

**Kvarner Vienna Insurance Group**

Consolidated and separate  
financial statements

31 December 2009

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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 2009.

### **Review of operations**

The result for the year ended 31 December 2009 of the Group and the Company is set out in the statement of comprehensive income on page 6.

### **Management Board of Kvarner Vienna Insurance Group d.d.**

The Management Board, during the course of 2009 and up to the date of the signing of this report, comprised:

Igor Jeličić	President
Zorislav Stašek	Member (resigned on 1 March 2010)
Krešimir Kolar	Member

### **Supervisory Board of Kvarner Vienna Insurance Group d.d.**

The Supervisory Board, during the course of 2009 and up to the date of the signing of this report, comprised:

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

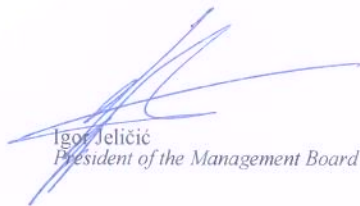
## **Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements**

The Management Board of the Company is required to prepare separate and consolidated financial statements for each financial year which give a true and fair view of the financial position of the Company and Group and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.


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

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Company and Group 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 separate and consolidated financial statements set out on pages 5 to 115 were authorised by the Management Board on 17 March 2010 for issue to the Supervisory Board and are signed below to signify this.



Igo Jeličić  
*President of the Management Board*



Krešimir Kolar  
*Member of the Management Board*

KVARNER  
VIENNA INSURANCE GROUP d.d.  
RJEKA 11



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

We have audited the accompanying consolidated financial statements of Kvarner Vienna Insurance Group ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. We have also audited the accompanying unconsolidated financial statements of Kvarner Vienna Insurance Group d.d. ("the Company"), which comprise the unconsolidated statement of financial position as at 31 December 2009, the unconsolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

The corresponding figures presented are based on the consolidated and unconsolidated financial statements of the Group and the Company for the year ended 31 December 2008, which were audited by another auditor whose report dated 31 March 2009 expressed a qualified opinion on those statements due to their disagreement as to the classification of certain debt and equity securities.

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

Management is responsible for the preparation and fair presentation of these consolidated and unconsolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

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

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

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

### *Opinion*

### *The Group*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Kvarner Vienna Insurance Group as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *The Company*

In our opinion, the unconsolidated financial statements give a true and fair view of the unconsolidated financial position of Kvarner Vienna Insurance Group d.d. as at 31 December 2009, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Zagreb, 17 March 2010

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



Goran Horvat  
Director, Croatian Certified Auditor

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

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

## Statement of financial position as at 31 December

	<i>Note</i>	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
<b>Assets</b>					
Property and equipment	1.11	<b>113,972</b>	96,761	<b>64,629</b>	42,676
Investment property	1.12	<b>20,561</b>	21,113	-	398
Intangible assets					
Deferred acquisition costs	1.13	<b>38,283</b>	41,482	<b>38,283</b>	41,482
Other intangible assets	1.14	<b>21,205</b>	20,030	<b>21,179</b>	20,029
Investments in subsidiaries and associates	1.15	<b>12</b>	18	<b>1,702</b>	152
Held-to-maturity investments	1.16	<b>234,435</b>	230,623	<b>234,435</b>	230,623
Available-for-sale financial assets	1.16	<b>227,108</b>	158,861	<b>227,108</b>	158,861
Financial assets at fair value through profit or loss	1.16	<b>68,088</b>	49,442	<b>68,088</b>	49,442
Investments for the benefit of unit and index linked life assurance	1.16	<b>21,455</b>	12,309	<b>21,455</b>	12,309
Loans and receivables	1.16	<b>354,473</b>	351,456	<b>358,973</b>	356,934
Reinsurers' share of insurance contract provisions	1.17	<b>247,147</b>	226,115	<b>247,147</b>	226,115
Deferred tax asset	1.18	<b>2,000</b>	2,000	<b>2,000</b>	2,000
Inventories		<b>279</b>	1,314	<b>144</b>	1,003
Insurance and other receivables	1.19	<b>245,076</b>	245,435	<b>246,801</b>	246,005
Cash and cash equivalents	1.20	<b>13,865</b>	15,388	<b>13,779</b>	15,266
<b>Total assets</b>		<b>1,607,959</b>	1,472,347	<b>1,545,723</b>	1,403,295
<b>Shareholders' equity</b>					
Share capital	1.27	<b>120,107</b>	120,107	<b>120,107</b>	120,107
Share premium	1.27	<b>330</b>	12,693	<b>330</b>	12,693
Statutory reserve	1.27	<b>1,463</b>	1,463	<b>1,463</b>	1,463
Fair value reserve		<b>890</b>	(10,270)	<b>890</b>	(10,270)
Accumulated losses		<b>(20,487)</b>	(13,234)	<b>(20,220)</b>	(11,851)
<b>Total equity attributable to equity holders of the Company</b>		<b>102,303</b>	110,759	<b>102,570</b>	112,142
<b>Liabilities</b>					
Insurance contract provisions	1.21	<b>1,079,598</b>	965,540	<b>1,079,598</b>	965,540
Discretionary profit participation provision	1.22	<b>10,463</b>	11,659	<b>10,463</b>	11,659
Subordinated loan	1.23	<b>14,565</b>	-	<b>14,565</b>	-
Borrowings	1.24	<b>60,759</b>	67,571	-	-
Deferred tax liability	1.18	<b>222</b>	-	<b>222</b>	-
Other provisions	1.25	<b>990</b>	500	<b>990</b>	500
Insurance and other payables and deferred income	1.26	<b>338,942</b>	316,198	<b>337,315</b>	313,454
Current income tax liability		<b>117</b>	120	-	-
<b>Total liabilities</b>		<b>1,505,656</b>	1,361,588	<b>1,443,153</b>	1,291,153
<b>Total liabilities and equity</b>		<b>1,607,959</b>	1,472,347	<b>1,545,723</b>	1,403,295

The accounting policies and other explanatory notes on pages 10 to 115 form an integral part of these financial statements.

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

	<i>Note</i>	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
Gross premiums written	1.29	535,041	538,000	535,201	538,196
Written premiums ceded to reinsurers	1.29	(132,464)	(156,942)	(132,464)	(156,942)
<b>Net premiums written</b>		<b>402,577</b>	381,058	<b>402,737</b>	381,254
Change in the gross provision for unearned premiums	1.29	294	(24,205)	294	(24,205)
Reinsurers' share of change in the provision for unearned premiums	1.29	(12,537)	12,246	(12,537)	12,246
<b>Net earned premiums</b>		<b>390,334</b>	369,099	<b>390,494</b>	369,295
Fees and commission income	1.30	27,243	40,399	27,243	40,399
Financial income	1.31	54,406	47,031	52,083	43,845
Other operating income	1.32	5,225	4,093	4,537	3,452
<b>Net income</b>		<b>477,208</b>	460,622	<b>474,357</b>	456,991
Claims and benefits incurred	1.33	(337,737)	(321,043)	(343,012)	(326,147)
Reinsurers' share of claims and benefits incurred	1.33	80,722	90,402	80,722	90,402
<b>Net policyholder claims and benefits incurred</b>		<b>(257,015)</b>	(230,641)	<b>(262,290)</b>	(235,745)
Acquisition costs	1.34	(74,426)	(69,705)	(74,426)	(69,705)
Administrative expenses	1.35	(128,971)	(131,560)	(126,010)	(126,151)
Other operating expenses	1.36	(21,779)	(10,350)	(21,779)	(10,350)
<b>Operating (loss)/profit</b>		<b>(4,983)</b>	18,366	<b>(10,148)</b>	15,040
Financial expenses	1.37	(14,516)	(50,387)	(10,584)	(45,795)
<b>Loss before income tax</b>		<b>(19,499)</b>	(32,021)	<b>(20,732)</b>	(30,755)
Income tax expense	1.38	(117)	(120)	-	-
<b>Loss for the period</b>		<b>(19,616)</b>	(32,141)	<b>(20,732)</b>	(30,755)
<b>Other comprehensive income</b>					
Net change in fair value of available-for-sale financial assets, net of amounts realised		11,382	(10,363)	11,382	(10,363)
Change in deferred tax liability		(222)	-	(222)	-
<b>Other comprehensive income for the period</b>		<b>11,160</b>	(10,363)	<b>11,160</b>	(10,363)
<b>Total comprehensive income for the period</b>		<b>(8,456)</b>	(42,504)	<b>(9,572)</b>	(41,118)
Loss for the period attributable to equity holders of the Company		(19,616)	(32,141)	(20,732)	(30,755)
Total comprehensive income for the period attributable to the equity holders of the Company		(8,456)	(42,504)	(9,572)	(41,118)
<b>Loss per share</b>		<b>HRK</b>	HRK		
Basic and diluted loss per share	1.28	(102.9)	(168.6)		

The accounting policies and other explanatory notes on pages 10 to 115 form an integral part of these financial statements.

## Statement of changes in equity

### Group

	Share capital HRK'000	Share premium HRK'000	Statutory reserve HRK'000	Fair value reserve HRK'000	Retained earnings / (Accumulated losses) HRK'000	Total HRK'000
<b>Balance at 1 January 2008</b>	120,107	12,693	1,463	93	18,907	153,263
Net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	-	(10,363)	-	(10,363)
<b>Other comprehensive income</b>	-	-	-	(10,363)	-	(10,363)
<b>Loss for the period</b>	-	-	-	-	(32,141)	(32,141)
<b>Total comprehensive income for the period</b>	-	-	-	(10,363)	(32,141)	(42,504)
<b>Balance at 31 December 2008</b>	<u>120,107</u>	<u>12,693</u>	<u>1,463</u>	<u>(10,270)</u>	<u>(13,234)</u>	<u>110,759</u>
<b>Balance at 1 January 2009</b>	120,107	12,693	1,463	(10,270)	(13,234)	110,759
Net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	-	11,382	-	11,382
Change in deferred tax liability	-	-	-	(222)	-	(222)
<b>Other comprehensive income</b>	-	-	-	11,160	-	11,160
<b>Loss for the period</b>	-	-	-	-	(19,616)	(19,616)
<b>Total comprehensive income for the period</b>	-	-	-	11,160	(19,616)	(8,456)
Appropriation of reserves upon General Assembly decision	-	(12,363)	-	-	12,363	-
<b>Transactions with owners, recorded directly in equity</b>	-	(12,363)	-	-	12,363	-
<b>Balance at 31 December 2009</b>	<u>120,107</u>	<u>330</u>	<u>1,463</u>	<u>890</u>	<u>(20,487)</u>	<u>102,303</u>

The accounting policies and other explanatory notes on pages 10 to 115 form an integral part of these financial statements.

## Statement of changes in equity (continued)

### Company

	Share capital HRK'000	Share premium HRK'000	Statutory reserve HRK'000	Fair value reserve HRK'000	Retained earnings / (Accumulated losses) HRK'000	Total HRK'000
<b>Balance at 1 January 2008</b>	120,107	12,693	1,463	93	18,904	153,260
Net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	-	(10,363)	-	(10,363)
<b>Other comprehensive income</b>	-	-	-	(10,363)	-	(10,363)
Loss for the period	-	-	-	-	(30,755)	(30,755)
<b>Total comprehensive income for the period</b>	-	-	-	(10,363)	(30,755)	(41,118)
<b>Balance at 31 December 2008</b>	<u>120,107</u>	<u>12,693</u>	<u>1,463</u>	<u>(10,270)</u>	<u>(11,851)</u>	<u>112,142</u>
<b>Balance at 1 January 2009</b>	120,107	12,693	1,463	(10,270)	(11,851)	112,142
Net change in fair value of available-for-sale financial assets, net of amounts realised	-	-	-	11,382	-	11,382
Change in deferred tax liability	-	-	-	(222)	-	(222)
<b>Other comprehensive income</b>	-	-	-	11,160	-	11,160
<b>Loss for the period</b>	-	-	-	-	(20,732)	(20,732)
<b>Total comprehensive income for the period</b>	-	-	-	11,160	(20,732)	(9,572)
Appropriation of reserves upon General Assembly decision	-	(12,363)	-	-	12,363	-
<b>Transactions with owners, recorded directly in equity</b>	-	(12,363)	-	-	12,363	-
<b>Balance at 31 December 2009</b>	<u>120,107</u>	<u>330</u>	<u>1,463</u>	<u>890</u>	<u>(20,220)</u>	<u>102,570</u>

The accounting policies and other explanatory notes on pages 10 to 115 form an integral part of these financial statements.

## Statement of cash flows for the year ended 31 December

	<i>Note</i>	<b>Group</b> 2009 HRK'000	Group 2008 HRK'000	<b>Company</b> 2009 HRK'000	Company 2008 HRK'000
<b>Cash flows from operating activities</b>					
Insurance premiums received		515,225	496,135	515,385	496,045
Reinsurance premiums paid		(148,432)	(138,605)	(148,432)	(138,605)
Fees and commissions received		40,178	37,863	40,178	37,863
Interest received		51,253	44,343	51,547	44,518
Dividends received		245	533	245	533
Rent from investment property received		2,616	2,038	-	-
Claims and benefits paid		(223,531)	(196,777)	(228,806)	(201,881)
Reinsurance claims received		90,636	87,701	90,636	87,701
Payments to intermediaries		(52,356)	(51,133)	(52,356)	(51,133)
Payments to employees and suppliers		(154,058)	(158,760)	(151,557)	(155,786)
Interest paid		(3,737)	(4,140)	-	-
Other operating cash flows		(1,696)	(33,868)	(4,716)	(35,267)
Net (acquisition)/disposal of operating assets					
- Equities		6,833	6,070	6,833	6,070
- Debt securities		(63,680)	(15,359)	(63,680)	(15,359)
- Units in investment funds		(28,451)	(5,131)	(28,451)	(5,131)
- Deposits with banks and loans to customers		(5,709)	(35,895)	(4,768)	(41,517)
- Investments for the benefit of unit and index linked life assurance		(8,044)	(5,948)	(8,044)	(5,948)
Income taxes paid		(120)	(47)	-	-
<b>Net cash from operations</b>		<b>17,172</b>	<b>29,020</b>	<b>14,014</b>	<b>22,103</b>
<b>Cash flow from investing activities</b>					
Proceeds from sale of property and equipment		3,107	861	3,052	672
Proceeds from sale of associate		6	-	-	-
Acquisition of associates		-	(12)	(1,550)	-
Acquisition of property and equipment		(25,612)	(14,308)	(27,652)	(11,562)
Acquisition of other intangible assets		(3,949)	(7,086)	(3,916)	(7,080)
Acquisition of investment property		-	1,735	-	1,590
<b>Net cash from investing activities</b>		<b>(26,448)</b>	<b>(18,810)</b>	<b>(30,066)</b>	<b>(16,380)</b>
<b>Cash flows from financing activities</b>					
Proceeds from subordinated loan		14,565	-	14,565	-
Repayment of borrowings		(6,812)	(4,523)	-	-
<b>Net cash from financing activities</b>		<b>7,753</b>	<b>(4,523)</b>	<b>14,565</b>	<b>-</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,523)</b>	<b>5,687</b>	<b>(1,487)</b>	<b>5,723</b>
Cash and cash equivalents at 1 January	1.20	15,388	9,701	15,266	9,543
<b>Cash and cash equivalents at 31 December</b>	1.20	<b>13,865</b>	<b>15,388</b>	<b>13,779</b>	<b>15,266</b>

The accounting policies and other explanatory notes on pages 10 to 115 form an integral part of these financial statements.

# 1 Notes to the consolidated and separate financial statements

## 1.1. Reporting entity

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

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

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

## 1.2. Basis of preparation

### (a) Statement of compliance

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

The financial statements were authorised for issue by the Management Board on 17 March 2010 for approval by the Supervisory Board.

### (b) 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.

### (c) Basis of measurement

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

### (d) Use of estimates and judgements

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

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

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.4.

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

### **(e) Basis of consolidation**

#### *Subsidiaries*

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

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

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

#### *Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### *Associates*

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

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. The accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the Group.

### **(f) Foreign currency transactions**

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

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

### **(f) Foreign currency transactions (continued)**

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 equity.

The most significant currency in which the Group holds assets and liabilities is the Euro. The exchange rate used for translation at 31 December 2009 was EUR 1 = HRK 7.306 (2008: EUR 1 = HRK 7.324).

### **(g) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations have been released and are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements:

- Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010).

The amendments to the Standard require that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets to recognise the goods or services received in its financial statements. Previously group cash-settled share-based payment transactions were not addressed directly in IFRS 2.

The amendments to IFRS 2 are not relevant to the Company's financial statements as it does not have any share-based compensation plans.

- Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009).

The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:

- All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
- Subsequent change in contingent consideration will be recognized in profit or loss.
- Transaction costs, other than share and debt issuance costs, will be expensed as incurred.

The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

## 1.2 Basis of preparation (*continued*)

### (g) New standards and interpretations not yet adopted (*continued*)

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after 1 February 2010).

The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

The amendments to IAS 32 are not relevant to the Company's financial statements as it has not issued such instruments at any time in the past.

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013, early adoption is permitted).

This Standard replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two conditions are met: the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.

It is expected that the new standard, when initially applied, will have a significant impact on the financial statements, since it will be required to be retrospectively applied. However, the Company is not able to prepare an analysis until the date of initial application. The Company has not yet decided on the date it will initially apply new standard.

- Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011).

The amendment exempts government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

Revised IAS 24 is not relevant to the Company's financial statements as it is not a government-related entity and the revised definition of a related party is not expected to result in new relations requiring disclosure in the financial statements.

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

### **(g) New standards and interpretations not yet adopted (continued)**

- Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009).

In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

Revised IAS 27 is not relevant to the Company's financial statements as it does not have interests in subsidiaries that will be affected by the revisions to the Standard.

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009).

The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.

The amendments to IAS 39 are not relevant to the Company's financial statements as it does not apply hedge accounting.

- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual period beginning on or after 1 January 2011).

The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 are not relevant to the Company's financial statements as it does not have any defined benefit plans with minimum funding requirements.

- IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 15 July 2009).

The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.

As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the Interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

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

### **(g) New standards and interpretations not yet adopted (continued)**

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).

The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41.

The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss.

The Company did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Company's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine the effects of application in advance.

### 1.3. Significant accounting policies

#### (a) Property and equipment

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

##### *Recognition and measurement*

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

##### *Reclassification to investment property*

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

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

##### *Subsequent costs*

The cost of replacing part 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 part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

##### *Depreciation*

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

Estimated useful lives are as follows:

	<b>2009</b>	<b>2008</b>
Buildings	40 years	40 years
Equipment and furniture	4 -10 years	4 -10 years
Motor vehicles	5 years	5 years
Leasehold improvements	10 years	10 years

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

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

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

### 1.3 Significant accounting policies (continued)

#### (b) Investment property

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

Investment property is carried at cost less accumulated depreciation and any impairment losses.

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>2009</b>	<b>2008</b>
Investment property	40 years	40 years

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

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

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

For non-life insurance business, the deferred acquisition cost asset at the reporting date has been calculated by comparing the provision for unearned premiums at the reporting date with gross premiums written during the year and deferring a comparable proportion of deferrable acquisition costs.

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

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

#### (d) Other intangible assets

##### *Goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the Group's share of the underlying net identifiable assets acquired, including intangible assets, at the date of acquisition. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures.

Goodwill on acquisition of subsidiaries is included in intangible assets.

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

Impairment losses on goodwill are not reversed. Negative goodwill arising on an acquisition is recognised directly in profit or loss.

### 1.3 Significant accounting policies (continued)

#### (d) Other intangible assets (continued)

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

Insurance contracts acquired in business combinations and portfolio transfers are measured at fair value at the time of acquisition. The difference between the fair value of the contracts and the liability measured in accordance with the accounting policies for the contracts is recorded as the acquired present value of in-force business ("acquired PVIF") and is amortised over the estimated life of the contracts. It is tested for impairment at each reporting date.

