PRVA GROUP

AUDITED ANNUAL REPORT 2012

COMPILED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONTENTS

I. INTRODUCTORY WORD FROM THE MANAGEMENT BOARD

In line with the approved strategy of the Company for the 2009-2013 period, in 2012 we continued consolidating the system towards further development of pension insurance in the countries of the former Yugoslavia, and the expansion into the domain of insurance in countries where the Company holds a strategic advantage due to its achievements in pension insurance.

At the end of 2012, the Group had over 350 thousand of insured persons with almost EUR 450 million of assets under management (some of which are recorded off-balance sheet). Compared to the previous year, the amount of assets managed by the Group increased by as much as 12%.

Prva osebna zavarovalnica, Slovenia and KB Prvo, Macedonia both generated profit in 2012. The success in the field of life insurance undertaking in Slovenia which recorded an exceptional growth must be specially emphasized. The subsidiary DDOR Garant Serbia also recorded a profit in 2012 following the successful consolidation of its operations.

The company in Kosovo opted to specialise in pension insurance and in 2012 incurred a small loss.

NLB Penzija, Montenegro was liquidated in 2012 and the initial capital of the company was credited to the account of Prva Group. The reason for liquidation was primarily the small size of the Montenegrin market, and in the long-term there was no prospect for the successful operation and suitable development of the company.

Alenka Žnidaršič Kranjc
President of the Management Board

II. THE ACTIVITIES OF THE COMPANY AND ITS DEVELOPMENT

Prva Group - Skupina Prva, zavarovalniški holding, d.d. (formerly Prva pokojninska družba d.d.) is an insurance holding in which 3 pension companies, 1 insurance undertaking and 1 company in the process of acquiring licences for pension insurance of a sister company, operated in 2012.

The Company's activity includes holding operations in insurance and pension funds.

Ernst & Young was appointed the auditor of the Company.

Prva Group - Skupina Prva, insurance holding company, plc. is a public limited company set up for an indefinite period of time.

In 2012, the following enterprises operated within the Group: Prva osebna zavarovalnica d.d. in Slovenia, KB Prvo in Macedonia, DDOR Garant in Serbia, FSKP in Kosovo, NLB Penzija AD in Montenegro (only for part of the year), and Prva zavarovalniško zastopniška družba, d.o.o. in Slovenia. NLB Penzija Montenegro was liquidated in the second half of 2012.

Prva Group insurance holding company, plc. compiled consolidated financial statements under IFRS for the Group, which includes five subsidiaries and one associated enterprise. The consolidated financial statements are based on the original financial statements of the enterprises included in consolidation, inclusive of the necessary consolidation adjustments which, however, are not subject to posting in the financial statements of the enterprises included in consolidation. In the financial statements, subsidiaries are accounted for under the acquisition method. The report includes presentation of the operations of the long-term business funds managed by the subsidiaries.

Prva Group does not have any branch offices either in Slovenia or abroad.

III. COMPANY BODIES

The Company's bodies consist of the General Meeting, the Supervisory Board, the Management Board, and the Audit Committee.

The General Meeting of the company Prva Group is comprised of legal entities and natural persons, holders of the Prva Group d.d. shares.

The Supervisory Board consists of five members. All are representatives of the capital.

The Management Board represents and presents the Company. Dr. Alenka Žnidaršič Kranjc is the president of the company Prva Group.

The registered seat of the Company:

Prva Group - Skupina Prva, zavarovalniški holding, d.d.
Ameriška ulica 8
1000 Ljubljana
Slovenia

III.1 REPORT ON THE WORK OF THE SUPERVISORY BOARD OF PRVA GROUP

Pursuant to the decision of the General Meeting of Shareholders, in 2012 the number of the Supervisory Board members was reduced from 6 to 5 members. Until the Annual General Meeting of Shareholders, the six-member Supervisory Board was composed of Silvo Svete (Chairman), Zvonimir Kristančič, Jože Mermal, Dušan Šešok, Andreea Moraru and Nicholas Andrew Lindsay Stuart. The Annual General Meeting of Shareholders appointed a five-member Supervisory Board composed of Nicholas Andrew Lindsay Stuart (Chairman), Zvonimir Kristančič, Jože Mermal, Dušan Šešok and Andreea Moraru. Both sets of Supervisory Board members performed their duties and tasks in accordance with provisions of the Insurance Act, Companies Act, Articles of Association, and Rules of Procedure of the Supervisory Board.

In 2012, the Supervisory Board monitored and discussed the operations of the Company and the work of the Management Board in two regular sessions and two conference calls. It carried out the legally prescribed supervision of the Company's operations and supervised the implementation of the resolutions adopted in previous sessions and at the General Meetings of the Company.

The Supervisory Board approved the liquidation of the company in Montenegro.

In 2012, the work of the Supervisory Board further consisted of addressing the Annual Report of Prva Group, insurance holding company, plc., for 2011, forming the opinion of the Supervisory Board on the Annual Report for 2011, addressing the Auditor's Report for 2011, and Reports of the Audit Committee for 2012, drafting a proposal for the General Meeting to nominate the company's auditor for 2013, addressing and adopting the Business Plan for 2013, and ongoing supervision of all the Company's operations and the comparison of the objectives realised with those planned.

At its last session in 2012 and with an outlook on the future operations of the Company, the Supervisory Board adopted the Business Plan for 2013 and was informed of the plans of all the subsidiaries for 2013.

The Supervisory Board was informed about the decisions of the supervisory bodies in a timely fashion and monitored their implementation.

The Supervisory Board reviewed the Annual Report on the Prva Group plc. for 2012 and had no objections to the report. On the basis of the monitoring and supervision of the Company's operations, it has established that the Company followed its set objectives. The Supervisory Board had no objections to the opinion of the audit company.

The Supervisory Board hereby approves the Annual Report of Prva Group, insurance holding company, plc., for 2012 and will propose it for adoption at the General Meeting.

Nicholas Andrew Lindsay Stuart

Chairman of the Supervisory Board

III.1 STATEMENT OF THE RESPONSIBILITY OF THE MANAGEMENT BOARD

The Management Board approved the publication of the financial statements, accounting policies used and notes to the financial statements on 11 April 2013.

The Management Board is responsible for preparing the annual report which represents a true and fair view of the Company's and the Group's financial position and of their financial results for the year 2012.

Members of the Management Board and the Supervisory Board confirm that the Annual Report of Prva Group, insurance holding company, plc., and its integral parts, inclusive of the corporate governance statement, have been compiled and published in accordance with the Companies Act and International Financial Reporting Standards, as adopted by the EU.

