 1.46 million).



### **1.3. Significant accounting policies (continued)**

#### **(q) Premiums**

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

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

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

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

#### **(r) Provision for unearned premiums**

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

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

Unearned premium provision for individual insurance 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.

#### **(s) Unexpired risk provision**

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

#### **(t) 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.

### **1.3. Significant accounting policies (continued)**

#### **(u) Life assurance provisions**

The life assurance provision has been computed by the Company's actuary, having due regard to principles laid down in the regulation for the calculation of the mathematical provision for life 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 life assurance provision is calculated applying a Zillmer rate of not more than 3.5%. The applied Zillmer rate is within the limits prescribed by HANFA. The life assurance provision of capitalized policies is not zillmerised. A prospective net premium valuation method has been adopted, with exception of inex-linked products where provision is based on the fair value of the underlying assets.

The provision is initially measured using the assumptions defined by HANFA (latest officially published mortality/morbidity tables or other more appropriate biometric tables, and a maximum discount rate of 3.3% or lower). At each subsequent reporting date the provision is calculated on the same principles and a liability adequacy test (LAT) is performed.

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

#### **(v) Claims**

##### *Claims arising from non-life business*

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

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

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

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



### **1.3. Significant accounting policies (continued)**

#### **(w) Reinsurance**

The Company cedes premium to reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in profit or loss on a gross basis 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 (e). The Company records an allowance for estimated irrecoverable reinsurance assets, if any. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

#### *Reinsurance commissions and profit commissions*

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

#### **(x) Liabilities and related assets under liability adequacy test**

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

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

#### **(y) Liability measurement of index-linked contracts**

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

### **1.3. Significant accounting policies (continued)**

#### **(z) Insurance receivables and payables**

Insurance receivables and payables are accounted for in accordance with IFRS 4. Insurance receivables and payables include receivables and payables arising from insurance and reinsurance contracts entered by the Company. A provision for impairment is established for premium receivables that are overdue more than 120 days.

#### **(aa) Foreign currency transactions**

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

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 Company 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 Company 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).

#### **(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 Company, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Company's 2013 financial statements and could change classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.



## **1.4. Accounting estimates and judgements**

These disclosures supplement the commentary on financial risk management (Note 1.39) and insurance risk management (Note 1.5).

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

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

The Company's policy is to make provision for unexpired risks arising from non-life insurance business where the claims, deferred acquisition costs and administrative expenses likely to arise after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums available under those contracts. Management believes that the recognition of such provisions is not required at the reporting date.

Major assumptions in calculating the life assurance provision are set out in Note 1.6., whilst insurance contract provisions are analysed in Note 1.23.

#### *Allowances for credit losses*

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

The 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(e). For financial assets that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### *Estimation of uncertainty in relation to court cases*

A significant source of estimation uncertainty stems from court cases. At 31 December 2010, the Company was involved in 557 (2009: 470) court cases regarding claims, for which HRK 35,253 thousand (2009: HRK 34,371 thousand) was provided as part of the claims reserve for reported but not yet settled claims. At 31 December 2010, the Company was involved in 35 non-insurance court cases for which HRK 5,822 thousand (2009: 8 cases, HRK 4,853 thousand) was provided as provision for non-insurance related legal claims. The management believes that the related provisions are sufficient.

## **1.4. Accounting estimates and judgements (continued)**

### **1.4.1 Key sources of estimation uncertainty (continued)**

#### *Tax*

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

#### *Regulatory requirements*

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

#### *Joint liability*

The Company has a liability towards the Croatian Insurance Bureau in respect of the Company's share in motor third party liability ("MTPL") claims arising from unknown or uninsured vehicles. Additionally, the Company, as well as other participants in MTPL business on the Croatian market, is liable for a share of unsettled MTPL claims in 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 Company's accounting policies**

#### *Financial asset classification*

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

#### *Classification of products*

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

#### *Classification of property*

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

#### *Allocation of indirect expenses life and non-life*

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

#### *Useful economic life of equipment and intangible assets*

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



## **1.5. Insurance risk management**

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

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

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

Non-life underwriting risk includes also catastrophe risk, which stems from irregular events that are not sufficiently covered by premium and reserve 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 Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

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

The Company reinsures a portion of the risks it underwrites in order to control its exposure to losses especially large claims, and protect capital resources. For the non life business, the Company buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure for an individual risk to less than EUR 0.195 million. For the accumulation of net property losses arising out of one occurrence, a reinsurance catastrophe agreement provides cover for the first EUR 699.9 million of losses exceeding the first EUR 0.1 million.

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

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

The adequacy of liabilities is assessed taking into consideration the supporting assets (fair and book value, currency and interest sensitivity), changes in interest rates and exchange rates and developments in mortality, morbidity, non-life claims frequency and amounts, lapses and expenses as well as general market conditions. Specific attention is paid to the adequacy of life assurance provision.

## 1.5. Insurance risk management (continued)

### Concentration of insurance risk

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

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

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

### Non life insurance

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

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

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

According to data available to the Company, the insured sum per lines of business at the end of 2010 and 2009 are summarized in the following table. Sum insured represents the theoretical effect on the Company of occurrence of the maximum loss per each policy in the Company's portfolio.

Line of business	Sum insured 31 December 2010		Sum insured 31 December 2009	
	HRK'000	%	HRK'000	%
Motor (third party)	93,699,694	72.93%	79,850,613	72.05%
Motor (other classes)	469,278	0.36%	516,210	0.47%
Property	12,370,980	9.63%	10,672,382	9.63%
Personal lines	20,657,826	16.08%	18,490,481	16.68%
Other	1,286,838	1.00%	1,294,403	1.17%
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>128,484,616</b>	<b>100.00%</b>	<b>110,824,089</b>	<b>100.00%</b>
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## 1.5. Insurance risk management (continued)

### *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 insurance is as follows:

Line of business	Value at risk			
	2010		2009	
	HRK'000	%	HRK'000	%
Life assurance - traditional products	4,650,329	64.52%	336,879	18.84%
Life insurance where the insured bears the risk of investment	1,520	0.02%	1,422	0.08%
Additional insurance to life assurance	2,556,233	35.46%	1,450,105	81.08%
<b>At 31 December</b>	<b>7,208,082</b>	<b>100.00%</b>	<b>1,788,406</b>	<b>100.00%</b>

Increase in value at risk in 2010 stems from the merger of Cosmopolitan Life. The life portfolio acquired by merger is a fairly young portfolio of policies with high sum insured, long duration and relatively small mathematical reserve compared to sum insured. Hence, the value at risk for this portfolio is high.

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

Sum insured per policy at 31 December 2010	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 100,000	608,198	11.43%	590,521	14.13%
100,000-250,000	2,911,300	54.71%	2,289,953	54.77%
> 250,000	1,801,728	33.86%	1,300,042	31.10%
<b>At 31 December 2010</b>	<b>5,321,226</b>	<b>100.00%</b>	<b>4,180,516</b>	<b>100.00%</b>

Sum insured per policy at 31 December 2009	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 100,000	492,186	74.08%	492,186	78.95%
100,000-250,000	140,186	21.10%	118,605	19.01%
> 250,000	31,985	4.82%	12,665	2.04%
<b>At 31 December 2009</b>	<b>664,357</b>	<b>100.00%</b>	<b>623,456</b>	<b>100.00%</b>



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

### *Non-life insurance*

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

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

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

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

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

### *Expected claims ratio*

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

### *Tail factors*

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

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

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

In 2009, the Company has reduced the maximum rate for discounting technical provisions to 3.3% in order to comply with regulatory requirements.

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

According to HANFA regulations there have been changes in 2009 regarding the assumptions in mortality tables and technical interest rates used to measure life assurance liabilities. There were no such changes in 2010.

### *Principal assumptions for life assurance business*

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



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

### *Policyholder bonuses*

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

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

## **1.7. Liability adequacy test**

### *Life assurance*

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

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

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

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

Input assumptions are updated annually based on recent experience.

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

The principal assumptions used are:

### *Segmentation*

The Company segments the products into homogenous groups according to the characteristics of individual products. Each group is tested separately for liability adequacy. Liability inadequacies of individual groups are not offset against surpluses arising on other groups in determining the additional liability to be established.

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



## **1.7. Liability adequacy test (continued)**

### *Mortality and morbidity*

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

### *Persistence*

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

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

### *Expenses*

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

### *Expected investment return and discount rate*

Future investment returns are calculated using expected investment return on the Company's assets. The risk discount rate is the risk free rate of 6.37% obtained from the investment specialists of the Vienna Insurance Group as the relevant, conservative estimate of the current risk free rate in Croatia.

### *Profit sharing*

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

### *Non-life insurance*

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.

## **1.8. The sensitivity of liability adequacy test's future cash flows to changes in significant variables**

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

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

### *Life assurance*

	<b>LAT future cash flow -modelled HRK'000</b>
Base run	335,387
Interest rates (discounting and investment return ) +100bp	286,099
Interest rates (discounting and investment return) –100bp	394,487
Mortality +10%	350,852
Policy maintenance expenses +10%	368,127

The portfolio modelled represents 99% of in force life assurance provision (HRK 655,543 thousand life assurance provision modelled). The rest of the portfolio was not modelled.

Base run represents LAT future cash flows calculated using the assumptions described under Note 1.7 during liability adequacy testing.

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

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

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

The profit or loss and insurance liabilities (as evidenced by LAT cash flow above) are mostly influenced by an increase in the interest rates and increase in policy maintenance expenses. Hence the effect of changes in interest rates in both directions has been estimated.

### *Non-life insurance*

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

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

### *Non-life insurance contracts*

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

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

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

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

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

### *Motor insurance*

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

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

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

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

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

### *Property insurance*

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

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



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

### *Non-life insurance contracts (continued)*

#### *Liability insurance*

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

#### *Accident insurance*

Accident insurance is traditionally sold as an add-on to life products or to MTPL products offered by the Company, but are also sold as a standalone product.

### *Life assurance contracts*

#### *Bonuses*

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

#### *Premiums*

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

#### *Whole Life policy – L-100*

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

Insurance benefits are paid out as a lump sum. The Company has 4 generations of the main product and only the 4th one, Whole Life Get Well, WLGW\_25, is the active tariff. There are 4 types of the additional insurance that could be connected to the main policy cover:

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

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

### *Whole Life Renta – WLR*

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

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

### *Term life insurance products*

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

### *Endowment products*

These are traditional life assurance products providing long term financial protection. These life assurance policies have tax advantages and give the insured the possibility to finance their needs in retirement. Capital life insurance products for regular or single premium offer cover for risks of death and paid out the sum insured at maturity. Accident can be added as a rider to the main endowment coverage. Insurance benefits are usually paid in a lump-sum.

### *Pure endowments*

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

### *Index-linked life assurance*

Index-linked life assurance is a single premium product that combines insurance for death risk and savings with a guaranteed maturity value. The savings part is invested into a structured note with the guaranteed maturity value (guaranteed by the note issuer). Policyholders have therefore guaranteed the value at maturity of the policy, however the amount of surrender value is not guaranteed. One group of the insurance contracts, WL Best of Trend expire in the year 2018, the other group Eurogarantie in 2020. WLBT essentially represents the inclusion of a rider to the main policy L-100, where the policyholder carries the investment risk. Eurogarantie is the stand alone product.

## 1.10. Segment reporting

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

	Non-life HRK'000	Life HRK'000	Total HRK'000
<b>Assets</b>			
Property and equipment	33,414	14,404	47,818
Investment property	-	20,475	20,475
Intangible assets			
Deferred acquisition costs	1,575	-	1,575
Other intangible assets	517	210	727
Investment in subsidiary	3,000	-	3,000
Available-for-sale financial assets	73,863	631,713	705,576
Financial assets at fair value through profit or loss	7,124	21,433	28,557
Investments for the benefit of index-linked life assurance	-	18,474	18,474
Loans and receivables	4,771	99,157	103,928
Reinsurers' share of insurance contract provisions	44,350	810	45,160
Deferred tax asset	82	13	95
Insurance and other receivables	28,532	24,468	53,000
Cash and cash equivalents	453	1,689	2,142
<b>Total assets</b>	<b>197,681</b>	<b>832,846</b>	<b>1,030,527</b>
<b>Shareholders' equity</b>			
Share capital	22,503	22,500	45,003
Legal reserve	560	2,165	2,725
Fair value reserve	(329)	9,871	9,542
Other reserves	3,932	66,401	70,333
Retained earnings	3,173	33,375	36,548
<b>Total equity</b>	<b>29,839</b>	<b>134,312</b>	<b>164,151</b>
<b>Liabilities</b>			
Insurance contract provisions	120,302	692,523	812,825
Deferred tax liability	-	2,468	2,468
Provision for liabilities and charges	5,822	-	5,822
Insurance and other payables and deferred income	41,718	3,543	45,261
<b>Total liabilities</b>	<b>167,842</b>	<b>698,534</b>	<b>866,376</b>
<b>Total liabilities and equity</b>	<b>197,681</b>	<b>832,846</b>	<b>1,030,527</b>



## 1.10. Segment reporting (continued)

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

	Non-life HRK'000	Life HRK'000	Total HRK'000
<b>Assets</b>			
Property and equipment	32,043	-	32,043
Investment property	-	10,558	10,558
Intangible assets			
Deferred acquisition costs	1,568	-	1,568
Other intangible assets	699	-	699
Investment in subsidiary	4,000	-	4,000
Available-for-sale financial assets	27,155	255,982	283,137
Financial assets at fair value through profit or loss	29,898	32,663	62,561
Investments for the benefit of index-linked life assurance	-	9,226	9,226
Loans and receivables	25,890	107,876	133,766
Reinsurers' share of insurance contract provisions	33,466	550	34,016
Insurance and other receivables	20,752	12,165	32,917
Cash and cash equivalents	714	964	1,678
<b>Total assets</b>	<b>176,185</b>	<b>429,984</b>	<b>606,169</b>
<b>Shareholders' equity</b>			
Share capital	22,503	22,500	45,003
Legal reserve	560	1,850	2,410
Fair value reserve	466	(126)	340
Other reserves	6,641	52,941	59,582
Accumulated losses	(2,540)	(17,192)	(19,732)
<b>Total equity</b>	<b>27,630</b>	<b>59,973</b>	<b>87,603</b>
<b>Liabilities</b>			
Insurance contract provisions	123,674	367,119	490,793
Deferred tax liability	117	-	117
Provision for liabilities and charges	4,853	-	4,853
Insurance and other payables and deferred income	19,911	2,892	22,803
<b>Total liabilities</b>	<b>148,555</b>	<b>370,011</b>	<b>518,566</b>
<b>Total liabilities and equity</b>	<b>176,185</b>	<b>429,984</b>	<b>606,169</b>

## 1.10. Segment reporting (continued)

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

	Non-life HRK'000	Life HRK'000	Total HRK'000
Gross premiums written	45,204	89,956	135,160
Written premiums ceded to reinsurers	(21,871)	(1,820)	(23,691)
<b>Net premiums written</b>	<b>23,333</b>	<b>88,136</b>	<b>111,469</b>
Change in the gross provision for unearned premiums	2,119	44	2,163
Reinsurers' share of change in the provision for unearned	4,111	(130)	3,981
<b>Net earned premiums</b>	<b>29,563</b>	<b>88,050</b>	<b>117,613</b>
Fees and commission income	5,175	1,090	6,265
Financial income	6,872	44,494	51,366
Other operating income	418	264	682
<b>Net income</b>	<b>42,028</b>	<b>133,898</b>	<b>175,926</b>
Claims and benefits incurred	(32,556)	(72,741)	(105,297)
Reinsurers' share of claims and benefits incurred	18,021	433	18,454
<b>Net policyholder claims and benefits incurred</b>	<b>(14,535)</b>	<b>(72,308)</b>	<b>(86,843)</b>
Acquisition costs	(3,297)	(9,671)	(12,968)
Administrative expenses	(16,605)	(42,020)	(58,625)
Other operating expenses	(3,529)	(218)	(3,747)
<b>Operating profit</b>	<b>4,062</b>	<b>9,681</b>	<b>13,743</b>
Financial expenses	(1,058)	(2,687)	(3,745)
<b>Profit before income tax</b>	<b>3,004</b>	<b>6,994</b>	<b>9,998</b>
Income tax expense	-	-	-
<b>Profit for the year</b>	<b>3,004</b>	<b>6,994</b>	<b>9,998</b>
<b>Other comprehensive income</b>			
Net change in fair value of available-for-sale financial assets, net of amounts realised	(995)	2,247	1,252
Change in deferred tax (liability)/asset	199	(293)	(94)
<b>Other comprehensive income for the year</b>	<b>(796)</b>	<b>1,954</b>	<b>1,158</b>
<b>Total comprehensive income for the year</b>	<b>2,208</b>	<b>8,948</b>	<b>11,156</b>

## 1.10. Segment reporting (continued)

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

	Restated Non-life HRK'000	Restated Life HRK'000	Restated Total HRK'000
Gross premiums written	48,579	53,850	102,429
Written premiums ceded to reinsurers	(12,667)	(1,051)	(13,718)
<b>Net premiums written</b>	<b>35,912</b>	<b>52,799</b>	<b>88,711</b>
Change in the gross provision for unearned premiums	5,517	96	5,613
Reinsurers' share of change in the provision for unearned premiums	(1,177)	(30)	(1,207)
<b>Net earned premiums</b>	<b>40,252</b>	<b>52,865</b>	<b>93,117</b>
Fees and commission income	2,520	265	2,785
Financial income	6,239	25,698	31,937
Other operating income	1,373	193	1,566
<b>Net income</b>	<b>50,384</b>	<b>79,021</b>	<b>129,405</b>
Claims and benefits incurred	(26,156)	(56,626)	(82,782)
Reinsurers' share of claims and benefits incurred	1,216	(227)	989
<b>Net policyholder claims and benefits incurred</b>	<b>(24,940)</b>	<b>(56,853)</b>	<b>(81,793)</b>
Acquisition costs	(4,302)	(4,278)	(8,580)
Administrative expenses	(18,153)	(22,293)	(40,446)
Other operating expenses	(4,302)	(170)	(4,472)
<b>Operating loss</b>	<b>(1,313)</b>	<b>(4,573)</b>	<b>(5,886)</b>
Financial expenses	(1,397)	(2,723)	(4,120)
<b>Loss before income tax</b>	<b>(2,710)</b>	<b>(7,296)</b>	<b>(10,006)</b>
Income tax expense	-	-	-
<b>Loss for the year</b>	<b>(2,710)</b>	<b>(7,296)</b>	<b>(10,006)</b>
<b>Other comprehensive income</b>			
Net change in fair value of available-for-sale financial assets, net of amounts realised	819	5,814	6,633
Change in deferred tax liability	(117)	-	(117)
<b>Other comprehensive income for the year</b>	<b>702</b>	<b>5,814</b>	<b>6,516</b>
<b>Total comprehensive income for the year</b>	<b>(2,008)</b>	<b>(1,482)</b>	<b>(3,490)</b>



## **1.10. Segment reporting (continued)**

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

The main business segments of the Company are Non-life insurance and Life assurance. Note 1.9 of these financial statements provides further information about the significant terms and conditions of insurance products.