Best estimate actuarial assumptions for interest, mortality, persistency and expenses are used in calculating acquired PVIF.

##### *Research and development*

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

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

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

##### *Other intangible assets*

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

##### *Subsequent expenditure*

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

##### *Amortisation*

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

	<b>2009</b>	<b>2008</b>
Software	4 years	4 years
Acquired present value of in-force business	10 years	10 years

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

## 1.3 Significant accounting policies (continued)

### (e) Financial instruments

#### *Classification and recognition*

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

#### *Reclassification*

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

Pursuant to these amendments, the Group reclassified certain financial assets from fair-value through profit and loss category into available-for-sale category. The effect of this reclassification is shown in the note 1.16.

#### ***Financial assets and financial liabilities at fair value through profit or loss***

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

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

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

- the assets or liabilities 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 or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

#### ***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 entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

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

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

#### ***Loans and receivables (continued)***

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

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

#### ***Held-to-maturity financial investments***

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

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

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of other comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the profit or loss. Available-for-sale financial assets include investments in debt securities, equity securities and investment funds.

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

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

#### ***Recognition and derecognition***

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

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

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

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

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

#### *Initial and subsequent measurement*

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

After initial recognition, the Group measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs.

Loans and receivables and held-to-maturity investments are measured at amortised cost less impairment losses. Financial liabilities not designated at fair value through profit or loss or available for sale are measured at amortised cost. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

#### *Gains and losses*

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

Gains or losses from a change in the fair value of available-for-sale monetary assets are recognised directly in other comprehensive income. Upon sale or other de-recognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the profit or loss.

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

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the 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 the other comprehensive income, as described above, all other gains and losses and interest are recognised in the profit or loss under line items "Financial income" and "Financial expense".

#### *Fair value measurement principles*

The fair value of financial assets and liabilities at fair value through profit or loss and available for sale financial instruments is their quoted bid market price at the reporting date without any deductions for selling costs. If the market for a financial asset is not active, and if the securities are unlisted or if, for any other reason, the fair value cannot be reliably measured by market price, the Group establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

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

## 1.3 Significant accounting policies (continued)

### (e) Financial instruments (continued)

#### *Impairment of financial assets*

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

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are individually assessed for specific impairment. All individually significant assets which are not assessed as impaired are then collectively assessed for any impairment that has been incurred but not yet identified at the reporting date. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

Impairment losses on available-for-sale debt securities are recognised by transferring the difference between its cost and current fair value, less any impairment loss previously recognised in the profit or loss, from other comprehensive income to the profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the profit or loss. Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the profit or loss. For further information on impairment policy related to available-for-sale equity instruments and effects of potential changes to it please refer to note 1.4.2.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

#### *Specific instruments*

##### ***Sale and repurchase agreements***

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

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

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

#### *Specific instruments (continued)*

#### ***Sale and repurchase agreements (continued)***

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

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

#### ***Debt securities***

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

#### ***Deposits with banks***

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

#### ***Loans to customers***

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

#### ***Equity securities***

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

#### ***Investments in funds***

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

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

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

#### ***Trade and other receivables***

Trade and other receivables are stated at their cost less impairment losses (see accounting policy (1.3 (e))).

#### ***Investments in subsidiaries***

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

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

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

#### *Loans and borrowings*

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

#### *Trade and other payables*

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

#### *Offsetting of financial instruments*

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

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

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

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The Group does not have such leases at the reporting date. Other leases are operating leases where leased assets are not recognised on the Group's statement of financial position.

Payments made under operating leases, where the Group is the lessee, and amounts charged to lessees where the Group is the lessor, are recognised in the profit or loss on a straight-line basis over the period of the lease.

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

Cash and cash equivalents comprise cash in hand and at bank balances.

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

#### *Defined contribution plans*

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

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

### **(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 equity.

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 using the balance sheet method, providing for 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 differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

### **(j) Provisions**

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

#### *Restructuring*

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

#### *Onerous contracts*

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

### **(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.

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

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

#### *Dividends*

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

#### *Statutory reserve*

The statutory reserve represents accumulated appropriations from retained earnings in accordance with the Insurance Law effective until 31 December 2005. Such requirements no longer exist in the new Insurance Law effective from 1 January 2006. However, in 2008 and in 2009, statutory reserves were formed in accordance with the Companies Law.

The statutory 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.

#### *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.

#### *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.

### **(l) Impairment**

The carrying amounts of the Group'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 reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, 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 group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other 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 net 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.

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

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

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

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

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

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

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

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

Commissions are recorded separately in the life and non-life accounts. A part of personnel expenses is directly allocated to the life and non-life segments.

#### *Allocation of equity and assets*

Property and equipment and intangible assets are allocated to the non-life and life segment while the investment property was allocated to the non-life 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 based on segments they originate from.

### **(n) Revenue**

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

#### *Investment income*

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

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

#### *Fees and commission income*

Fee and commission income includes reinsurance commission.

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

### **(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 (see accounting policy 1.3 (q)).

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

#### *Administration costs*

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

#### *Operating lease payments*

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

#### *Financing 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, .

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

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

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

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

#### *Contracts with discretionary participation features*

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

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

#### *Discretionary profit participation provision*

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

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

### **(q) Premiums**

Non-life 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. An estimate is made at the reporting date to recognise retrospective adjustments to premiums or commissions.

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, including unclosed business, 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, premiums in respect of life assurance business continue to be accounted for on a cash receipts basis.

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

#### **(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 or subsequent financial years, computed using the “pro rata temporis” or 365 method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

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

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

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

#### **(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 date of financial position exceeds the provision for unearned premiums related to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, 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.

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

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

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

The life assurance provision for unit-linked products is stated at the fair value of the related investment.

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

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

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

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

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

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

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

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

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

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

Whilst management consider 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 material. The methods used, and the estimates made, are reviewed regularly. This is further discussed in note 1.7.

##### *Claims arising from life assurance business*

Life assurance business claims reflect the cost of all claims arising during the year, including policyholder bonuses allocated in anticipation of a bonus declaration.

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

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after their initial recognition, that the Group may not recover all amounts due and that the event has an impact which can be measured on the amounts that the Group will receive from the reinsurer.

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

Premiums ceded and benefits reimbursed are presented in the profit or loss and statement of financial position on a gross basis.

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

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

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue and accounted as if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. 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. Reinsurance assets relating to technical provisions are established based on the terms of reinsurance contracts and valued on the same basis as the related reinsured liabilities. The Group records an allowance for estimated irrecoverable reinsurance assets, if any.

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 commissions and profit participations*

Reinsurance commissions and profit participations include commissions received or receivable from reinsurers and profit participations based on reinsurance contracts. Non-life reinsurance commissions are deferred in a manner consistent with the deferral of acquisition 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 any related assets (i.e. the value of business acquired). Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in the profit or loss.

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 or loss. The estimates of future cash flows are based on realistic actuarial assumptions taking into consideration claim occurrence experience, most recent demographic tables, aspects of mortality, morbidity, investment return, expenses and inflation.

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

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

### **(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.

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

### **1.4.1 Key sources of estimation uncertainty**

#### *Estimation of uncertainty in relation to reserving*

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

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

Major assumptions in calculating the life assurance provision are set out in note 1.6. Insurance risk management is discussed in detail in note 1.5, whilst insurance contract provisions are analysed in note 1.21.

#### *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 the impairment of financial assets.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and 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 judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

#### *Determining fair values*

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

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

A significant source of estimation uncertainty stems from court cases. At 31 December 2009, the Group was involved in 937 (2008: 914) court cases for which HRK 45,810 thousand (2008: HRK 44,431 thousand) was provided as part of the claims reserve for reported but not yet settled claims and HRK 500 thousand (2008: HRK 500 thousand) as a provision for non-insurance related legal claims. 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 Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of taxpayers' records.

#### ***Regulatory requirements***

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

#### ***Joint liability***

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

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

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

#### **Financial asset and liability classification**

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

#### **Classification of products**

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

#### **Classification of property**

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

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

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

#### **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 soon be discontinued.

#### **Impairment allowance for insurance receivables**

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

#### **Deferred tax asset**

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

#### **Goodwill**

The assumptions used for testing of goodwill on impairment is described in Note 1.14.

#### **Deferred acquisition costs**

Deferred acquisition costs are assessed at each date of statement of financial position for non-life business by comparing unearned premium reserve with gross written premium for the year, deferring the suitable portion of acquisition costs. The calculation is based on the Group's assumptions for allocation of acquisition costs over the duration of the related insurance contract. Management believes that deferred acquisition costs are recoverable during the remaining duration of insurance contracts active at the reporting date.

#### **Investment in subsidiaries and associates**

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

#### **Impairment test for AFS equity instruments**

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

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

## 1.4 Accounting estimates and judgements (continued)

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

a) Impairment test as at 31 March 2009

	<b>Balance date rule 50% HRK'000</b>	<b>Market value 80% rule HRK'000</b>	<b>Total impairment charge as at 31.12.2009 HRK'000</b>
Investment funds	-	-	-
Equity	215	-	215
<b>Total impairment charge</b>	<b>215</b>	<b>-</b>	<b>215</b>

b) Effect on profit and loss if the balance date rule changed from 50% to 60%

	<b>Balance date rule 60% HRK'000</b>	<b>Market value 80% rule HRK'000</b>	<b>Total impairment charge as at 31.12.2009 HRK'000</b>
Investment funds	-	-	-
Equity	-	215	215
<b>Total impairment charge</b>	<b>-</b>	<b>215</b>	<b>215</b>

c) Effect on profit and loss if the balance date rule changed from 50% to 40%

	<b>Balance date rule 40% HRK'000</b>	<b>Market value 80% rule HRK'000</b>	<b>Total impairment charge as at 31.12.2009 HRK'000</b>
Investment funds	-	-	-
Equity	215	-	215
<b>Total impairment charge</b>	<b>215</b>	<b>-</b>	<b>215</b>

d) Effect on profit and loss if the market value rule changed from 80% to 90%

	<b>Balance date rule 50% HRK'000</b>	<b>Market value 90% rule HRK'000</b>	<b>Total impairment charge as at 31.12.2009 HRK'000</b>
Investment funds	-	-	-
Equity	-	-	-
<b>Total impairment charge</b>	<b>-</b>	<b>-</b>	<b>-</b>

e) Effect on profit and loss if the market value rule changed from 80% to 70%

	<b>Balance date rule 50% HRK'000</b>	<b>Market value 70% rule HRK'000</b>	<b>Total impairment charge as at 31.12.2009 HRK'000</b>
Investment funds	-	-	-
Equity	-	-	-
<b>Total impairment charge</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 1.4 Accounting estimates and judgements (continued)

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

#### Impairment test for AFS equity instruments (continued)

a) Impairment test as at 31 December 2008

	<b>Balance date rule 50% HRK'000</b>	<b>Market value 80% rule HRK'000</b>	<b>Total impairment charge as at 31.12.2008 HRK'000</b>
Investment funds	9,498	7,877	17,375
Equity	11,936	1,750	13,686
<b>Total impairment charge</b>	<b><u>21,434</u></b>	<b><u>9,627</u></b>	<b><u>31,061</u></b>

b) Effect on profit and loss if the balance date rule changed from 50% to 60%

	<b>Balance date rule 60% HRK'000</b>	<b>Market value 80% rule HRK'000</b>	<b>Total impairment charge as at 31.12.2008 HRK'000</b>
Investment funds	2,459	7,876	10,335
Equity	10,746	2,940	13,686
<b>Total impairment charge</b>	<b><u>13,205</u></b>	<b><u>10,816</u></b>	<b><u>24,021</u></b>

c) Effect on profit and loss if the balance date rule changed from 50% to 40%

	<b>Balance date rule 40% HRK'000</b>	<b>Market value 80% rule HRK'000</b>	<b>Total impairment charge as at 31.12.2008 HRK'000</b>
Investment funds	19,948	-	19,948
Equity	14,486	-	14,486
<b>Total impairment charge</b>	<b><u>34,434</u></b>	<b><u>-</u></b>	<b><u>34,434</u></b>

d) Effect on profit and loss if the market value rule changed from 80% to 90%

	<b>Balance date rule 50% HRK'000</b>	<b>Market value 90% rule HRK'000</b>	<b>Total impairment charge as at 31.12.2008 HRK'000</b>
Investment funds	9,498	7,877	17,375
Equity	11,936	2,550	14,486
<b>Total impairment charge</b>	<b><u>21,434</u></b>	<b><u>10,427</u></b>	<b><u>31,861</u></b>

e) Effect on profit and loss if the market value rule changed from 80% to 70%

	<b>Balance date rule 50% HRK'000</b>	<b>Market value 70% rule HRK'000</b>	<b>Total impairment charge as at 31.12.2008 HRK'000</b>
Investment funds	9,498	-	9,498
Equity	11,936	-	11,936
<b>Total impairment charge</b>	<b><u>21,434</u></b>	<b><u>-</u></b>	<b><u>21,434</u></b>

## **1.5. Insurance risk management**

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

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

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

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

### **Management of risks**

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

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. 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 Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Group buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure for an individual risk to less than EUR 0.25 million. For the accumulation of net property losses arising out of one occurrence, a reinsurance catastrophe agreement provides cover for the first EUR 946,85 million (2008: EUR 699,85 million) of losses exceeding the first EUR 0.15 million.

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

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

## 1.5 Insurance risk management (continued)

### Concentration of insurance risk

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

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

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

### *Non life insurance*

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

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

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

### *Life assurance*

There is no significant geographical concentration of risks for contracts of life occurrence which cover death of policyholders, however insured amount can affect ratio of payment on level of portfolio. Insured amounts for life assurance are as follows:

Line of insurance	Insured amounts			
	2009		2008	
	HRK'000	%	HRK'000	%
Life assurance – traditional products	3,313	43,2%	3,350	41,8%
Unit-linked and index-linked products	303	4,0%	313	3,9%
Supplementary risks	4,048	52,8%	4,359	54,3%
<b>As at 31 December</b>	<b>7,664</b>	<b>100,0%</b>	<b>8,022</b>	<b>100,0%</b>

## 1.5 Insurance risk management (continued)

### Concentration of insurance risk (continued)

#### *Life assurance (continued)*

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

Sum insured per insured person as at 31 December 2009 (in HRK)	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 20.000	48	1,1%	14	1,1%
20.001-40.000	287	6,7%	65	5,0%
40.001-60.000	451	10,4%	122	9,4%
60.001-80.000	859	19,9%	218	16,7%
80.001-100.000	542	12,5%	182	13,9%
> 100.001	2,135	49,4%	704	53,9%
<b>As at 31 December 2009</b>	<b>4,322</b>	<b>100,00</b>	<b>1,305</b>	<b>100,00</b>

Sum insured per insured person as at 31 December 2008 (in HRK)	Total sum insured			
	Before reinsurance		After reinsurance	
	HRK'000	%	HRK'000	%
< 20.000	41	0,9%	31	1,0%
20.001-40.000	311	7,0%	244	8,0%
40.001-60.000	448	10,1%	322	10,6%
60.001-80.000	892	20,2%	649	21,3%
80.001-100.000	536	12,1%	350	11,5%
> 100.001	2,197	49,7%	1,446	47,6%
<b>As at 31 December 2008</b>	<b>4,425</b>	<b>100,00</b>	<b>3,042</b>	<b>100,00</b>

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

### *Non-life insurance*

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

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

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

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

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

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

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.

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

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

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.

#### *Discounting*

Non-life claims provisions are not discounted.

In 2009 there have been no major changes in assumptions used to measure non-life insurance assets and liabilities.

### *Life assurance*

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

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

The principal assumptions underlying the calculation of the significant components of the life assurance provision are stated in the Note 1.21 (z)e).

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

According to HANFA regulations, there have been changes in 2009 regarding the assumptions in the technical interest rates used to measure life assurance liabilities (the effects of this change are disclosed in Note 1.21). As a consequence, the Group has reduced the maximum rate for discounting technical provisions to 3.3% in order to comply with regulatory requirements.

#### *Policyholder bonuses*

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

## **1.7. Liability adequacy test**

### *Life assurance (continued)*

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

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

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

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

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

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

The principal assumptions used are:

### *Segmentation*

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

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

### *Mortality and morbidity*

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

### *Persistency*

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

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

### *Life assurance (continued)*

#### *Expenses*

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

#### *Expected investment return and discount rate*

Future investment returns are calculated using the risk free rate which is seven-year EUR Croatian Sovereign Bloomberg fair value curve. The projected risk free rate was 5,71%.

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

#### *Profit sharing*

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

### *Non-life insurance*

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

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

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

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

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

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

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

### *Life assurance*

	<b>LAT future cash flow - modelled HRK'000</b>
Base run	513,718
Interest rates (discounting and investment return) –100bp	542,733
Mortality +10%	516,800
Policy maintenance expenses +10%	531,536

The portfolio modelled represents 97% of in force mathematical reserve (HRK 666,065 thousand life assurance provision modelled together with profit participation reserve). The rest of the portfolio was not modelled since it is similar to the modelled part.

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

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

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

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

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

### *Non-life insurance*

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

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

### *Non-life insurance contracts*

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

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

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

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

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

### *Motor insurance*

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

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

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

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

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

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

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

#### *Property insurance*

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

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

#### *Liability insurance*

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

#### *Accident insurance*

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

### *Life assurance contracts*

#### *Bonuses*

Around 82% of the Group's traditional life insurance contracts include an entitlement to receive a bonus. Bonuses to policyholders are granted at the discretion of the Group and are recognised when proposed and approved by the Board of Directors in accordance with the relevant legal requirements. Once allocated to policyholders, bonuses are guaranteed.

#### *Premiums*

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

#### *Term life insurance products*

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

#### *Endowment products*

These are traditional life insurance products providing long term financial protection. These policies 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, endowment, and waiver of premium in case of permanent disability. Accident can be added as a rider to the main endowment coverage. Insurance benefits are usually paid in a lump-sum.

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

### *Life assurance contracts (continued)*

#### *Pure endowments*

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

#### *Unit-linked life assurance*

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

#### *Index-linked life assurance*

Index-linked life assurance is a single premium product that combines insurance for death risk and savings with a guaranteed maturity value. The savings part is invested into a structured note with a guaranteed maturity value (guaranteed by the note issuer). Policyholders have therefore guaranteed the value at policy maturity, however the amount of surrender value is not guaranteed. All insurance contracts have a 10 year duration.