The Management Board is responsible for the preparation of the annual report of Prva Group, insurance holding company, plc., including the financial statements and consolidated financial statements and notes thereto that give a true and fair presentation of the financial position of the Company and the Group.

The Management Board confirms that the financial statements of the Company and the Group have been compiled under the assumption of a going concern, that the appropriate accounting policies have been consistently applied, that any changes in these have been disclosed, and that accounting estimates have been made based on the principle of prudence.

The Management Board is also responsible for the adoption of measures to secure the assets of Prva Group, insurance holding company, plc., and to prevent and detect fraud and other irregularities and/or illegal acts.

The Tax Authorities may, at any time within a period of 5 years after the end of the year for which the tax assessment was due, carry out an audit of the company operations, which may lead to the assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties. The Management Board is not aware of any circumstances that may result in a significant tax liability.

Ljubljana, 11 April 2013

Alenka Žnidaršič Kranjc
President of the Management Board

III.3 CORPORATE GOVERNANCE STATEMENT

1. The Company applies the Corporate Governance Code for Public Limited Companies adopted by the Ljubljana Stock Exchange, the Association of Supervisory Board Members of Slovenia and the Association of Managers on 18 March 2004 as amended and supplemented on 14 December 2005 and 5 February 2007. The revised Corporate Governance Code was adopted on 8 December 2009. The Corporate Governance Code was published in the Official Gazette of the RS no. 44/2004 on 28 April 2004 and is available on the web sites of all three signatories.

2. The Company complies with the obligatory provisions of the Code.

3. Within the framework of the internal control system and risk management related to the financial reporting process, special attention is devoted to:

- Identifying important business events that have a direct and significant impact on the financial reporting
- Accounting categories and individual accounts and the related processes
- Regularly updating the documenting of the business processes flow
- Assessing the results and eliminating the weaknesses identified in the planned or existing internal controls.

4. Company rules regarding appointment and replacement of members of the Management Board and the Supervisory Board are specified in the Articles of Association. All amendments to the Articles of Association are adopted by a majority of no less than 75% of the share capital represented.

5. The Management Board convenes the General Meeting of Shareholders at least one month in advance. Usually, it is convened at the head office of the Company. The competences of the General Meeting are stipulated in the Companies Act (ZGD-1). The General Meeting decides with a majority of votes cast by the share capital represented. Shareholders can exercise their rights at the General Meeting either in person or by proxy. Shareholders' rights are specified in the Articles of Association and legislation.

6. The managing of and corporate governance of the Company are conducted under a two-tier system based on statutory provisions, Articles of Association, internal rules and the established and generally accepted good business practices.

Ljubljana, 11 April 2013

Alenka Žnidaršič Kranjc
President of the Management Board

IV. SHARE CAPITAL AND SHAREHOLDERS

The Company's share capital amounts to EUR 14,026,588 and underwent changes in 2012, which are detailed in section 19: Equity.

The owners of Prva Group, insurance holding company, plc., are successful Slovenian companies, a foreign bank, members of the Supervisory and Management Boards and other shareholders, as well as companies that have included their insurants in one of the pension schemes of Prva osebna zavarovalnica, d. d. The ultimate parent company of Prva Group, insurance holding company, plc., is A-Z Finance d.o.o., a company established in 1998 and whose sole owner is Alenka Žnidaršič Kranjc.

Table 1: Ten largest shareholders of ordinary and preference shares of Prva Group, plc. as at 31 December 2012

Name of shareholder/ordinary shares	Holding as at 31 December 2012 in %
DEJ d.o.o.	50.20%
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT	20.00%
KYMAH LIMITED	12.22%
BTC d.d.	4.16%
KD ŽIVLJENJE d.d.	1.89%
PRVA OSEBNA ZAVAROVALNICA D.D. - KS3	1.79%
PRVA OSEBNA ZAVAROVALNICA D.D. - KS4	1.26%
KD ŽIVLJENJE, zavarovalnica, d.d. – KRIT	1.02%
PRVA OSEBNA ZAVAROVALNICA D.D. - KS2	0.98%
OMEGAT d.o.o.	0.90%
10 MAJOR SHAREHOLDERS	**94.42%**
OTHER LEGAL ENTITIES	2.54%
OTHER NATURAL PERSONS	3.04%
TOTAL (AS AT 31 DECEMBER 2012)	**100.00%**

Name of shareholder/preference shares	Holding as at 31 December 2012 in %
PRVA OSEBNA ZAVAROVALNICA D.D. - KS3	14.96%
PRVA OSEBNA ZAVAROVALNICA D.D. - KS4	11.28%
PRVA OSEBNA ZAVAROVALNICA D.D. - KS1	11.26%
PRVA OSEBNA ZAVAROVALNICA D.D. - KS2	8.23%
CIMOS d.d.	7.36%
NFD 1, delniški podsklad	5.88%
FACTOR BANKA d.d.	5.88%
SKUPNA POKOJNINSKA DRUŽBA D.D., LJUBLJANA	4.61%
Sava Re d.d.	4.04%
SALONIT ANHOVO, d.d.	3.79%
10 MAJOR SHAREHOLDERS	**77.29%**
OTHER LEGAL ENTITIES	16.62%
OTHER NATURAL PERSONS	6.09%
TOTAL (AS AT 31 DECEMBER 2012)	**100.00%**

Source: The Share Register of Prva Group plc.

47 legal entities or natural persons are owners of Class A ordinary shares. The largest shareholders among them are Dej d.o.o. with a 50.20% share, EBRD with a 20% share, Kymah Limited with a 12.22% share, and BTC d.d. with a 4.16% share. The others own a total of 13.42% of ordinary shares.

B Class shares are owned by 70 legal entities or natural persons. The largest stake is owned by Prva osebna zavarovalnica d.d. – KS3 in the amount of 14.96%, followed by Prva osebna zavarovalnica d.d. – KS4 with an 11.28% share, Prva osebna zavarovalnica d.d. – KS1 with 11.26% stake and Prva osebna zavarovalnica d.d. – KS2 holding an 8.23% share. The others own a total of 54.28% of preference shares.

At the end of 2012, the Company does not possess any authorised capital for the payment of shares.