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

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

**Non-life:**

- Property and liability
- Motor third part liability
- Motor casco
- Accident
- Marine and transport

**Life:**

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

### **Geographical segment**

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

## 1.11. Merger with Cosmopolitan Life Vienna Insurance Group d.d.

As of 11 June 2010 the Company legally merged with Cosmopolitan Life Vienna Insurance Group osiguranje d.d., whereby Cosmopolitan Life ceased to exist as a separate legal and operational entity. The assets and liabilities acquired by the Company as a result of the merger are recognised at the carrying amounts recognised immediately prior to the merger in the financial statements of Cosmopolitan Life. The components of equity of Cosmopolitan Life are added to the same components within the Company's equity except that issued capital in the amount of HRK 22,500 is recognised as part of other reserves.

### *Effect of legal merger*

The legal merger of Cosmopolitan Life Vienna Insurance Group d.d. as at 11 June 2010 had the following effect on the Company's assets and liabilities.

	<b>Acquired on merger HRK'000</b>
<b>Assets and liabilities assumed</b>	
Property and equipment	15,917
Investment property	10,755
Other intangible assets	231
Available-for-sale financial assets	263,933
Financial assets at fair value through profit or loss	8,605
Investments for the benefit of index-linked life assurance	4,233
Loans and receivables	61,943
Reinsurers' share of insurance contract provisions	217
Deferred tax asset	13
Insurance and other receivables	13,043
Cash and cash equivalents	8,233
Insurance contract provisions	
Provision for unearned premium	(171)
Life assurance provision	(306,038)
Life assurance provision for index-linked	(4,233)
Notified outstanding claims reserve	(750)
Incurred but not reported claims reserve	(3,560)
Provisions for claims handling costs	(129)
Deferred tax liability	(2,175)
Provisions for liabilities and charges	(281)
Insurance and other payables and deferred income	(4,394)
<b>Net identifiable assets and liabilities</b>	<b>65,392</b>
<b>Recognised as part of equity as follows:</b>	
Legal reserve	315
Fair value reserve	8,044
Other reserves	31,835
Retained earnings	25,198
<b>Total</b>	<b>65,392</b>

## 1.12. Property and equipment

	Land and buildings HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Leasehold improvements HRK'000	Total HRK'000
<b>Cost</b>					
Balance at 1 January 2009, restated	34,482	1,638	8,224	-	44,344
Additions	226	-	933	-	1,159
Disposals	-	(788)	(1,442)	-	(2,230)
<b>Balance at 31 December 2009, restated</b>	<b>34,708</b>	<b>850</b>	<b>7,715</b>	<b>-</b>	<b>43,273</b>
Balance at 1 January 2010, restated	34,708	850	7,715	-	43,273
Acquired on merger of Cosmopolitan Life	15,560	1,249	4,594	389	21,792
Additions	880	609	453	-	1,942
Disposals	-	(272)	-	-	(272)
Write off	-	(75)	(3,267)	(185)	(3,527)
<b>Balance at 31 December 2010</b>	<b>51,148</b>	<b>2,361</b>	<b>9,495</b>	<b>204</b>	<b>63,208</b>
<b>Depreciation and impairment losses</b>					
Balance at 1 January 2009, restated	4,076	1,315	5,327	-	10,718
Depreciation for the year	1,525	115	897	-	2,537
Disposals	-	(674)	(1,351)	-	(2,025)
<b>Balance at 31 December 2009, restated</b>	<b>5,601</b>	<b>756</b>	<b>4,873</b>	<b>-</b>	<b>11,230</b>
Balance at 1 January 2010, restated	5,601	756	4,873	-	11,230
Acquired on merger of Cosmopolitan Life	660	1,045	3,789	381	5,875
Depreciation for the year	721	120	1,069	2	1,912
Disposals	-	(272)	-	-	(272)
Write off	-	(60)	(3,110)	(185)	(3,355)
<b>Balance at 31 December 2010</b>	<b>6,982</b>	<b>1,589</b>	<b>6,621</b>	<b>198</b>	<b>15,390</b>
<b>Carrying amounts</b>					
At 1 January 2009, restated	30,406	323	2,897	-	33,626
At 31 December 2009, restated	<u>29,107</u>	<u>94</u>	<u>2,842</u>	<u>-</u>	<u>32,043</u>
At 1 January 2010, restated	29,107	94	2,842	-	32,043
<b>At 31 December 2010</b>	<b><u>44,166</u></b>	<b><u>772</u></b>	<b><u>2,874</u></b>	<b><u>6</u></b>	<b><u>47,818</u></b>

The depreciation charge is recognised in profit or loss under "Administrative expenses" (Note 1.33).

### *Change in estimate*

During 2010, the Company changed estimated useful life of buildings from 20 to 50 years. The effect of this change on depreciation expense in current year is lower depreciation expense by HRK 1,101 thousand.



### 1.13. Investment property

	HRK'000
<b>Cost</b>	
Balance at 1 January 2009, restated	12,299
Additions	-
Disposals	-
	<hr/>
<b>Balance at 31 December 2009, restated</b>	<b>12,299</b>
	<hr/>
Balance at 1 January 2010, restated	12,299
Acquired on merger of Cosmopolitan Life	10,755
Additions	241
Disposals	(950)
	<hr/>
<b>Balance at 31 December 2010</b>	<b>22,345</b>
	<hr/>
<b>Depreciation and impairment losses</b>	
Balance at 1 January 2009, restated	1,136
Depreciation for the year	577
Impairment allowance	28
	<hr/>
<b>Balance at 31 December 2009, restated</b>	<b>1,741</b>
	<hr/>
Balance at 1 January 2010, restated	1,741
Depreciation for the year	278
Disposals	(149)
	<hr/>
<b>Balance at 31 December 2010</b>	<b>1,870</b>
	<hr/>
<b>Carrying amounts</b>	
At 1 January 2009, restated	11,163
<b>At 31 December 2009, restated</b>	<b>10,558</b>
	<hr/>
At 1 January 2010, restated	10,558
<b>At 31 December 2010</b>	<b>20,475</b>
	<hr/>

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

The depreciation charge is recognised in profit or loss under "Financial expenses" (Note 1.35).

The Company entered into operating leases for all of its investment properties. The rental income arising during the year amounted to HRK 657 thousand (2009: HRK 402 thousand), which is recognised in "Financial income" (Note 1.29).

#### *Change in estimate*

During 2010, the Company changed estimated useful life of investment property from 20 to 50 years. The effect of this change on depreciation expense in current year is lower depreciation expense by HRK 379 thousand.

## **1.14. Deferred acquisition costs**

As part of 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 a result of which a separate deferred acquisition cost asset for the life assurance business is not recognised at the reporting date.

An analysis of these deferred costs is set out below:

	<b>Non-life</b>	
	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>HRK'000</b>	<b>HRK'000</b>
Balance at 1 January, restated	1,568	1,976
Increase	1,575	1,568
Decrease	(1,568)	(1,976)
<b>Balance at 31 December</b>	<b>1,575</b>	<b>1,568</b>

## 1.15. Other intangible assets

	<b>Computer software</b> <b>HRK'000</b>
<b>Cost</b>	
Balance at 1 January 2009, restated	1,485
Additions	234
Write-off	(115)
<b>Balance at 31 December 2009, restated</b>	<b>1,604</b>
Balance at 1 January 2010, restated	1,604
Acquired on merger of Cosmopolitan Life	8,416
Additions	86
Write-off	(26)
<b>Balance at 31 December 2010</b>	<b>10,080</b>
<b>Amortisation and impairment losses</b>	
Balance at 1 January 2009, restated	663
Amortisation for the year	247
Write-off	(5)
<b>Balance at 31 December 2009, restated</b>	<b>905</b>
Balance at 1 January 2010, restated	905
Acquired on merger of Cosmopolitan Life	8,185
Amortisation for the year	325
Impairment loss	(36)
Write-off	(26)
<b>Balance at 31 December 2010</b>	<b>9,353</b>
<b>Carrying amounts</b>	
At 1 January 2009, restated	822
<b>At 31 December 2009, restated</b>	<b>699</b>
At 1 January 2010, restated	699
<b>At 31 December 2010</b>	<b>727</b>

The amortisation charge is recognised in profit or loss under "Administrative expenses" (Note 1.33).



## 1.16. Investment in subsidiary

a) The Company's subsidiary is as follows:

	Industry	Domicile	Company's ownership at 31 December 2010
Hotel Voltino d.o.o.	Hotels and similar accommodation	Croatia	100%

The subsidiary is not consolidated in the Company's financial statements.

The investment in Hotel Voltino d.o.o. is carried within the non-life segment in both 2010 and 2009.

b) Investment in subsidiary is as follows:

	31 December 2010 HRK'000	Restated 31 December 2009 HRK'000
Hotel Voltino d.o.o		
Cost	5,135	5,135
Impairment allowance	(2,135)	(1,135)
	<u>3,000</u>	<u>4,000</u>

c) Movement in impairment allowance

	2010 HRK'000	2009 HRK'000
Balance at 1 January	1,135	-
Impairment loss recognised during the year	1,000	1,135
Balance at 31 December	<u>2,135</u>	<u>1,135</u>

The impairment loss on investment in subsidiary is recognised under "Financial expenses" in profit or loss (Note 1.35).

## 1.17. Financial investments

	<b>31 December 2010 HRK'000</b>	Restated 31 December 2009 HRK'000
Available-for-sale financial assets	705,576	283,137
Financial assets at fair value through profit and loss	28,557	62,561
Investments for the benefit of index-linked life assurance	18,474	9,226
Loans and receivables	103,928	133,766
	<u>856,535</u>	<u>488,690</u>

### *Available for sale financial assets*

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

### *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.

### *Loans and receivables*

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

	<b>31 December 2010 HRK'000</b>	Restated 31 December 2009 HRK'000
Loans to customers	73,495	58,099
Impairment allowance	(9,917)	(9,014)
	<u>63,578</u>	<u>49,085</u>

Loans to customers are predominantly collateralised by real estate or the redemption value of life assurance policies. The fair value of collateral accepted covers the amount of loans outstanding at the reporting date.

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

	<b>2010 HRK'000</b>	2009 HRK'000
Balance at 1 January	9,014	9,231
Collection of amounts previously provided	(480)	(912)
Impairment loss recognised during the year	1,383	695
Balance at 31 December	<u>9,917</u>	<u>9,014</u>

The impairment loss on loans to customers is recognised under "Financial expenses" in profit or loss (Note 1.35).

## 1.17. Financial investments (continued)

	Available-for-sale HRK'000	Fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
<b>31 December 2010</b>				
<b>Equity securities</b>				
Listed	-	2,107	-	2,107
	-	2,107	-	2,107
<b>Debt securities – fixed rate, listed</b>				
Government bonds	654,288	-	-	654,288
Corporate bonds	51,288	10,592	-	61,880
Corporate bonds - assets backing index-linked products	-	18,474	-	18,474
Commercial papers	-	491	-	491
	705,576	29,557	-	735,133
<b>Investment funds – open ended, quoted</b>		15,367	-	15,367
<b>Deposits with banks</b>	-	-	40,350	40,350
<b>Loans to customers</b>	-	-	63,578	63,578
	705,576	47,031	103,928	856,535
<b>31 December 2009, restated</b>				
<b>Equity securities</b>				
Listed	-	2,460	-	2,460
	-	2,460	-	2,460
<b>Debt securities – fixed rate, listed</b>				
Government bonds	254,990	21,941	-	276,931
Corporate bonds	28,147	5,720	-	33,867
Corporate bonds - assets backing index-linked products	-	9,226	-	9,226
	283,137	36,887	-	320,024
<b>Investment funds – open ended, quoted</b>	-	32,440	-	32,440
<b>Deposits with banks</b>	-	-	84,681	84,681
<b>Loans to customers</b>	-	-	49,085	49,085
	283,137	71,787	133,766	488,690



## 1.17. Financial investments (continued)

	Available-for-sale HRK'000	Fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
<b>At 1 January 2009, restated</b>	<b>212,076</b>	<b>90,914</b>	<b>138,189</b>	<b>441,179</b>
Additions	68,386	75,850	188,921	333,157
Disposals	(2,949)	(100,795)	(192,606)	(296,350)
Fair value gains recorded in profit or loss	91	5,771	-	5,862
Fair value gains recorded in other comprehensive income	6,633	-	-	6,633
Amortization adjustments	(73)	-	-	(73)
Foreign exchange adjustments	(1,027)	47	(738)	(1,718)
<b>At 31 December 2009, restated</b>	<b>283,137</b>	<b>71,787</b>	<b>133,766</b>	<b>488,690</b>
<b>At 1 January 2010, restated</b>	<b>283,137</b>	<b>71,787</b>	<b>133,766</b>	<b>488,690</b>
Acquired on meger of Cosmopolitan Life	263,933	12,838	61,943	338,714
Additions	213,056	133,434	30,566	377,056
Disposals	(62,173)	(174,415)	(121,647)	(358,235)
Fair value gains recorded in profit or loss	2,549	3,038	(858)	4,729
Fair value gains recorded in other comprehensive income	1,252	-	-	1,252
Amortization adjustments	(245)	-	-	(245)
Foreign exchange adjustments	4,067	349	158	4,574
<b>At 31 December 2010</b>	<b>705,576</b>	<b>47,031</b>	<b>103,928</b>	<b>856,535</b>

## 1.18. Reinsurers' share of insurance contract provisions

		31 December 2010 HRK'000	Restated 31 December 2009 HRK'000
	<i>Note</i>		
<b>Non-life</b>			
Reinsurance share in provision for unearned premiums	1.23 a)	11,308	7,197
Reinsurance share in notified outstanding claims reserve	1.23 b)	24,315	19,134
Reinsurance share in incurred but not reported claims reserve	1.23 c)	8,727	7,135
<b>Total Non-life</b>		<b>44,350</b>	<b>33,466</b>
<b>Life</b>			
Reinsurance share in provision for unearned premiums	1.23 a)	-	130
Reinsurance share in notified outstanding claims reserve	1.23 b)	646	307
Reinsurance share in incurred but not reported claims reserve	1.23 c)	164	113
<b>Total Life</b>		<b>810</b>	<b>550</b>
<b>Total reinsurer's share of insurance contracts provisions</b>		<b>45,160</b>	<b>34,016</b>

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

Premiums ceded to reinsurance do not relieve the Company from its direct obligations towards the policy holders. Accordingly, there is still a credit risk up to the extent the reinsurer would not be able to settle its liability under the reinsurance agreement.

## 1.19. Insurance and other receivables

	31 December 2010 HRK'000	Restated 31 December 2009 HRK'000
Receivables arising from insurance contracts	16,714	14,742
Receivables from recourses	4,412	4,412
Receivables from reinsurance		
- for claims recoveries	9,950	5,899
- for reinsurance commission	7,391	3,690
Accrued interest	21,836	9,176
Receivables from sale of vehicles	20	-
Other receivables and prepaid expenses	3,652	3,172
	<u>63,975</u>	<u>41,091</u>
Impairment allowance		
- for insurance receivables	(4,372)	(2,900)
- for recourses	(4,412)	(3,665)
- for other receivables and prepayments	(2,191)	(1,609)
	<u>(10,975)</u>	<u>(8,174)</u>
<b>Total insurance and other receivables</b>	<u><u>53,000</u></u>	<u><u>32,917</u></u>

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

	2010 HRK'000	2009 HRK'000
Balance at 1 January	(2,900)	(5,687)
Increase in provisions	(1,894)	(87)
Collection of amounts previously provided	345	2,874
	<u>(1,549)</u>	<u>2,787</u>
<b>Impairment losses</b>	<u>(1,549)</u>	<u>2,787</u>
Write off	77	-
	<u>77</u>	<u>-</u>
Balance at 31 December	<u><u>(4,372)</u></u>	<u><u>(2,900)</u></u>

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

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

	2010 HRK'000	2009 HRK'000
Balance at 1 January	(3,665)	(3,675)
Increase in provisions	(747)	-
Collection of amounts previously provided	-	10
	<u>(747)</u>	<u>10</u>
<b>Impairment losses</b>	<u>(747)</u>	<u>10</u>
Balance at 31 December	<u><u>(4,412)</u></u>	<u><u>(3,665)</u></u>

The impairment loss on recourses is recognised under "Administrative expenses" in profit or loss (Note 1.33).