## 1.10. Segment reporting

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

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
<b>Assets</b>					
Property and equipment	60,996	4,290	48,975	(289)	113,972
Investment property	-	-	20,702	(141)	20,561
Intangible assets					
Deferred acquisition costs	37,879	404	-	-	38,283
Other intangible assets	18,556	2,649	-	-	21,205
Investments in subsidiaries and associates	1,652	50	12	(1,702)	12
Held-to-maturity investments	13,092	221,343	-	-	234,435
Available-for-sale financial assets	18,385	208,723	-	-	227,108
Financial assets at fair value through profit or loss	7,004	61,084	-	-	68,088
Investments for the benefit of unit and index linked life assurance	-	21,455	-	-	21,455
Loans and receivables	140,636	218,337	-	(4,500)	354,473
Reinsurers' share of insurance contract provisions	66,272	180,875	-	-	247,147
Deferred tax asset	2,000	-	-	-	2,000
Inventories	144	-	135	-	279
Insurance and other receivables	162,124	84,661	402	(2,111)	245,076
Cash and cash equivalents	3,068	10,734	63	-	13,865
<b>Total assets</b>	<b>531,808</b>	<b>1,014,605</b>	<b>70,289</b>	<b>(8,743)</b>	<b>1,607,959</b>
<b>Shareholders' equity</b>					
Share capital	72,311	47,816	1,600	(1,620)	120,107
Share premium	330	-	-	-	330
Statutory reserve	-	1,463	-	-	1,463
Fair value reserve	69	821	-	-	890
Accumulated losses	(18,757)	(823)	(477)	(430)	(20,487)
<b>Total equity attributable to equity holders of the Company</b>	<b>53,953</b>	<b>49,277</b>	<b>1,123</b>	<b>(2,050)</b>	<b>102,303</b>
<b>Liabilities</b>					
Insurance contract provisions	370,391	709,207	-	-	1,079,598
Discretionary profit participation provision	-	10,463	-	-	10,463
Subordinated loan	14,565	-	-	-	14,565
Borrowings	-	-	65,259	(4,500)	60,759
Deferred tax liability	17	205	-	-	222
Other provisions	990	-	-	-	990
Insurance and other payables and deferred income	91,814	245,453	3,868	(2,193)	338,942
Current income tax liability	78	-	39	-	117
<b>Total liabilities</b>	<b>477,855</b>	<b>965,328</b>	<b>69,166</b>	<b>(6,693)</b>	<b>1,505,656</b>
<b>Total liabilities and equity</b>	<b>531,808</b>	<b>1,014,605</b>	<b>70,289</b>	<b>(8,743)</b>	<b>1,607,959</b>

## 1.10 Segment reporting (continued)

### Consolidated statement of financial position by business segment as at 31 December 2008

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
<b>Assets</b>					
Property and equipment	40,985	2,366	53,699	(289)	96,761
Investment property	398	-	20,856	(141)	21,113
Intangible assets					
Deferred acquisition costs	41,015	467	-		41,482
Other intangible assets	18,110	1,916	4	-	20,030
Investments in subsidiaries and associates	102	50	18	(152)	18
Held-to-maturity investments	13,113	217,510	-	-	230,623
Available-for-sale financial assets	16,287	142,574	-	-	158,861
Financial assets at fair value through profit or loss	10,503	38,939	-	-	49,442
Investments for the benefit of unit and index					
linked life assurance	-	12,309	-	-	12,309
Loans and receivables	159,026	197,908	-	(5,478)	351,456
Reinsurers' share of insurance contract provisions	80,143	145,972	-	-	226,115
Deferred tax asset	2,000	-	-	-	2,000
Inventories	1,003	-	311	-	1,314
Insurance and other receivables	144,248	102,495	1,842	(3,150)	245,435
Cash and cash equivalents	4,578	10,742	68	-	15,388
<b>Total assets</b>	<b>531,511</b>	<b>873,248</b>	<b>76,798</b>	<b>(9,210)</b>	<b>1,472,347</b>
<b>Shareholders' equity</b>					
Share capital	72,291	47,816	-	-	120,107
Share premium	12,693	-	-	-	12,693
Statutory reserve	-	1,463	-	-	1,463
Fair value reserve	(1,053)	(9,217)	-	-	(10,270)
(Accumulated losses)/retained earnings	(11,758)	510	(1,404)	(582)	(13,234)
<b>Total equity attributable to equity holders of the Company</b>	<b>72,173</b>	<b>40,572</b>	<b>(1,404)</b>	<b>(582)</b>	<b>110,759</b>
<b>Liabilities</b>					
Insurance contract provisions	355,646	609,894	-	-	965,540
Discretionary profit participation provision	-	11,659	-	-	11,659
Borrowings	-	-	73,049	(5,478)	67,571
Other provisions	500	-	-	-	500
Insurance and other payables and deferred income	103,072	211,123	5,153	(3,150)	316,198
Current income tax liability	120	-	-	-	120
<b>Total liabilities</b>	<b>459,338</b>	<b>832,676</b>	<b>78,202</b>	<b>(8,628)</b>	<b>1,361,588</b>
<b>Total liabilities and equity</b>	<b>531,511</b>	<b>873,248</b>	<b>76,798</b>	<b>(9,210)</b>	<b>1,472,347</b>

## 1.10 Segment reporting (continued)

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

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	321,172	214,029	-	(160)	535,041
Written premiums ceded to reinsurers	(75,967)	(56,497)	-	-	(132,464)
<b>Net premiums written</b>	<b>245,205</b>	<b>157,532</b>	<b>-</b>	<b>(160)</b>	<b>402,577</b>
Change in the gross provision for unearned premiums	(70)	364	-	-	294
Reinsurers' share of change in the provision for unearned premiums	(12,537)	-	-	-	(12,537)
<b>Net earned premiums</b>	<b>232,598</b>	<b>157,896</b>	<b>-</b>	<b>(160)</b>	<b>390,334</b>
Fees and commission income	16,242	11,001	-	-	27,243
Financial income	13,352	38,731	9,684	(7,361)	54,406
Other operating income	4,565	236	2,575	(2,151)	5,225
<b>Net income</b>	<b>266,757</b>	<b>207,864</b>	<b>12,259</b>	<b>(9,672)</b>	<b>477,208</b>
Claims and benefits incurred	(189,701)	(153,311)	-	5,275	(337,737)
Reinsurers' share of claims and benefits incurred	35,420	45,302	-	-	80,722
<b>Net policyholder claims and benefits incurred</b>	<b>(154,281)</b>	<b>(108,009)</b>	<b>-</b>	<b>5,275</b>	<b>(257,015)</b>
Acquisition costs	(36,963)	(37,463)	-	-	(74,426)
Administrative expenses	(72,984)	(53,026)	(7,065)	4,104	(128,971)
Other operating expenses	(16,182)	(5,597)	-	-	(21,779)
<b>Operating (loss)/profit</b>	<b>(13,653)</b>	<b>3,769</b>	<b>5,194</b>	<b>(293)</b>	<b>(4,983)</b>
Financial expenses	(5,480)	(5,102)	(4,227)	293	(14,516)
<b>(Loss)/profit before income tax</b>	<b>(19,133)</b>	<b>(1,333)</b>	<b>967</b>	<b>-</b>	<b>(19,499)</b>
Income tax expense	(78)	-	(39)	-	(117)
<b>(Loss)/profit for the period</b>	<b>(19,211)</b>	<b>(1,333)</b>	<b>928</b>	<b>-</b>	<b>(19,616)</b>
<b>Other comprehensive income</b>					
Net change in fair value of available-for-sale financial assets, net of amounts realised	1,139	10,243	-	-	11,382
Change in deferred tax liability	(17)	(205)	-	-	(222)
<b>Other comprehensive income for the period</b>	<b>1,122</b>	<b>10,038</b>	<b>-</b>	<b>-</b>	<b>11,160</b>
<b>Total comprehensive income for the period</b>	<b>(18,089)</b>	<b>8,705</b>	<b>928</b>	<b>-</b>	<b>(8,456)</b>

## 1.10 Segment reporting (continued)

### Consolidated statement of comprehensive income by business segment for the year ended 31 December 2008

	Non-life HRK'000	Life HRK'000	Investment property HRK'000	Eliminations HRK'000	Total HRK'000
Gross premiums written	332,166	206,030	-	(196)	538,000
Written premiums ceded to reinsurers	(98,730)	(58,212)	-	-	(156,942)
<b>Net premiums written</b>	<b>233,436</b>	<b>147,818</b>	<b>-</b>	<b>(196)</b>	<b>381,058</b>
Change in the gross provision for unearned premiums	(24,018)	(187)	-	-	(24,205)
Reinsurers' share of change in the provision for unearned premiums	12,246	-	-	-	12,246
<b>Net earned premiums</b>	<b>221,664</b>	<b>147,631</b>	<b>-</b>	<b>(196)</b>	<b>369,099</b>
Fees and commission income	23,073	17,326	-	-	40,399
Financial income	12,789	31,056	3,361	(175)	47,031
Other operating income	8,618	556	7,347	(12,428)	4,093
<b>Net income</b>	<b>266,144</b>	<b>196,569</b>	<b>10,708</b>	<b>(12,799)</b>	<b>460,622</b>
Claims and benefits incurred	(192,560)	(133,587)	-	5,104	(321,043)
Reinsurers' share of claims and benefits incurred	46,587	43,815	-	-	90,402
<b>Net policyholder claims and benefits incurred</b>	<b>(145,973)</b>	<b>(89,772)</b>	<b>-</b>	<b>5,104</b>	<b>(230,641)</b>
Acquisition costs	(30,413)	(39,292)	-	-	(69,705)
Administrative expenses	(81,577)	(49,835)	(7,668)	7,520	(131,560)
Other operating expenses	(6,385)	(3,965)	-	-	(10,350)
<b>Operating profit</b>	<b>1,796</b>	<b>13,705</b>	<b>3,040</b>	<b>(175)</b>	<b>18,366</b>
Financial expenses	(16,215)	(29,580)	(4,767)	175	(50,387)
<b>Loss before income tax</b>	<b>(14,419)</b>	<b>(15,875)</b>	<b>(1,727)</b>	<b>-</b>	<b>(32,021)</b>
Income tax expense	(120)	-	-	-	(120)
<b>Loss for the period</b>	<b>(14,539)</b>	<b>(15,875)</b>	<b>(1,727)</b>	<b>-</b>	<b>(32,141)</b>
<b>Other comprehensive income</b>					
Net change in fair value of available-for-sale financial assets, net of amounts realised	(1,053)	(9,310)	-	-	(10,363)
<b>Other comprehensive income for the period</b>	<b>(1,053)</b>	<b>(9,310)</b>	<b>-</b>	<b>-</b>	<b>(10,363)</b>
<b>Total comprehensive income for the period</b>	<b>(15,592)</b>	<b>(25,185)</b>	<b>(1,727)</b>	<b>-</b>	<b>(42,504)</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 Group are Non-life insurance, Life assurance and Investment property. Note 1.9 of these financial statements provides further information about the significant terms and conditions of insurance products.

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

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

Non-life:

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

Life:

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

Investment property:

- Rent of business premises

### **Geographical segment**

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

## 1.11. Property and equipment

### Group

	Land and buildings HRK'000	Land and buildings under development HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Leasehold improvement HRK'000	Total HRK'000
<b>Cost</b>						
Balance at 1 January 2008	79,676	6,608	2,802	25,930	4,396	119,412
Additions	4,977	1,246	2,275	3,908	2,020	14,426
Disposals	-	-	(1,421)	(17)	(189)	(1,627)
<b>Balance at 31 December 2008</b>	<b>84,653</b>	<b>7,854</b>	<b>3,656</b>	<b>29,821</b>	<b>6,227</b>	<b>132,211</b>
Balance at 1 January 2009	84,653	7,854	3,656	29,821	6,227	132,211
Additions	7,866	12,507	2,410	2,280	549	25,612
Disposals	(1,900)	(449)	(353)	(44)	(119)	(2,865)
Reclassifications from investment property (Note 1.12) and inventories	411	-	-	665	-	1,076
Reclassifications to investment property (Note 1.12)	(321)	-	-	-	-	(321)
<b>Balance at 31 December 2009</b>	<b>90,709</b>	<b>19,912</b>	<b>5,713</b>	<b>32,722</b>	<b>6,657</b>	<b>155,713</b>
<b>Depreciation and impairment losses</b>						
Balance at 1 January 2008	6,984	-	1,624	20,105	1,650	30,363
Depreciation charge for the period	1,583	-	558	3,199	513	5,853
Disposals	-	-	(749)	(17)	-	(766)
<b>Balance at 31 December 2008</b>	<b>8,567</b>	<b>-</b>	<b>1,433</b>	<b>23,287</b>	<b>2,163</b>	<b>35,450</b>
Balance at 1 January 2009	8,567	-	1,433	23,287	2,163	35,450
Depreciation charge for the period	1,717	-	921	2,975	631	6,244
Disposals	(326)	-	(192)	(30)	(76)	(624)
Reclassifications from investment property (Note 1.12) and inventories	21	-	-	665	-	686
Reclassifications to investment property (Note 1.12)	(15)	-	-	-	-	(15)
<b>Balance at 31 December 2009</b>	<b>9,964</b>	<b>-</b>	<b>2,162</b>	<b>26,897</b>	<b>2,718</b>	<b>41,741</b>
<b>Carrying amounts</b>						
At 1 January 2008	72,692	6,608	1,178	5,825	2,746	89,049
<b>At 31 December 2008</b>	<b>76,086</b>	<b>7,854</b>	<b>2,223</b>	<b>6,534</b>	<b>4,064</b>	<b>96,761</b>
At 1 January 2009	76,086	7,854	2,223	6,534	4,064	96,761
<b>At 31 December 2009</b>	<b>80,745</b>	<b>19,912</b>	<b>3,551</b>	<b>5,825</b>	<b>3,939</b>	<b>113,972</b>

Included within land and buildings is non-depreciable land with a carrying value of HRK 18,525 thousand (2008: HRK 16,701 thousand). Management believes that the fair value of land and buildings is not materially different from the carrying amount.

Land and buildings with a net book value of HRK 48,160 thousand (2008: HRK 51,689 thousand) are pledged as collateral for borrowings of the Group disclosed in note 1.24.

The depreciation charge is recognised under "Administrative expenses" in the income statement.

## 1.11 Property and equipment (continued)

### Company

	Land and buildings HRK'000	Land and buildings under development HRK'000	Motor vehicles HRK'000	Equipment and furniture HRK'000	Leasehold improvement HRK'000	Total HRK'000
<b>Cost</b>						
Balance at 1 January 2008	26,708	6,608	2,749	21,376	3,223	60,664
Additions	2,919	1,246	2,037	3,458	1,859	11,519
Disposals	-	-	(1,421)	(17)	-	(1,438)
<b>Balance at 31 December 2008</b>	<b>29,627</b>	<b>7,854</b>	<b>3,365</b>	<b>24,817</b>	<b>5,082</b>	<b>70,745</b>
<b>2009</b>						
Balance at 1 January 2009	29,627	7,854	3,365	24,817	5,082	70,745
Additions	4,846	17,806	2,403	2,103	494	27,652
Disposals	(1,900)	(449)	(353)	(15)	-	(2,717)
Reclassifications from investment property (Note 1.12) and inventories	411	-	-	665	-	1,076
<b>Balance at 31 December 2009</b>	<b>32,984</b>	<b>25,211</b>	<b>5,415</b>	<b>27,570</b>	<b>5,576</b>	<b>96,756</b>
<b>Depreciation and impairment losses</b>						
Balance at 1 January 2008	4,667	-	1,615	17,637	1,490	25,409
Depreciation charge for the period	453	-	542	2,064	367	3,426
Disposals	-	-	(749)	(17)	-	(766)
<b>Balance at 31 December 2008</b>	<b>5,120</b>	<b>-</b>	<b>1,408</b>	<b>19,684</b>	<b>1,857</b>	<b>28,069</b>
<b>2009</b>						
Balance at 1 January 2009	5,120	-	1,408	19,684	1,857	28,069
Depreciation charge for the period	594	-	867	1,968	474	3,903
Disposals	(326)	-	(191)	(14)	-	(531)
Reclassifications from investment property (Note 1.12) and inventories	21	-	-	665	-	686
<b>Balance at 31 December 2009</b>	<b>5,409</b>	<b>-</b>	<b>2,084</b>	<b>22,303</b>	<b>2,331</b>	<b>32,127</b>
<b>Carrying amounts</b>						
At 1 January 2008	22,041	6,608	1,134	3,739	1,733	35,255
<b>At 31 December 2008</b>	<b>24,507</b>	<b>7,854</b>	<b>1,957</b>	<b>5,133</b>	<b>3,225</b>	<b>42,676</b>
<b>2009</b>						
At 1 January 2009	24,507	7,854	1,957	5,133	3,225	42,676
<b>At 31 December 2009</b>	<b>27,575</b>	<b>25,211</b>	<b>3,331</b>	<b>5,267</b>	<b>3,245</b>	<b>64,629</b>

Included within land and buildings is non-depreciable land with a carrying value of HRK 6,404 thousand (2008: HRK 6,404 thousand). Management believes that the fair value of land and buildings is not materially different from the carrying amount.

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

## 1.12. Investment property

	<b>Group</b>	<b>Company</b>
	<b>HRK'000</b>	<b>HRK'000</b>
<b>Cost</b>		
Balance at 1 January 2008	23,548	1,157
Additions	328	-
Disposals	(1,219)	(746)
	<hr/>	<hr/>
<b>Balance at 31 December 2008</b>	<b>22,657</b>	<b>411</b>
	<hr/>	<hr/>
Balance at 1 January 2009	22,657	411
Reclassifications to property and equipment (Note 1.11)	(411)	(411)
Reclassifications from property and equipment (Note 1.11)	321	-
	<hr/>	<hr/>
<b>Balance at 31 December 2009</b>	<b>22,567</b>	<b>-</b>
	<hr/>	<hr/>
<b>Depreciation and impairment losses</b>		
Balance at 1 January 2008	1,099	20
Depreciation charge for the period	470	18
Disposals	(25)	(25)
	<hr/>	<hr/>
<b>Balance at 31 December 2008</b>	<b>1,544</b>	<b>13</b>
	<hr/>	<hr/>
Balance at 1 January 2009	1,544	13
Depreciation charge for the period	468	8
Reclassifications to property and equipment (Note 1.11)	(21)	(21)
Reclassifications from property and equipment (Note 1.11)	15	-
	<hr/>	<hr/>
<b>Balance at 31 December 2009</b>	<b>2,006</b>	<b>-</b>
	<hr/>	<hr/>
<b>Carrying amounts</b>		
At 1 January 2008	22,449	1,137
<b>At 31 December 2008</b>	<b>21,113</b>	<b>398</b>
	<hr/> <hr/>	<hr/> <hr/>
At 1 January 2009	21,113	398
<b>At 31 December 2009</b>	<b>20,561</b>	<b>-</b>
	<hr/> <hr/>	<hr/> <hr/>

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

Investment property with a net book value of HRK 19,638 thousand (2008: HRK 19,638 thousand) is pledged as collateral for borrowings of the Group disclosed in note 24.