V. THE ECONOMIC ENVIRONMENT

V.1 MACROECONOMIC ENVIRONMENT

As in recent years, 2012 began with the same worries of what could possibly go wrong. The fragile economy and political uncertainty in Arabic countries continued to be at the forefront of political issues. And while the European economy was struggling in vain to escape the grip of the recession and high indebtedness, some Arab countries experienced first-hand that the transition from a dictatorship to a democracy is anything but a simple process. Barack Obama won the second presidential mandate in the White House and successfully avoided fiscal cliff at least for the time being. France elected Francois Hollander as its new president, who alighted from the French-German train based above all on financial discipline. In Slovenia, following early elections in 2011, a new government was formed at the beginning of 2012.

As predicted, in 2012 industrial activity was the weakest of all in the euro zone where it further contracted by 0.6 per cent. Forecasts for the forthcoming year are no better and the euro zone is expected to remain firmly in the grip of recession. In 2012, a major drop in industrial activity was recorded by Greece, Portugal and Cyprus, followed by Slovenia recording a 2.3per cent decline in GDP. Germany, the engine of the European industry, recorded a 0.7% increase in GDP, while France's GDP remained at the previous year's level. Forecasts for the forthcoming year are much the same: further contraction of economic activity in localised countries and modest growth in the heart of the European integration; all in all this will not be sufficient to prevent further contraction of the European economy. In contrast, the USA recorded a 2.2% growth in the economy, while similar recovery (1.9% growth) was reported also by Japan following a devastating earthquake and recession that hit Japan in 2011. Unemployment continues to be one of the key issues in Europe. In 2012 it exceeded 11% and further increase in unemployment is expected also in 2013.

In contrast to economic trends, particularly in Europe, the year 2012 was good for financial markets. Risk premiums for government and bank bonds issued by vulnerable countries fell. The permanent mechanism for assistance to EU countries (European Stability Mechanism) was revived and the ECB announced a programme of purchasing government bonds of vulnerable courtiers. Confidence in the common European currency and consolidation of public finance in the euro zone returned, which was strongly reflected in almost all major investment categories which in 2012 recorded above average returns.

On home soil, after two years of modest economic growth, recession hit in the year 2012. Forecasts for the next financial year predict between a 1.4 and 2.0 % decline of Slovene GDP. The major contributor to the decline in economic activity was slowdown in the growth of foreign demand, which was accompanied by further contraction of investment activity; in circumstances of heightened financial conditions, further drop in construction investments, deleverage of highly indebted Slovene companies and deteriorated business expectations, reduced business investments also contributed to a decline in economy. Continued saving measures in the public sector resulted in the accelerated contraction of government spending. After years of modest growth in private spending following the onset of the crisis, in 2012 we for the first time recorded a drop in private spending.

The registered unemployment rate in Slovenia reached 13% in December, bringing the number of registered unemployed to over 118,000. The number of active working population dropped in December 2012 to below 800,000 for the first time since March 2003. According to forecasts, unemployment will rise further in the forthcoming year.

At the end of 2012, year-on-year inflation reached 2.7%, while average inflation reached 2.6%. Major contributors to the increase in consumer price index were prices of fuel and food as other prices remained stable due to weak economic activity and reduced spending. Providing the economy continues to be weak and in the absence of major price increase from international environment, in 2013 and 2014, inflation should stay at around 2% according to UMAR.

V.2 CAPITAL MARKETS

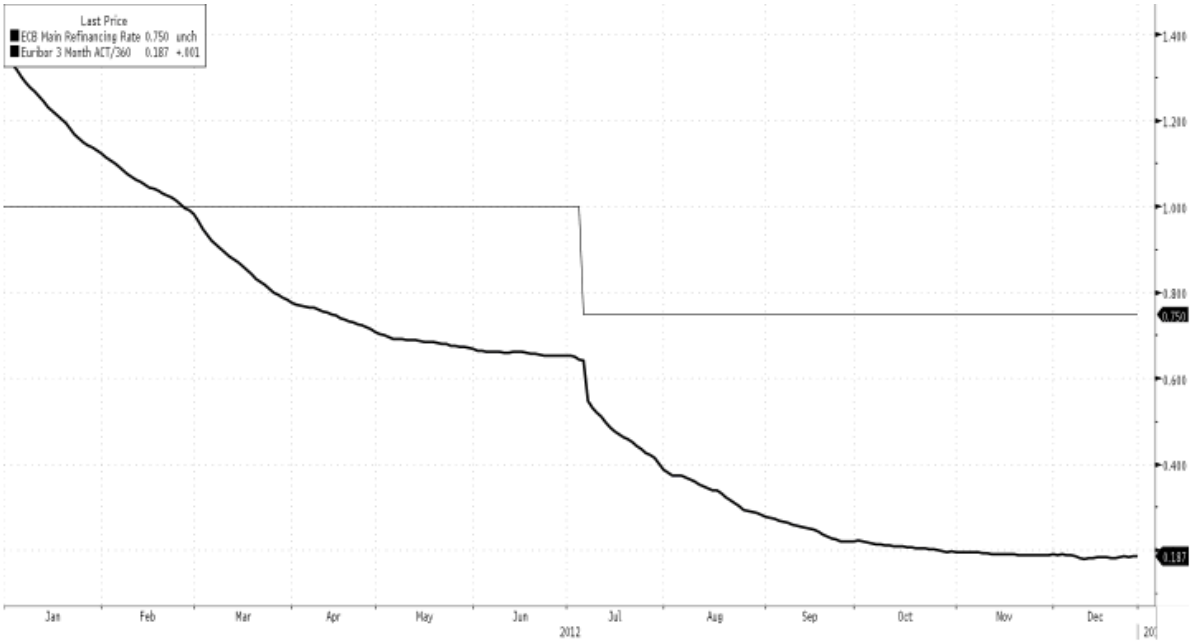
Monetary markets and interest rates

In the summer of 2012 we witnessed another reduction in the key interest rate by the European Central Bank to 0.75%. Deposit interest rate at which commercial banks deposit their assets with the central bank dropped to 0%. While at the end of 2011, 3 M Euribor was well over 1%, in 2012 it dropped to its all-time lowest level of 0.18%.

As already mentioned, the ECB announced its OMT programme and pledged to purchase government bonds of troubled EU countries under certain conditions. This resulted in a severe reduction of market interest rates and risk premium.

No major changes are expected in the monetary policy in the forthcoming year; however further reduction of the key interest rate is likely.