## **1.19 Insurance and other receivables (continued)**

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

	<b>2010</b> <b>HRK'000</b>	<b>2009</b> <b>HRK'000</b>
Balance at 1 January	<u>(1,609)</u>	<u>(573)</u>
Acquired on merger of Cosmopolitan Life	(59)	-
Increase in provisions	(523)	(1,065)
Collection of amounts previously provided	<u>-</u>	<u>29</u>
<b>Impairment losses</b>	<u>(523)</u>	<u>(1,036)</u>
Balance at 31 December	<u><u>(2,191)</u></u>	<u><u>(1,609)</u></u>

The impairment loss on other receivables and prepayments is recognised under "Administrative expenses" in profit or loss (Note 1.33).

## **1.20. Cash and cash equivalents**

	<b>31 December</b> <b>2010</b> <b>HRK'000</b>	<b>Restated</b> <b>31 December</b> <b>2009</b> <b>HRK'000</b>
Cash at bank	2,113	1,655
Cash in hand	<u>29</u>	<u>23</u>
<b>Total cash and cash equivalents</b>	<u><u>2,142</u></u>	<u><u>1,678</u></u>

## 1.21. Share capital

### Ordinary shares

	31 December 2010 HRK'000	Restated 31 December 2009 HRK'000
<i>Authorised, issued and fully paid</i>		
14,517 (2009: 14,517) ordinary shares of HRK 3,100	45,003	45,003

The share capital of the Company is denominated in Croatian kuna. The nominal value of each share issued by the Company is HRK 3,100. During 2010 there were no new shares issued. All shares are fully paid.

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

	31 December 2010 % ownership	Restated 31 December 2009 % ownership
Vienna Insurance Group AG Wiener Versicherung Gruppe	100	100

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

### 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.

### Capital management

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

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and the risk characteristics of the Company's activities. There were no changes made to the capital base, objectives, policies and processes from the previous year.

	31 December 2010			31 December 2009, restated		
	Non-life	Life	Total	Non-life	Life	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Solvency margin	7,101	38,365	45,466	8,217	14,994	23,211
Min. Founding capital (FC)	22,500	22,500	45,000	22,500	22,500	45,000
Guarantee capital (GC)	26,319	117,236	143,555	26,465	59,973	86,438
Capital	26,319	117,236	143,555	26,465	59,973	86,438
GC >= min FC	YES	YES	YES	YES	YES	YES
Capital >= Solvency margin	YES	YES	YES	YES	YES	YES

## 1.21. Share capital (continued)

An analysis of capital is given below

	2010 Non-life HRK '000	2010 Life HRK '000	2010 Total HRK'000	Restated 2009 Non-life HRK '000	Restated 2009 Life HRK '000	Restated 2009 Total HRK'000
Share capital, paid in	22,503	22,500	45,003	22,503	22,500	45,003
Reserves not related to liabilities from insurance	4,493	68,565	73,058	7,201	54,791	61,992
Retained earnings after paid dividends	169	26,381	26,550	169	1,182	1,351
Intangible assets	(517)	(210)	(727)	(699)	-	(699)
Accumulated losses including loss for the year	-	-	-	(2,709)	(18,374)	(21,083)
<b>Basic share capital</b>	<b>26,648</b>	<b>117,236</b>	<b>143,884</b>	<b>26,465</b>	<b>60,099</b>	<b>86,564</b>
Revaluation reserve	(329)	-	(329)	-	(126)	(126)
<b>Supplementary share capital</b>	<b>(329)</b>	<b>-</b>	<b>(329)</b>	<b>-</b>	<b>(126)</b>	<b>(126)</b>
<b>Guarantee share capital</b>	<b>26,319</b>	<b>117,236</b>	<b>143,555</b>	<b>26,465</b>	<b>59,973</b>	<b>86,438</b>
<b>Deductions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Capital</b>	<b>26,319</b>	<b>117,236</b>	<b>143,555</b>	<b>26,465</b>	<b>59,973</b>	<b>86,438</b>

## 1.22. Profit / (loss) per share

For the purposes of calculating profit/(loss) per share, earnings are calculated as the profit/(loss) for the year attributable to equity holders of the Company. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares used for basic and diluted earnings per share was 14,517 (2009: 14,517). Given that there are no effects of options, convertible bonds or similar effects, the number of shares used for calculation of diluted earnings per share is the same as for basic earnings per share: 14,517 shares (2009: 14,517 shares).

	2010 HRK'000	Restated 2009 HRK'000
Profit/(loss) attributable to ordinary shareholders for profit/(loss) per share	9,998	(10,006)
Weighted average number of ordinary shares at 31 December	14,517	14,517



## 1.23. Insurance contract provisions

	31 December 2010 HRK'000	Restated 31 December 2009 HRK'000	Restated 1 January 2009 HRK'000
<i>Non-life business</i>			
Provision for unearned premiums	25,034	27,153	32,670
Notified outstanding claims reserve	61,950	62,621	74,855
Incurred but not reported claims reserve	30,311	32,297	32,005
Provisions for claims handling costs	2,716	1,389	525
Other technical provisions	291	214	133
<b>Total Non-life business</b>	<b>120,302</b>	<b>123,674</b>	<b>140,188</b>
<i>Life assurance business</i>			
Provision for unearned premiums	1,067	940	1,036
Life assurance provision	662,273	351,964	354,571
Life assurance provision for index-linked	18,474	9,226	489
Notified outstanding claims reserve	6,005	4,220	6,569
Incurred but not reported claims reserve	4,392	696	642
Provisions for claims handling costs	312	73	36
<b>Total Life assurance business</b>	<b>692,523</b>	<b>367,119</b>	<b>363,343</b>
<b>Total insurance contracts provisions</b>	<b>812,825</b>	<b>490,793</b>	<b>503,531</b>

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

	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000	Restated 2009 Gross HRK'000	Restated 2009 Reinsurance HRK'000	Restated 2009 Net HRK'000
<i>Non-life business</i>						
<b>Balance at 1 January</b>	27,153	7,197	19,956	32,670	8,374	24,296
Premiums written during the year	45,204	21,871	23,333	48,579	12,667	35,912
Less: premiums earned during the year	(47,323)	(17,760)	(29,563)	(54,096)	(13,844)	(40,252)
<b>Balance at 31 December</b>	<b>25,034</b>	<b>11,308</b>	<b>13,726</b>	<b>27,153</b>	<b>7,197</b>	<b>19,956</b>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	940	130	810	1,036	160	876
Acquired on merger of Cosmopolitan Life	171	-	171	-	-	-
Premiums written during the year	5,412	740	4,672	3,746	759	2,987
Less: premiums earned during the year	(5,456)	(870)	(4,586)	(3,842)	(789)	(3,053)
<b>Balance at 31 December</b>	<b>1,067</b>	<b>-</b>	<b>1,067</b>	<b>940</b>	<b>130</b>	<b>810</b>

## 1.23. Insurance contract provisions (continued)

### b) Analysis of movements in notified outstanding claims reserve

	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000	Restated 2009 Gross HRK'000	Restated 2009 Reinsurance HRK'000	Restated 2009 Net HRK'000
<i>Non-life business</i>						
<b>Balance at 1 January</b>	62,621	19,134	43,487	74,855	24,114	50,741
Current year claims	35,738	11,572	24,166	40,780	7,635	33,145
Change in previous year claims	(2,600)	4,857	(7,457)	(15,861)	(3,888)	(11,973)
Claims paid	(33,809)	(11,248)	(22,561)	(37,153)	(8,727)	(28,426)
<b>Balance at 31 December</b>	<u>61,950</u>	<u>24,315</u>	<u>37,635</u>	<u>62,621</u>	<u>19,134</u>	<u>43,487</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	4,220	307	3,913	6,569	942	5,627
Acquired on merger of Cosmopolitan Life	750	169	581			
Current year claims	62,368	310	62,058	52,245	70	52,175
Change in previous year claims	841	120	721	(2,231)	(314)	(1,917)
Claims paid	(62,174)	(260)	(61,914)	(52,363)	(391)	(51,972)
<b>Balance at 31 December</b>	<u>6,005</u>	<u>646</u>	<u>5,359</u>	<u>4,220</u>	<u>307</u>	<u>3,913</u>

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

	2010 Gross HRK'000	2010 Reinsurance HRK'000	2010 Net HRK'000	Restated 2009 Gross HRK'000	Restated 2009 Reinsurance HRK'000	Restated 2009 Net HRK'000
<i>Non-life business</i>						
<b>Balance at 1 January</b>	32,297	7,135	25,162	32,005	9,667	22,338
Additions recognised during the year	8,680	4,125	4,555	11,566	(1,537)	13,103
Transfer to claims reported provision	(10,666)	(2,533)	(8,133)	(11,274)	(995)	(10,279)
<b>Balance at 31 December</b>	<u>30,311</u>	<u>8,727</u>	<u>21,584</u>	<u>32,297</u>	<u>7,135</u>	<u>25,162</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	696	113	583	642	97	545
Acquired on merger of Cosmopolitan Life	3,560	48	3,512			
Additions recognised during the year	(233)	3	(236)	628	45	583
Transfer to claims reported provision	369	-	369	(574)	(29)	(545)
<b>Balance at 31 December</b>	<u>4,392</u>	<u>164</u>	<u>4,228</u>	<u>696</u>	<u>113</u>	<u>583</u>

## 1.23. Insurance contract provisions (continued)

### d) Life assurance provisions

	2010	Restated 2009
	Gross and net HRK'000	Gross and net HRK'000
<b>Balance at 1 January</b>	<b>351,964</b>	<b>354,571</b>
Acquired on merger of Cosmopolitan Life	306,038	-
Premium allocation	52,795	25,796
Release of liabilities due to benefits paid, surrenders and other terminations	(65,404)	(61,914)
Unwinding of discount/accretion interest	30,316	15,637
Change in Zillmer adjustment	(10,284)	(1,590)
Change in provision for unearned premium	(1,245)	(154)
Change in interest rate	-	18,327
Foreign currency translations	(1,907)	1,291
<b>Balance at 31 December</b>	<b>662,273</b>	<b>351,964</b>

It was not practicable to present comparative movement in life assurance provision for 2008.

### e) Technical provision for contracts where policyholder bears investment risk (index-linked)

	2010	Restated 2009
	Gross and net HRK'000	Gross and net HRK'000
Balance at 1 January	9,226	489
Acquired on merger of Cosmopolitan Life	4,233	-
Premium allocation	4,480	8,488
Unrealised gains on funds where policyholders investments were allocated	1,384	193
Foreign currency translations	(849)	56
<b>Balance at 31 December</b>	<b>18,474</b>	<b>9,226</b>



## 1.23. Insurance contract provisions (continued)

### f) Development of claims reported by policyholders at 31 December 2010

	Prior to 2002	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Estimate of cumulative claims at the end of underwriting year	-	56,294	63,905	60,908	58,296	81,896	167,698	102,662	93,136	98,152	
One year later	91,722	62,148	61,609	61,241	56,046	79,912	163,022	97,058	88,190		
Two years later	95,133	62,046	61,742	60,362	52,299	76,478	159,400	89,665			
Three years later	93,637	63,529	61,505	57,063	52,267	74,843	156,244				
Four years later	88,079	63,247	58,727	57,321	51,436	70,555					
Five years later	88,649	61,457	58,629	56,032	52,211						
Six years later	85,836	60,711	57,025	59,944							
Seven	81,729	59,353	62,805								
Eight years later	79,659	64,113									
Nine years later	72,843										
<b>Current estimate of cumulative claims</b>	<b>72,843</b>	<b>64,113</b>	<b>62,805</b>	<b>59,944</b>	<b>52,211</b>	<b>70,555</b>	<b>156,244</b>	<b>89,665</b>	<b>88,190</b>	<b>98,152</b>	<b>814,722</b>
Cumulative payments	64,935	60,328	55,839	48,401	45,516	66,805	149,904	81,059	73,931	70,489	717,207
<b>Amount recognised in the current year statement of financial position</b>	<b>7,908</b>	<b>3,785</b>	<b>6,966</b>	<b>11,543</b>	<b>6,695</b>	<b>3,750</b>	<b>6,340</b>	<b>8,606</b>	<b>14,259</b>	<b>27,663</b>	<b>97,515</b>
Unsettled claims at 31 December 2010 acquired on merger	-	-	-	145	-	-	-	131	159	4,708	5,143
Provisions for claims handling costs	233	111	205	344	197	111	187	258	425	957	3,028
<b>Total value recognised at 31 December 2010</b>	<b>8,141</b>	<b>3,896</b>	<b>7,171</b>	<b>12,032</b>	<b>6,892</b>	<b>3,861</b>	<b>6,527</b>	<b>8,995</b>	<b>14,843</b>	<b>33,328</b>	<b>105,686</b>

It was not practicable to present development of unsettled claims transferred in upon merger of Cosmopolitan Life over a ten year period in the form set out above.

### g) Remaining maturities of insurance liabilities

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
2010	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Provision for unearned premiums	23,655	2,446	-	-	26,101
Claims reserves	48,369	47,767	9,841	-	105,977
Life assurance provisions	31,106	148,540	96,901	385,726	662,273
Life assurance provision for index-linked	-	-	-	18,474	18,474
<b>Insurance liabilities</b>	<b>103,130</b>	<b>198,753</b>	<b>106,742</b>	<b>404,200</b>	<b>812,825</b>

## 1.23. Insurance contract provisions (continued)

### g) Remaining maturities of insurance liabilities (continued)

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
2009, restated	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Provision for unearned premiums	25,494	2,599	-	-	28,093
Claims reserves	64,334	29,316	7,860	-	101,510
Life assurance provisions	37,464	148,680	106,243	59,577	351,964
Life assurance provision for index-linked	-	-	-	9,226	9,226
Insurance liabilities	<u>127,292</u>	<u>180,595</u>	<u>114,103</u>	<u>68,803</u>	<u>490,793</u>

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

	31 December 2010 HRK '000	31 December 2009 HRK '000
<b>Assets used for backing life assurance provision</b>		
Securities issued by Republic of Croatia	561,085	250,764
Securities issued by Croatian Bank for Reconstruction and Development	50,288	27,159
Bonds and other debt securities traded on regulated stock exchange in Croatia	491	485
Shares and equities of investment funds registered in Croatia	5,328	1,002
Advances and loans in the amount of redemption value based on life contract	43,090	25,831
Deposits with banks domiciled in Croatia	30,000	63,176
Real estate and other rights on real estate	-	1,698
Balances on giro account of the Company	388	417
Long term bonds or other debt securities whose issuer is foreign non-state entity of member state or member state of OECD	10,592	5,235
<b>Total assets used for backing life assurance provision</b>	<u>701,262</u>	<u>375,767</u>
Life assurance provision	662,273	351,964
Claims provision for risks for which it is necessary to create life provision	7,302	2,213
<b>Requested coverage of life assurance provision</b>	<u>669,575</u>	<u>354,177</u>
Assets used for cover of life assurance provision	701,262	375,767
Requested coverage of life assurance provision	669,575	354,177
<b>Excess of coverage</b>	<u>31,687</u>	<u>21,590</u>

## 1.23. Insurance contract provisions (continued)

### h) 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
<b>2010</b>					
Asset backing life assurance provision	31,754	334,675	314,708	20,125	701,262
Life assurance provision	(31,106)	(148,540)	(96,901)	(385,726)	(662,273)
Claims provision	(7,302)	-	-	-	(7,302)
<b>Maturity gap</b>	<b>(6,654)</b>	<b>186,135</b>	<b>217,807</b>	<b>(365,601)</b>	<b>31,687</b>
<b>2009</b>					
Asset backing life assurance provision	94,812	167,231	108,187	5,537	375,767
Life assurance provision	(37,464)	(148,680)	(106,243)	(59,577)	(351,964)
Claims provisions	(2,213)	-	-	-	(2,213)
<b>Maturity gap</b>	<b>55,135</b>	<b>18,551</b>	<b>1,944</b>	<b>(54,040)</b>	<b>21,590</b>

As of 31 December 2010 the majority of asset used for backing life assurance provision is classified as available for sale and as financial asset at fair value through profit or loss, which enables the Company to easily dispose these assets 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. The life assurance provision for traditional products is denominated in EURO, while the majority of life assurance provision for the "whole life products" is denominated in HRK.

	EURO	EURO linked	EURO and EURO linked total	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>2010</b>					
Asset backing life assurance provision	91,072	278,349	369,421	331,841	701,262
<b>2009</b>					
Asset backing life assurance provision	63,082	305,102	368,184	7,583	375,767

In 2010 the Company's yield on investments from mathematical provision amounted to 7.80% (2009: 6.74%).