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

### 1.13. Deferred acquisition costs

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

An analysis of these deferred costs is set out below:

#### Group and Company

	Non-life		Life rider		Total	
	2009 HRK'000	2008 HRK'000	2009 HRK'000	2008 HRK'000	2009 HRK'000	2008 HRK'000
Balance at 1 January	<b>41,015</b>	31,826	<b>467</b>	435	<b>41,482</b>	32,261
Increase	<b>37,879</b>	41,015	<b>404</b>	467	<b>38,283</b>	41,482
Decrease	<b>(41,015)</b>	(31,826)	<b>(467)</b>	(435)	<b>(41,482)</b>	(32,261)
<b>Balance at 31 December</b>	<b>37,879</b>	41,015	<b>404</b>	467	<b>38,283</b>	41,482

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

## 1.14. Other intangible assets

### Group

	Goodwill HRK'000	Acquired value of in- force business HRK'000	Computer software HRK'000	Computer software under development HRK'000	Total HRK'000
<b>Cost</b>					
Balance at 1 January 2008	7,390	3,450	16,152	1,476	28,468
Additions	-	-	3,272	3,814	7,086
Transfer into use	-	-	9	(9)	-
<b>Balance at 31 December 2008</b>	<b>7,390</b>	<b>3,450</b>	<b>19,433</b>	<b>5,281</b>	<b>35,554</b>
Balance at 1 January 2009	7,390	3,450	19,433	5,281	35,554
Additions	-	-	2,297	1,652	3,949
Transfer into use	-	-	898	(898)	-
<b>Balance at 31 December 2009</b>	<b>7,390</b>	<b>3,450</b>	<b>22,628</b>	<b>6,035</b>	<b>39,503</b>
<b>Amortisation and impairment losses</b>					
Balance at 1 January 2008	-	690	11,385	-	12,075
Amortisation for the period	-	345	3,104	-	3,449
<b>Balance at 31 December 2008</b>	<b>-</b>	<b>1,035</b>	<b>14,489</b>	<b>-</b>	<b>15,524</b>
Balance at 1 January 2009	-	1,035	14,489	-	15,524
Amortisation for the period	-	345	2,429	-	2,774
<b>Balance at 31 December 2009</b>	<b>-</b>	<b>1,380</b>	<b>16,918</b>	<b>-</b>	<b>18,298</b>
<b>Carrying amounts</b>					
At 1 January 2008	7,390	2,760	4,767	1,476	16,393
<b>At 31 December 2008</b>	<b>7,390</b>	<b>2,415</b>	<b>4,944</b>	<b>5,281</b>	<b>20,030</b>
At 1 January 2009	7,390	2,415	4,944	5,281	20,030
<b>At 31 December 2009</b>	<b>7,390</b>	<b>2,070</b>	<b>5,710</b>	<b>6,035</b>	<b>21,205</b>

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

## 1.14. Other intangible assets (continued)

### Company

	Goodwill HRK'000	Acquired value of in- force business HRK'000	Computer software HRK'000	Computer software under development HRK'000	Total HRK'000
<b>Cost</b>					
Balance at 1 January 2008	7,390	3,450	16,115	1,476	28,431
Additions	-	-	3,266	3,814	7,080
Transfer into use	-	-	9	(9)	-
<b>Balance at 31 December 2008</b>	<b>7,390</b>	<b>3,450</b>	<b>19,390</b>	<b>5,281</b>	<b>35,511</b>
Balance at 1 January 2009	7,390	3,450	19,390	5,281	35,511
Additions	-	-	2,264	1,652	3,916
Transfer into use	-	-	898	(898)	-
<b>Balance at 31 December 2009</b>	<b>7,390</b>	<b>3,450</b>	<b>22,552</b>	<b>6,035</b>	<b>39,427</b>
<b>Amortisation and impairment losses</b>					
Balance at 1 January 2008	-	690	11,351	-	12,041
Amortisation for the period	-	345	3,096	-	3,441
<b>Balance at 31 December 2008</b>	<b>-</b>	<b>1,035</b>	<b>14,447</b>	<b>-</b>	<b>15,482</b>
Balance at 1 January 2009	-	1,035	14,447	-	15,482
Amortisation for the period	-	345	2,421	-	2,766
<b>Balance at 31 December 2009</b>	<b>-</b>	<b>1,380</b>	<b>16,868</b>	<b>-</b>	<b>18,248</b>
<b>Carrying amounts</b>					
At 1 January 2008	7,390	2,760	4,764	1,476	16,390
<b>At 31 December 2008</b>	<b>7,390</b>	<b>2,415</b>	<b>4,943</b>	<b>5,281</b>	<b>20,029</b>
At 1 January 2009	7,390	2,415	4,943	5,281	20,029
<b>At 31 December 2009</b>	<b>7,390</b>	<b>2,070</b>	<b>5,684</b>	<b>6,035</b>	<b>21,179</b>

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

## 1.14. Other intangible assets (continued)

### Assumptions used for goodwill impairment test

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

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

- premium growth of 4.6%,
- combined non-life ratio of 90%,
- investment result of HRK 6.5 million (actual HRK 4 million),
- discount rate used for discounting of cash flows calculated as a pre-tax Group specific risk adjusted discount rate.

## 1.15. Investments in subsidiaries and associates

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Group ownership at 31 December 2009
Kvarner Wiener Städtische nekretnine d.o.o.	Property management	Croatia	100%
S.O.S. Expert d.o.o.	Claims adjusting	Croatia	100%
	<u>          </u>	<u>          </u>	<u>          </u>

All subsidiaries are fully consolidated in the Group financial statements.

b) Investments in subsidiaries and associates are as follows:

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Kvarner Wiener Städtische nekretnine d.o.o.	-	-	<b>1,600</b>	<b>50</b>
S.O.S. Expert d.o.o.	-	-	<b>102</b>	<b>102</b>
Vile Finida (30%)	-	6	-	-
Vile Baredine (30%)	<b>6</b>	6	-	-
Vile Krasica (30%)	<b>6</b>	6	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<b>12</b>	<b>18</b>	<b>1,702</b>	<b>152</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 1.15. Investments in subsidiaries and associates (continued)

c) The group's share in associates can be analysed as follows:

	<b>Vile Baredina 2009 HRK'000</b>	<b>Vile Krasica 2009 HRK'000</b>	<b>Vile Finida 2009 HRK'000</b>	<b>Vile Baredina 2008 HRK'000</b>	<b>Vile Krasica 2008 HRK'000</b>	<b>Vile Finida 2008 HRK'000</b>
Current assets	5	35	-	18	58	6
Non-current assets	370	1,408	-	327	1,235	-
Current liabilities	(391)	(1,456)	-	(355)	(1,307)	(6)
Non-current liabilities	-	-	-	-	-	-
<b>Net assets</b>	<b>(16)</b>	<b>(13)</b>	<b>-</b>	<b>(10)</b>	<b>(14)</b>	<b>-</b>
<b>Share of associates' revenue and profit</b>						
Loss for the period	(22)	(2)	-	-	(20)	-

## 1.16. Financial investments

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
Held-to-maturity investments	<b>234,435</b>	230,623	<b>234,435</b>	230,623
Available-for-sale financial assets	<b>227,108</b>	158,861	<b>227,108</b>	158,861
Financial assets at fair value through profit or loss	<b>68,088</b>	49,442	<b>68,088</b>	49,442
Investments for the benefit of unit and index linked life assurance	<b>21,455</b>	12,309	<b>21,455</b>	12,309
Loans and receivables	<b>354,473</b>	351,456	<b>358,973</b>	356,934
	<b>905,559</b>	802,691	<b>910,059</b>	808,169

## 1.16. Financial investments (*continued*)

### Group

<b>2009</b>	<b>Held-to- maturity HRK'000</b>	<b>Available- for-sale HRK'000</b>	<b>Fair value through profit or loss HRK'000</b>	<b>Loans and receivables HRK'000</b>	<b>Total HRK'000</b>
Listed	-	4,408	-	-	4,408
Unlisted	-	10,106	-	-	10,106
<b>Equity securities</b>	<b>-</b>	<b>14,514</b>	<b>-</b>	<b>-</b>	<b>14,514</b>
Government bonds	221,963	182,583	-	-	404,546
Corporate bonds	9,873	8,428	2,817	-	21,118
Municipal bonds	2,599	1,323	-	-	3,922
<b>Debt securities – fixed rate, listed</b>	<b>234,435</b>	<b>192,334</b>	<b>2,817</b>	<b>-</b>	<b>429,586</b>
Open ended	-	20,260	65,271	-	85,531
<b>Investment funds – quoted</b>	<b>-</b>	<b>20,260</b>	<b>65,271</b>	<b>-</b>	<b>85,531</b>
Unit linked	-	-	10,438	-	10,438
Index linked	-	-	11,017	-	11,017
<b>Investments for the benefit of unit and index linked life assurance</b>	<b>-</b>	<b>-</b>	<b>21,455</b>	<b>-</b>	<b>21,455</b>
Deposits with banks	-	-	-	244,283	244,283
Loans to customers	-	-	-	110,190	110,190
<b>Loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>354,473</b>	<b>354,473</b>
	<b>234,435</b>	<b>227,108</b>	<b>89,543</b>	<b>354,473</b>	<b>905,559</b>

## 1.16. Financial investments (*continued*)

### Group (*continued*)

<b>2008</b>	<b>Held-to-maturity HRK'000</b>	<b>Available-for-sale HRK'000</b>	<b>Fair value through profit or loss HRK'000</b>	<b>Loans and receivables HRK'000</b>	<b>Total HRK'000</b>
Listed	-	9,115	3,103	-	12,218
Unlisted	-	10,106	-	-	10,106
<b>Equity securities</b>	<b>-</b>	<b>19,221</b>	<b>3,103</b>	<b>-</b>	<b>22,324</b>
Government bonds	222,921	111,501	-	-	334,422
Corporate bonds	4,997	-	15,145	-	20,142
Municipal bonds	2,705	1,333	-	-	4,038
<b>Debt securities – fixed rate</b>	<b>230,623</b>	<b>112,834</b>	<b>15,145</b>	<b>-</b>	<b>358,602</b>
Open ended	-	26,806	31,194	-	58,000
<b>Investment funds – quoted</b>	<b>-</b>	<b>26,806</b>	<b>31,194</b>	<b>-</b>	<b>58,000</b>
Unit linked	-	-	6,632	-	6,632
Index linked	-	-	5,677	-	5,677
<b>Investments for the benefit of unit and index linked life</b>	<b>-</b>	<b>-</b>	<b>12,309</b>	<b>-</b>	<b>12,309</b>
Deposits with banks	-	-	-	260,913	260,913
Loans to customers	-	-	-	90,543	90,543
<b>Loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>351,456</b>	<b>351,456</b>
	<b>230,623</b>	<b>158,861</b>	<b>61,751</b>	<b>351,456</b>	<b>802,691</b>

## 1.16. Financial investments (continued)

### Company

**2009**

	Held-to- maturity HRK'000	Available- for-sale HRK'000	Fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
Listed	-	4,408	-	-	4,408
Unlisted	-	10,106	-	-	10,106
<b>Equity securities</b>	<b>-</b>	<b>14,514</b>	<b>-</b>	<b>-</b>	<b>14,514</b>
Government bonds	221,963	182,583	-	-	404,546
Corporate bonds	9,873	8,428	2,817	-	21,118
Municipal bonds	2,599	1,323	-	-	3,922
<b>Debt securities – fixed rate,</b>	<b>234,435</b>	<b>192,334</b>	<b>2,817</b>	<b>-</b>	<b>429,586</b>
Open ended	-	20,260	65,271	-	85,531
<b>Investment funds – quoted</b>	<b>-</b>	<b>20,260</b>	<b>65,271</b>	<b>-</b>	<b>85,531</b>
Unit linked	-	-	10,438	-	10,438
Index linked	-	-	11,017	-	11,017
<b>Investments for the benefit of unit and index linked life</b>	<b>-</b>	<b>-</b>	<b>21,455</b>	<b>-</b>	<b>21,455</b>
Deposits with banks	-	-	-	244,283	244,283
Loans to customers	-	-	-	114,690	114,690
<b>Loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>358,973</b>	<b>358,973</b>
	<b>234,435</b>	<b>227,108</b>	<b>89,543</b>	<b>358,973</b>	<b>910,059</b>

## 1.16. Financial investments (*continued*)

### Company (*continued*)

<b>2008</b>	<b>Held-to- maturity HRK'000</b>	<b>Available- for-sale HRK'000</b>	<b>Fair value through profit or loss HRK'000</b>	<b>Loans and receivables HRK'000</b>	<b>Total HRK'000</b>
Listed	-	9,115	3,103	-	12,218
Unlisted	-	10,106	-	-	10,106
<b>Equity securities</b>	<b>-</b>	<b>19,221</b>	<b>3,103</b>	<b>-</b>	<b>22,324</b>
Government bonds	222,921	111,501	-	-	334,422
Corporate bonds	4,997	-	15,145	-	20,142
Municipal bonds	2,705	1,333	-	-	4,038
<b>Debt securities – fixed rate,</b>	<b>230,623</b>	<b>112,834</b>	<b>15,145</b>	<b>-</b>	<b>358,602</b>
Open ended	-	26,806	31,194	-	58,000
<b>Investment funds – quoted</b>	<b>-</b>	<b>26,806</b>	<b>31,194</b>	<b>-</b>	<b>58,000</b>
Unit linked	-	-	6,632	-	6,632
Index linked	-	-	5,677	-	5,677
<b>Investments for the benefit of unit and index linked life</b>	<b>-</b>	<b>-</b>	<b>12,309</b>	<b>-</b>	<b>12,309</b>
Deposits with banks	-	-	-	260,913	260,913
Loans to customers	-	-	-	96,021	96,021
<b>Loans and receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>356,934</b>	<b>356,934</b>
	<b>230,623</b>	<b>158,861</b>	<b>61,751</b>	<b>356,934</b>	<b>808,169</b>

## 1.16. Financial investments (continued)

<b>Group</b>	<b>Held-to- maturity HRK'000</b>	<b>Available- for-sale HRK'000</b>	<b>Fair value through profit or loss HRK'000</b>	<b>Loans and receivables HRK'000</b>	<b>Total HRK'000</b>
<b>At 1 January 2008</b>	<b>234,234</b>	<b>8,030</b>	<b>211,018</b>	<b>314,625</b>	<b>767,907</b>
Additions	9,055	198,898	137,395	221,719	567,067
Disposals	(12,073)	(7,545)	(281,689)	(185,779)	(487,086)
Fair value losses recorded in the profit or loss	-	-	(4,276)	-	(4,276)
Fair value losses recorded in other comprehensive income	-	(10,363)	-	-	(10,363)
Impairment recorded in the profit or loss	-	(31,060)	-	-	(31,060)
Amortisation adjustments	(615)	(503)	-	-	(1,118)
Foreign exchange adjustments	22	1,404	(697)	891	1,620
<b>At 31 December 2008</b>	<b>230,623</b>	<b>158,861</b>	<b>61,751</b>	<b>351,456</b>	<b>802,691</b>
<b>At 1 January 2009</b>	<b>230,623</b>	<b>158,861</b>	<b>61,751</b>	<b>351,456</b>	<b>802,691</b>
Additions	4,722	136,589	185,856	336,825	663,992
Disposals	-	(76,740)	(159,729)	(330,891)	(567,360)
Fair value gains/(losses) recorded in the profit or loss	-	-	1,699	-	1,699
Fair value gains recorded in other comprehensive income	-	11,382	-	-	11,382
Impairment recorded in the profit or loss	-	(2,135)	-	(2,508)	(4,643)
Amortisation adjustments	(336)	(69)	-	-	(405)
Foreign exchange adjustments	(574)	(780)	(34)	(409)	(1,797)
<b>At 31 December 2009</b>	<b>234,435</b>	<b>227,108</b>	<b>89,543</b>	<b>354,473</b>	<b>905,559</b>

## 1.16. Financial investments (continued)

### Company

	Held-to- maturity HRK'000	Available- for-sale HRK'000	Fair value through profit or loss HRK'000	Loans and receivables HRK'000	Total HRK'000
At 1 January 2008	234,234	8,030	211,018	314,625	767,907
Additions	9,055	198,898	137,395	227,197	572,545
Disposals	(12,073)	(7,545)	(281,689)	(185,779)	(487,086)
Fair value losses recorded in the profit or loss	-	-	(4,276)	-	(4,276)
Fair value losses recorded in other comprehensive income	-	(10,363)	-	-	(10,363)
Impairment recorded in the profit or loss	-	(31,060)	-	-	(31,060)
Amortisation adjustments	(615)	(503)	-	-	(1,118)
Foreign exchange adjustments	22	1,404	(697)	891	1,620
<b>At 31 December 2008</b>	<b>230,623</b>	<b>158,861</b>	<b>61,751</b>	<b>356,934</b>	<b>808,169</b>
At 1 January 2009	230,623	158,861	61,751	356,934	808,169
Additions	4,722	136,589	185,856	336,825	663,992
Disposals	-	(76,740)	(159,729)	(331,869)	(568,338)
Fair value gains/(losses) recorded in the profit or loss	-	-	1,699	-	1,699
Fair value gains recorded in other comprehensive income	-	11,382	-	-	11,382
Impairment recorded in the profit or loss	-	(2,135)	-	(2,508)	(4,643)
Amortisation adjustments	(336)	(69)	-	-	(405)
Foreign exchange adjustments	(574)	(780)	(34)	(409)	(1,797)
<b>At 31 December 2009</b>	<b>234,435</b>	<b>227,108</b>	<b>89,543</b>	<b>358,973</b>	<b>910,059</b>

## 1.16. Financial investments (*continued*)

### Loans and receivables

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

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
Deposits with banks	244,283	260,913	244,283	260,913
Loans to customers	112,698	90,621	117,198	96,099
Impairment allowance	(2,508)	(78)	(2,508)	(78)
	<u><b>354,473</b></u>	<u>351,456</u>	<u><b>358,973</b></u>	<u>356,934</u>

Loans and receivables are analysed as shown below:

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
Not due and not impaired	<b>310,024</b>	350,963	<b>314,524</b>	356,441
Due but not impaired	<b>29,897</b>	493	<b>29,897</b>	493
Due and impaired	<b>17,060</b>	78	<b>17,060</b>	78
Impairment	<b>(2,508)</b>	(78)	<b>(2,508)</b>	(78)
	<u><b>354,473</b></u>	<u>351,456</u>	<u><b>358,973</b></u>	<u>356,934</u>

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

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

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
<b>Balance at 1 January</b>	<b>78</b>	72	<b>78</b>	72
Impairment losses	2,508	10	2,508	10
Write off	(78)	(4)	(78)	(4)
	<u><b>2,508</b></u>	<u>78</u>	<u><b>2,508</b></u>	<u>78</u>

The impairment loss is recognised within "Financial expenses" in the profit or loss.