Diagram 1: Key interest rate trend of the ECB and 3 M Euribor in 2012



Source: Bloomberg

Bond markets

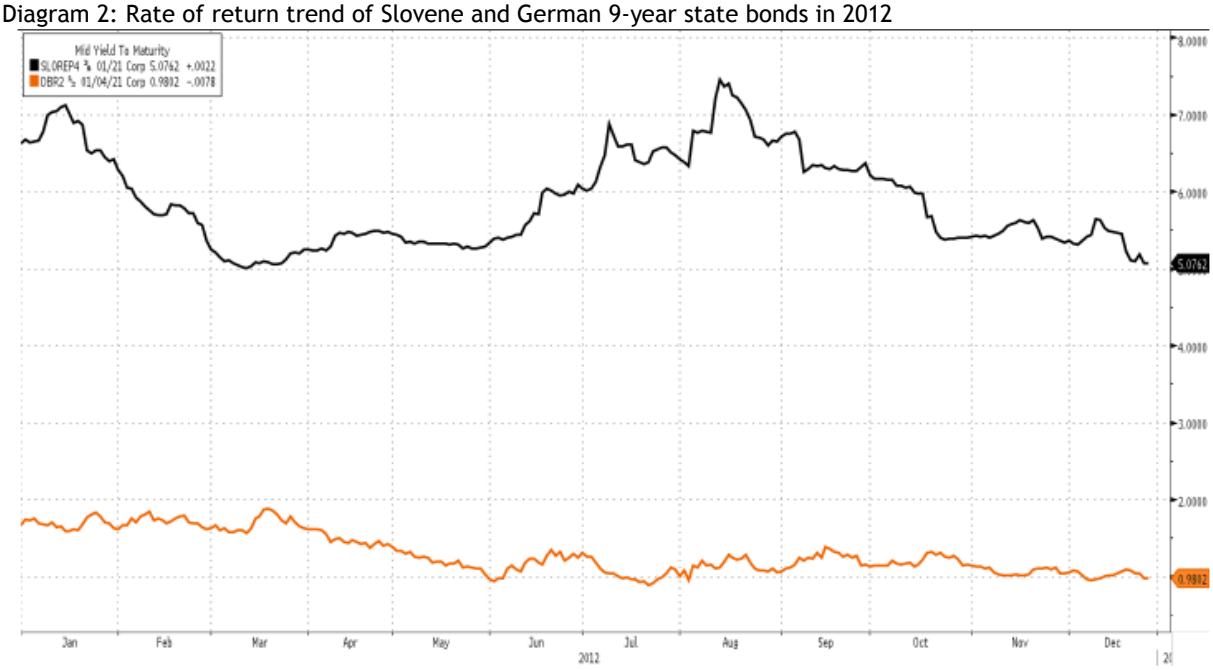
In contrast to the 2011 financial year which was rather turbulent for bond markets, the 2012 year proved to be one of the most profitable in the history of European bonds. European government bonds rose on average by 10%, as did corporate bonds, and the most highly profitable bonds rose by more than 20%. On the other hand, investors in USA government bonds had to be satisfied with much lower returns of around 3%.

In the first quarter of 2012, Greece restructured part of its government debt with one of the largest write-off of bonds in the history of mankind. Private creditors wrote-off over 100 billion euro of debt which accounts for more than 50% of the bonds' nominal value.

A more positive development was Ireland's return to the financial markets with it issuing 5-year government bond, after the country was severed from the financial markets in September 2010. In 2013, we may even witness Portugal's return to the financial markets.

Slovene treasury bonds recorded positive movement in 2012 as the required return on treasury bonds maturing in 2021 fell from 6.6% at the year-end 2011 to 4.9% at the end of 2012. Slovenia successfully issued a 10-year treasury bond in US dollars. The issue was worth 2.25 billion dollars at a 5.5% interest rate which is, considering conditions on financial markets, a relatively expensive way of raising loans. Slovenia's credit rating was reduced by all three major agencies of which Moody's reduced Slovenia's credit rating to Baa2, only 2 steps away from junk.

Diagram 2: Rate of return trend of Slovene and German 9-year state bonds in 2012



Source: Bloomberg

Diagram 3: Risk premium trend of 5- and 10-year corporate bonds in 2012

Source: Bloomberg

Share trading markets

2012 proved to be exceptional also for stock markets. The German Dax recorded an almost 30% increase in its value. Japanese and Indian indices also boasted over 20% return rates, while US S&P 500 recorded 13% growth.

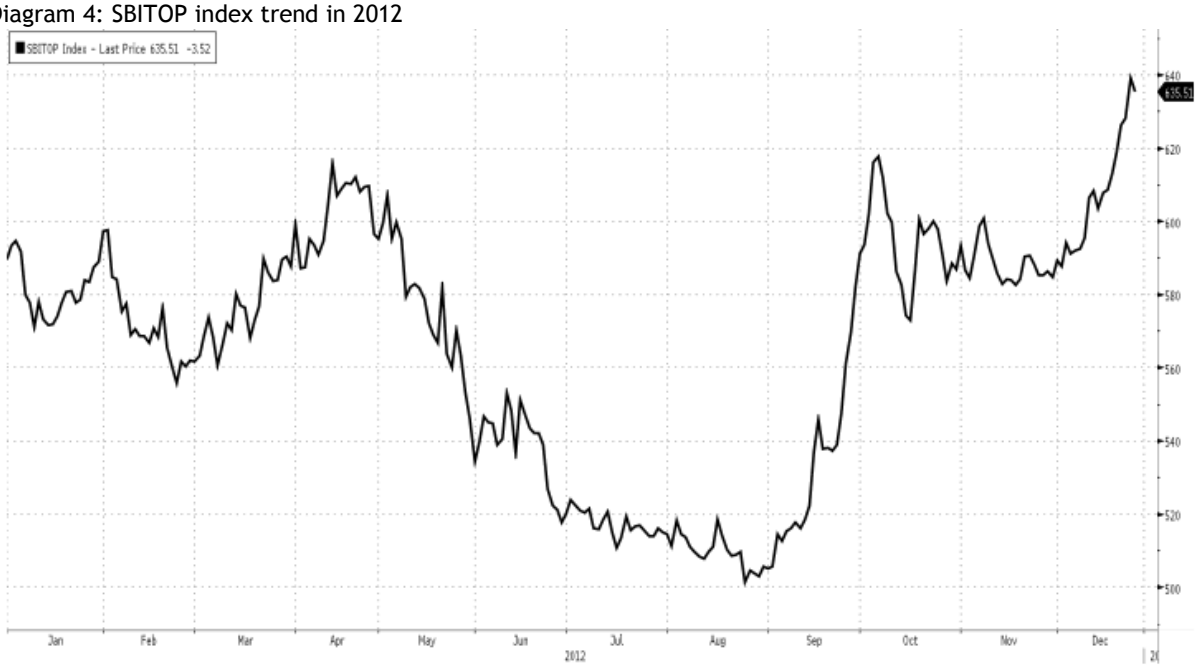
After two years of continuous decline in shares on Slovenian stock market, in 2012 SBI TOP recorded an almost 8% increase. The Slovene stock market was driven primarily by speculations regarding the potential withdrawal of government from companies and therefore the largest increase in value was recorded by shares of Telekom Slovenije, Petrol and Zavarovalnica Triglav.