## 1.23. Insurance contract provisions (continued)

### i) Structure of assets used for backing technical provisions

	<b>31 December 2010 HRK '000</b>	<b>31 December 2009 HRK '000</b>
<b>Assets used for backing technical provisions</b>		
Securities issued by Republic of Croatia	72,863	21,586
Bonds and other debt securities traded on regulated stock exchange in Croatia	1,000	988
Equities traded on regulated stock exchange in Croatia	2,107	2,461
Shares and equities of investment funds registered in Croatia	3,022	31,438
Loans with a pledge over a real estate	-	3,560
Loans and deposits to banks domiciled in Croatia (same bank or group of related banks at most 5%)	-	21,506
Balances on giro account of the Company	1,724	691
<b>Total assets used for backing technical provisions</b>	<b>80,717</b>	<b>82,230</b>
 Provision for unearned premiums	 14,793	 20,766
Claims provision	64,532	72,394
Other provision	291	214
 <b>Requested coverage of technical provisions other than life insurance provision</b>	 <b>79,616</b>	 <b>93,374</b>
 Assets for the backing of technical provisions other than life insurance provision	 80,717	 82,230
Coverage of technical provisions other than life insurance provision	79,616	93,374
 <b>Excess/(shortfall) of coverage</b>	 <b>1,101</b>	 <b>(11,144)</b>

## 1.23. Insurance contract provisions (continued)

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

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

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	More than 10 years HRK'000	Total HRK'000
<b>2010</b>					
Asset backing technical provisions	7,854	-	72,863	-	80,717
Provision for unearned premium	(13,198)	(1,595)	-	-	(14,793)
Claims provision and other provisions	(24,492)	(32,801)	(7,530)	-	(64,823)
<b>Maturity gap</b>	<b>(29,836)</b>	<b>(34,396)</b>	<b>65,333</b>	<b>-</b>	<b>1,101</b>
<b>2009</b>					
Asset backing technical provisions	56,420	8,667	15,811	1,332	82,230
Provision for unearned premium	(18,162)	(2,604)	-	-	(20,766)
Claims provision and other provisions	(45,900)	(20,965)	(5,743)	-	(72,608)
<b>Maturity gap</b>	<b>(7,642)</b>	<b>(14,902)</b>	<b>10,068</b>	<b>1,332</b>	<b>(11,144)</b>

As of 31 December 2010 the whole asset used for backing technical provisions is classified as available for sale and as financial asset at fair value through profit or loss, which enables the Company to easily dispose these assets to meet insurance contracts liabilities when needed.

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

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	HRK HRK'000	Total HRK'000
<b>2010</b>						
Asset backing technical provision	37	22,754	22,791	12	57,914	80,717
<b>2009</b>						
Asset backing technical provision	7,911	16,007	23,918	21	58,291	82,230

## 1.24. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2010	Restated 2009	2010	Restated 2009	2010	Restated 2009
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Available for sale financial assets	(82)	-	2,468	117	2,386	117
Loans and receivables	(13)	-	-	-	(13)	-
<b>As at 31 December</b>	<b>(95)</b>	<b>-</b>	<b>2,468</b>	<b>117</b>	<b>2,373</b>	<b>117</b>

	Assets		Liabilities		Net	
	2010	Restated 2009	2010	Restated 2009	2010	Restated 2009
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>As at 1 January</b>	<b>-</b>	<b>-</b>	<b>117</b>	<b>-</b>	<b>117</b>	<b>-</b>
Acquired on merger with Cosmopolitan Life	(13)	-	2,175	-	2,162	-
Recognised in other comprehensive income	(82)	-	176	117	94	117
<b>As at 31 December</b>	<b>(95)</b>	<b>-</b>	<b>2,468</b>	<b>117</b>	<b>2,373</b>	<b>117</b>

## 1.25. Provisions for liabilities and charges

	Provision for litigations HRK'000
Balance at 1 January 2009, restated	5,127
Provisions used	(350)
Increase in provision	76
<b>Balance at 31 December 2009, restated</b>	<b>4,853</b>
Balance at 1 January 2010, restated	4,853
Acquired on merger of Cosmopolitan Life	281
Increase in provision	688
<b>Balance at 31 December 2010</b>	<b>5,822</b>

Increase in provision for litigation is recognised under "Administrative expenses" in profit or loss (Note 1.33).



## 1.26. Insurance and other payables and deferred income

	31 December 2010 HRK'000	Restated 31 December 2009 HRK'000
Direct insurance contract payables		
- to policyholders	3,374	3,257
- to agents, brokers and intermediaries	277	535
Reinsurance contract payables	14,968	13,647
Reinsurance commission deferral	3,770	1,931
Deposit retained from reinsurance business	8,266	-
Trade creditors	5,946	1,757
Liabilities for salaries	4,256	247
Other payables and accrued expenses	4,404	1,429
	<hr/>	<hr/>
Total insurance and other payables and deferred income	<b>45,261</b>	<b>22,803</b>
	<hr/>	<hr/>

The Company retains deposits from reinsurance business arising from the quota share reinsurance treaty with the related company. In accordance with the reinsurance treaty, applicable from 1 January 2010, the Company does not cede the reinsurance share, but retains and invests the funds. Deposits retained from reinsurance business bear a 1.5% fixed interest rate per annum.

## 1.27. Premiums

	2010 HRK'000	Restated 2009 HRK'000
<i>Non-life insurance</i>		
Gross premium written	45,204	48,579
Written premium ceded to reinsurers	(21,871)	(12,667)
Change in provision for unearned premiums, gross	2,119	5,517
Change in provision for unearned premiums, reinsurance share	4,111	(1,177)
	<hr/>	<hr/>
<b>Total premium income net, (earned) from non-life insurance</b>	<b>29,563</b>	<b>40,252</b>
	<hr/>	<hr/>
<i>Life assurance</i>		
Gross premium written	89,956	53,850
Written premium ceded to reinsurers	(1,820)	(1,051)
Change in provision for unearned premiums, gross	44	96
Change in provision for unearned premiums, reinsurance share	(130)	(30)
	<hr/>	<hr/>
<b>Total premium income net, (earned) from life assurance</b>	<b>88,050</b>	<b>52,865</b>
	<hr/>	<hr/>
<b>Total premiums</b>	<b>117,613</b>	<b>93,117</b>
	<hr/>	<hr/>

Gross premiums written for the Company for the life assurance business include premiums of HRK 4,619 thousand (2009: HRK 9,463 thousand) in respect of index-linked products.

## 1.27. Premiums (continued)

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

2010	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Administrative expenses HRK'000	Acquisition expenses HRK'000	Reinsurance balance HRK'000
<i>Non-life insurance business</i>						
Accident	4,560	4,131	(1,641)	(3,311)	(583)	(15)
Health	-	-	(5)	-	-	-
Motor Hull	6,335	6,930	(5,606)	(1,949)	(411)	(910)
Marine Hull	695	843	(390)	(416)	(67)	(293)
Transport	5	11	238	(2)	(1)	(22)
Property Fire	3,866	3,960	(1,277)	(2,448)	(509)	(1,009)
Other property	2,561	4,523	(4,321)	(1,689)	(417)	1,125
Motor Third Party Liability	25,591	24,474	(22,197)	(5,548)	(1,082)	8,637
Marine liability	161	170	(7)	(142)	(12)	(112)
General liability	1,238	1,353	2,544	(952)	(189)	(1,953)
Credit insurance	-	738	123	(9)	-	-
Financial losses	52	50	9	(42)	(8)	(12)
Travel insurance	140	140	(26)	(97)	(18)	-
<b>Total non-life</b>	<b>45,204</b>	<b>47,323</b>	<b>(32,556)</b>	<b>(16,605)</b>	<b>(3,297)</b>	<b>5,436</b>
<i>Life assurance business</i>						
Life products	77,702	77,702	(64,932)	(38,451)	(8,527)	124
Annuities	1,192	1,192	(1,286)	(503)	(135)	-
Life rider products	6,443	6,487	(1,020)	(2,562)	(706)	(551)
Index linked	4,619	4,619	(5,503)	(504)	(303)	-
<b>Total life</b>	<b>89,956</b>	<b>90,000</b>	<b>(72,741)</b>	<b>(42,020)</b>	<b>(9,671)</b>	<b>(427)</b>
<b>Total non-life and life</b>	<b>135,160</b>	<b>137,323</b>	<b>(105,297)</b>	<b>(58,625)</b>	<b>(12,968)</b>	<b>5,009</b>
<b>2009, restated</b>						
<i>Non-life insurance business</i>						
Accident	4,459	4,263	63	(4,532)	(580)	(684)
Health	-	-	(2)	(1)	-	-
Motor Hull	7,646	9,978	(4,750)	(2,608)	(718)	(3,119)
Marine Hull	905	765	(419)	(73)	(50)	(190)
Transport	11	52	(79)	(20)	(6)	(46)
Property Fire	4,466	4,567	(1,286)	(2,020)	(625)	(1,182)
Other property	4,932	5,850	(1,017)	(2,063)	(650)	(739)
Motor Third Party Liability	24,479	25,996	(22,228)	(6,091)	(1,426)	63
Marine liability	170	152	(22)	(121)	(9)	(93)
General liability	1,340	1,568	4,041	(412)	(207)	(4,112)
Credit insurance	19	757	(396)	(56)	(10)	-
Financial losses	22	18	(8)	(18)	(4)	(6)
Travel insurance	130	130	(53)	(138)	(17)	-
<b>Total non-life</b>	<b>48,579</b>	<b>54,096</b>	<b>(26,156)</b>	<b>(18,153)</b>	<b>(4,302)</b>	<b>(10,108)</b>
<i>Life assurance business</i>						
Life products	39,469	39,469	(50,138)	(13,265)	(2,938)	(27)
Annuities	1,172	1,172	2,207	(468)	(76)	-
Life rider products	3,746	3,842	709	(8,025)	(485)	(1,016)
Index linked	9,463	9,463	(9,404)	(535)	(779)	-
<b>Total life</b>	<b>53,850</b>	<b>53,946</b>	<b>(56,626)</b>	<b>(22,293)</b>	<b>(4,278)</b>	<b>(1,043)</b>
<b>Total non-life and life</b>	<b>102,429</b>	<b>108,042</b>	<b>(82,782)</b>	<b>(40,446)</b>	<b>(8,580)</b>	<b>(11,151)</b>

## 1.27. Premiums (continued)

### An analysis of claims ratio, costs ratio and combined ratio

2010

	Claims ratio	Costs ratio	Combined ratio
Accident	38.7%	83.4%	122.1%
Motor Hull	78.9%	32.8%	111.7%
Marine Hull	45.1%	47.7%	92.8%
Transport	(2,172.4%)	50.5%	(2,121.9%)
Property Fire	31.4%	52.2%	83.6%
Other property	93.1%	38.1%	131.2%
Motor Third Party Liability	88.4%	15.8%	104.2%
Marine liability	3.9%	76.9%	80.8%
General liability	(183.4%)	63.4%	(120.0%)
Credit insurance	(27.1%)	0%	(27.1%)
Financial losses	(16.8%)	84.7%	67.9%
Travel insurance	17.7%	80.2%	97.9%
<b>Total non-life</b>	<b>66.9%</b>	<b>31.7%</b>	<b>98.6%</b>

2009, restated

	Claims ratio	Costs ratio	Combined ratio
Accident	(1.5%)	105.4%	103.9%
Motor Hull	48.8%	46.7%	95.5%
Marine Hull	56.1%	(0.3%)	55.8%
Transport	156.2%	249.7%	405.9%
Property Fire	28.9%	37.7%	66.6%
Other property	17.8%	38.4%	56.2%
Motor Third Party Liability	87.7%	28.6%	116.3%
Marine liability	14.6%	64.0%	78.6%
General liability	(264.4%)	17.9%	(246.5%)
Credit insurance	42.8%	0%	42.8%
Financial losses	47.0%	88.3%	135.3%
Travel insurance	41.9%	121.5%	163.4%
<b>Total non-life</b>	<b>49.4%</b>	<b>40.0%</b>	<b>89.4%</b>



## 1.28. Fees and commission income

	2010 HRK'000	Restated 2009 HRK'000
Reinsurance commission	6,265	2,785

## 1.29. Financial income

	2010 HRK'000	Restated 2009 HRK'000
Interest income:		
Available-for-sale	28,217	15,054
At fair value through profit and loss	301	302
Loans and receivables	10,747	9,947
Dividend income	172	153
Rental income from investment property	657	402
Income from sale of investment property	27	-
Net gain on remeasurement of assets at fair value through profit and loss	989	1,577
Net realised gain	4,729	4,285
Net foreign exchange translation gain	4,886	-
Collection of loans previously provided for	480	217
Other financial income	161	-
	<u>51,366</u>	<u>31,937</u>

	Non-life 2010 HRK'000	Life 2010 HRK'000	Total 2010 HRK'000	Restated Non-life 2009 HRK'000	Restated Life 2009 HRK'000	Restated Total 2009 HRK'000
<b>Financial income</b>						
Income from assets backing equity	1,000	2,745	3,745	954	234	1,188
Income from assets backing life assurance provision	-	41,683	41,683	-	25,464	25,464
Income from assets backing other technical provisions	5,872	66	5,938	5,285	-	5,285
	<u>6,872</u>	<u>44,494</u>	<u>51,366</u>	<u>6,239</u>	<u>25,698</u>	<u>31,937</u>

## 1.30. Other operating income

	2010 HRK'000	Restated 2009 HRK'000
Income from sale of land and buildings	-	205
Income from sale of vehicles	41	-
Other operating income	641	1,361
	<u>682</u>	<u>1,566</u>

## 1.31. Net policyholder claims and benefits incurred

	2010	Restated 2009
	HRK'000	HRK'000
<i>Non-life insurance</i>		
Claims paid		
Gross amount	(33,809)	(37,153)
Reinsurers' share	11,248	8,728
Change in notified outstanding claims reserve		
Gross amount	671	12,234
Reinsurers' share	5,181	(4,980)
Change in incurred but not reported claims reserve		
Gross amount	1,986	(292)
Reinsurers' share	1,592	(2,532)
Change in provision for claims handling costs, gross and net	(1,327)	(864)
Change in other technical provisions, gross and net	(77)	(81)
	<hr/>	<hr/>
Total gross claims incurred from non-life insurance	(32,556)	(26,156)
Total reinsurance share in claims incurred from non-life insurance	18,021	1,216
	<hr/>	<hr/>
<b>Total net claims incurred from non-life insurance</b>	<b>(14,535)</b>	<b>(24,940)</b>
	<hr/> <hr/>	<hr/> <hr/>
<i>Life assurance</i>		
Claims paid (benefits and surrenders)		
Gross amount	(62,174)	(52,754)
Reinsurers' share	260	392
Change in life assurance provision		
Gross amount	(4,271)	2,607
Reinsurers' share	-	-
Change in life assurance provision for linked products, gross and net	(5,015)	(8,737)
Change in notified outstanding claims reserve		
Gross amount	(1,035)	2,349
Reinsurers' share	170	(635)
Change in incurred but not reported claims reserve		
Gross amount	(136)	(54)
Reinsurers' share	3	16
Change in provision from claims handling costs, gross and net	(110)	(37)
	<hr/>	<hr/>
Total gross claims incurred from life assurance	(72,741)	(56,626)
Total reinsurance share in claims incurred from life assurance	433	(227)
	<hr/>	<hr/>
<b>Total net claims incurred from life assurance</b>	<b>(72,308)</b>	<b>(56,853)</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Total gross claims and benefits incurred</b>	<b>(105,297)</b>	<b>(82,782)</b>
<b>Total reinsurance share in claims incurred</b>	<b>18,454</b>	<b>989</b>
	<hr/>	<hr/>
<b>Total</b>	<b>(86,843)</b>	<b>(81,793)</b>
	<hr/> <hr/>	<hr/> <hr/>

## 1.32. Acquisition costs

	2010 HRK'000	Restated 2009 HRK'000
<i>Non-life</i>		
Commission expenses	2,622	3,193
Other acquisition costs	682	701
Changes in deferred acquisition costs (Note 1.14.)	(7)	408
<b>Total acquisition costs, non-life</b>	<b>3,297</b>	<b>4,302</b>
<i>Life</i>		
Commission expenses	7,830	3,235
Other acquisition costs	1,841	1,043
<b>Total acquisition costs, life</b>	<b>9,671</b>	<b>4,278</b>
	<b>12,968</b>	<b>8,580</b>

## 1.33. Administrative expenses

	2010 HRK'000	Restated 2009 HRK'000
Depreciation and amortisation	2,237	2,784
Personnel expenses	31,623	22,529
Goods and services	7,142	5,374
Rental expenses	2,017	1,158
Impairment of other receivables and recourses	1,270	1,036
Fees paid to auditors for statutory audit	549	526
Fees paid to lawyers	902	650
Intellectual services	5,311	852
Increase in provisions for liabilities and charges	688	-
Other costs	6,886	5,537
	<b>58,625</b>	<b>40,446</b>

In 2010, the average number of employees of the Company was 334 (2009: 241).

In 2010, the Company made pension contributions of HRK 10.5 million (2009: HRK 7.1 million) into obligatory pension funds.