## 1.16. Financial investments (*continued*)

### Reclassification of financial assets

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

Group and Company	24 February 2009		31 December 2009	
	Book value	Market value	Book value	Market value
	HRK '000	HRK '000	HRK '000	HRK '000
<i>Financial assets at fair value through profit and loss reclassified to Financial assets available for sales</i>				
Debt securities	8,337	8,337	8,428	8,428

Following table shows amounts recognised in the profit or loss and in equity and reserves during 2009 for reclassified financial assets:

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

## 1.17. Reinsurers' share of insurance contracts provisions

### Group and Company

	<i>Note</i>	<b>2009</b> <b>HRK'000</b>	2008 HRK'000
<b>Non-life</b>			
Reinsurance share in provision for unearned premiums	1.21 a)	<b>28,170</b>	40,707
Reinsurance share in notified outstanding claims reserve	1.21 b)	<b>25,534</b>	26,683
Reinsurance share in incurred but not reported claims reserve	1.21 c)	<b>12,568</b>	12,753
<b>Total Non-life</b>		<b>66,272</b>	80,143
<b>Life</b>			
Reinsurance share in notified outstanding claims reserve	1.21 b)	<b>966</b>	658
Reinsurance share in life assurance provision	1.21 e)	<b>179,909</b>	145,314
<b>Total Life</b>		<b>180,875</b>	145,972
<b>Total reinsurers' share of insurance contracts provisions</b>		<b>247,147</b>	226,115

## 1.18. Deferred tax asset/liability

<b>Deferred tax asset</b>	<b>Group</b> <b>2009</b> <b>HRK'000</b>	Group 2008 HRK'000	<b>Company</b> <b>2009</b> <b>HRK'000</b>	Company 2008 HRK'000
<i>Tax losses</i>				
<b>Balance at 1 January</b>	<b>2,000</b>	2,000	<b>2,000</b>	2,000
Utilisation charged to income	-	-	-	-
Origination credited to income	-	-	-	-
<b>Balance at 31 December</b>	<b>2,000</b>	2,000	<b>2,000</b>	2,000
<b>Deferred tax liability</b>				
	<b>Group</b> <b>2009</b> <b>HRK'000</b>	Group 2008 HRK'000	<b>Company</b> <b>2009</b> <b>HRK'000</b>	Company 2008 HRK'000
<i>Deferred tax liability recognised on fair value changes of available-for-sale financial assets</i>				
<b>As at 1 January</b>	-	-	-	-
Recognised in other comprehensive income	<b>222</b>	-	<b>222</b>	-
<b>As at 31 December</b>	<b>222</b>	-	<b>222</b>	-

## 1.19. Insurance and other receivables

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
Insurance receivables				
- from policyholders	<b>109,911</b>	87,722	<b>109,911</b>	87,722
- from agents	<b>11,886</b>	21,490	<b>11,886</b>	21,490
- from other	<b>38,981</b>	27,532	<b>38,981</b>	27,532
Receivables from reinsurance				
- for claims recoveries	<b>20,020</b>	28,909	<b>20,020</b>	28,909
- for reinsurance commission	<b>22,217</b>	35,615	<b>22,217</b>	35,615
- for reinsurance deposits	<b>34,594</b>	36,890	<b>34,594</b>	36,890
Other receivables and prepayments	<b>26,896</b>	21,781	<b>28,607</b>	22,351
Impairment allowance				
- for insurance receivables	<b>(18,577)</b>	(14,359)	<b>(18,577)</b>	(14,359)
- for other receivables and prepayments	<b>(852)</b>	(145)	<b>(838)</b>	(145)
<b>Total insurance and other receivables</b>	<b>245,076</b>	245,435	<b>246,801</b>	246,005

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

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

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
Not due and not impaired	<b>36,447</b>	35,863	<b>36,447</b>	35,863
Due but not impaired	<b>208,629</b>	209,572	<b>210,354</b>	210,142
Due and impaired	<b>19,429</b>	14,504	<b>19,415</b>	14,504
Impaired	<b>(19,429)</b>	(14,504)	<b>(19,415)</b>	(14,504)
	<b>245,076</b>	245,435	<b>246,801</b>	246,005

## 1.19. Insurance and other receivables (continued)

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

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
Balance at 1 January	14,359	12,651	14,359	12,651
Increase in provisions	5,362	2,944	5,362	2,944
Write off	(1,144)	(1,236)	(1,144)	(1,236)
<b>Impairment losses</b>	<b>4,218</b>	1,708	<b>4,218</b>	1,708
Balance at 31 December	<b>18,577</b>	14,359	<b>18,577</b>	14,359

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

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

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
Balance at 1 January	145	133	145	35
Increase in provisions	727	113	713	113
Collection of amounts previously provided	(20)	(101)	(20)	(3)
<b>Impairment losses</b>	<b>707</b>	12	<b>693</b>	110
<b>Balance at 31 December</b>	<b>852</b>	145	<b>838</b>	145

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

## 1.20. Cash and cash equivalents

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
Cash at bank	<b>13,846</b>	15,371	<b>13,760</b>	15,250
Cash in hand	<b>19</b>	17	<b>19</b>	16
<b>Total cash and cash equivalents</b>	<b>13,865</b>	15,388	<b>13,779</b>	15,266

## 1.21. Insurance contract provisions

### Group and Company

	<b>2009 HRK'000</b>	2008 HRK'000
<i>Non-life business</i>		
Provision for unearned premiums	<b>154,966</b>	154,896
Notified outstanding claims reserve	<b>109,376</b>	105,753
Incurred but not reported claims reserve	<b>102,736</b>	92,537
Unexpired risk provision	<b>3,120</b>	2,460
Other technical provisions	<b>193</b>	-
<b>Total Non-life business</b>	<b>370,391</b>	355,646
<i>Life assurance business</i>		
Provision for unearned premiums	<b>2,901</b>	3,265
Life assurance provision for traditional products	<b>677,201</b>	587,904
Life assurance provision for unit-linked and index-linked	<b>21,455</b>	12,309
Notified outstanding claims reserve	<b>5,458</b>	3,559
Incurred but not reported claims reserve	<b>2,192</b>	2,857
<b>Total Life assurance business</b>	<b>709,207</b>	609,894
<b>Total insurance contracts provisions</b>	<b>1,079,598</b>	965,540

## 1.21. Insurance contract provisions (*continued*)

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

#### Group

	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000	2008 Gross HRK'000	2008 Reinsurance HRK'000	2008 Net HRK'000
<i>Non-life business</i>						
<b>Balance at 1 January</b>	154,896	40,707	114,189	130,878	28,460	102,418
Premiums written during the year	321,012	75,967	245,045	331,970	98,730	233,240
Less: premiums earned during the year	(320,942)	(88,504)	(232,438)	(307,952)	(86,483)	(221,469)
<b>Balance at 31 December</b>	<u>154,966</u>	<u>28,170</u>	<u>126,796</u>	<u>154,896</u>	<u>40,707</u>	<u>114,189</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	3,265	-	3,265	3,079	-	3,079
Premiums written during the year	11,936	229	11,707	12,049	200	11,849
Less: premiums earned during the year	(12,300)	(229)	(12,071)	(11,863)	(200)	(11,663)
<b>Balance at 31 December</b>	<u>2,901</u>	<u>-</u>	<u>2,901</u>	<u>3,265</u>	<u>-</u>	<u>3,265</u>

#### Company

	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000	2008 Gross HRK'000	2008 Reinsurance HRK'000	2008 Net HRK'000
<i>Non-life business</i>						
<b>Balance at 1 January</b>	154,896	40,707	114,189	130,878	28,460	102,418
Premiums written during the year	321,172	75,967	245,205	332,166	98,730	233,436
Less: premiums earned during the year	(321,102)	(88,504)	(232,598)	(308,148)	(86,483)	(221,665)
<b>Balance at 31 December</b>	<u>154,966</u>	<u>28,170</u>	<u>126,796</u>	<u>154,896</u>	<u>40,707</u>	<u>114,189</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	3,265	-	3,265	3,079	-	3,079
Premiums written during the year	11,936	229	11,707	12,049	200	11,849
Less: premiums earned during the year	(12,300)	(229)	(12,071)	(11,863)	(200)	(11,663)
<b>Balance at 31 December</b>	<u>2,901</u>	<u>-</u>	<u>2,901</u>	<u>3,265</u>	<u>-</u>	<u>3,265</u>

## 1.21. Insurance contract provisions (*continued*)

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

#### Group

	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000	2008 Gross HRK'000	2008 Reinsurance HRK'000	2008 Net HRK'000
<i>Non-life business</i>						
<b>Balance at 1 January</b>	105,753	26,683	79,070	98,474	27,878	70,596
Current year claims	166,357	34,164	132,193	171,565	46,171	125,394
Change in previous year claims	7,017	1,441	5,576	2,900	(1,258)	4,158
Claims paid	(169,751)	(36,754)	(132,997)	(167,186)	(46,108)	(121,078)
<b>Balance at 31 December</b>	<u>109,376</u>	<u>25,534</u>	<u>83,842</u>	<u>105,753</u>	<u>26,683</u>	<u>79,070</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	3,559	658	2,901	2,563	281	2,282
Current year claims	56,506	10,711	45,795	32,487	6,977	25,510
Change in previous year claims	223	(4)	227	418	(53)	471
Claims paid	(54,830)	(10,399)	(44,431)	(31,909)	(6,547)	(25,362)
<b>Balance at 31 December</b>	<u>5,458</u>	<u>966</u>	<u>4,492</u>	<u>3,559</u>	<u>658</u>	<u>2,901</u>

#### Company

	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000	2008 Gross HRK'000	2008 Reinsurance HRK'000	2008 Net HRK'000
<i>Non-life business</i>						
<b>Balance at 1 January</b>	105,753	26,683	79,070	98,474	27,878	70,596
Current year claims	170,184	34,164	136,020	175,266	46,171	129,095
Change in previous year claims	8,465	1,441	7,024	4,303	(1,258)	5,561
Claims paid	(175,026)	(36,754)	(138,272)	(172,290)	(46,108)	(126,182)
<b>Balance at 31 December</b>	<u>109,376</u>	<u>25,534</u>	<u>83,842</u>	<u>105,753</u>	<u>26,683</u>	<u>79,070</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	3,559	658	2,901	2,563	281	2,282
Current year claims	56,506	10,711	45,795	32,487	6,977	25,510
Change in previous year claims	223	(4)	227	418	(53)	471
Claims paid	(54,830)	(10,399)	(44,431)	(31,909)	(6,547)	(25,362)
<b>Balance at 31 December</b>	<u>5,458</u>	<u>966</u>	<u>4,492</u>	<u>3,559</u>	<u>658</u>	<u>2,901</u>

## 1.21. Insurance contract provisions *(continued)*

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

#### Group and Company

	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000	2008 Gross HRK'000	2008 Reinsurance HRK'000	2008 Net HRK'000
<i>Non-life business</i>						
<b>Balance at 1 January</b>	92,537	12,753	79,784	79,335	11,079	68,256
Additions recognised during the year	39,506	5,099	34,407	49,277	8,324	40,953
Transfer to claims reported provision	(29,307)	(5,284)	(24,023)	(36,075)	(6,650)	(29,425)
<b>Balance at 31 December</b>	<u>102,736</u>	<u>12,568</u>	<u>90,168</u>	<u>92,537</u>	<u>12,753</u>	<u>79,784</u>
<i>Life assurance business</i>						
<b>Balance at 1 January</b>	2,857	-	2,857	2,510	-	2,510
Additions recognised during the year	1,921	-	1,921	2,951	-	2,951
Transfer to claims reported provision	(2,586)	-	(2,586)	(2,604)	-	(2,604)
<b>Balance at 31 December</b>	<u>2,192</u>	<u>-</u>	<u>2,192</u>	<u>2,857</u>	<u>-</u>	<u>2,857</u>

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

#### Group and Company

	2009 Gross HRK'000	2009 Reinsurance HRK'000	2009 Net HRK'000	2008 Gross HRK'000	2008 Reinsurance HRK'000	2008 Net HRK'000
<b>Balance as at 1 January</b>	2,460	-	2,460	2,671	-	2,671
Release	(2,460)	-	(2,460)	(2,671)	-	(2,671)
Increase	3,120	-	3,120	2,460	-	2,460
<b>Balance at 31 December</b>	<u>3,120</u>	<u>-</u>	<u>3,120</u>	<u>2,460</u>	<u>-</u>	<u>2,460</u>

## 1.21. Insurance contract provisions *(continued)*

### e) Life assurance provisions

#### Group and Company

	2009	2009	2009	2008	2008	2008
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>Balance at 1 January</b>	<b>587,904</b>	<b>145,314</b>	<b>442,590</b>	491,928	108,425	383,503
Premium allocation	117,768	40,769	76,999	121,456	45,162	76,294
Release of liabilities due to benefits paid, surrenders and other terminations	(53,841)	(10,705)	(43,136)	(29,136)	(6,217)	(22,919)
Unwinding of discount/accretion interest	19,162	4,894	14,268	17,218	3,863	13,355
Change in Zillmer adjustment	8,634	3,407	5,227	(1,460)	(769)	(691)
Change in provision for unearned premium	(2,798)	(1,094)	(1,704)	(5,032)	(3,095)	(1,937)
Change in negative provisions	(2,466)	(1,190)	(1,276)	(1,545)	(659)	(886)
Advance payments	(1,438)	-	(1,438)	237	-	237
Change in interest rate of Aurum portfolio (from 4% to 3.3%)	8,040	-	8,040	3,051	-	3,051
Change in mortality tables	(2,076)	(1,037)	(1,039)	(10,123)	(1,949)	(8,174)
Foreign currency translations	(1,688)	(449)	(1,239)	1,310	553	757
<b>Balance at 31 December</b>	<b>677,201</b>	<b>179,909</b>	<b>497,292</b>	587,904	145,314	442,590

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

#### Group and Company

	2009	2009	2009	2008	2008	2008
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>Balance at 1 January</b>	<b>12,309</b>	-	<b>12,309</b>	10,300	-	10,300
Premium allocation	8,086	-	8,086	5,810	-	5,810
Unrealised gains/losses on funds where policyholder investments were allocated	1,071	-	1,071	(3,851)	-	(3,851)
Foreign currency translations	(11)	-	(11)	50	-	50
<b>Balance at 31 December</b>	<b>21,455</b>	-	<b>21,455</b>	12,309	-	12,309

### g) Principal assumptions for life assurance business

Description	Product	Rates of interest for calculating reserve	Mortality tables
Endowment	AWS/C03/C01	3.00%	MT HR 1980-82
Endowment	B/AURDC/A07/DJ	3.00%	MT HR 1989-91
Endowment	C	3.00%	MT HR 2000-02
Endowment	A11	3.30%	MT HR 2000-02
Endowment	A12	3.30%	MT HR 1989-91
Endowment	AUR20/AUR2	3.30%	MT HR 2000-02
Joint Life	AUR02	3.30%	MT HR 1980-82
Term	IK	3.00%	MT HR 1989-91
Term	IKE/IKD	3.00%	MT HR 2000-02
Term	POS/POSJ	3.30%	MT HR 1980-82
Pure endowment	BR	3.00%	MT HR 1980-82
Unit linked	UL/ULS/FI	-	MT HR 1980-82
Term fix	E/VF1	3.00%	MT HR 2000-02
Index-linked	IL		MT HR 1989-91

## 1.21. Insurance contract provisions (continued)

### h) Development of claims reported by policyholders at 31 December 2009

#### Group

	Prior 2004	2004	2005	2006	2007	2008	2009	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Estimate of cumulative claims at the end of underwriting year	137,979	74,627	89,484	136,734	193,592	208,461	210,213	
One year later	137,059	74,497	94,677	133,391	187,705	203,103		
Two years later	142,834	74,715	94,681	130,198	178,663			
Three years later	142,756	77,204	95,302	124,030				
Four years later	145,261	78,344	93,554					
Five years later	147,518	77,244						
Six years later	145,920							
<b>Current estimate of cumulative claims</b>	<b>145,920</b>	<b>77,244</b>	<b>93,554</b>	<b>124,030</b>	<b>178,663</b>	<b>203,103</b>	<b>210,213</b>	<b>1,032,727</b>
Cumulative payments	142,166	72,498	85,056	110,258	156,435	155,467	112,953	834,833
Amount recognised in the current year statement of financial position	3,754	4,746	8,498	13,772	22,228	47,636	97,260	197,894
Unsettled claims at 31 December 2008 on policies transferred in at 30 December 2005 on merger with Aurum	9,642	3,890	1,935	735	77	71	500	16,850
Claims handling costs and recourses	-	-	-	-	-	-	-	5,018
<b>Total value recognised in the current year balance sheet</b>	<b>13,396</b>	<b>8,636</b>	<b>10,433</b>	<b>14,507</b>	<b>22,305</b>	<b>47,707</b>	<b>97,760</b>	<b>219,762</b>

#### Company

	Prior 2004	2004	2005	2006	2007	2008	2009	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Estimate of cumulative claims at the end of underwriting year	137,979	74,627	89,484	136,734	193,592	208,461	210,213	
One year later	137,059	74,497	94,677	133,391	187,705	203,103		
Two years later	142,834	74,715	94,681	130,198	178,663			
Three years later	142,756	77,204	95,302	124,030				
Four years later	145,261	78,344	93,554					
Five years later	147,518	77,244						
Six years later	145,920							
<b>Current estimate of cumulative claims</b>	<b>145,920</b>	<b>77,244</b>	<b>93,554</b>	<b>124,030</b>	<b>178,663</b>	<b>203,103</b>	<b>210,213</b>	<b>1,032,727</b>
Cumulative payments	143,096	72,964	85,598	110,960	157,433	156,433	113,623	840,107
Amount recognised in the current year statement of financial position	2,824	4,280	7,956	13,070	21,230	46,670	96,590	192,620
Unsettled claims at 31 December 2008 on policies transferred in at 30 December 2005 on merger with Aurum	9,642	3,890	1,935	735	77	71	500	16,850
Claims handling costs and recourses	-	-	-	-	-	-	-	10,292
<b>Total value recognised in the current year balance sheet</b>	<b>12,466</b>	<b>8,170</b>	<b>9,891</b>	<b>13,805</b>	<b>21,307</b>	<b>46,741</b>	<b>97,090</b>	<b>219,762</b>

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

## 1.21. Insurance contract provisions *(continued)*

### i) Remaining maturities of insurance liabilities

#### Group and Company

#### 2009

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

#### 2008

	Less than 1 year HRK'000	Between 1 and 5 years HRK'000	Between 5 and 10 years HRK'000	Between 10 and 15 years HRK'000	Between 15 and 20 years HRK'000	More than 20 years HRK'000	Total HRK'000
Provision for unearned premiums	158,161	-	-	-	-	-	158,161
Notified outstanding claims reserve and Incurred but not reported claims reserve	85,747	118,959	-	-	-	-	204,706
Unexpired risk provision	2,460	-	-	-	-	-	2,460
Life assurance provision and provision for unit and index linked	8,498	70,759	169,708	166,225	126,709	58,314	600,213
<b>Insurance liabilities</b>	<b>254,866</b>	<b>189,718</b>	<b>169,708</b>	<b>166,225</b>	<b>126,709</b>	<b>58,314</b>	<b>965,540</b>

## 1.22. Discretionary profit participation provision

#### Group and Company

	2009 HRK'000	2008 HRK'000
<b>Balance at 1 January</b>	<b>11,659</b>	9,311
Increase in provision during the year	-	3,097
Funds released during the year due to surrenders and benefits	(1,196)	(749)
<b>Balance at 31 December</b>	<b>10,463</b>	11,659

## 1.23. Subordinated loan

	<b>Group 2009.</b>	Group 2008.	<b>Company 2009.</b>	Company 2008.
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<b>Subordinated loan</b>	<b>14,565</b>	-	<b>14,565</b>	-

Subordinated loan in the amount of HRK 14,565 thousand is received from Vienna Insurance Group Wiener Staedtsiche AG, parent company of the Group, in December 2009, for the period of 5 years with fixed interest rate of 6%. Payment of this loan is subordinated to all other liabilities of the Group.

## 1.24. Borrowings

	<b>Group 2009</b>	Group 2008	<b>Company 2009</b>	Company 2008
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Borrowings	<b>60,759</b>	67,571	-	-

<b>Borrower</b>	<b>Currency</b>	<b>Contracted principal in currency</b>	<b>Interest rate</b>	<b>Maturity</b>	<b>Outstanding balance Group 2009</b>	Outstanding balance Group 2008
			%		<b>HRK'000</b>	HRK'000
Wiener Städtische AG	EUR	8,000,000	5%, fixed 3 month	30 June 2019	45,645	49,211
OTP Bank NYRT	EUR	1,000,000	EURIBOR +	31 December 2016	5,114	5,860
OTP banka d.d.	HRK	12,500,000	6.50%	21 December 2017	10,000	12,500
					<b>60,759</b>	67,571

Loans granted by Wiener Städtische AG and OTP banka d.d. are secured with the property of Kvarner Wiener Städtische nekretnine d.o.o.

## 1.25. Other provisions

### Group and Company

	Legal provisions HRK'000	Total HRK'000
Balance at 1 January 2008	500	500
Release of provision	-	-
	<hr/>	<hr/>
<b>Balance at 31 December 2008</b>	<b>500</b>	<b>500</b>
	<hr/> <hr/>	<hr/> <hr/>
Balance at 1 January 2009	500	500
Increase of provision	490	490
	<hr/>	<hr/>
<b>Balance at 31 December 2009</b>	<b>990</b>	<b>990</b>
	<hr/> <hr/>	<hr/> <hr/>

## 1.26. Insurance and other payables and deferred income

	Group 2009 HRK'000	Group 2008 HRK'000	Company 2009 HRK'000	Company 2008 HRK'000
Direct insurance contract payables				
- to policyholders	4,020	2,970	4,020	2,970
- to agents, brokers and intermediaries	3,812	5,343	3,812	5,343
Reinsurance contract payables	109,653	125,621	109,653	125,621
Reinsurance commission deferral	1,903	4,662	1,903	4,662
Deposits retained from reinsurance business	179,909	145,315	179,909	145,315
Trade creditors	9,261	6,744	9,541	5,739
Liabilities for salaries	7,005	7,014	6,589	6,652
Interest payable on borrowings	1,207	1,435	-	-
Commission expense accrual	1,933	1,718	1,933	1,718
Other payables and accrued expenses	20,239	15,376	19,955	15,434
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total insurance and other payables and deferred income</b>	<b>338,942</b>	<b>316,198</b>	<b>337,315</b>	<b>313,454</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Group retains deposits from reinsurance business arising from the quota share reinsurance treaty with the parent company. In accordance with the reinsurance treaty, applicable from 1 January 2002, the Company does not cede the reinsurance share in the life assurance provision, but retains and invests the funds. Deposits retained from reinsurance business bear a 3% fixed interest rate per annum.