Table2: Market capitalisation of the Ljubljana Stock Exchange (in million EUR)

Market capitalisation (million €)	31.12.2010	31.12.2011	31.12.2012
EQUITY MARKET	7,028	4,873	4,911
Prime Market	4,714	3,696	3,992
Standard Market	1,499	578	318
BOND MARKET	13,193	14,459	12,736
FUND MARKET	107	20	17
CLOSE-END FUND MARKET	159	/	/
TOTAL	**20,486**	**19,352**	**17,644**

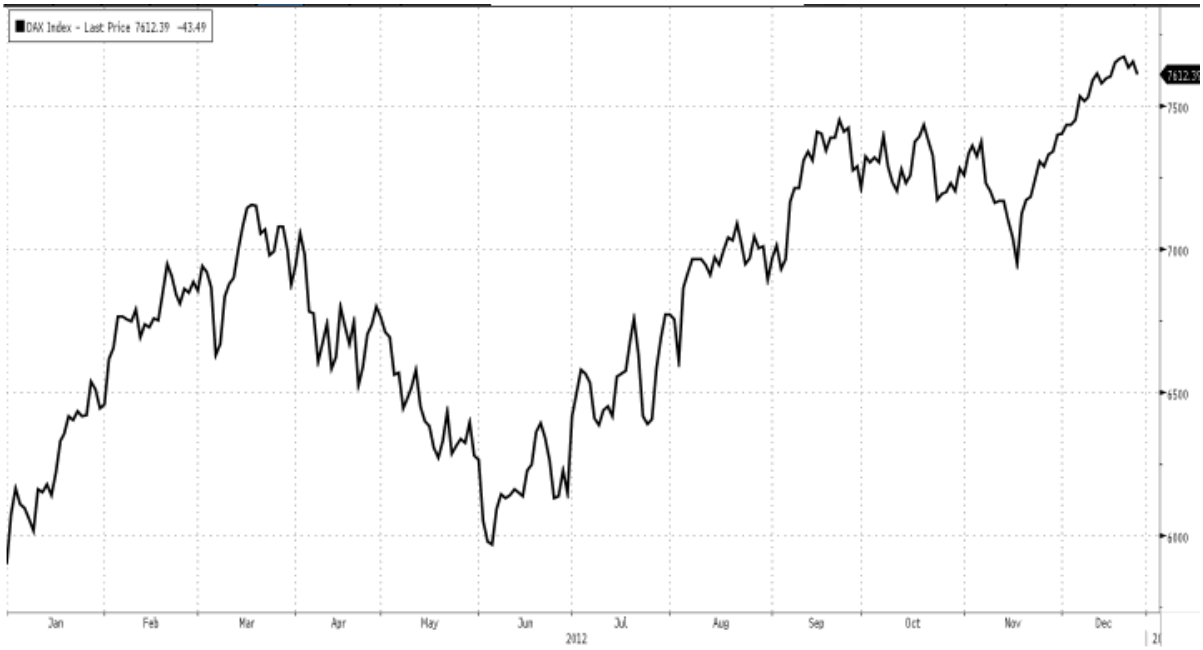
Source: LJSE

Diagram 4: SBITOP index trend in 2012



Source: Bloomberg

Diagram 5: DAX 30 index trend in 2012



Source: Bloomberg

Diagram 6: S&P 500 index trend in 2012

Source: Bloomberg

Commodity markets

Like the year before, in 2012 there were no significant changes in the value of the commodity basket. The S&P GSCI Total Return index ended the year at 4,889 points, an increase of 0.08% over 2011.

In a very turbulent year, the price of West Texas Intermediate ended the year with a 7% decrease to 92 USD per barrel. BRENT rose by over 3%, ending the year at 111 USD per barrel. Increased supply on the one hand and weak demand on the other are the primary reasons for the decline in the price of West Texas Intermediate.

The price of gold continued to rise in 2012 and recorded its twelfth consecutive annual increase reaching a year-on-year increase of over 6%. At the end of the year, one ounce of gold was worth USD 1676. There are several indications that after more than a decade of exceptional growth in prices of gold, in the next few years we could see a cooling down period. For comparison, at the end of 2000, an ounce of gold was priced at USD 272.

Diagram 7: Commodities index S&P GSCI Total Return in 2012

Source: Bloomberg

Diagram 8: Prices of gold in 2012

Source: Bloomberg

Diagram 9: Prices of oil in 2012

Source: Bloomberg

VI. FINANCIAL RESULT

The company ended the 2012 financial year with a net profit of EUR 1,474,969, primarily as a result of the investment part of operations. In the same period, the Group recorded a net profit of EUR 3,030,658.

Table 2: Key financial indicators of Prva Group plc. and the Group

EUR

	Prva Group		The Group	
	2012	2011	2012	2011
Written premiums	0	0	73,425,768*	69,793,501
Operating income	254,234	348,313	13,056,250	11,293,704
Operating expenses/costs	-247,406	-435,444	-11,000,166	-9,698,712
Operating profit or loss	6,828	-87,130	2,056,084	1,594,992
Profit or loss on investments	1,518,705	1,267,087	1,071,268	1,990,606
Income tax (current and deferred)	-50,564	23,749	-96,694	136,577
Net profit for the financial year	1,474,969	1,203,705	3,030,658	3,722,175
Pension funds				
Assets under management	-	-	442,359,619	397,307,689
Number of policyholders	-	-	355,147	332,090
Net increase in the number of policyholders	-	-	23,057	45,637
Average annual premium	-	-	206.7	210,2
Management fee	-	-	1.02	1.04%
Yields of funds (attributed weighted average)	-	-	5č38	1.45%
Capital				
ROE from operations	0.03%	-0.34%	7.58%	5.17%
ROE from investments	6.80%	4.90%	3.95%	6.46%
Total ROE	6.60%	4.65%	11.18%	12.07%
Number of employees on the last day of the year	1.1	1.1	103	90

*Written premiums include payments from financial contracts. The above financial indicators comply with the Decision on annual report and quarterly financial statements of insurance undertakings (SKL 2009) and are not compiled under IFRS.