### 1.34. Other operating expenses

	2010 HRK'000	Restated 2009 HRK'000
Fire brigade contributions	133	143
Guarantee fund	159	200
Contribution towards Croatian Health Insurance Fund	1,415	1,533
Other technical charges	2,040	2,596
	<u>3,747</u>	<u>4,472</u>

### 1.35. Financial expenses

	2010 HRK'000	Restated 2009 HRK'000
Depreciation of investment property	278	577
Impairment loss on investment in subsidiary	1,000	1,135
Foreign exchange translation loss	-	1,718
Impairment of loans to customers	1,383	-
Interest expense	245	73
Other financial expense	839	617
	<u>3,745</u>	<u>4,120</u>

	Non-life 2010 HRK'000	Life 2010 HRK'000	Total 2010 HRK'000	Restated Non-life 2009 HRK'000	Restated Life 2009 HRK'000	Restated Total 2009 HRK'000
Expenses from assets backing share capital	1,000	1,662	2,662	1,372	2,518	3,890
Expenses from assets backing life assurance provision	-	1,025	1,025	-	205	205
Expenses from assets backing other technical provisions	58	-	58	25	-	25
	<u>1,058</u>	<u>2,687</u>	<u>3,745</u>	<u>1,397</u>	<u>2,723</u>	<u>4,120</u>

## 1.36. Income taxes

	2010 HRK'000	Restated 2009 HRK'000
Current tax expense	-	-
Deferred tax expense	-	-
	<hr/>	<hr/>
<b>Total income tax expense</b>	<b>-</b>	<b>-</b>
	<hr/> <hr/>	<hr/> <hr/>

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

	2010 HRK'000	Restated 2009 HRK'000
Accounting gain/(loss) for the period before income taxes	9,998	(10,006)
	<hr/>	<hr/>
Income tax at 20% (2009: 20%)	(2,000)	2,001
Non-deductible expenses	(706)	(384)
Tax exempt income	61	60
Tax losses not recognised as deferred tax asset	-	(1,677)
Utilisation of tax losses brought forward	2,645	-
	<hr/>	<hr/>
<b>Income tax expense</b>	<b>-</b>	<b>-</b>
	<hr/> <hr/>	<hr/> <hr/>

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

	2010 HRK'000	Restated 2009 HRK'000
<i>At income tax rate of 20%</i>		
Unused tax losses brought forward	(9,852)	(8,175)
Acquired on merger with Cosmopolitan Life	(10,663)	-
Utilisation of tax losses brought forward	2,645	-
Tax losses generated during period	-	(1,677)
	<hr/>	<hr/>
<b>Unused tax losses carried forward</b>	<b>(17,870)</b>	<b>(9,852)</b>
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2010 gross tax losses carried forward amounted to HRK 89.3 million (2009: HRK 49.3 million) which at income tax of 20% amounts to HRK 17.9 million (2009:HRK 9.9 million).

## 1.36. Income taxes (continued)

### c) Tax losses brought forward

Net tax losses amounting to HRK 17,870 thousand (at the income tax rate of 20%) are available for offset against future profits. A tax loss may be carried forward for five years subsequent to the year in which it was incurred. The availability of tax losses against future periods, subject to review by the Ministry of Finance, is as follows:

	2010 HRK'000	Restated 2009 HRK'000
<i>At income tax rate of 20%</i>		
No more than 1 year	-	-
No more than 2 years	-	-
No more than 3 years	5,530	-
No more than 4 years	12,340	8,175
No more than 5 years	-	1,677
	<hr/>	<hr/>
<b>Total potential benefit of tax losses carried forward</b>	<b>17,870</b>	<b>9,852</b>
	<hr/>	<hr/>
<b>Unrecognised benefit of tax loss carried forward</b>	<b>17,870</b>	<b>9,852</b>
	<hr/>	<hr/>
<b>Deferred tax asset recognized in the statement of financial position</b>	<b>-</b>	<b>-</b>
	<hr/>	<hr/>

## 1.37. Operating leases

The Company leases 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 2010, HRK 2,550 thousand was recognised as an expense in the Company's profit or loss in respect of operating leases (2009: HRK 1,417 thousand).

## 1.38. Related parties

The sole shareholder of the Company is VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe with holdings of 100% (2009 Vienna Insurance Group Wiener Staedtsche Versicherung AG: 100%) of the Company's shares at year end. The Company considers that it has an immediate related party relationship with the ultimate parents of its key shareholder, and their subsidiaries; its subsidiary; the Supervisory Board members, Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

### *VIG Re and VIG Holding*

VIG Re and VIG Holding are related companies and one of the Company's reinsurance providers. These transactions gave rise to reinsurance premiums and recoveries during the year and debtors and creditors at the end of the year.



## 1.38. Related parties (continued)

### *VIG Re and VIG Holding (continued)*

	VIG Re 2010 HRK'000	VIG Holding 2010 HRK'000	VIG Re 2009 HRK'000	VIG Holding 2009 HRK'000
<b>Premium ceded:</b>				
Reinsurance premiums payable at beginning of year	(693)	-	-	-
Reinsurance premiums ceded during the year	(9,590)	(6,132)	(2,722)	-
Reinsurance premiums paid during the year	6,066	1,348	2,029	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Reinsurance premiums payable at the end of the year	(4,217)	(4,784)	(693)	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Reinsurance recoveries:</b>				
At the beginning of the year	11	-	-	-
Invoiced during the year	1,409	3,475	43	-
Received during the year	(424)	(1,215)	(32)	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Outstanding at end of the year	996	2,260	11	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Reinsurance commission:</b>				
At the beginning of the year	328	-	-	-
Invoiced during the year	1,918	2,473	328	-
Received during the year	(1,422)	(121)	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Outstanding at the end of the year	824	2,352	328	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Deposit retained from reinsurance business</b>	-	(8,266)	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Interest on deposit retained from reinsurance business</b>	-	(28)	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### 1.38. Related parties (continued)

Key management personnel include Management Board members ("key management personnel"). Key management personnel have liability for loans and receivables to the Company in the amount of HRK 47 thousand (2009: HRK 155 thousand). During 2010 the Company realised HRK 1 thousand (2009: HRK 1 thousand) of interest income from loans to key management personnel with interest rates of 4.40% and 9%. Key management personnel expenses relate to short-term employee benefits.

Assets, liabilities, income and expense at and for the year ended 31 December 2010, arising from transactions with related parties, were as follows:

	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel (including remuneration)</i>	109	1,204	1	4,262
<i>Subsidiary</i>				
Hotel Voltino d.o.o.	409	-	-	-
<i>Parent company</i>				
VIG	-	4,385	-	4,385
<i>Related companies</i>				
VIG Re	1,820	4,217	3,327	9,590
VIG Holding	4,612	13,078	5,948	6,160
Kvarner Vienna Insurance Group d.d.	7	282	67	409
Kvarner Wiener Staedtische nekretnine d.o.o.	-	-	-	280
S.O.S. Expert d.o.o.	-	4	-	328
	<u>6,957</u>	<u>23,170</u>	<u>9,343</u>	<u>25,414</u>

Assets, liabilities, income and expense at and for the year ended 31 December 2009, arising from transactions with related parties, were as follows:

	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
<i>Key management personnel (including remuneration)</i>	155	101	1	1,414
<i>Subsidiary</i>				
Hotel Voltino d.o.o.	277	-	-	-
<i>Related companies</i>				
VIG Re	339	656	371	2,722
Kvarner Vienna Insurance Group d.d.	-	-	-	632
Kvarner Wiener Staedtische nekretnine d.o.o.	-	-	-	137
Cosmopolitan Life Vienna Insurance Group d.d.	-	-	-	150
	<u>771</u>	<u>757</u>	<u>372</u>	<u>5,055</u>

## **1.39. Financial Risk Management**

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

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

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

### **Market risk**

Market risk includes three types of risk:

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

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

### **Asset/liability matching**

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

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

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

### **Interest rate risk**

The Company's exposure to market risk for changes in interest rates is concentrated in its investment portfolio. The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in different amounts. The Company is also exposed to the risk of changes in future cash flows arising from the changes in market interest rates. This risk is, however, limited considering that the majority of the Company's interest bearing investments at the reporting date bear fixed interest rates.



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

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

The Company is presently contractually committed to accrue interest at rates of 2.5% to 7% per annum on premiums paid under life assurance policies for distribution to policyholders upon maturity of such policies and is currently not able to hedge the future interest rate on assets invested to meet those future liabilities.

Note 1.41 discloses the effective interest rates and repricing analysis of financial assets of the Company at 31 December 2010 and 31 December 2009.

At 31 December 2010, if market interest rates would increase by 25 basis points with all other variables held constant, the Company's post tax result for the year would be HRK 1,343 thousand higher and the fair value reserve in other comprehensive income would be HRK 449 thousand higher. As at 31 December 2010, if market interest rates would decrease by 25 basis points with all other variables held constant the Company's post tax profit for the year would be HRK 1,343 thousand lower and the fair value reserve in other comprehensive income would be HRK 449 thousand lower.

### **Price risk**

The Company'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 Company invests directly into shares, which are the main source of price risk, however its investment in shares at the reporting date is not significant.

The Company's holdings are limited by parameters established by senior management, as well as by regulatory and statutory requirements.

The 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, variables had to be changed on an individual basis.

Exposure to the risk of a falling equity market is present only through investing into three direct shares. The portfolio of equity securities amounts to HRK 2,107 thousand (2009: HRK 2,460 thousand) which represents fair value of this portfolio. Assuming that the value of Company's portfolio moves equally as the CROBEX index the change in CROBEX of 3% would result in the change of the portfolio value and the result for the year of HRK 63 thousand (2009: HRK 74 thousand).

## 1.39. Financial risk management (continued)

### Foreign exchange risk

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

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

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

Note 1.42 discloses the currency analysis of the Company's financial assets at 31 December 2010 and 31 December 2009.

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.

Since there are only two currencies in the portfolio, only the foreign exchange rates that include Euro and kuna are analysed. The EUR/HRK rate is targeted in an interval of between 7.20 HRK for 1 EUR and 7.50 HRK for 1 EUR. The EUR/HRK rate has most of the time in the past been within that interval. A 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%	17,220	2,332

	Change in variables	Impact on result 2009 HRK'000	Impact on result 2009 EUR'000
EUR / HRK rate	4.00%	17,021	2,330

### Credit risk

The Company's portfolios of fixed income securities, mortgage loans and deposits with banks are subject to credit risk. This risk is defined as the potential loss in market value resulting from adverse changes in a borrower's ability to repay the debt.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all policyholders and collateral is secured prior to the disbursement or extension of approved policyholder loans. Collateral is as prescribed by the Insurance Law.

### 1.39. Financial risk management (continued)

#### Credit risk (continued)

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

	<b>31 December 2010 HRK'000</b>	Restated 31 December 2009 HRK'000
Government debt securities	654,288	276,931
Accrued interest thereon	10,598	4,387
	<u>664,886</u>	<u>281,318</u>

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

#### 2010

	AAA – A HRK'000	BBB – B HRK'000	Investments for the benefit of index-linked life assurance HRK'000	Not rated HRK'000	Total HRK'000
Available-for-sale financial assets					
Debt securities	-	704,576	-	1,000	705,576
Financial assets at fair value through profit or loss					
Debt securities	10,592	-	-	491	11,083
Investments for the benefit of index linked life assurance					
Index linked	-	-	18,474	-	18,474
Loans and receivables					
Deposits with banks			-	40,350	40,350
Loans to customers			-	63,578	63,578
Interest receivable	-	11,752	-	9,781	21,533
Insurance and other receivables, without interest receivables	17,341	-	-	14,126	31,467
Cash and cash equivalents	-	-	-	2,142	2,142
<b>Total exposure to credit risk</b>	<u>27,933</u>	<u>716,328</u>	<u>18,474</u>	<u>131,468</u>	<u>894,203</u>



## 1.39. Financial risk management (continued)

### Credit risk (continued)

2009, restated

	AAA – A HRK'000	BBB – B HRK'000	Investments for the benefit of index- linked life assurance HRK'000	Not rated HRK'000	Total HRK'000
Available-for-sale financial assets					
Debt securities	-	282,149	-	988	283,137
Financial assets at fair value through profit or loss					
Debt securities	5,235	21,941	-	485	27,661
Investments for the benefit of index linked life assurance					
Index linked	-	-	9,226	-	9,226
Loans and receivables					
Deposits with banks	-	-	-	84,681	84,681
Loans to customers	-	-	-	49,085	49,085
Interest receivable	-	4,956	-	3,165	8,121
Insurance and other receivables, without interest receivables	9,589	-	-	15,207	24,796
Cash and cash equivalents	-	-	-	1,678	1,678
<b>Total exposure to credit risk</b>	<b>14,824</b>	<b>309,046</b>	<b>9,226</b>	<b>155,289</b>	<b>488,385</b>

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

The following table provides information on the reinsurers of the Company as of 31 December 2010. The Management believes that the Company is not significantly exposed to credit risk from reinsurance receivables as of 31 December 2010 due to solid credit ratings of the reinsurers.

#### Reinsurers as of 31 December 2010

#### Credit rating (Standard&Poor's)

VIG Re	A+
VIG Holding	A+
Sava Re	A-
Swiss Re	A+
Basler Re	A-

## 1.39. Financial risk management (continued)

### Ageing analysis

	Past due but not impaired			Total past due but not impaired HRK'000	Past due and impaired HRK'000	Total HRK'000
	< 90 days HRK'000	90 – 180 days HRK'000	> 180 days HRK'000			
<b>2010</b>						
Loans to customers	1,257	192	11,957	13,406	9,917	23,323
Premium receivables	2,454	517	-	2,971	4,371	7,342
Reinsurance receivables	14,570	-	-	14,570	-	14,570
<b>Total</b>	<b>18,281</b>	<b>709</b>	<b>11,957</b>	<b>30,947</b>	<b>14,288</b>	<b>45,235</b>
<b>2009</b>						
Loans to customers	2,110	174	12,456	14,740	9,014	23,754
Premium receivables	3,404	343	-	3,747	2,900	6,647
Reinsurance receivables	9,589	-	-	9,589	-	9,589
<b>Total</b>	<b>15,103</b>	<b>517</b>	<b>12,456</b>	<b>28,076</b>	<b>11,914</b>	<b>39,990</b>

Out of past due but not impaired loans of HRK 13,406 thousand (2009: HRK 14,740 thousand), HRK 11,972 thousand (2009: HRK 12,952 thousand) is secured by mortgages on real estate, HRK 1,404 thousand (2009: HRK 1,701 thousand) is secured by the redemption value of life assurance policies, and HRK 30 thousand (2009: HRK 77 thousand) is not secured. Other past due receivables are not secured by collateral.

### Liquidity risk

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

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

Note 1.40 discloses the maturity analysis of the Company's financial assets at 31 December 2010 and 31 December 2009.

Note 1.23 discloses the maturity analysis of 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 reporting date. Loans and receivables are measured at amortised cost less impairment.

The market value of loans and receivables with residual maturities of less than 12 months approximates book value due to their short remaining maturities. The carrying value of loans and receivables with remaining maturities over 12 months and fixed rates is not significant at the reporting date.

Financial assets available for sale are measured at fair value based on quoted bid prices at the reporting date.

## 1.39. Financial risk management (continued)

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

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

	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
<b>31 December 2010</b>				
Available-for-sale financial assets				
Debt securities	631,676	73,900	-	705,576
Financial assets at fair value through profit or loss				
Debt securities	10,592	491	-	11,083
Equity securities	1,447	660	-	2,107
Investment funds	15,367	-	-	15,367
Investments for the benefit of index-linked life assurance	18,474	-	-	18,474
<b>Total financial assets</b>	<b>677,556</b>	<b>75,051</b>	<b>-</b>	<b>752,607</b>
<b>31 December 2009</b>				
Available-for-sale financial assets				
Debt securities	231,196	51,941	-	283,137
Financial assets at fair value through profit or loss				
Debt securities	9,816	17,845	-	27,661
Equity securities	1,372	1,088	-	2,460
Investment funds-	32,440	-	-	32,440
Investments for the benefit of index-linked life assurance	9,226	-	-	9,226
<b>Total financial assets</b>	<b>284,050</b>	<b>70,874</b>	<b>-</b>	<b>354,924</b>

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.



## 1.40. Maturity analysis

The tables below analyse the financial assets within the scope of IAS 39 of 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. Estimated remaining contractual maturities of insurance provisions are analysed in Note 1.23 g.

### 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
<b>Financial assets</b>						
Available-for-sale financial assets						
Debt securities	23,149	-	119,457	168,337	394,633	705,576
Financial assets at fair value through profit or loss						
Debt securities	491	-	-	-	10,592	11,083
Equity securities	2,107	-	-	-	-	2,107
Investment funds	15,367	-	-	-	-	15,367
Investments for the benefit of index- linked life assurance						
Index-linked	-	-	-	-	18,474	18,474
Loans and receivables						
Deposits with banks	-	10,350	30,000	-	-	40,350
Loans to customers	18,565	4,682	4,881	8,001	27,449	63,578
Cash and cash equivalents	2,142	-	-	-	-	2,142
<b>Total financial assets</b>	<b>61,821</b>	<b>15,032</b>	<b>154,338</b>	<b>176,338</b>	<b>451,148</b>	<b>858,677</b>

### 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
<b>Financial assets</b>						
Available-for-sale financial assets						
Debt securities	5,470	-	4,498	152,657	120,512	283,137
Financial assets at fair value through profit or loss						
Debt securities	485	17,360	-	4,581	5,235	27,661
Equity securities	2,460	-	-	-	-	2,460
Investment funds	32,440	-	-	-	-	32,440
Investments for the benefit of index- linked life assurance						
Index-linked	-	-	-	-	9,226	9,226
Loans and receivables						
Deposits with banks	25,508	59,173	-	-	-	84,681
Loans to customers	24,427	3,992	7,793	6,877	5,996	49,085
Cash and cash equivalents	1,678	-	-	-	-	1,678
<b>Total financial assets</b>	<b>92,468</b>	<b>80,525</b>	<b>12,291</b>	<b>164,115</b>	<b>140,969</b>	<b>490,368</b>

## 1.41. Interest rate repricing analysis

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

The tables are management's estimate of the interest rate risk for the Company as at 31 December 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 1.23 (d)), provide some indication of the sensitivities of the Company's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity. The Company has a significant proportion of interest-earning assets and interest-bearing liabilities in foreign currency.