## 1.27. Share capital

### Ordinary shares

	<b>2009</b>	2008
	<b>HRK'000</b>	HRK'000
<i>Authorised, issued and fully paid</i>		
190,647 (2008: 190,647) ordinary shares of HRK 630	<b>120,107</b>	120,107
	<u>          </u>	<u>          </u>

The share capital of the Company is denominated in Croatian kuna. The nominal value of each share issued by the Company is HRK 630. During 2009 there were no new shares issued. All shares are fully paid.

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

	<b>2009</b>	2008
	<b>% ownership</b>	% ownership
Wiener Städtische AG	<b>98.7</b>	98.7
Minority shareholders	<b>1.3</b>	1.3
	<u>          </u>	<u>          </u>
	<b>100.0</b>	100.0
	<u>          </u>	<u>          </u>

### Share premium

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

### Statutory reserve

The statutory 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 statutory reserve until the reserve reached half of the average of earned premium of the preceding two years.

In 2006, a new Insurance Law become effective which does not require the creation of the above reserve. However, in accordance with the Companies Law, 5% of the profit for the year needs to be allocated to a statutory reserve until it reaches 5% of the issued share capital.

The statutory 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 (CFSSA) and EU directives. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders value.

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

## 1.27. Share capital (continued)

### Capital management (continued)

	2009	2009	2009	2008	2008	2008
	Non-life	Life	Total	Non-life	Life	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Solvency margin	43,078	32,169	<b>75,247</b>	39,000	29,676	<b>68,676</b>
Min. Founding capital (FC)	22,500	22,500	<b>45,000</b>	22,500	22,500	<b>45,000</b>
Guarantee capital (GC)	49,259	45,807	<b>95,066</b>	53,457	38,655	<b>92,112</b>
Capital	47,517	45,757	<b>93,274</b>	53,265	38,605	<b>91,870</b>
GC >= min FC	YES	YES	<b>YES</b>	YES	YES	YES
Capital >= Solvency margin	YES	YES	<b>YES</b>	YES	YES	YES

As shown in the table above, regulatory requirements (guarantee capital higher or equal to the minimum founding capital and guarantee capital equal to solvency margin) are fulfilled. In order to fulfill regulatory requirements the Group obtained subordinated loan from the parent company as explained in note 1.23.

## 1.28. Basic and diluted loss per share

For the purposes of calculating loss per share, loss is calculated as the loss for the period attributable to equity holders of the Company. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic and diluted earnings per share was 190,647 (2008: 190,647). Given that there are no options, convertible bonds or similar instruments, the diluted loss per share is the same as the basic loss per share.

	<b>Group</b>	Group
	<b>2009</b>	2008
	<b>HRK'000</b>	HRK'000
<b>Loss attributable to ordinary shareholders for earnings per share</b>	<b>(19,616)</b>	<b>(32,141)</b>
	<b>2009</b>	2008
	<b>No of shares</b>	No of shares
<b>Weighted average number of ordinary shares at 31 December</b>	<b>190,647</b>	<b>190,647</b>

## 1.29. Premiums

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<i>Non-life insurance</i>				
Gross premium written	<b>321,012</b>	331,970	<b>321,172</b>	332,166
Reinsurance business assumed	<b>(75,967)</b>	(98,730)	<b>(75,967)</b>	(98,730)
Change in unearned premiums, gross	<b>(70)</b>	(24,018)	<b>(70)</b>	(24,018)
Change in unearned premiums, reinsurance share	<b>(12,537)</b>	12,246	<b>(12,537)</b>	12,246
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total premium income net, (earned) from non-life insurance</b>	<b>232,438</b>	221,468	<b>232,598</b>	221,664
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Life assurance</i>				
Gross premium written	<b>214,029</b>	206,030	<b>214,029</b>	206,030
Reinsurance business assumed	<b>(56,497)</b>	(58,212)	<b>(56,497)</b>	(58,212)
Change in unearned premiums, gross and net	<b>364</b>	(187)	<b>364</b>	(187)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total premium income net, (earned) from life assurance</b>	<b>157,896</b>	147,631	<b>157,896</b>	147,631
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total premiums</b>	<b>390,334</b>	<b>369,099</b>	<b>390,494</b>	369,295
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Gross premiums written for the Group and the Company for life assurance business include premiums of HRK 18.32 million (2008: 14.06 HRK million) in respect of unit-linked products and premiums of HRK 5.00 million in respect of index-linked products (2008: 2.58 HRK million).

## 1.29. Premiums (*continued*)

### Analysis by class of business

An analysis of written premiums and claims incurred by class of business is set out below. Gross premiums written are stated after adjusting for the net increase in provisions for premium debtors and related write-offs of HRK 5.36 million (2008: HRK 2.94 million) for the Group and Company:

#### Group

	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition and administrative expenses HRK'000	Reinsurance balance HRK'000
<b>2009</b>					
<i>Non-life insurance business</i>					
Motor (third party)	138,401	139,905	(89,878)	(39,006)	(3,975)
Motor (other classes)	49,273	52,394	(49,686)	(16,605)	1,787
Property	74,864	70,127	(14,152)	(26,847)	(26,463)
Personal lines	21,925	23,780	(10,680)	(10,079)	(227)
Other	36,549	34,736	(20,030)	(16,579)	(7,964)
<b>Total non-life</b>	<b>321,012</b>	<b>320,942</b>	<b>(184,426)</b>	<b>(109,116)</b>	<b>(36,842)</b>
<i>Life assurance business</i>					
Periodic premiums	182,241	182,345	(129,350)	(80,767)	33
Single premiums	19,853	19,853	(20,293)	(6,621)	-
Individual premiums	202,094	202,198	(149,643)	(87,388)	33
Life rider products	11,935	12,195	(3,668)	(5,334)	(227)
<b>Total life</b>	<b>214,029</b>	<b>214,393</b>	<b>(153,311)</b>	<b>(92,722)</b>	<b>(194)</b>
Thereof unit linked and index linked	23,327	23,327	(9,822)	(16,985)	-
<b>Grand total</b>	<b>535,041</b>	<b>535,335</b>	<b>(337,737)</b>	<b>(201,838)</b>	<b>(37,036)</b>
<b>2008</b>					
<i>Non-life insurance business</i>					
Motor (third party)	141,906	135,532	(97,378)	(36,159)	401
Motor (other classes)	54,309	50,991	(45,406)	(17,718)	4,442
Property	73,077	65,691	(9,962)	(25,349)	(17,118)
Personal lines	26,341	23,584	(15,062)	(12,352)	(294)
Other	36,337	32,154	(19,648)	(17,411)	(4,255)
<b>Total non-life</b>	<b>331,970</b>	<b>307,952</b>	<b>(187,456)</b>	<b>(108,989)</b>	<b>(16,824)</b>
<i>Life assurance business</i>					
Periodic premiums	180,630	180,578	(121,481)	(75,079)	3,095
Single premiums	13,351	13,351	(7,494)	(5,651)	-
Individual premiums	193,981	193,929	(128,975)	(80,730)	3,095
Life rider products	12,049	11,914	(4,612)	(8,396)	(200)
<b>Total life</b>	<b>206,030</b>	<b>205,843</b>	<b>(133,587)</b>	<b>(89,126)</b>	<b>2,895</b>
Thereof unit linked and index linked	16,640	16,640	(2,283)	(14,166)	-
<b>Grand total</b>	<b>538,000</b>	<b>513,795</b>	<b>(321,043)</b>	<b>(198,115)</b>	<b>(13,929)</b>

## 1.29. Premiums (*continued*)

### Analysis by class of business (*continued*)

#### Company

	Gross premiums written HRK'000	Gross premiums earned HRK'000	Gross claims incurred HRK'000	Acquisition and administrative expenses HRK'000	Reinsurance balance HRK'000
<b>2009</b>					
<i>Non-life insurance business</i>					
Motor (third party)	138,401	139,905	(89,878)	(38,416)	(3,975)
Motor (other classes)	49,273	52,394	(49,686)	(16,330)	1,787
Property	75,024	70,287	(19,427)	(26,348)	(26,463)
Personal lines	21,925	23,780	(10,680)	(9,906)	(227)
Other	36,549	34,736	(20,030)	(16,279)	(7,964)
<b>Total non-life</b>	<b>321,172</b>	<b>321,102</b>	<b>(189,701)</b>	<b>(107,279)</b>	<b>(36,842)</b>
<i>Life assurance business</i>					
Periodic premiums	182,241	182,345	(129,350)	(80,767)	33
Single premiums	19,853	19,853	(20,293)	(6,621)	-
Individual premiums	202,094	202,198	(149,643)	(87,388)	33
Life rider products	11,935	12,195	(3,668)	(5,334)	(227)
<b>Total life</b>	<b>214,029</b>	<b>214,393</b>	<b>(153,311)</b>	<b>(92,722)</b>	<b>(194)</b>
Thereof unit linked and index linked	23,327	23,327	(9,822)	(16,985)	-
<b>Grand total</b>	<b>535,201</b>	<b>535,495</b>	<b>(343,012)</b>	<b>(200,001)</b>	<b>(37,036)</b>
<b>2008</b>					
<i>Non-life insurance business</i>					
Motor (third party)	141,906	135,532	(97,378)	(34,451)	401
Motor (other classes)	54,309	50,991	(45,406)	(16,807)	4,442
Property	73,273	65,887	(15,066)	(23,966)	(17,118)
Personal lines	26,341	23,584	(15,062)	(11,696)	(294)
Other	36,337	32,154	(19,648)	(16,491)	(4,255)
<b>Total non-life</b>	<b>332,166</b>	<b>308,148</b>	<b>(192,560)</b>	<b>(103,411)</b>	<b>(16,824)</b>
<i>Life assurance business</i>					
Periodic premiums	180,630	180,578	(121,481)	(75,079)	3,095
Single premiums	13,351	13,351	(7,494)	(5,651)	-
Individual premiums	193,981	193,929	(128,975)	(80,730)	3,095
Life rider products	12,049	11,914	(4,612)	(8,396)	(200)
<b>Total life</b>	<b>206,030</b>	<b>205,843</b>	<b>(133,587)</b>	<b>(89,126)</b>	<b>2,895</b>
Thereof unit linked and index linked	16,640	16,640	(2,283)	(14,166)	-
<b>Grand total</b>	<b>538,196</b>	<b>513,991</b>	<b>(326,147)</b>	<b>(192,537)</b>	<b>(13,929)</b>

### 1.30. Fees and commission income

#### Group and Company

	<b>2009</b>	2008
	<b>HRK'000</b>	HRK'000
Reinsurance commission	26,357	38,575
Profit reinsurance commission	886	1,824
	<u>27,243</u>	<u>40,399</u>
	<u><u>27,243</u></u>	<u><u>40,399</u></u>

### 1.31. Financial income

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Interest income:				
- Held-to-maturity investments	12,050	12,320	12,050	12,320
- Available-for-sale financial assets	10,036	2,778	10,036	2,778
- At fair value through profit and loss	292	3,294	292	3,294
- Loans and receivables	26,515	21,939	26,809	22,114
Dividend income	245	533	245	533
Rental income from investment property	2,616	2,038	-	-
Net gain on remeasurement of assets at fair value through profit and loss	1,699	-	1,699	-
Net realised gain on assets at fair value through profit and loss	138	-	138	-
Foreign exchange translation gain	-	1,447	-	1,420
Income from sale of investment property	-	869	-	869
Other financial income	815	1,813	814	517
	<u>54,406</u>	<u>47,031</u>	<u>52,083</u>	<u>43,845</u>
	<u><u>54,406</u></u>	<u><u>47,031</u></u>	<u><u>52,083</u></u>	<u><u>43,845</u></u>

### 1.32. Other operating income

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Income from sale of land and buildings	310	-	310	-
Income from sale of equipment and vehicles	556	429	556	241
Income from service claims	500	243	500	243
Net foreign exchange gain on translation of monetary assets and liabilities other than financial investments	706	1,260	668	1,218
Collection of previously written off receivables	637	48	637	48
Other operating income	2,516	2,113	1,866	1,702
	<u>5,225</u>	<u>4,093</u>	<u>4,537</u>	<u>3,452</u>
	<u><u>5,225</u></u>	<u><u>4,093</u></u>	<u><u>4,537</u></u>	<u><u>3,452</u></u>

### 1.33. Net policyholder claims and benefits accrued

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
<i>Non-life insurance</i>				
Claims paid				
Gross amount	<b>(169,751)</b>	(167,186)	<b>(175,026)</b>	(172,290)
Reinsurers' share	<b>36,754</b>	46,108	<b>36,754</b>	46,108
Change in notified outstanding claims reserve				
Gross amount	<b>(3,623)</b>	(7,279)	<b>(3,623)</b>	(7,279)
Reinsurers' share	<b>(1,149)</b>	(1,195)	<b>(1,149)</b>	(1,195)
Change in incurred but not reported claims reserve				
Gross amount	<b>(10,199)</b>	(13,202)	<b>(10,199)</b>	(13,202)
Reinsurers' share	<b>(185)</b>	1,674	<b>(185)</b>	1,674
Change in unexpired risk provision, gross and net				
Gross amount	<b>(660)</b>	211	<b>(660)</b>	211
Change in other technical provisions, gross and net				
Gross amount	<b>(193)</b>	-	<b>(193)</b>	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total gross claims incurred from non-life insurance	<b>(184,426)</b>	(187,456)	<b>(189,701)</b>	(192,560)
Total reinsurance share in claims incurred from non-life insurance	<b>35,420</b>	46,587	<b>35,420</b>	46,587
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total net claims incurred from non-life insurance</b>	<b>(149,006)</b>	(140,869)	<b>(154,281)</b>	(145,973)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Life assurance</i>				
Claims paid (benefits and surrenders)				
Gross amount	<b>(54,830)</b>	(31,909)	<b>(54,830)</b>	(31,909)
Reinsurers' share	<b>10,399</b>	6,547	<b>10,399</b>	6,547
Change in life assurance provision				
Gross amount	<b>(89,297)</b>	(95,976)	<b>(89,297)</b>	(95,976)
Reinsurers' share	<b>34,595</b>	36,889	<b>34,595</b>	36,889
Change in life assurance provision for unit linked products, gross and net	<b>(9,146)</b>	(2,009)	<b>(9,146)</b>	(2,009)
Change in notified outstanding claims reserve				
Gross amount	<b>(1,899)</b>	(998)	<b>(1,899)</b>	(998)
Reinsurers' share	<b>308</b>	379	<b>308</b>	379
Change in incurred but not reported claims reserve, gross and net				
Gross amount	<b>665</b>	(347)	<b>665</b>	(347)
Change in discretionary profit participation provision, gross and net	<b>1,196</b>	(2,348)	<b>1,196</b>	(2,348)
	<hr/>	<hr/>	<hr/>	<hr/>
Total gross claims incurred from life assurance	<b>(153,311)</b>	(133,587)	<b>(153,311)</b>	(133,587)
Total reinsurance share in claims incurred from life assurance	<b>45,302</b>	43,815	<b>45,302</b>	43,815
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total net claims incurred from life assurance</b>	<b>(108,009)</b>	(89,772)	<b>(108,009)</b>	(89,772)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Total gross claims incurred</b>	<b>(337,737)</b>	(321,043)	<b>(343,012)</b>	(326,147)
<b>Total reinsurance share in claims incurred</b>	<b>80,722</b>	90,402	<b>80,722</b>	90,402
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>(257,015)</b>	(230,641)	<b>(262,290)</b>	(235,745)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 1.34. Acquisition costs

### Group and Company

	<b>2009</b>	2008
	<b>HRK'000</b>	HRK'000
<i>Non-life</i>		
Commission expenses	<b>(20,984)</b>	(20,592)
Other acquisition costs	<b>(12,843)</b>	(19,010)
Changes in deferred acquisition costs (note 1.13)	<b>(3,136)</b>	9,189
<b>Total acquisition costs, non-life</b>	<b>(36,963)</b>	(30,413)
<i>Life</i>		
Commission expenses	<b>(31,587)</b>	(30,341)
Other acquisition costs	<b>(5,813)</b>	(8,983)
Changes in deferred acquisition costs (note 1.13)	<b>(63)</b>	32
<b>Total acquisition costs, life</b>	<b>(37,463)</b>	(39,292)
	<b>(74,426)</b>	(69,705)

Included within acquisition costs are internal sales staff costs amounting to HRK 13.4 million (2008: HRK 13.4 million).

## 1.35. Administrative expenses

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>HRK'000</b>	HRK'000	<b>HRK'000</b>	HRK'000
Depreciation	<b>6,244</b>	5,853	<b>3,903</b>	3,426
Amortisation	<b>2,774</b>	3,449	<b>2,766</b>	3,441
Personnel expenses	<b>68,081</b>	69,342	<b>63,564</b>	65,389
Goods and services	<b>24,564</b>	24,439	<b>19,562</b>	20,226
Rental expenses	<b>8,570</b>	5,808	<b>15,565</b>	11,698
Other costs	<b>18,738</b>	22,669	<b>20,650</b>	21,971
	<b>128,971</b>	131,560	<b>126,010</b>	126,151

In 2009, the average number of employees of the Group was 646 (2008: 653) and of the Company was 620 (2008: 650)

In 2009, the Group paid pension contributions of HRK 13.02 million (2008: HRK 13.20 million) into obligatory pension funds.