VII. INFORMATION TECHNOLOGY

Through close monitoring, developing and implementing of new information technology solutions, enterprises in the Group successfully enhanced their business processes specifically in the field of reporting. Companies in the Group use the central information system for their reporting requirements.

VIII. ORGANISATION AND PERSONNEL

Based on the hours worked, Prva Group, insurance holding company, plc., had an average of 0.84 employees in 2012. The number of employees varies depending on the requirements in a specific period. As at the last day of 2012, 1 person was employed in the Company.

Table 3: The number of employees by level of education as at 31 December 2012

	Organisational unit	Headcount
1.	Management	1.1
	Total	**1.1**

	Professional education level	Headcount
1.	PhD	1
2.	Masters' Degree	0
3.	High professional competence	0.1
	Total	**1.1**

IX. RISK MANAGEMENT

- Risk management is an integral part of all business process of the Group and the Company.
- A detailed description of the risk management process is included in Section 28 of the Financial report.

Risk management has become an essential part of all business processes, based on clear and specific organisation and well-thought processes, responsibilities and authorisations of individual functions and committees. Risk management provides for the control and management of uncertainties stemming from business opportunities, which is of fundamental importance for superior business decisions and consequently improved performance results.

MANAGEMENT OF CAPITAL AND CAPITAL ADEQUACY

The primary goal of capital management is to ensure sufficient and appropriate capital adequacy of all companies within the Group.

Pursuant to the current Slovene legislation, capital is measured in terms of its availability to comply with regulatory capital requirements at the level of individual insurance companies as well as at the level of the Group.

FINANCIAL RISK

In managing assets of guarantee funds and financing operations we are exposed to the following core risks as part of the capital and capital adequacy management:
- Risk of changes in prices of securities and fluctuation of interest rates
- Credit risk and
- Liquidity risk.

When forming the investment policies of individual long-term business funds, we consider the nature and characteristics of an insurance company's liabilities as we aim to achieve optimum spread of assets and an optimum return.

INTEREST RATE RISK

Interest rate risk is the risk of fluctuating market interest rates impacting the value of interest-sensitive assets as well as the risk of maturity mismatch of financially sensitive assets and liabilities and the risk that matured amounts will differentiate significantly.

Interest rate risk is managed through the close monitoring, analysing and considering of credit ratings of the issuers of securities. Furthermore, the Company uses interest rate sensitivity analysis of financial assets that are exposed to interest rate risk.

RISK OF CHANGES IN SHARE PRICES

The Company and the Group manage the risk of changes in prices of its portfolio securities through setting limits of acceptable exposure and through spread of investments both geographically and industry-wise. The security portfolio is comprised primarily of debt securities and as a result of this diversification, the risk of changes in prices of securities is further mitigated. Another important factor affecting investment decisions is the liquidity of securities.

LIQUIDITY RISK

The risk or threat of imbalanced liquidity or imbalance between maturities of assets and liabilities may result in liquidity issues i.e. lack of monetary assets needed for the settlement of liabilities on maturity.

Exposure to liquidity risk is managed by placing investments in highly liquid securities and regularly monitoring the planned and actual cash flows from assets and liabilities.

CURRENCY RISK

Our exposure to currency risk is only minor as most of our assets are invested in the euro.

Of other currency exposures, major exposure risk derives from currencies of the former Yugoslav countries.

CREDIT RISK

Risk of loss due to the counter-party failing to meet its obligations is present primarily on investments in debt securities and on insurance operations (re-insurance credit risk, credit risk arising from receivables from insurance operations).

Credit risk exposure is managed with a system of exposure limits which are an integral part of our investment policies pertaining to individual types of assets. We regularly monitor our exposure to individual issuers as well as changes in credit ratings to ensure timely and appropriate response to unfavourable development of circumstances on financial markets.

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Prva Group d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of Prva Group d.d. which comprise the balance sheet as at December 31, 2012, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the balance sheet of Prva Group d.d. as of December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited financial statements.

Ljubljana, 19. April 2013

Sanja Košir Nikašinović
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

Primož Kovačič
Certified Auditor

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Skupina Prva d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Group Skupina Prva which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of Group Skupina Prva as of December 31, 2012, and its financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited consolidated financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited consolidated financial statements.

Ljubljana, 19. April 2013

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana 1

Sanja Košir Nikašinović
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Primož Kovačič
Certified Auditor

X. FINANCIAL STATEMENTS

INCOME STATEMENT

EUR	Notes	Prva Group 2012	Prva Group 2011	The Group 2012	The Group 2011
Net premium income	1.1	0	0	6,095,090	3,652,161
Other insurance income	1.2	254,234	348,313	6,841,488	6,825,899
Revenue from financial assets					
Interest income	2.1	339,320	535,977	1,439,539	1,731,070
Interest expense	2.2	-3,485	0	-1,390	-196,104
Dividend income	3	1,567,007	1,390,245	13,254	229,045
Net exchange rate differences	4	0	114	63,205	-44,493
Net gains/losses from disposal of AFS securities	4	-36,526	85,400	-121,174	76,556
Net gains/losses from investments measured at fair value through profit or loss	4	0	35,300	47,331	-8,491
Impairment loss	4	-347,611	-788,516	-370,887	-1,088,598
Net claim costs	5.1	0	0	-1,036,283	-311,577
Change of technical provisions	5.2	0	0	-2,966,413	-2,034,209
Operating costs					
Cost of acquiring insurants	6	0	0	-2,067,739	-1,481,905
Labour cost	7	-63,651	-144,138	-2,681,958	-2,396,892
Amortisation	12,13	-46,538	-65,134	-284,327	-294,327
Other revenue	8	0	8,567	119,672	822,563
Other costs	9	-137,217	-226,172	-1,962,053	-1,895,100
Profit before tax		**1,525,533**	**1,179,956**	**3,127,353**	**3,585,599**
Income tax and other taxes	10	0	0	-3,530	-2,230
Deferred tax	10	-50,564	23,749	-93,164	138,807
Net profit		**1,474,969**	**1,203,705**	**3,030,658**	**3,722,175**
- attributable to equity holders of the parent		-	-	*2,196,218*	*3,063,288*
- non controlling interest		-	-	*834,441*	*658,887*
Net/diluted earnings per share	11	-	-	7.98	11.81