### 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
<b>Financial assets</b>									
Available-for-sale financial assets									
Debt securities	5.96	23,149	-	119,457	168,337	394,633	-	705,576	705,576
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	-	11,083	11,083	-
Equity securities	n/a	-	-	-	-	-	2,107	2,107	-
Investment funds	n/a	-	-	-	-	-	15,367	15,367	-
Investments for the benefit of index-linked life assurance									
Index-linked	n/a	-	-	-	-	-	18,474	18,474	-
Loans and receivables									
Deposits with banks	9.37	-	10,350	30,000	-	-	-	40,350	40,350
Loans to customers	7.91	18,565	4,682	4,881	8,001	27,449	-	63,578	43,732
Cash and cash equivalents	0.50	2,113	-	-	-	-	29	2,142	-
<b>Total financial assets</b>		<b>43,827</b>	<b>15,032</b>	<b>154,338</b>	<b>176,338</b>	<b>422,082</b>	<b>47,060</b>	<b>858,677</b>	<b>789,658</b>

## 1.41. Interest rate repricing analysis (continued)

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
<b>Financial assets</b>									
Available-for-sale financial assets									
Debt securities	5.41	5,470	-	4,498	152,657	120,512	-	283,137	283,137
Financial assets at fair value through profit or loss									
Debt securities	6.86	485	17,360	-	4,581	-	5,235	27,661	22,426
Equity securities	n/a	-	-	-	-	-	2,460	2,460	-
Investment funds	n/a	-	-	-	-	-	32,440	32,440	-
Investments for the benefit of index-linked life assurance									
Index-linked	n/a	-	-	-	-	-	9,226	9,226	-
Loans and receivables									
Deposits with banks	7.02	25,508	59,173	-	-	-	-	84,681	84,681
Loans to customers	7.79	24,427	3,992	7,793	6,877	5,996	-	49,085	49,085
Cash and cash equivalents	0.50	1,655	-	-	-	-	23	1,678	-
<b>Total financial assets</b>		<b>57,545</b>	<b>80,525</b>	<b>12,291</b>	<b>164,115</b>	<b>126,508</b>	<b>49,384</b>	<b>490,368</b>	<b>439,329</b>

## 1.42. Currency risk analysis

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

2010	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>						
Available-for-sale financial assets						
Debt securities	80,473	272,220	352,693	-	352,883	705,576
Financial assets at fair value through profit or loss						
Debt securities	10,592	491	11,083	-	-	11,083
Equity securities	-	-	-	-	2,107	2,107
Investment funds	-	5,327	5,327	-	10,040	15,367
Investments for the benefit of index-linked life assurance						
Index-linked	18,474	-	18,474	-	-	18,474
Loans and receivables						
Deposits with banks	-	-	-	-	40,350	40,350
Loans to customers	-	42,873	42,873	-	20,705	63,578
Cash and cash equivalents	39	-	39	12	2,091	2,142
<b>Total financial assets</b>	<b>109,578</b>	<b>320,911</b>	<b>430,489</b>	<b>12</b>	<b>428,176</b>	<b>858,677</b>



## 1.42. Currency risk analysis (continued)

2009	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	USD HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>						
Available-for-sale financial assets						
Debt securities	65,517	211,162	276,679	-	6,458	283,137
Financial assets at fair value through profit or loss						
Debt securities	5,235	22,426	27,661	-	-	27,661
Equity securities	-	-	-	-	2,460	2,460
Investment funds	-	1,002	1,002	-	31,438	32,440
Investments for the benefit of index-linked life assurance						
Index-linked	9,226	-	9,226	-	-	9,226
Loans and receivables						
Deposits with banks	24,922	38,254	63,176	-	21,505	84,681
Loans to customers	-	47,521	47,521	-	1,564	49,085
Cash and cash equivalents	262	-	262	46	1,370	1,678
<b>Total financial assets</b>	<b>105,162</b>	<b>320,365</b>	<b>425,527</b>	<b>46</b>	<b>64,795</b>	<b>490,368</b>

## 1.43. Contingent assets and liabilities

### *Off-balance sheet accounts*

The Company had a performance guarantee in the amount of HRK 20 thousand held off-balance sheet as at 31 December 2010 (2009: -).

### *Capital liabilities*

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

### *Litigations and claims*

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

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

### Statement of financial position (balance sheet) 31.12.2010.

in HRK

Position no.	Sum elements	Position code	Position description	1 January 2009			Previous business period			Current business period		
				Life	Non life	Total	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		821,774	821,774		698,705	698,705	210,418	516,816	727,234
005		1	Goodwill									
006		2	Other intangible assets		821,774	821,774		698,705	698,705	210,418	516,816	727,234
007	008+009+010	C	TANGIBLE ASSETS		33,625,747	33,625,747		32,043,164	32,043,164	14,403,904	33,413,815	47,817,719
008		1	Land and buildings intended for company business operations		30,406,116	30,406,116		29,107,935	29,107,935	13,185,694	30,980,762	44,166,456
009		2	Equipment		3,219,631	3,219,631		2,648,941	2,648,941	1,105,599	2,132,440	3,238,038
010		3	Other tangible assets and stock					286,288	286,288	112,611	300,613	413,225
011	012+013+017+036	D	INVESTMENTS	352,164,583	104,823,270	456,987,854	407,079,229	86,942,812	494,022,041	772,778,710	88,758,180	861,536,890
012		I	Investments in land and buildings not intended for company business operations	11,163,324		11,163,324	10,557,562		10,557,562	20,475,386		20,475,386
013	014+015+016	II	Investments in subsidiaries, associates and joint ventures		5,135,000	5,135,000		4,000,000	4,000,000		3,000,000	3,000,000
014		1	Shares and stakes in subsidiaries									
015		2	Shares and stakes in associates		5,135,000	5,135,000		4,000,000	4,000,000		3,000,000	3,000,000
016		3	Joint venture participation									
017	018+021+026+032	III	Other financial investments	341,001,259	99,688,270	440,689,529	396,521,668	82,942,812	479,464,480	752,303,323	85,758,180	838,061,504



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

### Statement of financial position (balance sheet) 31.12.2010.

in HRK

#### ASSETS

Position no.	Sum elements	Position code	Position description	1 January 2009			Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total	Life	Non life	Total
018	019+020	1	Investments held-to-maturity									
019		1.1	Debt securities and other securities with fixed revenue									
020		1.2	Other investments held to maturity									
021	022+023+024+025	2	Investments available-for-sale	193,038,606	19,037,032	212,075,638	255,981,532	27,155,152	283,136,684	631,712,910	73,863,189	705,576,099
022		2.1	Shares, stakes and other securities with variable revenue									
023		2.2	Debt securities and other securities with fixed revenue	193,038,606	19,037,032	212,075,638	255,981,532	27,155,152	283,136,684	631,712,910	73,863,189	705,576,099
024		2.3	Investment fund units									
025		2.4	Other investments available for sale									
026	027+028+029+030+031	3	Investments at fair value through profit and loss account	55,972,204	34,452,611	90,424,816	32,663,559	29,897,901	62,561,461	21,432,902	7,124,279	28,557,182
027		3.1	Shares, stakes and other securities with variable revenue		2,065,500	2,065,500		2,460,700	2,460,700		2,106,900	2,106,900
028		3.2	Debt securities and other securities with fixed revenue	7,399,373		7,399,373	27,660,882		27,660,882	11,082,641		11,082,641
029		3.3	Derivative financial instruments									
030		3.4	Investment fund units	48,572,831	32,387,111	80,959,943	5,002,678	27,437,202	32,439,880	10,350,262	5,017,379	15,367,641
031		3.5	Other investments									
032	033+034+035	4	Deposits, loans and receivables	91,990,449	46,198,627	138,189,075	107,876,576	25,889,759	133,766,334	99,157,511	4,770,712	103,928,223
033		4.1	Deposits with credit institutions (banks)	66,482,117	26,602,105	93,084,222	63,175,907	21,505,766	84,681,673	36,000,000	4,350,000	40,350,000
034		4.2	Loans	25,508,332	18,963,857	44,472,189	25,830,554	3,560,194	29,390,748	43,089,950		43,089,950
035		4.3	Other loans and receivables		632,665	632,665	18,870,115	823,798	19,693,914	20,067,561	420,712	20,488,273



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

### Statement of financial position (balance sheet) 31.12.2010.

in HRK

#### ASSETS

Position no.	Sum elements	Position code	Position description	1 January 2009			Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total	Life	Non life	Total
036		IV	Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)									
037		E	INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS	488,900		488,900	9,225,754		9,225,754	18,473,596		18,473,596
038	039+040+041+042+043+044+045	F	REINSURANCE SHARE IN TECHNICAL PROVISIONS	1,198,681	42,155,784	43,354,465	550,092	33,465,579	34,015,672	810,557	44,350,291	45,160,848
039		1	Unearned premiums, reinsurance share	160,396	8,373,853	8,534,250	130,341	7,196,378	7,326,719		11,308,191	11,308,191
040		2	Mathematical provision, reinsurance share									
041		3	Provision for claims outstanding, reinsurance share	1,038,285	33,781,931	34,820,215	419,751	26,269,201	26,688,952	810,557	33,042,101	33,852,657
042		4	Provisions for return of premiums depending and not depending on the result (bonuses and rebates), reinsurance share									
043		5	Equalisation provisions, reinsurance share									
044		6	Other insurance technical provisions, reinsurance share									
045		7	Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share									
046	047+048	G	DEFERRED AND CURRENT TAX ASSET							12,764	82,443	95,206
047		1	Deferred tax asset							12,764	82,443	95,206
048		2	Current tax asset									
049	050+053+054	H	RECEIVABLES	5,653,070	23,396,767	29,049,838	12,164,163	20,641,485	32,805,648	24,466,939	28,392,576	52,859,515
050	051+052	I	Receivables from direct insurance business	84,013	6,929,655	7,013,668	201,951	9,725,743	9,927,693	382,728	9,562,069	9,944,797
051		I.1	From policyholders	84,013	6,929,655	7,013,668	201,951	9,725,743	9,927,693	382,728	9,562,069	9,944,797
052		I.2	From insurance agents, or insurance brokers									



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

### Statement of financial position (balance sheet) 31.12.2010.

in HRK

#### ASSETS

Position no.	Sum elements	Position code	Position description	1 January 2009			Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total	Life	Non life	Total
053		2	Receivables from co-insurance and reinsurance business	158,387	11,650,689	11,809,075	383,553	9,205,825	9,589,378	1,212,213	16,128,252	17,340,465
054	055+056+057	3	Other receivables	5,410,671	4,816,424	10,227,094	11,578,659	1,709,917	13,288,577	22,871,998	2,702,255	25,574,253
055		3.1	Receivables from other insurance business				1,742,314	898,375	2,640,689	2,206,800	103,947	2,310,747
056		3.2	Receivables for return on investments	4,235,589	2,038,448	6,274,037	7,380,890	739,769	8,120,659	19,873,358	1,660,112	21,533,471
057		3.3	Other receivables	1,175,082	2,777,975	3,953,057	2,455,456	71,773	2,527,229	791,840	938,196	1,730,035
058	059+063+064	1	OTHER ASSETS	14,685,441	-13,181,019	1,504,422	964,179	814,399	1,778,577	1,689,210	536,970	2,226,179
059	060+061+062	1	Cash at bank and in hand	729,784	774,638	1,504,422	964,179	713,554	1,677,732	1,689,210	452,871	2,142,081
060		1.1	Funds in the business account	529,179	759,711	1,288,890	547,378	691,205	1,238,583	1,294,490	430,157	1,724,647
061		1.2	Funds in the account of assets covering mathematical provision	200,605		200,605	416,801		416,801	388,282		388,282
062		1.3	Cash in hand		14,927	14,927		22,348	22,348	6,437	22,715	29,152
063		2	Long-term assets intended for sale and business cessation									
064		3	Other	13,955,657	-13,955,657			100,845	100,845		84,098	84,098
065	066+067+068	J	PREPAYMENTS AND ACCRUED INCOME		1,988,072	1,988,072		1,579,198	1,579,198		1,630,274	1,630,274
066		1	Deferred interest and rent									
067		2	Deferred acquisition costs		1,976,092	1,976,092		1,568,595	1,568,595		1,574,807	1,574,807
068		3	Other prepayments and accrued income		11,980	11,980		10,603	10,603		55,467	55,467
069	001+004+007+011+037+038+046+049+058+065	K	TOTAL ASSETS (A+B+C+D+E+F+G+H+I+J)	374,190,676	193,630,396	567,821,072	429,983,417	176,185,341	606,168,758	832,846,098	197,681,364	1,030,527,462
070		L	OFF BALANCE SHEET ITEMS								20,000	20,000



**Supplementary information prescribed by a Regulation of the Croatian Financial Services Supervisory Agency (continued)**  
**Statement of financial position (balance sheet) 31.12.2010.**

**EQUITY AND LIABILITIES**

Position no.	Sum elements	Position code	Position description	1 January 2009			Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total	Life	Non life	Total
071	072+076+077+081+085+088	A	CAPITAL AND RESERVES	6,857,771	29,637,077	36,494,847	59,972,664	27,630,544	87,603,208	134,312,762	29,838,721	164,151,483
072	073+074+075	1	Subscribed capital	22,500,000	22,502,700	45,002,700	22,500,000	22,502,700	45,002,700	22,500,000	22,502,700	45,002,700
073		1.1	Paid-up capital - ordinary shares	22,500,000	22,502,700	45,002,700	22,500,000	22,502,700	45,002,700	22,500,000	22,502,700	45,002,700
074		1.2	Paid-up capital - preference shares									
075		1.3	Called up capital									
076		2	Issued shares premiums (capital reserves)									
077	078+079+080	3	Revaluation reserve	-5,939,975	-235,829	-6,175,804	-126,077	466,358	340,281	9,871,957	-329,770	9,542,186
078		3.1	Land and buildings									
079		3.2	Financial investments	-5,939,975	-235,829	-6,175,804	-126,077	466,358	340,281	9,871,957	-329,770	9,542,186
080		3.3	Other revaluation reserves									
081	082+083+084	4	Reserves	22,533,424	16,164,205	38,697,629	54,790,671	7,201,983	61,992,654	68,565,407	4,493,264	73,058,671
082		4.1	Legally stipulated reserves	1,849,538	560,571	2,410,109	1,849,538	560,571	2,410,109	2,164,447	560,571	2,725,018
083		4.2	Statutory reserve									
084		4.3	Other reserve	20,683,886	15,603,634	36,287,520	52,941,134	6,641,411	59,582,545	66,400,960	3,932,692	70,333,653
085	086+087	5	Transferred (retained) profit or loss	1,183,291	168,223	1,351,513	-9,894,623	168,223	-9,726,401	26,381,698	168,223	26,549,921
086		5.1	Retained profit	1,183,291	168,223	1,351,513	1,183,291	168,223	1,351,513	26,381,698	168,223	26,549,921
087		5.2	Transferred loss (-)				-11,077,914		-11,077,914			
088	089+090	6	Profit or loss of the current accounting period	-33,418,969	-8,962,222	-42,381,191	-7,297,307	-2,708,719	-10,006,026	6,993,700	3,004,305	9,998,005
089		6.1	Profit of the current accounting period									
090		6.2	Loss of the current accounting period (-)	-33,418,969	-8,962,222	-42,381,191	-7,297,307	-2,708,719	-10,006,026	6,993,700	3,004,305	9,998,005
091		B	SUBORDINATED LIABILITIES									



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

## Statement of financial position (balance sheet) 31.12.2010.

### EQUITY AND LIABILITIES

Position no.	Sum elements	Position code	Position description	1 January 2009			Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total	Life	Non life	Total
092	093+094+095+096+097+098	C	TECHNICAL PROVISIONS	362,853,943	140,188,642	503,042,585	357,892,640	123,674,531	481,567,171	674,049,287	120,302,800	794,352,087
093		1	Unearned premiums, gross amount	1,035,509	32,669,857	33,705,367	939,497	27,153,448	28,092,944	1,067,371	25,034,396	26,101,767
094		2	Mathematical provision, gross amount	354,571,536		354,571,536	351,963,493		351,963,493	662,273,228		662,273,228
095		3	Provision for claims outstanding, gross amount	7,246,898	107,385,319	114,632,217	4,989,651	96,306,836	101,296,486	10,708,688	94,977,111	105,685,799
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		133,466	133,466		214,247	214,247		291,294	291,294
098		6	Other insurance technical provisions, gross amount									
099		D	LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount	488,900		488,900	9,225,754		9,225,754	18,473,596		18,473,596
100	101+102	E	OTHER RESERVES									
101		1	Provisions for pensions and similar liabilities									
102		2	Other provisions									
103	104+105	F	DEFERRED AND CURRENT TAX LIABILITY					116,590	116,590	2,467,989		2,467,989
104		1	Deferred tax liability					116,590	116,590	2,467,989		2,467,989
105		2	Current tax liability									
106		G	DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE								8,266,213	8,266,213