### 1.36. Other operating expenses

#### Group and Company

	2009	2008
	HRK'000	HRK'000
Fire brigade contributions	1,516	1,469
Technical interest rate payable on deposit retained from reinsurance	5,091	3,928
Other technical charges	2,885	1,498
Guarantee fund	2,183	2,517
Prevention costs	1,380	938
Compulsory motor third party liability insurance contribution to the Croatian health fund	8,724	-
	<u>21,779</u>	<u>10,350</u>

### 1.37. Financial expenses

	Group	Group	Company	Company
	2009	2008	2009	2008
	HRK'000	HRK'000	HRK'000	HRK'000
Interest expense	3,509	4,140	-	-
Foreign exchange translation loss	1,570	-	1,607	-
Depreciation of investment property	468	470	8	18
Net loss on remeasurement of assets at fair value through profit or loss	-	4,225	-	4,225
Net realised losses on assets at fair value through profit or loss	-	8,412	-	8,412
Realised loss on assets available for sales	2,836	-	2,836	-
Impairment of available-for-sale securities	2,135	31,060	2,135	31,060
Impairment of loans	2,508	10	2,508	10
Impairment of other receivables and prepayments	707	12	693	110
Charges	783	2,058	797	1,960
	<u>14,516</u>	<u>50,387</u>	<u>10,584</u>	<u>45,795</u>

## 1.38. Income taxes

	<b>Group</b> <b>2009</b> <b>HRK'000</b>	Group 2008 HRK'000	<b>Company</b> <b>2009</b> <b>HRK'000</b>	Company 2008 HRK'000
<b>Current tax expense</b>				
Current period	117	120	-	-
<b>Total income tax expense</b>	<u>117</u>	<u>120</u>	<u>-</u>	<u>-</u>

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

	<b>Group</b> <b>2009</b> <b>HRK'000</b>	Group 2008 HRK'000	<b>Company</b> <b>2009</b> <b>HRK'000</b>	Company 2008 HRK'000
Accounting loss for the period before income taxes	<u>(19,499)</u>	<u>(32,021)</u>	<u>(20,732)</u>	<u>(30,755)</u>
Income tax at 20%	3,900	6,404	4,146	6,151
Tax effect of:				
Non-deductible expenses	(1,591)	(1,240)	(1,480)	(1,103)
Tax exempt income	219	276	217	274
Utilisation of tax losses brought forward	238	890	-	890
Unrecognized portion of temporary differences and tax losses arising during the period	<u>(2,883)</u>	<u>(6,450)</u>	<u>(2,883)</u>	<u>(6,212)</u>
<b>Total income tax expense</b>	<u>(117)</u>	<u>(120)</u>	<u>-</u>	<u>-</u>

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

	<b>Group</b> <b>2009</b> <b>HRK'000</b>	Group 2008 HRK'000	<b>Company</b> <b>2009</b> <b>HRK'000</b>	Company 2008 HRK'000
<i>At income tax rate of 20%</i>				
Unused tax losses brought forward	(18,258)	(18,389)	(18,020)	(18,389)
Correction of tax return of previous year (upon final submission)	-	(521)	-	(521)
Utilisation of tax losses brought forward	238	890	-	890
Tax losses generated during period	<u>(2,883)</u>	<u>(238)</u>	<u>(2,883)</u>	<u>-</u>
<b>Unused tax losses carried forward</b>	<u>(20,903)</u>	<u>(18,258)</u>	<u>(20,903)</u>	<u>(18,020)</u>

## 1.38 Income taxes (*continued*)

### c. Tax losses brought forward

The potential deferred tax asset, arising from tax losses, of HRK 20.9 million for the Group and HRK 20.9 million for the Company (at the income tax rate of 20%) are available for offset against future profits. A tax loss may be carried forward for five years subsequent to the year in which it was incurred. The availability of tax losses against future periods, subject to review by the Ministry of Finance, is as follows:

	<b>Group</b> <b>2009</b> <b>HRK'000</b>	Group 2008 HRK'000	<b>Company</b> <b>2009</b> <b>HRK'000</b>	Company 2008 HRK'000
<i>At income tax rate of 20%</i>				
No more than 1 year	<b>(18,020)</b>	-	<b>(18,020)</b>	-
No more than 2 years	-	(18,020)	-	(18,020)
No more than 3 years	-	-	-	-
No more than 4 years	-	-	-	-
No more than 5 years	<b>(2,883)</b>	(238)	<b>(2,883)</b>	-
<b>Total potential benefit of tax losses carried forward*</b>	<b>(20,903)</b>	(18,258)	<b>(20,903)</b>	(18,020)
<b>Unrecognised benefit of tax loss carried forward</b>	<b>(18,903)</b>	(16,258)	<b>(18,903)</b>	(16,020)
<b>Deferred tax asset recognized in the statement of financial position</b>	<b>2,000</b>	2,000	<b>2,000</b>	2,000

## 1.39. Operating leases

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

During the year ended 31 December 2009, HRK 10.3 million and HRK 17.4 million was recognised as an expense in the Group's and the Company's income statement respectively in respect of operating leases (2008: HRK 8.8 million and HRK 14.7 million).

## 1.40. Related parties

The Company is the parent of the Kvarner Vienna Insurance Group. The key shareholder of the Company is Wiener Städtische AG with a holding of 98.7% (2008: 98.7%) of the Company's shares at year end. The remaining 1.3% (2008: 1.3%) of the shares are held by minority shareholders. The Company considers that it has an immediate related party relationship with the ultimate parents of its key shareholders, and their subsidiaries; its subsidiaries and associates; the Supervisory Board members, Management Board members and other executive management (together "key management personnel"); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

### *Parent company*

Significant portion of the Group's and Company's reinsurance is ceded to the ultimate parent company. In addition, the Group had borrowings of HRK 45.6 million from the ultimate parent company as at 31 December 2009 (31 December 2008: HRK 49.2 million). As a result, the Group recorded HRK 2.55 million (2008: HRK 2.49 million) of interest expenses in relation to the ultimate parent company borrowings.

### *Related companies*

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

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

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
<b>Premium ceded:</b>				
Reinsurance premiums payable at beginning of the year	<b>(113,065)</b>	(88,576)	<b>(113,065)</b>	(88,576)
Reinsurance premiums ceded during the year	<b>(125,040)</b>	(156,613)	<b>(125,040)</b>	(156,613)
Reinsurance premiums paid during the year	<b>139,949</b>	132,124	<b>139,949</b>	(132,124)
	<hr/>	<hr/>	<hr/>	<hr/>
Reinsurance premiums payable at the end of the year	<b>(98,156)</b>	(113,065)	<b>(98,156)</b>	113,065
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Reinsurance recoveries:</b>				
At the beginning of the year	<b>24,488</b>	23,714	<b>24,488</b>	23,714
Invoiced during the year	<b>42,581</b>	51,406	<b>42,581</b>	51,406
Received during the year	<b>(48,642)</b>	(50,632)	<b>(48,642)</b>	(50,632)
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	<b>18,427</b>	24,488	<b>18,427</b>	24,488
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Reinsurance commission:</b>				
At the beginning of the year	<b>34,903</b>	62,063	<b>34,903</b>	62,063
Invoiced during the year	<b>39,995</b>	52,604	<b>39,995</b>	52,604
Received during the year	<b>(53,855)</b>	(79,764)	<b>(53,855)</b>	(79,764)
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	<b>21,043</b>	34,903	<b>21,043</b>	34,903
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 1.40 Related parties (continued)

### *Subsidiaries*

During 2009 the Company charged to Kvarner Wiener Städtische nekretnine d.o.o. property insurance gross written premiums of HRK 101 thousand (2008: HRK 111 thousand) and HRK 59 thousand was charged to Sos Expert d.o.o.

In the same period the Company incurred HRK 9.26 million (2008: HRK 4.42 million) of rent expense from Kvarner Städtische nekretnine d.o.o. and expense of HRK 5.2 million (2008: HRK 5.10 million) from S.O.S. Expert d.o.o. for loss adjusting services. In 2009 there was no dividend paid by Kvarner Wiener Städtische nekretnine d.o.o. and Sos Expert d.o.o. to the Company (2008: nil).

### *Key management personnel*

Included in key management personnel are Management and Supervisory Board members. The remuneration of the Management Board amounted to HRK 2.9 million (2008: HRK 3.6 million), and comprises the total gross amount of their compensation including short-term and long-term benefits, such as basic pay and bonuses, benefits in kind, pension and other retirement benefits, and life assurance.

<b>Group 2009</b>	<b>Assets HRK'000</b>	<b>Liabilities HRK'000</b>	<b>Income HRK'000</b>	<b>Expense HRK'000</b>
<b>Key management personnel (including remuneration)</b>	-	257	-	2,950
<b>Parent company</b>				
Vienna Insurance Group Wiener Staedtische AG	9,265	84,660	34,079	40,418
<b>Associates</b>				
Vile Baredine	1,157	-	95	-
Vile Krasica	4,121	-	304	-
<b>Related companies</b>				
VIG Re	30,206	75,683	75,244	80,972
DONAU	13	219	116	247
Erste Osiguranje Vienna Insurance Group d.d.	10,106	-	-	66
Cosmopolitan Life Vienna Insurance Group d.d.	76	-	109	-
Helios Vienna Insurance Group d.d.	150	-	520	-
	<u>55,094</u>	<u>160,819</u>	<u>110,467</u>	<u>124,653</u>
<b>Company 2009</b>	<b>Assets HRK'000</b>	<b>Liabilities HRK'000</b>	<b>Income HRK'000</b>	<b>Expense HRK'000</b>
<b>Key management personnel (including remuneration)</b>	-	209	-	2,386
<b>Parent company</b>				
Vienna Insurance Group Wiener Staedtische AG	9,265	37,808	31,528	40,418
<b>Associates</b>				
Vile Baredine	1,151	-	95	-
Vile Krasica	4,115	-	304	-
<b>Subsidiaries</b>				
Kvarner Wiener Staedtische nekretnine d.o.o.	6,604	67	395	9,264
S.O.S. Expert d.o.o.	460	562	357	5,213
<b>Related companies</b>				
VIG Re	30,206	75,683	75,244	80,972
DONAU	13	219	116	247
Erste Osiguranje Vienna Insurance Group d.d.	10,106	-	-	66
Cosmopolitan Life Vienna Insurance Group d.d.	76	-	109	-
Helios Vienna Insurance Group d.d.	150	-	520	-
	<u>62,146</u>	<u>114,548</u>	<u>108,668</u>	<u>138,566</u>

Loans to associates, Vile Baredine and Vile Krasica became due in 2009 but were not collected until the statement of financial position date. The interest rate charged for loans to KWS Nekretnine is 6% and to Vile Baredine and Vile Krasica is 7%.

## **1.41. Financial Risk Management**

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

The Group has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Supervisory board to executive management committees and senior managers. Lastly, a Group policy framework which sets out the risk profiles for the Group, risk management, control and business conduct standards for the Group's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Group.

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

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

### **Market risk**

Market risk includes three types of risk:

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

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

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

## 1.41 Financial risk management (*continued*)

### Interest rate risk

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

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

Interest rate changes also do not influence the level of non-life provisions, other than for motor third party annuities, which are not significant at the date of financial position. The life assurance provision is discounted using the lower of the technical interest rate or regulatory prescribed rate. The prescribed discount rate to some extent reflects the expected movement in interest yields over a longer period of time. Therefore, changes in investment values attributable to interest rate changes will not be mitigated by corresponding and partially offsetting changes in the economic value of insurance provisions.

The Group monitors this exposure through periodic reviews of its asset and liability positions. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to the investment portfolio and insurance reserves, are modelled and 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 Group attempts to match the future receipts from these assets with its insurance liabilities by purchasing Government bonds. However, due to the relatively short duration of such bonds, and the longer duration of life assurance liabilities, and the inability of the Group to purchase interest rate swaps in Croatia, the Group is exposed to interest rate risk.

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

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

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

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

	Change in variables	Impact on result 2009 HRK'000	Impact on other comprehensive income 2009 HRK'000	Impact on result 2008 HRK'000	Impact on other comprehensive income 2008 HRK'000
HRK	+25/-25 basis	-	21/(21)	-	21/(21)
EUR	+25/-25 basis	-	460/(460)	7/(7)	564/(564)

## 1.41 Financial risk management (*continued*)

### Equity price risk

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

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

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

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

	Change in variables	Impact on portfolio value 2009 HRK'000	Impact on portfolio value 2008 HRK'000
CROBEX	3%	132	366

### Foreign exchange risk

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

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

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

Note 1.44 discloses the currency analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities.

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

## 1.41 Financial risk management (continued)

### Foreign exchange risk (continued)

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

	Change in variables	Impact on result 2009 HRK'000	Impact on result 2009 EUR'000
EUR / HRK rate	4.00%	24,627	3,370
	Change in variables	Impact on result 2008 HRK'000	Impact on result 2008 EUR'000
EUR / HRK rate	4.00%	22,369	3,060

### Credit risk

The Group's portfolios of fixed income securities, mortgage loans and to a lesser extent short-term and other investments 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. The Group has adopted a risk averse investment policy.

The biggest exposure towards credit risk are book values presented in table:

	<b>Group 2009. HRK'000</b>	Group 2008. HRK'000	<b>Company 2009. HRK'000</b>	Company 2008. HRK'000
Cash in bank	<b>13,846</b>	15,371	<b>13,760</b>	15,250
Debt securities	<b>440,603</b>	364,279	<b>440,603</b>	364,279
Bank deposits	<b>244,283</b>	260,913	<b>244,283</b>	260,913
Loans to customers	<b>110,190</b>	90,543	<b>114,690</b>	96,021
Insurance receivables	<b>160,778</b>	136,744	<b>160,778</b>	136,744
Reinsurance receivables	<b>76,831</b>	101,414	<b>76,831</b>	101,414
	<b>1,046,531</b>	<b>969,264</b>	<b>1,050,945</b>	974,621

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

	<b>Group 2009 HRK'000</b>	Group 2008 HRK'000	<b>Company 2009 HRK'000</b>	Company 2008 HRK'000
Government bonds	<b>404,546</b>	334,422	<b>404,546</b>	334,422
Accrued interest thereon	<b>6,493</b>	3,892	<b>6,493</b>	3,892
	<b>411,039</b>	338,314	<b>411,039</b>	338,314

## 1.41 Financial risk management *(continued)*

### Credit risk *(continued)*

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

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

### Group 2009

	AAA - A HRK'000	BBB - B HRK'000	Investments for the benefit of unit and index linked life assurance HRK'000	Not rated HRK'000	Total HRK'000
<b>Financial assets with credit risk</b>					
Held-to-maturity investments					
Debt securities	-	221,963	-	12,472	<b>234,435</b>
Available-for-sale investments					
Debt securities	-	182,583	-	9,751	<b>192,334</b>
Financial assets at fair value through profit or loss					
Debt securities	2,817	-	-	-	<b>2,817</b>
Investments for the benefit of unit and index linked life assurance					
Index linked	-	-	11,017	-	<b>11,017</b>
Loans and receivables					
Deposits with banks	-	-	-	244,283	<b>244,283</b>
Loans to customers	-	-	-	110,190	<b>110,190</b>
Interest accrual	-	-	-	15,189	<b>15,189</b>
Cash in bank	-	-	-	13,846	<b>13,846</b>
<b>Total financial assets with credit risk</b>	<b>2,817</b>	<b>404,546</b>	<b>11,017</b>	<b>405,731</b>	<b>824,111</b>

## 1.41 Financial risk management (continued)

### Credit risk (continued)

#### Group 2008

	AAA - A HRK'000	BBB - B HRK'000	Investments for the benefit of unit and index linked life assurance HRK'000	Not rated HRK'000	Total HRK'000
<b>Financial assets with credit risk</b>					
Held-to-maturity investments					
Debt securities	-	222,921	-	7,702	<b>230,623</b>
Available-for-sale investments					
Debt securities	-	111,501	-	1,333	<b>112,834</b>
Financial assets at fair value through profit or loss					
Debt securities	2,739	-	-	12,406	<b>15,145</b>
Investments for the benefit of unit and index linked life assurance					
Index linked	-	-	5,677	-	<b>5,677</b>
Loans and receivables					
Deposits with banks	-	-	-	260,913	<b>260,913</b>
Loans to customers	-	-	-	90,543	<b>90,543</b>
Interest accrual	-	-	-	13,217	<b>13,217</b>
Cash in bank	-	-	-	15,371	<b>15,371</b>
<b>Total financial assets with credit risk</b>	<b>2,739</b>	<b>334,422</b>	<b>5,677</b>	<b>401,485</b>	<b>744,323</b>

## 1.41 Financial risk management (continued)

### Credit risk (continued)

#### Company 2009

	AAA – A HRK'000	BBB – B HRK'000	Investments for the benefit of unit and index linked life assurance HRK'000	Not rated HRK'000	Total HRK'000
<b>Financial assets with credit risk</b>					
Held-to-maturity investments					
Debt securities	-	221,963	-	12,472	234,435
Available-for-sale investments					
Debt securities	-	182,583	-	9,751	192,334
Financial assets at fair value through profit or loss					
Debt securities	2,817	-	-	-	2,817
Investments for the benefit of unit and index linked life assurance					
Index linked	-	-	11,017	-	11,017
Loans and receivables					
Deposits with banks	-	-	-	244,283	244,283
Loans to customers	-	-	-	114,690	114,690
Interest accrual				15,224	15,224
Cash in bank	-	-	-	13,760	13,760
<b>Total financial assets with credit risk</b>	<b>2,817</b>	<b>404,546</b>	<b>11,017</b>	<b>410,180</b>	<b>828,560</b>

## 1.41 Financial risk management (continued)

### Credit risk (continued)

#### Company 2008

	AAA – A HRK'000	BBB – B HRK'000	Investments for the benefit of unit and index linked life assurance HRK'000	Not rated HRK'000	Total HRK'000
<b>Financial assets with credit risk</b>					
Held-to-maturity investments					
Debt securities	-	222,921	-	7,702	<b>230,623</b>
Available-for-sale investments					
Debt securities	-	111,501	-	1,333	<b>112,834</b>
Financial assets at fair value through profit or loss					
Debt securities	2,739	-	-	12,406	<b>15,145</b>
Investments for the benefit of unit and index linked life assurance					
Index linked	-	-	5,677	-	<b>5,677</b>
Loans and receivables					
Deposits with banks	-	-	-	260,913	<b>260,913</b>
Loans to customers	-	-	-	96,021	<b>96,021</b>
Interest accrual	-	-	-	13,217	<b>13,217</b>
Cash in bank	-	-	-	15,250	<b>15,250</b>
<b>Total financial assets with credit risk</b>	<b>2,739</b>	<b>334,422</b>	<b>5,677</b>	<b>406,842</b>	<b>749,680</b>

## **1.41 Financial risk management (continued)**

### **Liquidity risk**

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

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

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

Note 1.42 discloses the maturity analysis at the reporting date for the Group's and the Company's financial assets and financial liabilities.

Note 1.21 discloses the maturity analysis of the Group's and the Company's technical provisions.

### **Fair values**

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Financial assets at fair value through profit or loss are measured at fair value based on quoted bid prices at the date of financial position. Loans and receivables are measured at amortised cost less impairment. Market value of loans and receivables with residual maturities of less than 12 months approximates book value due to short remaining maturities. The market value of held-to-maturity assets is estimated to be HRK 7.4 million lower than the carrying amount (2008: HRK 13.7 million lower). Financial assets available for sale are measured at fair values based on quoted market prices at the reporting date with the exception of the investment into unquoted shares of Erste osiguranje Vienna Insurance Group d.d. The management believes that the fair value of the investment in Erste osiguranje is equal to its purchase cost from September 2008.

## 1.42. Maturity analyses

The tables below analyses the financial assets and liabilities within the scope of IAS 39 of the Group and the Company at 31 December 2009 and 31 December 2008 into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date, except for non-monetary financial assets at fair value through profit or loss which are classified as short term. The estimated remaining contractual maturities of insurance provisions are analysed in note 1.21 i).