The notes on pages 25 through 74 are an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

			Prva Group		The Group	
EUR		Notes	2012	2011	2012	2011
I.	NET PROFIT/LOSS		1,474,969	1,203,705	3,030,658	3,722,175
II.	OTHER COMPREHENSIVE INCOME AFTER TAX (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9)		89,009	-259,940	-28,461	-395,341
4.	Net gains/losses on re-measurement of AFS financial assets		164,504	-324,924	137,397	-427,625
4.1.	Gains/losses recognised in the revaluation reserve		580,548	-696,193	553,440	-798,894
4.2.	Transfer of gains/losses from the revaluation reserve to profit or loss		-416,043	371,269	-416,043	371,269
5.	Exchange rate differences		0	0	-84,952	-43,598
6.	Tax on other comprehensive income	10	-75,496	64,984	-80,906	75,882
III.	TOTAL COMPREHENSIVE INCOME FOR THE PERIOD (I + II)		1,563,977	943,765	3,002,198	3,336,834
	- attributable to equity holders of the parent		-	-	2,198,435	2,678,608
	- non controlling interest		-	-	803,763	648,226

The notes on pages 25 through 74 are an integral part of the financial statements.

BALANCE SHEET

EUR	Notes	Prva Group 31.12.2012	Prva Group 31.12.2011	The Group 31.12.2012	The Group 31.12.2011
ASSETS					
Property, plant and equipment	12	31,145	41,641	590,886	582,504
Intangible assets	13	91,352	126,408	737,510	755,180
Deferred tax assets	10	250,962	377,022	558,307	732,515
Investments in subsidiaries	14.1	16,745,108	13,145,108	0	0
Investment in an associate	14.2	0	122,500	0	129,419
Financial assets					
Assets attributable to unit holders	15	0	0	769,552	385,382
Investments in securities		2,700,702	3,866,603	24,250,720	21,943,522
1. Held-to-maturity	16.1	492,847	492,142	17,371,675	15,759,799
2. Available-for-sale	16.2	2,207,855	3,374,460	6,453,979	5,818,415
3. Measured at fair value through profit or loss	16.3	0	0	425,065	365,308
Deferred costs and accrued income	17	1,572	3,997	165,652	342,428
Income tax credits	17	0	11,222	0	11,222
Assets from financial contracts	18	0	0	219,546,277	223,285,292
Issued loans and deposits	19	2,754,002	7,606,280	8,118,101	9,820,886
Other receivables	17	317,787	1,839,295	1,374,196	1,310,486
Cash and cash equivalents	20	42,804	80,608	735,634	543,225
TOTAL ASSETS		**22,935,434**	**27,220,684**	**256,846,836**	**259,842,061**
EQUITY and LIABILITIES					
Equity					
1. Issued share capital		14,026,588	14,292,120	14,026,588	14,292,120
2. Reserves		6,862,816	7,720,332	6,316,672	7,174,189
3. Revaluation reserve		-724,111	-813,119	-939,073	-910,613
4. Retained earnings		1,549,674	1,778,243	5,457,605	4,964,924
5. Non-controlling interest		0	0	3,210,431	2,375,991
Total capital	21	**21,714,967**	**22,977,576**	**28,072,222**	**27,896,610**
Technical provisions	22	**0**	**0**	6,005,565	2,911,402
Of that: gross provisions in favour of unit-linked insurance underwriters				*748,192*	*376,227*
Insurance contract liabilities	23	0	0	219,546,277	223,285,292
Financial liabilities from borrowings	24	0	0	154,927	230,277
Other liabilities	25	1,211,226	4,239,659	1,861,054	4,555,550
Other provisions	25	0	0	80,571	57,015
Accrued costs and deferred income	25	9,240	3,449	1,126,219	905,915
TOTAL EQUITY and LIABILITIES		**22,935,434**	**27,220,684**	**256,846,836**	**259,842,061**

The notes on pages 25 through 74 are an integral part of the financial statements.

CASH FLOW STATEMENT

	Prva Group		The Group	
	2012	2011	**2012**	2011
Cash flows from operating activities				
Profit or loss before taxes	1,525,533	1,179,956	3,127,353	3,585,599
Adjustments for:	-1,475,652	-1,193,272	-684,478	-989,830
Profit/loss from investments measured at fair value	0	-35,300	0	8,491
Net interest income	-339,320	-535,977	-1,438,149	-1,731,070
Dividend income	-1,567,007	-1,390,245	-13,254	-229,045
Investment impairment	347,611	788,516	370,887	788,516
Depreciation of fixed assets	46,538	65,134	274,864	294,327
Gains/losses from disposal of investments	36,526	-85,400	121,174	-76,556
Net foreign exchange differences	0	0	0	-44,493
Profit from operating activities prior to changes in working capital	**49,881**	**-13,316**	**2,442,875**	**2,595,769**
Net increase/decrease in receivables/liabilities	-1,484,001	2,756,086	-222,322	5,580,224
Cash flow from operations	**-1,434,120**	**2,742,770**	**2,220,553**	**8,175,993**
Interest received	351,132	541,688	1,439,539	1,731,070
Interest paid	-3,485	0	-1,390	0
Net cash from operating activities	**-1,086,473**	**3,284,458**	**3,658,702**	**9,907,063**
Cash flows from investing activities				
Disbursements to acquire property, plant and equipment	-986	-224	-85,200	-83,295
Disbursements to acquire intangible assets	0	-16,320	-180,376	-284,859
Proceeds/disbursements from disposal of AFS financial assets	-1,089,713	4,164,195	-1,127,625	-613,647
Disbursements to acquire financial assets measured at fair value	0	966,400	-443,927	1,053,596
Proceeds/disbursements for non-current investments	0	0		-6,919
Proceeds/disbursements for non-current HTM investments	0	-492,142	-1,611,876	-3,549,910
Net receipts from repayments and expenditure for issued loans and deposits	4,840,465	-1,862,965	2,666,624	1,453,651
Proceeds/disbursements for the establishment of new companies, payment of additional capital	122,500	-26,800	129,419	0
Dividends received	2,988	390,245	13,254	229,045
Net cash from operating activities	**3,875,254**	**3,122,389**	**-639,707**	**-1,802,338**
Cash flows from financing activities				
Payment of preference and ordinary dividends and repayment of capital	-2,826,585	-6,674,460	-2,826,585	-8,648,061
Net cash from financing activities	**-2,826,585**	**-6,674,460**	**-2,826,585**	**-8,648,061**
Net cash flows	**-37,803**	**-267,614**	**192,409**	**-553,159**
Net exchange rate differences	0	0		-9,823
Cash as at 1 January	80,608	348,221	543,225	1,096,384
Cash and cash equivalents as at 31 December	**42,804**	**80,608**	**735,634**	**543,225**