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

### Statement of financial position (balance sheet) 31.12.2010.

#### EQUITY AND LIABILITIES

Position no.	Sum elements	Position code	Position description	1 January 2009			Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total	Life	Non life	Total
107	108+109+110	H	FINANCIAL LIABILITIES									
108		1	Liabilities on the basis of loans									
109		2	Liabilities on the basis of issued securities									
110		3	Other financial liabilities									
111	112+113+114+115	I	OTHER LIABILITIES	3,835,307	15,940,995	19,776,302	2,748,936	16,734,796	19,483,732	3,514,858	26,576,100	30,090,958
112		1	Liabilities from direct insurance business	3,604,778	2,355,600	5,960,379	1,906,056	1,792,301	3,698,358	2,028,952	1,826,656	3,855,608
113		2	Liabilities from co-insurance and reinsurance business	229,554	12,918,393	13,147,947	711,374	12,936,119	13,647,493	1,449,337	13,518,263	14,967,600
114		3	Liabilities for sale and ceased business									
115		4	Other liabilities	975	667,002	667,977	131,506	2,006,375	2,137,881	36,569	11,231,181	11,267,749
116	117+118	J	ACCRUED EXPENSES AND DEFERRED INCOME	154,755	7,863,683	8,018,438	143,423	8,028,880	8,172,303	27,606	12,697,531	12,725,137
117		1	Deferred reinsurance commission	56,139	2,181,924	2,238,063	45,092	1,885,904	1,930,996		3,769,626	3,769,626
118		2	Other accrued expenses and deferred income	98,616	5,681,759	5,780,375	98,331	6,142,977	6,241,308	27,606	8,927,904	8,955,510
119	071+091+092+099+100+103+106+107+111+116	K	TOTAL LIABILITIES (A+B+C+D+E+F+G+H+I+J)	374,190,676	193,630,396	567,821,072	429,983,417	176,185,341	606,168,758	832,846,098	197,681,364	1,030,527,462
120		L	OFF BALANCE SHEET ITEMS								20,000	20,000



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

**Statement of comprehensive income (income statement) 01.01.2010.- 31.12.2010.**

*in HRK*

Position no.	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
<b>001</b>	002+003+004+005+006+007+008+009	<b>I</b>	<b>Earned premiums (recognized in revenue)</b>	<b>52,865,106</b>	<b>40,252,172</b>	<b>93,117,278</b>	<b>88,049,757</b>	<b>29,563,648</b>	<b>117,613,405</b>
002		1	Written gross premiums	52,805,230	46,990,778	99,796,008	89,955,938	46,232,480	136,188,418
003		2	Co-insurance premiums		232,199	232,199		175,542	175,542
004		3	Value adjustment and charged adjustment of insurance/co-insurance premium value	1,044,887	1,356,443	2,401,331		-1,204,402	-1,204,402
005		4	Premiums ceded to reinsurance (-)	-1,050,969	-12,666,182	-13,717,152	-1,819,870	-21,870,836	-23,690,706
006		5	Premiums ceded to co-insurance (-)						
007		6	Change in gross provisions for unearned premiums (+/-)	96,013	5,516,409	5,612,422	44,029	2,119,052	2,163,082
008		7	Change in provisions for unearned premiums, reinsurance share (+/-)	-30,055	-1,177,475	-1,207,531	-130,341	4,111,813	3,981,472
009		8	Change in provisions for unearned premiums, co-insurance share (+/-)						
<b>010</b>	011+012+016+017+018+022+023	<b>II</b>	<b>Income from investments</b>	<b>27,402,175</b>	<b>7,928,133</b>	<b>35,330,308</b>	<b>46,430,983</b>	<b>7,407,396</b>	<b>53,838,379</b>
011		1	Income from subsidiaries, associates and joint ventures						
012	013+014+015	2	Income from investment in land and buildings	402,231		402,231	1,485,054		1,485,054
013		2.1	Income from rent	402,231		402,231	657,373		657,373
014		2.2	Income from increased value of land and buildings						
015		2.3	Income from sale of land and buildings				827,681		827,681
016		3	Interest income	21,021,783	4,281,756	25,303,538	34,704,326	4,560,993	39,265,319
017		4	Unrealized profits from investment valued at fair value through profit and loss account	1,128,813	974,352	2,103,165	1,258,156	75,931	1,334,087
018	019+020+021	5	Profits from sale (realization) of financial investments	3,451,960	832,133	4,284,093	3,282,948	1,686,270	4,969,219
019		5.1	Investment valued at fair value through profit and loss account	3,451,960	832,133	4,284,093	1,764,338	368,028	2,132,366
020		5.2	Investments available-for-sale				1,518,610	1,318,242	2,836,852
021		5.3	Other profits from sale of financial investments						
022		6	Net positive exchange rate differentials	1,393,895	722,156	2,116,051	5,594,021	377,325	5,971,346
023		7	Other investment profits	3,493	1,117,736	1,121,228	106,478	706,876	813,354
<b>024</b>		<b>III</b>	<b>Income from commissions and fees</b>	<b>264,542</b>	<b>2,520,165</b>	<b>2,784,707</b>	<b>1,090,261</b>	<b>5,174,906</b>	<b>6,265,168</b>
<b>025</b>		<b>IV</b>	<b>Other insurance-technical income, net of reinsurance</b>	<b>47,260</b>	<b>191,468</b>	<b>238,729</b>	<b>78,959</b>	<b>151,391</b>	<b>230,349</b>
<b>026</b>		<b>V</b>	<b>Other income</b>	<b>362,715</b>	<b>1,181,314</b>	<b>1,544,029</b>	<b>186,228</b>	<b>265,495</b>	<b>451,723</b>



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

### Statement of comprehensive income (income statement) 01.01.2010.- 31.12.2010.

*in HRK*

Position no.	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
027	028+032	VI	Expenditures for insured events, net	-50,724,016	-24,860,087	-75,584,103	-63,021,802	-14,458,537	-77,480,340
028	029+030+031	1	Settled claims	-52,362,729	-28,425,841	-80,788,570	-61,914,707	-22,561,161	-84,475,868
029		1.1	Gross amount (-)	-52,753,607	-37,152,821	-89,906,429	-62,174,520	-33,809,477	-95,983,997
030		1.2	Co-insurer share (+)						
031		1.3	Reinsurer share(+)	390,878	8,726,980	9,117,859	259,813	11,248,316	11,508,129
032	033+034+035	2	Change in provisions for claims outstanding (+/-)	1,638,713	3,565,754	5,204,467	-1,107,096	8,102,624	6,995,528
033		2.1	Gross amount (-)	2,257,247	11,078,483	13,335,730	-1,280,713	1,329,725	49,011
034		2.2	Co-insurer share (+)						
035		2.3	Reinsurer share(+)	-618,534	-7,512,729	-8,131,263	173,618	6,772,899	6,946,517
036	037+040	VII	Change in other technical provisions, net of reinsurance	2,608,043	-80,781	2,527,261	-4,271,546	-77,046	-4,348,593
037	038+039	1	Change in mathematical provision (+/-)	2,608,043		2,608,043	-4,271,546		-4,271,546
038		1.1	Gross amount (-)	2,608,043		2,608,043	-4,271,546		-4,271,546
039		1.2	Reinsurer share(+)						
040	041+042+043	2	Change in other technical provisions, net of reinsurance (+/-)		-80,781	-80,781		-77,046	-77,046
041		1.1	Gross amount (-)		-80,781	-80,781		-77,046	-77,046
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 (+/-)	-8,736,854		-8,736,854	-5,014,424		-5,014,424
045		1	Gross amount (-)	-8,736,854		-8,736,854	-5,014,424		-5,014,424
046		2	Co-insurer share (+)						
047		3	Reinsurer share(+)						
048	049+050	IX	Expenditures for return of premium (bonuses and rebates), net of reinsurance						
049		1	Depending on the result (bonuses)						
050		2	Not depending on the result (rebates)						
051	052+056	X	Business expenditures (for business operations), net	-26,570,627	-21,419,696	-47,990,323	-51,694,581	-19,899,974	-71,594,555
052	053+054+055	1	Acquisition costs	-4,277,934	-4,302,131	-8,580,065	-9,671,000	-3,297,445	-12,968,445
053		1.1	Commission	-3,235,154	-3,192,606	-6,427,759	-7,829,589	-2,622,380	-10,451,968
054		1.2	Other acquisition costs	-1,042,780	-702,027	-1,744,808	-1,841,411	-681,278	-2,522,689
055		1.3	Change in deferred acquisition costs (+/-)		-407,498	-407,498		6,212	6,212
056	057+058+059	2	Administration costs	-22,292,693	-17,117,565	-39,410,259	-42,023,581	-16,602,529	-58,626,110
057		2.1	Depreciation of tangible assets	-1,558,576	-1,224,596	-2,783,172	-1,790,058	-510,155	-2,300,212
058		2.3.	Salaries, taxes and contributions to and from salaries	-12,616,166	-9,912,702	-22,528,868	-23,084,590	-8,538,136	-31,622,727
059		2.4.	Other administration costs	-8,117,951	-5,980,268	-14,098,220	-17,148,933	-7,554,239	-24,703,171



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

### Statement of comprehensive income (income statement) 01.01.2010.- 31.12.2010.

*in HRK*

Position no.	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
060	061+062+063+064+065+066+067	XI	Investment expenses	-4,644,912	-4,122,305	-8,767,217	-4,622,356	-1,593,644	-6,216,001
061		1	Depreciation (buildings not intended for business operations of the company)	-577,203		-577,203	-277,677		-277,677
062		2	Interest						
063		3	Investment value adjustment (reduction)	-714,002	-3,121,845	-3,835,846	-1,389,555	-1,338,000	-2,727,555
064		4	Losses from sale (realization) of financial assets		-1,740	-1,740	-144,757	-95,281	-240,039
065		5	Adjustment of financial assets at fair value through profit and loss account						
066		6	Net negative exchange rate differences	-3,080,075	-973,947	-4,054,022	-983,040	-102,146	-1,085,186
067		7	Other investment expenses	-273,632	-24,773	-298,405	-1,827,327	-58,217	-1,885,545
068	069+070	XII	Other technical expenses, net of reinsurance	-170,740	-3,423,447	-3,594,186	-217,778	-3,527,812	-3,745,590
069		1	Expenses for preventive operations						
070		2	Other technical expenses of insurance	-170,740	-3,423,447	-3,594,186	-217,778	-3,527,812	-3,745,590
071		XIII	Other expenses including value adjustments		-875,655	-875,655		-1,517	-1,517
072	001+010+024+025+026+027+036+044+048+051+060+068+071	XIV	Profit or loss of the accounting period before taxation (+/-)	-7,297,307	-2,708,719	-10,006,026	6,993,700	3,004,305	9,998,005
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 (+/-)	-7,297,307	-2,708,719	-10,006,026	6,993,700	3,004,305	9,998,005
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	80,941,798	52,073,252	133,015,051	135,836,188	42,562,836	178,399,024
080	027+036+044+048+051+060+068+071+074	XVIII	TOTAL EXPENDITURE	-88,239,105	-54,781,971	-143,021,076	-128,842,488	-39,558,530	-168,401,019



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

### Statement of comprehensive income (income statement) 01.01.2010.- 31.12.2010.

*in HRK*

Position no.	Elements of sum	Position code	Position description	Previous business period			Current business period		
				Life	Non life	Total	Life	Non life	Total
081	082+083+084 +085+086+087+088+089	XIX	Other comprehensive income	5,813,898	702,187	6,516,085	1,954,030	-796,129	1,157,901
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	5,813,898	818,776	6,632,674	2,246,525	-995,161	1,251,364
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		-116,590	-116,590	-292,495	199,032	-93,463
090	076+081	XX	Total comprehensive income	-1,483,409	-2,006,532	-3,489,941	8,947,730	2,208,177	11,155,906
091		1	Attributable to owners of the parent	-1,483,409	-2,006,532	-3,489,941	8,947,730	2,208,177	11,155,906
092		2	Attributable to non-controlling interests						
093		XXI	Reclassification adjustments						



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

### STATEMENT OF CASH FLOW (INDIRECT METHOD) for period 01.01.2010. - 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	<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>-15,263,060</b>	<b>-26,243,931</b>
002	003+004	1	<b>Cash flow before the change in assets and liabilities</b>	<b>-33,112,610</b>	<b>-32,266,972</b>
003		1.1	Profit/loss before taxation	9,998,005	-10,006,026
004	005+006+007 +008+009+010 +011+012	1.2	Adjustments	-43,110,615	-22,260,946
005		1.2.1	Depreciation of real estate and equipment	2,189,545	3,113,886
006		1.2.2	Depreciation of intangible assets	325,375	246,489
007		1.2.3	Value impairment and profits/losses on reduction to fair value	-8,221,873	611,701
008		1.2.4	Interest expense	244,910	
009		1.2.5	Interest income	-39,265,319	-25,303,538
010		1.2.6	Shares in profit of associated companies		
011		1.2.7	Profits/losses on sale of tangible assets (including land and buildings)	-67,514	-205,001
012		1.2.8	Other adjustments	1,684,260	-724,483
013	014+015+...+03 0	2	<b>Increase/decrease in assets and liabilities</b>	<b>17,849,551</b>	<b>6,445,769</b>
014		2.1	Increase/decrease in investments available-for-sale		
015		2.2	Increase/decrease in investment valued at fair value through profit and loss account		
016		2.3	Increase/decrease in deposits, loans and receivables		
017		2.4	Increase/decrease of deposits in insurance business ceded to reinsurance		
018		2.5	Increase/decrease in investments for the account and risk of life assurance policyholders		
019		2.6	Increase/decrease in reinsurance share in technical provisions	-10,927,989	9,338,794
020		2.7	Increase/decrease in tax assets	-82,443	
021		2.8	Increase/decrease in receivables	2,815,194	-694,328
022		2.9	Increase/decrease in other assets	16,747	-924,811
023		2.10	Increase/decrease in prepayments and accrued income	-51,076	408,875
024		2.11	Increase/decrease in technical provisions	2,136,500	-10,397,500
025		2.12	Increase decrease in life assurance technical provisions where the policyholder bears the investment risk	5,014,424	8,736,854
026		2.13	Increase/decrease in tax liabilities	175,905	116,590
027		2.14	Increase/decrease in deposits retained from business ceded to reinsurance	8,266,213	
028		2.15	Increase/decrease in financial liabilities		
029		2.16	Increase/decrease in other liabilities	7,309,690	-292,570
030		2.17	Increase/decrease in accruals and deferred income	3,176,385	153,865
031		3	<b>Paid profit tax</b>		<b>-422,728</b>



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

### 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
<b>032</b>	<b>033+034+...+046</b>	<b>II</b>	<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>15,698,956</b>	<b>-28,181,061</b>
033		1	Inflows from sale of tangible assets	21,000	409,670
034		2	Outflows for purchase of tangible assets	-1,942,061	-932,349
035		3	Inflows from sale of intangible assets		
036		4	Outflows for purchase of intangible assets	-86,009	-233,901
037		5	Inflows from sale of land and buildings not intended for business operations of the company	827,681	
038		6	Outflows for purchase of land and buildings not intended for business operations of the company	-241,411	-226,420
039		7	Increase/decrease in investments in subsidiaries, associates and joint ventures		
040		8	Inflows from investments held to maturity	101,305,598	295,177,445
041		9	Outflows for investments held to maturity	-6,000,000	-302,900,916
042		10	Inflows from sale of securities and stakes	264,392,818	115,127,919
043		11	Outflows for investments in securities and stakes	-350,393,145	-145,190,492
044		12	Inflows from dividends and shares in profit	172,399	152,639
045		13	Inflows on the basis of payment of given short-term and long-term loans	31,953,916	40,426,058
046		14	Outflows for given short-term and long-term loans	-24,311,831	-29,990,714
<b>047</b>	<b>048+049+050+051+052</b>	<b>III</b>	<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>54,598,302</b>
048		1	Cash inflows on the basis of initial capital increase		54,598,302
049		2	Cash inflows from received short-term and long-term loans		
050		3	Cash outflows for payment of received short-term and long-term loans		
051		4	Cash outflows for repurchase of own shares		
052		5	Cash outflows for payment of dividends		
<b>053</b>	<b>001+032+047</b>		<b>NET CASH FLOW</b>	<b>435,896</b>	<b>173,310</b>
<b>054</b>		<b>IV</b>	<b>EFFECTS OF CHANGES IN EXCHANGE RATES FOR FOREIGN CURRENCIES ON CASH AND CASH EQUIVALENTS</b>	<b>28,453</b>	
<b>055</b>	<b>053+054</b>	<b>V</b>	<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>464,349</b>	<b>173,310</b>
056		1	Cash and cash equivalents at the beginning of the period	1,677,732	1,504,422
<b>057</b>	<b>055+056</b>	<b>2</b>	<b>Cash and cash equivalents at the end of the period</b>	<b>2,142,081</b>	<b>1,677,732</b>



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

## 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						Profit/loss of the current year	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					
I.	Balance as at 1 January of previous year	45,002,700		-6,175,804	38,697,629	-29,951,763			47,572,762		
1.	Changes in accounting policies										
2.	Correction of errors from previous periods					-11,077,914			-11,077,914		
II.	Balance as at 1 January of previous year (corrected)	45,002,700		-6,175,804	38,697,629	-41,029,677			36,494,848		
III.	Comprehensive income/loss of the previous year			6,516,085				-10,006,026	-3,489,941		
1.	Profit or loss of the period							-10,006,026	-10,006,026		
2.	Other comprehensive income or loss of the previous year			6,516,085					6,516,085		
2.1.	Unrealised gains or losses from tangible assets (land and buildings)										
2.2.	Unrealised gains or losses from financial assets available for sale			6,516,085					6,516,085		
2.3.	Realised gains or losses from financial assets available for sale										
2.4.	Other non-owner changes in equity										
IV.	Transactions with owners (previous period)										
1.	Increase/decrease in subscribed capital				23,295,025	31,303,277			54,598,302		
2.	Other payments by owners				-31,303,277	31,303,277					
3.	Payment of shares in profit /dividends				54,598,302				54,598,302		
4.	Other distributions to owners										
V.	Balance as at the last day of the reporting period in previous year	45,002,700		340,281	61,992,654	-9,726,400		-10,006,026	87,603,209		