### Group - 2009

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
<b>Financial assets</b>						
Held-to-maturity investments						
Debt securities	4,875	-	4,998	89,841	134,721	234,435
Available-for-sale investments						
Debt securities	3,304	36,159	33,924	62,593	56,354	192,334
Equity securities	4,408	-	-	-	10,106	14,514
Investment funds	20,260	-	-	-	-	20,260
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	2,817	2,817
Investment funds	65,271	-	-	-	-	65,271
Investments for the benefit of unit and index linked life assurance						
Unit linked	10,438	-	-	-	-	10,438
Index linked	-	-	-	-	11,017	11,017
Loans and receivables						
Deposits with banks	114,837	119,053	-	10,393	-	244,283
Loans to customers	62,739	11,182	18,952	9,196	8,121	110,190
Cash and cash equivalents	13,865	-	-	-	-	13,865
<b>Total financial assets</b>	<b>299,997</b>	<b>166,394</b>	<b>57,874</b>	<b>172,023</b>	<b>223,136</b>	<b>919,424</b>
<b>Financial liabilities</b>						
Subordinated loan	-	-	-	14,565	-	14,565
Borrowings	3,618	3,858	5,878	16,568	30,837	60,579
<b>Financial liabilities</b>	<b>3,618</b>	<b>3,858</b>	<b>5,878</b>	<b>31,133</b>	<b>30,837</b>	<b>75,324</b>
<b>Maturity gap on financial assets and financial liabilities</b>	<b>296,379</b>	<b>162,536</b>	<b>51,996</b>	<b>140,890</b>	<b>192,299</b>	<b>844,100</b>

## 1.42 Maturity analysis (continued)

### Group - 2008

	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>						
Held-to-maturity investments						
Debt securities	-	-	-	4,997	225,626	<b>230,623</b>
Available-for-sale investments						
Debt securities	-	-	3,387	68,911	40,536	<b>112,834</b>
Equity securities	9,115	-	-	-	10,106	<b>19,221</b>
Investment funds	26,806	-	-	-	-	<b>26,806</b>
Financial assets at fair value through profit or loss						
Debt securities	-	3,006	-	7,400	4,739	<b>15,145</b>
Equity securities	3,103	-	-	-	-	<b>3,103</b>
Investment funds	31,194	-	-	-	-	<b>31,194</b>
Investments for the benefit of unit and index linked life assurance						
Unit linked	6,632	-	-	-	-	<b>6,632</b>
Index linked	-	-	-	-	5,677	<b>5,677</b>
Loans and receivables						
Deposits with banks	113,603	147,310	-	-	-	<b>260,913</b>
Loans to customers	28,388	27,921	7,902	26,332	-	<b>90,543</b>
Cash and cash equivalents	15,388	-	-	-	-	<b>15,388</b>
<b>Total financial assets</b>	<b>234,229</b>	<b>178,237</b>	<b>11,289</b>	<b>107,640</b>	<b>286,684</b>	<b>818,079</b>
<b>Financial liabilities</b>						
Borrowings	4,703	3,774	11,589	32,618	14,887	<b>67,571</b>
<b>Financial liabilities</b>	<b>4,703</b>	<b>3,774</b>	<b>11,589</b>	<b>32,618</b>	<b>14,887</b>	<b>67,571</b>
<b>Maturity gap on financial assets and financial liabilities</b>	<b>229,526</b>	<b>174,463</b>	<b>(300)</b>	<b>75,022</b>	<b>271,797</b>	<b>750,508</b>

## 1.42 Maturity analysis (continued)

### Company – 2009

	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Total HRK'000
<b>Financial assets</b>						
Held-to-maturity investments						
Debt securities	4,875	-	4,998	89,841	134,721	<b>234,435</b>
Available-for-sale investments						
Debt securities	3,304	36,159	33,924	62,593	56,354	<b>192,334</b>
Equity securities	4,408	-	-	-	10,106	<b>14,514</b>
Investment funds	20,260	-	-	-	-	<b>20,260</b>
Financial assets at fair value through profit or loss						
Debt securities	-	-	-	-	2,817	<b>2,817</b>
Investment funds	65,271	-	-	-	-	<b>65,271</b>
Investments for the benefit of unit and index linked life assurance						
Unit linked	10,438	-	-	-	-	<b>10,438</b>
Index linked	-	-	-	-	11,017	<b>11,017</b>
Loans and receivables						
Deposits with banks	114,837	119,053	-	10,393	-	<b>244,283</b>
Loans to customers	62,739	15,682	18,952	9,196	8,121	<b>114,690</b>
Cash and cash equivalents	13,779	-	-	-	-	<b>13,779</b>
<b>Total financial assets</b>	<b>299,911</b>	<b>170,894</b>	<b>57,874</b>	<b>172,023</b>	<b>223,136</b>	<b>923,838</b>
<b>Financial liabilities</b>						
Subordinated loan	-	-	-	14,565	-	<b>14,565</b>
<b>Financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,565</b>	<b>-</b>	<b>14,565</b>
<b>Maturity gap on financial assets and financial liabilities</b>	<b>299,911</b>	<b>170,894</b>	<b>57,874</b>	<b>157,458</b>	<b>223,136</b>	<b>909,273</b>

## 1.42 Maturity analysis (continued)

### Company – 2008

	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>						
Held-to-maturity investments						
Debt securities	-	-	-	4,997	225,626	<b>230,623</b>
Available-for-sale investments						
Debt securities	-	-	3,387	68,911	40,536	<b>112,834</b>
Equity securities	9,115	-	-	-	10,106	<b>19,221</b>
Investment funds	26,806	-	-	-	-	<b>26,806</b>
Financial assets at fair value through profit or loss						
Debt securities	-	3,006	-	7,400	4,739	<b>15,145</b>
Equity securities	3,103	-	-	-	-	<b>3,103</b>
Investment funds	31,194	-	-	-	-	<b>31,194</b>
Investments for the benefit of unit and index linked life assurance						
Unit linked	6,632	-	-	-	-	<b>6,632</b>
Index linked	-	-	-	-	5,677	<b>5,677</b>
Loans and receivables						
Deposits with banks	113,603	147,310	-	-	-	<b>260,913</b>
Loans to customers	30,888	30,899	7,902	26,332	-	<b>96,021</b>
Cash and cash equivalents	15,388	-	-	-	-	<b>15,388</b>
	<u>236,729</u>	<u>181,215</u>	<u>11,289</u>	<u>107,640</u>	<u>286,684</u>	<u>823,557</u>
<b>Total financial assets</b>						
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities</b>						
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Maturity gap on financial assets and financial liabilities</b>	<u>236,729</u>	<u>181,215</u>	<u>11,289</u>	<u>107,640</u>	<u>286,684</u>	<u>823,557</u>

### 1.43. Interest rate repricing analysis

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

The tables are management's estimate of the interest rate risk for the Group and the Company as at 31 December 2009 and 31 December 2008 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 1.21 e)), provide some indication of the sensitivities of the Group's and the Company's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity. The Group and the Company have a significant proportion of interest-earning assets and interest-bearing liabilities in foreign currency.

#### Group – 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>									
Held-to-maturity investments									
Debt securities	5.18	4,875	-	4,998	89,841	134,721	-	234,435	234,435
Available-for-sale investments									
Debt securities	6.52	3,304	36,159	33,924	62,593	56,354	-	192,334	187,409
Equity securities	n/a	-	-	-	-	-	14,514	14,514	-
Investment funds	n/a	-	-	-	-	-	20,260	20,260	-
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	2,817	-	2,817	2,817
Investment funds	n/a	-	-	-	-	-	65,271	65,271	-
Investments for the benefit of unit and index linked life assurance									
Unit linked	n/a	-	-	-	-	-	10,438	10,438	-
Index linked	n/a	-	-	-	-	11,017	-	11,017	11,017
Loans and receivables									
Deposits with banks	5.89	114,837	119,053	-	10,393	-	-	244,283	244,283
Loans to customers	8.58	62,739	11,182	18,952	9,196	8,121	-	110,190	110,190
Cash and cash equivalents	n/a	13,846	-	-	-	-	19	13,865	-
<b>Total financial assets</b>		<b>199,601</b>	<b>166,394</b>	<b>57,874</b>	<b>172,023</b>	<b>213,030</b>	<b>110,502</b>	<b>919,424</b>	<b>790,151</b>
<b>Financial liabilities</b>									
Subordinated loan	6.00	-	-	-	14,565	-	-	14,565	14,565
Borrowings	5.24	8,732	11,877	3,897	10,627	25,626	-	60,759	45,645
<b>Financial liabilities</b>		<b>8,732</b>	<b>11,877</b>	<b>3,897</b>	<b>25,192</b>	<b>25,626</b>	<b>-</b>	<b>75,324</b>	<b>60,210</b>
<b>Interest rate repricing gap on financial assets and financial liabilities</b>		<b>190,869</b>	<b>151,517</b>	<b>53,977</b>	<b>146,831</b>	<b>187,404</b>	<b>110,502</b>	<b>844,100</b>	<b>729,941</b>

## 1.43 Interest rate repricing analysis (*continued*)

### Group – 2008

	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>									
Held-to-maturity investments									
Debt securities	5.11	-	-	-	4,997	225,626	-	<b>230,623</b>	230,623
Available-for-sale investments									
Debt securities	5.58	-	-	3,387	68,911	40,536	-	<b>112,834</b>	112,834
Equity securities	n/a	-	-	-	-	-	19,221	<b>19,221</b>	-
Investment funds	n/a	-	-	-	-	-	26,806	<b>26,806</b>	-
Financial assets at fair value through profit or loss									
Debt securities	5.83	-	3,006	-	7,400	4,739	-	<b>15,145</b>	15,145
Equity securities	n/a	-	-	-	-	-	3,103	<b>3,103</b>	-
Investment funds	n/a	-	-	-	-	-	31,194	<b>31,194</b>	-
Investments for the benefit of unit and index linked life assurance									
Unit linked	n/a	-	-	-	-	-	6,632	<b>6,632</b>	-
Index linked	n/a	-	-	-	-	5,677	-	<b>5,677</b>	5,677
Loans and receivables									
Deposits with banks	6.20	113,603	147,310	-	-	-	-	<b>260,913</b>	260,913
Loans to customers	7.25	28,388	27,921	7,902	26,332	-	-	<b>90,543</b>	90,543
Cash and cash equivalents		15,371	-	-	-	-	17	<b>15,388</b>	-
<b>Total financial assets</b>		<b>157,362</b>	<b>178,237</b>	<b>11,289</b>	<b>107,640</b>	<b>276,578</b>	<b>86,973</b>	<b>818,079</b>	<b>715,735</b>
<b>Financial liabilities</b>									
Borrowings	4.58	4,703	3,774	11,589	32,618	14,887	-	<b>67,571</b>	49,211
<b>Financial liabilities</b>		<b>4,703</b>	<b>3,774</b>	<b>11,589</b>	<b>32,618</b>	<b>14,887</b>	<b>-</b>	<b>67,571</b>	<b>49,211</b>
<b>Interest rate repricing gap on financial assets and financial liabilities</b>		<b>152,659</b>	<b>174,463</b>	<b>(300)</b>	<b>75,022</b>	<b>261,691</b>	<b>86,973</b>	<b>750,508</b>	<b>666,524</b>

## 1.43 Interest rate repricing analysis (continued)

### Company – 2009

	Effective interest rate %	Up to 6 months HRK'000	6-12 months HRK'000	1-2 years HRK'000	2-5 years HRK'000	More than 5 years HRK'000	Non - interest bearing HRK'000	Total HRK'000	Amounts subject to fixed rates HRK'000
<b>Financial assets</b>									
Held-to-maturity investments									
Debt securities	5,18	4,875	-	4,998	89,841	134,721	-	234,435	234,435
Available-for-sale investments									
Debt securities	6,52	3,304	36,159	33,924	62,593	56,354	-	192,334	187,409
Equity securities	n/a	-	-	-	-	-	14,514	14,514	-
Investment funds	n/a	-	-	-	-	-	20,260	20,260	-
Financial assets at fair value through profit or loss									
Debt securities	n/a	-	-	-	-	2,817	-	2,817	2,817
Investment funds	n/a	-	-	-	-	-	65,271	65,271	-
Investments for the benefit of unit and index linked life assurance									
Unit linked	n/a	-	-	-	-	-	10,438	10,438	-
Index linked	n/a	-	-	-	-	11,017	-	11,017	11,017
Loans and receivables									
Deposits with banks	5,89	114,837	119,053	-	10,393	-	-	244,283	244,283
Loans to customers	8,58	62,739	15,682	18,952	9,196	8,121	-	114,690	114,690
Cash and cash equivalents		13,760	-	-	-	-	19	13,779	-
<b>Total financial assets</b>		<b>199,515</b>	<b>170,894</b>	<b>57,874</b>	<b>172,023</b>	<b>213,030</b>	<b>110,502</b>	<b>923,838</b>	<b>794,651</b>
<b>Financial liabilities</b>									
Subordinated loan	6,00	-	-	-	14,565	-	-	14,565	14,565
<b>Financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>14,565</b>	<b>-</b>	<b>-</b>	<b>14,565</b>	<b>14,565</b>
<b>Interest rate repricing gap on financial assets and financial liabilities</b>		<b>199,515</b>	<b>170,894</b>	<b>57,874</b>	<b>157,458</b>	<b>213,030</b>	<b>110,502</b>	<b>909,273</b>	<b>780,086</b>

## 1.43 Interest rate repricing analysis (continued)

### Company – 2008

	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>									
Held-to-maturity investments									
Debt securities	5.11	-	-	-	4,997	225,626	-	<b>230,623</b>	230,623
Available-for-sale investments									
Debt securities	5.58	-	-	3,387	68,911	40,536	-	<b>112,834</b>	112,834
Equity securities	n/a	-	-	-	-	-	19,221	<b>19,221</b>	-
Investment funds	n/a	-	-	-	-	-	26,806	<b>26,806</b>	-
Financial assets at fair value through profit or loss									
Debt securities	5.83	-	3,006	-	7,400	4,739	-	<b>15,145</b>	15,145
Equity securities	n/a	-	-	-	-	-	3,103	<b>3,103</b>	-
Investment funds	n/a	-	-	-	-	-	31,194	<b>31,194</b>	-
Investments for the benefit of unit and index linked life assurance									
Unit linked	n/a	-	-	-	-	-	6,632	<b>6,632</b>	-
Index linked	n/a	-	-	-	-	5,677	-	<b>5,677</b>	5,677
Loans and receivables									
Deposits with banks	6.20	113,603	147,310	-	-	-	-	<b>260,913</b>	260,913
Loans to customers	7.25	30,388	30,899	7,902	26,332	-	-	<b>95,521</b>	96,021
Cash and cash equivalents	0.4	15,250	-	-	-	-	16	<b>15,266</b>	-
<b>Total financial assets</b>		<b>159,241</b>	<b>181,215</b>	<b>11,289</b>	<b>107,640</b>	<b>276,578</b>	<b>86,972</b>	<b>822,935</b>	<b>721,213</b>
<b>Financial liabilities</b>		-	-	-	-	-	-	-	-
<b>Interest rate repricing gap on financial assets and financial liabilities</b>		<b>159,241</b>	<b>181,215</b>	<b>11,289</b>	<b>107,640</b>	<b>276,578</b>	<b>86,972</b>	<b>822,935</b>	<b>721,213</b>

## 1.44. Currency risk analysis

The Group's and the Company's financial assets and financial liabilities within the scope of IAS 39 were denominated as follows as at 31 December 2009 and 31 December 2008.

### Group - 2009

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked* total HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>					
Held-to-maturity investments					
Debt securities	11,643	217,794	229,437	4,998	234,435
Available-for-sale investments					
Debt securities	63,110	120,796	183,906	8,428	192,334
Equity securities	-	-	-	14,514	14,514
Investment funds	-	10,086	10,086	10,174	20,260
Financial assets at fair value through profit or loss					
Debt securities	2,817	-	2,817	-	2,817
Investment funds		24,004	24,004	41,267	65,271
Investments for the benefit of unit and index linked life assurance					
Unit linked	-	10,438	10,438	-	10,438
Index linked	11,017	-	11,017	-	11,017
Loans and receivables					
Deposits with banks	77,518	111,092	188,610	55,673	244,283
Loans to customers	-	101,746	101,746	8,444	110,190
Cash and cash equivalents	81	-	81	13,784	13,865
<b>Total financial assets</b>	<b>166,186</b>	<b>595,956</b>	<b>762,142</b>	<b>157,282</b>	<b>919,424</b>
<b>Financial liabilities</b>					
Subordinated loan	14,565	-	14,565	-	14,565
Borrowings	50,759	-	50,759	10,000	60,759
<b>Financial liabilities</b>	<b>65,324</b>	<b>-</b>	<b>65,324</b>	<b>10,000</b>	<b>75,324</b>
<b>Currency gap on financial assets and financial liabilities</b>	<b>100,862</b>	<b>595,956</b>	<b>696,818</b>	<b>147,282</b>	<b>844,100</b>

## 1.44 Currency risk analysis (continued)

### Group - 2008

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked* total HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>					
Held-to-maturity investments					
Debt securities	11,664	213,962	225,626	4,997	230,623
Available-for-sale investments					
Debt securities	33,254	76,193	109,447	3,387	112,834
Equity securities	-	-	-	19,221	19,221
Investment funds	-	10,890	10,890	15,916	26,806
Financial assets at fair value through profit or loss					
Debt securities	2,739	-	2,739	12,406	15,145
Equity securities	-	-	-	3,103	3,103
Investment funds	-	-	-	31,194	31,194
Investments for the benefit of unit and index linked life assurance					
Unit linked	-	6,632	6,632	-	6,632
Index linked	5,677	-	5,677	-	5,677
Loans and receivables					
Deposits with banks	79,841	83,226	163,067	97,846	260,913
Loans to customers	-	89,860	89,860	683	90,543
Cash and cash equivalents	372	-	372	15,016	15,388
<b>Total financial assets</b>	<b>133,547</b>	<b>480,763</b>	<b>614,310</b>	<b>203,769</b>	<b>818,079</b>
<b>Financial liabilities</b>					
Borrowings	55,071	-	55,071	12,500	67,571
<b>Financial liabilities</b>	<b>55,071</b>	<b>-</b>	<b>55,071</b>	<b>12,500</b>	<b>67,571</b>
<b>Currency gap on financial assets and financial liabilities</b>	<b>78,476</b>	<b>480,763</b>	<b>559,239</b>	<b>191,269</b>	<b>750,508</b>

## 1.44 Currency risk analysis (continued)

### Company – 2009

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>					
Held-to-maturity investments					
Debt securities	11,643	217,794	229,437	4,998	234,435
Available-for-sale investments					
Debt securities	63,110	120,796	183,906	8,428	192,334
Equity securities	-	-	-	14,514	14,514
Investment funds	-	10,086	10,086	10,174	20,260
Financial assets at fair value through profit or loss					
Debt securities	2,817	-	2,817	-	2,817
Investment funds	-	24,004	24,004	41,267	65,271
Investments for the benefit of unit and index linked life assurance					
Unit linked	-	10,438	10,438	-	10,438
Index linked	11,017	-	11,017	-	11,017
Loans and receivables					
Deposits with banks	77,518	111,092	188,610	55,673	244,283
Loans to customers	-	101,746	101,746	12,944	114,690
Cash and cash equivalents	81	-	81	13,698	13,779
<b>Total financial assets</b>	<b>166,186</b>	<b>595,956</b>	<b>762,142</b>	<b>161,696</b>	<b>923,838</b>
<b>Financial liabilities</b>					
Subordinated loan	14,565	-	14,565	-	14,565
<b>Financial liabilities</b>	<b>14,565</b>	<b>-</b>	<b>14,565</b>	<b>-</b>	<b>14,565</b>
<b>Currency gap on financial assets and financial liabilities</b>	<b>151,621</b>	<b>595,956</b>	<b>747,577</b>	<b>161,696</b>	<b>909,273</b>

## 1.44 Currency risk analysis (continued)

### Company – 2008

	EURO HRK'000	EURO linked HRK'000	EURO and EURO linked total HRK'000	HRK HRK'000	Total HRK'000
<b>Financial assets</b>					
Held-to-maturity investments					
Debt securities	11,664	213,962	225,626	4,997	230,623
Available-for-sale investments					
Debt securities	33,254	76,193	109,447	3,387	112,834
Equity securities	-	-	-	19,221	19,221
Investment funds	-	10,890	10,890	15,916	26,806
Financial assets at fair value through profit or loss					
Debt securities	2,739	-	2,739	12,406	15,145
Equity securities	-	-	-	3,103	3,103
Investment funds	-	-	-	31,194	31,194
Investments for the benefit of unit and index linked life assurance					
Unit linked	-	6,632	6,632	-	6,632
Index linked	5,677	-	5,677	-	5,677
Loans and receivables					
Deposits with banks	79,841	83,226	163,067	97,846	260,913
Loans to customers	-	89,860	89,860	6,161	96,021
Cash and cash equivalents	371	-	371	14,895	15,266
<b>Total financial assets</b>	<b>133,546</b>	<b>480,763</b>	<b>614,309</b>	<b>209,126</b>	<b>823,435</b>
<b>Financial liabilities</b>					
Other liabilities	-	-	-	-	-
<b>Financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Currency gap on financial assets and financial liabilities</b>	<b>133,546</b>	<b>480,763</b>	<b>614,309</b>	<b>209,126</b>	<b>823,435</b>