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

### 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	Total capital and reserves		
<b>VI.</b>	<b>Balance as at 1 January of the current year</b>	<b>45,002,700</b>		<b>340,281</b>	<b>61,992,654</b>	<b>-9,726,400</b>	<b>-10,006,026</b>	<b>87,603,209</b>		
1.	Changes in accounting policies									
2.	Correction of errors from previous periods									
<b>VII.</b>	<b>Balance as at 1 January of the current year (corrected)</b>	<b>45,002,700</b>		<b>340,281</b>	<b>61,992,654</b>	<b>-9,726,400</b>	<b>-10,006,026</b>	<b>87,603,209</b>		
<b>VIII.</b>	<b>Comprehensive income/loss of the current year</b>			<b>9,201,905</b>	<b>32,149,956</b>	<b>25,198,408</b>	<b>9,998,005</b>	<b>76,548,274</b>		
1.	Profit or loss of the previous period						<b>9,998,005</b>	<b>9,998,005</b>		
2.	<b>Other comprehensive income or loss of the current year</b>			<b>9,201,905</b>	<b>32,149,956</b>	<b>25,198,408</b>		<b>66,550,269</b>		
2.1.	Unrealised gains or losses from tangible assets (land and buildings)									
2.2.	Unrealised gains or losses from financial assets available for sale			<b>1,157,901</b>				<b>1,157,901</b>		
2.3.	Realised gains or losses from financial assets available for sale									
2.4.	Other non-owner changes in equity			<b>8,044,004</b>	<b>32,149,956</b>	<b>25,198,408</b>		<b>65,392,368</b>		
<b>IX.</b>	<b>Transactions with owners (current period)</b>				<b>-21,083,940</b>	<b>-21,083,940</b>	<b>10,006,026</b>	<b>-32,161,854</b>		
1.	Increase/decrease in subscribed capital									
2.	Other payments by owners									
3.	Payment of shares in profit/dividends									
4.	Other transactions with owners				<b>-21,083,940</b>	<b>11,077,914</b>	<b>10,006,026</b>			
<b>X.</b>	<b>Balance as at the last day of the reporting period in the current year</b>	<b>45,002,700</b>		<b>9,542,186</b>	<b>73,058,670</b>	<b>-5,611,932</b>	<b>9,998,005</b>	<b>131,989,629</b>		

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

### Statement of financial position – Assets as at 31 December 2010

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

Statutory financial statements

		Transfer of deferred acquisition costs to intangible assets	Transfer of other prepaid expenses and other assets to insurance and other receivables	
<b>RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID</b>				
Called up capital	-			-
Uncalled capital	-			-
<b>INTANGIBLE ASSETS</b>	<b>727,234</b>			<b>- Intangible assets</b>
Goodwill	-	1,574,807		Deferred acquisition costs 1,574,807
Other intangible assets	727,234			727,234 Other intangible assets
<b>TANGIBLE ASSETS</b>	<b>47,817,719</b>			<b>Property and 47,817,719 equipment</b>
Land and buildings intended for company business operations	44,166,456			-
Equipment	3,238,038			-
Other tangible assets and stock	413,225			-
<b>INVESTMENTS</b>	<b>861,536,890</b>			-
Investments in land and buildings not intended for company business operations	20,475,386			20,475,386 Investment property
Investments in subsidiaries, associates and joint ventures	3,000,000			Investment in 3,000,000 subsidiary
Shares and stakes in subsidiaries	-			-
Shares and stakes in associates	3,000,000			-
Joint venture participation	-			-
Other financial investments	838,061,504			-
Investments held-to-maturity	-			-
Debt securities and other securities with fixed revenue	-			-
Other investments held to maturity	-			-
Investments available-for-sale	705,576,099			705,576,099 Available-for-sale financial assets
Shares, stakes and other securities with variable revenue	-			-
Debt securities and other securities with fixed revenue	705,576,099			-
Investment fund units	-			-
Other investments available for sale	-			-
Investments at fair value through profit and loss account	28,557,182			28,557,182 Financial assets at fair value through profit or loss
Shares, stakes and other securities with variable revenue	2,106,900			-
Debt securities and other securities with fixed revenue	11,082,641			-
Derivative financial instruments	-			-
Investment fund units	15,367,641			-
Other investments	-			-
Deposits, loans and receivables	103,928,223			103,928,223 Loans and receivables
Deposits with credit institutions (banks)	40,350,000			-
Loans	43,089,950			-
Other loans and receivables	20,488,273			-
Deposits on the basis of insurance business transferred to reinsurance (deposits with the cedent)	-			-
<b>INVESTMENTS FOR THE ACCOUNT AND RISK OF LIFE ASSURANCE POLICYHOLDERS</b>	<b>18,473,596</b>			<b>Investments for the benefit of index- 18,473,596 linked life assurance</b>



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

### Statement of financial position – Assets as at 31 December 2010 (continued)

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

Statutory financial statements

		Transfer of acquisition costs to intangible assets	Transfer of other prepaid expenses and other assets to insurance and other receivables		
					Reinsurers' share of insurance contract provisions
<b>REINSURANCE SHARE IN TECHNICAL PROVISIONS</b>	<b>45,160,848</b>			<b>45,160,848</b>	
Unearned premiums, reinsurance share	11,308,191			-	
Mathematical provision, reinsurance share	-			-	
Provision for claims outstanding, reinsurance share	33,852,657			-	
Provisions for return of premiums depending and not depending on the result (bonuses and rebates), reinsurance share	-			-	
Equalisation provisions, reinsurance share	-			-	
Other insurance technical provisions, reinsurance share	-			-	
Life assurance technical provisions where the policyholder bears the insurance risk, reinsurance share	-			-	
<b>DEFERRED AND CURRENT TAX ASSETS</b>	<b>95,206</b>			<b>95,206</b>	Deferred tax assets
Deferred tax asset	95,206			-	
Current tax asset	-			-	
					Insurance and other receivables
<b>RECEIVABLES</b>	<b>52,859,515</b>		139,565	<b>52,999,081</b>	
Receivables from direct insurance business	9,944,797			-	
From policyholders	9,944,797			-	
From insurance agents, or insurance brokers	-			-	
Receivables from co-insurance and reinsurance business	17,340,465			-	
Other receivables	25,574,253			-	
Receivables from other insurance business	2,310,747			-	
Receivables for return on investments	21,533,471			-	
Other receivables	1,730,035			-	
<b>OTHER ASSETS</b>	<b>2,226,179</b>			-	
					Cash and cash equivalents
<b>Cash at bank and in hand</b>	<b>2,142,081</b>			<b>2,142,081</b>	
Funds in the business account	1,724,647			-	
Funds in the account of assets covering mathematical provision	388,282			-	
Cash in hand	29,152			-	
Long-term assets intended for sale and business cessation	-			-	
Other	84,098		-84,098	-	
<b>PREPAYMENTS AND ACCRUED INCOME</b>	<b>1,630,274</b>			-	
Deferred interest and rent	-			-	
Deferred acquisition costs	1,574,807	-1,574,807		-	
Other prepayments and accrued income	55,467		-55,467	-	
<b>TOTAL ASSETS</b>	<b>1,030,527,462</b>			<b>1,030,527,462</b>	Total assets
<b>OFF BALANCE SHEET ITEMS</b>	<b>20,000</b>			<b>20,000</b>	



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

### Statement of financial position – Equity and liabilities as at 31 December 2010

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

				Transfer of deposits from reinsurance and part of deferred expenses to other payables	Statutory financial statements
		Transfer of current period profit to retained earnings	Transfer of life assurance provision for products where policyholders bear investment risk to technical provisions		
<b>CAPITAL AND RESERVES</b>	164,151,483			-	
<b>Subscribed capital</b>	45,002,700			45,002,700	<b>Share capital</b>
<i>Paid-up capital - ordinary shares</i>	45,002,700			-	
<i>Paid-up capital - preference shares</i>	-			-	
<i>Called up capital</i>	-			-	
<b>Issued shares premiums (capital reserves)</b>	-			-	
<b>Revaluation reserves</b>	9,542,186			9,542,186	<b>Fair value reserve</b>
<i>Land and buildings</i>	-			-	
<i>Financial investments</i>	9,542,186			-	
<i>Other revaluation reserves</i>	-			-	
<b>Reserves</b>	73,058,671			-	
<i>Legally stipulated reserves</i>	2,725,018			2,725,018	<b>Legal reserve</b>
<i>Statutory reserves</i>	-			-	
<i>Other reserves</i>	70,333,653			70,333,653	<b>Other reserves</b>
<b>Transferred (retained) profit or loss</b>	26,549,921	9,998,005		36,547,926	<b>Retained earnings</b>
<i>Retained profit</i>	26,549,921			-	
<i>Transferred loss (-)</i>	-			-	
<b>Profit or loss of the current accounting period</b>	9,998,005			-	
<i>Profit of the current accounting period</i>	9,998,005	-9,998,005		-	
<i>Loss of the current accounting period (-)</i>	-			-	
<b>SUBORDINATED LIABILITIES</b>	-			-	
<b>TECHNICAL PROVISIONS</b>	794,352,087		18,473,596	812,825,683	<b>Insurance contract provisions</b>
<i>Unearned premiums, gross amount</i>	26,101,767			-	
<i>Mathematical provision, gross amount</i>	662,273,228			-	
<i>Provision for claims outstanding, gross amount</i>	105,685,799			-	
<i>Provisions for return of premiums depending and not depending on the result (bonuses and rebates), gross amount</i>	-			-	
<i>Equalisation provision, gross amount</i>	291,294			-	
<i>Other insurance technical provisions, gross amount</i>	-			-	
<b>LIFE ASSURANCE TECHNICAL PROVISIONS WHERE THE POLICYHOLDER BEARS THE INSURANCE RISK, gross amount</b>	18,473,596		-18,473,596	-	

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

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

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

		Transfer of current period profit to retained earnings	Transfer of life assurance provision for products where policyholders bear investment risk to technical provisions	Transfer of deposits from reinsurance and part of deferred expenses to other payables	Statutory financial statements
<b>OTHER RESERVES</b>	-				-
Provisions for pensions and similar liabilities	-				-
Other provisions	-				-
<b>DEFERRED AND CURRENT TAX LIABILITY</b>	2,467,989				<b>Deferred tax liability</b>
Deferred tax liability	2,467,989				2,467,989
Current tax liability	-				-
<b>DEPOSIT RETAINED FROM BUSINESS CEDED TO REINSURANCE</b>	8,266,213			-8,266,213	-
<b>FINANCIAL LIABILITIES</b>	-				-
Liabilities on the basis of loans	-				-
Liabilities on the basis of issued securities	-				-
Other financial liabilities	-				-
<b>OTHER LIABILITIES</b>	30,090,958			15,169,812	<b>Insurance and other payables and deferred income</b>
Liabilities from direct insurance business	3,855,608				-
Liabilities from co-insurance and reinsurance business	14,967,600				-
Liabilities for sale and ceased business	-				-
Other liabilities	11,267,749				-
<b>ACCRUED EXPENSES AND DEFERRED INCOME</b>	12,725,137			-6,903,599	<b>Provisions for liabilities and charges</b>
Deferred reinsurance commission	3,769,626				-
Other accrued expenses and deferred income	8,955,510				-
<b>TOTAL LIABILITIES</b>	1,030,527,462				1,030,527,462
<b>OFF BALANCE SHEET ITEMS</b>	20,000				20,000

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

### Statement of comprehensive income for year ended 31 December 2010

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

	Netting off of cosurance premium and premium impairment with gross premium written	Transfer of other technical income to other operating income	Transfer of gross provisions to claims and benefits incurred	Transfer of reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Transfer of other expenses to other technical expenses	Netting 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	Netting off of gross fair value reserve with changes in deferred tax liability	Statutory financial statements
<b>Earned premiums (recognized in revenue)</b>	<b>117,613,405</b>							<b>117,613,405</b>
Written gross premiums	136,188,418							135,159,557
Co-insurance premiums	175,542							-
Value adjustment and charged adjustment of insurance/cosurance premium value	-1,204,402							-
Premiums ceded to reinsurance (-)	-23,690,706							-
Premiums ceded to co-insurance (-)	-							-
Change in gross provisions for unearned premiums (+/-)	2,163,082							-
Change in provisions for unearned premiums, reinsurance share (+/-)	3,981,472							2,163,082
Change in provisions for unearned premiums, co-insurance share (+/-)	-							-
<b>Income from investments</b>	<b>53,838,379</b>							<b>3,981,472</b>
Income from subsidiaries, associates and joint ventures	-							-
Income from investment in land and buildings	1,485,054							-
Income from rent	657,373							-
Income from increased value of land and buildings	-							-
Income from sale of land and buildings	827,681							-
Interest income	39,265,319							-
Unrealized profits from investment valued at fair value through profit and loss account	1,334,087							-
Profits from sale (realization) of financial investments	4,969,219					-2,471,201		-
								<b>51,367,178</b>
								<b>Financial income</b>



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

### Statement of comprehensive income for year ended 31 December 2010 (continued)

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

	Netting off of cosurance premium and premium impairment with gross premium written	Transfer of other technical income to other operating income	Transfer of gross changes in provisions to claims and benefits incurred	Transfer of reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Transfer of other expenses to other technical expenses	Netting 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	Netting off of gross fair value reserve with changes in deferred tax liability	Statutory financial statements
<i>Investment valued at fair value through profit and loss account</i>	2,132,366							
<i>Investments available-for-sale</i>	2,836,852							
<i>Other profits from sale of financial investments</i>	-							
Net positive exchange rate differentials	5,971,346							
Other investment profits	813,354							
Income from commissions and fees	6,265,168							
Other insurance-technical income, net of reinsurance	230,349	-230,349						6,265,168
Other income	451,723	230,349						
Expenditures for insured events, net	-77,480,340							
Settled claims	-84,475,868							
Gross amount (-)	-95,983,997		-9,314,005					
Co-insurer share (-)	-							
Reinsurer share(+)	11,508,129			6,946,517				
Change in provisions for claims outstanding (+/-)	6,995,528		-49,011					
Gross amount (-)	49,011							
Co-insurer share (-)	-							
Reinsurer share(+)	6,946,517			-6,946,517				
Change in other technical provisions, net of reinsurance	-4,348,593							
Change in mathematical provision (+/-)	-4,271,546							
Gross amount (-)	-4,271,546		4,271,546					
Reinsurer share(+)	-							
Change in other technical provisions, net of reinsurance (+/-)	-77,046							
Gross amount (-)	-77,046		77,046					
Co-insurer share (-)	-							
Reinsurer share(+)	-							
Reinsurers' share of claims and benefits incurred				6,946,517				18,454,646
Claims and benefits incurred								-105,298,002
Other operating income								682,072
Fees and commission income								
Reinsurers' share of claims and benefits incurred								

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

### Statement of comprehensive income for year ended 31 December 2010 (continued)

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

	Netting off of cosurance premium and premium impairment with gross premium written	Transfer of other technical income to other operating income	Transfer of gross changes in provisions to claims and benefits incurred	Transfer of reinsurers share of technical provisions to reinsurers share of claims and benefits incurred	Transfer of other expenses to other technical expenses	Netting 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	Netting off of gross fair value reserve with changes in deferred tax liability	Statutory financial statements
<b>Change in life assurance technical provisions where the policyholder bears the insurance risk, net of reinsurance (+/-)</b>	-5,014,424							-
<i>Gross amount (-)</i>	-5,014,424		5,014,424					-
<i>Co-insurer share (-)</i>	-							-
<i>Reinsurer share (+)</i>	-							-
<b>Expenditures for return of premium (bonuses and rebates), net of reinsurance</b>	-							-
Depending on the result (bonuses)	-							-
Not depending on the result (rebates)	-							-
<b>Business expenditures (for business operations), net</b>	-71,594,555							-
Acquisition costs	-12,968,445							-12,968,445
Commission	-10,451,968							-
Other acquisition costs	-2,522,689							-
<i>Change in deferred acquisition costs (-/+)</i>	6,212							-
Administration costs	-58,626,110							-58,626,110
<i>Depreciation of tangible assets</i>	-2,300,212							-
<i>Salaries, taxes and contributions to and from salaries</i>	-31,622,727							-
<i>Other administration costs</i>	-24,703,171							-
<b>Investment expenses</b>	-6,216,001							-
Depreciation (buildings not intended for business operations of the company)	-277,677							-3,744,800
Interest	-							-
Investment value adjustment (reduction)	-2,727,555					344,810		-277,677
Losses from sale (realization) of financial assets	-240,039					240,039		-2,382,745
Adjustment of financial assets at fair value through profit and loss account	-							-
Net negative exchange rate differences	-1,085,186					1,085,186		-
Other investment expenses	-1,885,545					801,167		-1,084,378
<b>Other technical expenses, net of reinsurance</b>	-3,745,590				-1,517			-3,747,107
								Other operating expenses