In 2012, the Company and the Group reported no income tax payable for the current financial year.
The notes on pages 25 through 74 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY OF PRVA GROUP

EUR	Share capital	Share premium	Profit reserves-other reserves	Revaluation reserve	Retained earnings	Total
Balance at 31 December 2010	**17,419,710**	**8,762,115**	**3,386**	**-553,179**	**3,076,239**	**28,708,272**
Comprehensive income for the year	0	0	0	-259,940	1,203,705	943,765
a.) Net profit	0	0	0	0	1,203,705	1,203,705
b.) Other comprehensive income	0	0	0	-259,940	0	-259,940
Ordinary share dividends	0	0	0	0	-2,500,000	-2,500,000
Preference share dividends	0	0	0	0	-1,700	-1,700
Capital increase from own assets	1,045,170	-1,045,170				0
Repayment of capital	-4,172,760					-4,172,760
Balance at 31 December 2011	**14,292,120**	**7,716,945**	**3,386**	**-813,119**	**1,778,243**	**22,977,576**
Comprehensive income for the year	**0**	**0**	**0**	**89,009**	**1,474,969**	**1,563,977**
a.) Net profit	0	0	0	0	1,474,969	1,474,969
b.) Other comprehensive income	0	0	0	89,009	0	89,009
Ordinary share dividends	0	0	0	0	-1,701,735	-1,701,735
Preference share dividends	0	0	0	0	-1,802	-1,802
Capital increase from own assets	857,516	-857,516				0
Repayment of capital	-1,123,048					-1,123,048
Balance at 31 December 2012	**14,026,588**	**6,859,429**	**3,386**	**-724,111**	**1,549,674**	**21,714,967**

The notes on pages 25 through 74 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY OF THE GROUP

EUR	Share capital	Share premium and profit reserves	Revaluation reserve	Retained earnings	Total equity holders of the parent	Non-controlling interest	Total
Balance at 1 January 2011	**17,419,710**	**8,219,358**	**-525,932**	**4,403,336**	**29,516,472**	**4,249,344**	**33,765,816**
Comprehensive income for the year	**0**	**0**	**-384,681**	**3,063,288**	**2,678,608**	**648,226**	**3,336,834**
a) Net profit				*3,063,288*	*3,063,288*	*658,887*	*3,722,175*
b) Other comprehensive income			*-384,681*		*-384,681*	*-10,660*	*-395,341*
Ordinary share dividends				-2,500,000	-2,500,000		-2,500,000
Preference share dividends				-1,700	-1,700		-1,700
Decrease in equity of non-controlling interest					0	-2,521,580	-2,521,580
Capital increase from own assets	1,045,170	-1,045,170			0		0
Repayment of capital - the Group	-4,172,760				-4,172,760		-4,172,760
Balance at 31 December 2011	**14,292,120**	**7,174,188**	**-910,613**	**4,964,924**	**25,520,619**	**2,375,991**	**27,896,610**
Balance at 1 January 2012	**14,292,120**	**7,174,188**	**-910,613**	**4,964,924**	**25,520,619**	**2,375,991**	**27,896,610**
Comprehensive income for the year	**0**	**0**	**-28,461**	**2,196,218**	**2,167,757**	**834,441**	**3,002,198**
a) Net profit				*2,196,218*	*2,196,218*	*834,441*	*3,030,658*
b) Other comprehensive income			*-28,461*		*-28,461*	*0*	*-28,461*
Ordinary share dividends				-1,701,735	-1,701,735		-1,701,735
Preference share dividends				-1,802	-1,802		-1,802
Capital increase from own assets	857,516	-857,516			0		0
Repayment of capital - the Group	-1,123,048				-1,123,048		-1,123,048
Balance at 31 December 2012	**14,026,588**	**6,316,672**	**-939,073**	**5,457,605**	**24,861,792**	**3,210,431**	**28,072,223**

The notes on pages 25 through 74 are an integral part of the financial statements.

XI. NOTES TO THE FINANCIAL STATEMENTS

XI.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Profile of the Company and the Group

The financial statements of Prva Group, insurance holding company, plc. and the Group for the year ended 31 December 2012, were approved by the Management Board on 11 April 2013. Prva Group, insurance holding company, plc., is a public limited company, established in the Republic of Slovenia. Preference shares of the Company are listed on the free market of the Ljubljana Stock Exchange.

In line with the Insurance Act, Prva Group, insurance holding company, plc., is a mixed-activity insurance holding company since it holds a significant share in at least one insurance company. In line with its activities, the Company performs holding activities in its subsidiary companies. At the end of 2012, the Company employed 1 person (2011: 1).

The Company is a legal successor of Prva pokojninska družba, which modified its status in 2007. The new company - Prva osebna zavarovalnica d.d. - was established, to which all voluntary supplementary pension insurance operations were transferred on 1 September 2007. Prva Group, insurance holding company, plc., changed the name of the company (the former name was Prva pokojninska družba, d.d. (First Pension Company Plc)) and its activities.

In addition to Prva Group, insurance holding company, plc., the Group includes:

Prva osebna zavarovalnica d.d.
The company was established in 2007 when the insurants from supplementary pension insurance were transferred from Prva pokojninska družba d.d.. Prva Group, insurance holding company, plc. is the 100% owner of Prva osebna zavarovalnica d.d.. The operations of Prva osebna zavarovalnica, d.d. in 2012 were predominantly related to supplementary pension insurance within the framework of the third pillar in Slovenia. Beside supplementary pension insurance, which belongs to the insurance group with proceeds capitalization, the company started in 2009 to promote accident insurance, life insurance (class of insurance 19), life insurance with investment risk (class of insurance 21) and health insurance. Prva osebna zavarovalnica is currently manager of four pension funds, two funds of unit-linked insurance with different investment policies, three long-term business funds belonging to other classes of insurance, and a business fund portfolio. The Company offers seven pension schemes. As at 31 December 2012, the company employed 54 full-time members of staff (2011: 48)

KB Prvo penzisko društvo AD Skopje
The operations of KB Prvo penzisko društvo AD Skopje relate to the second and third pillar supplementary pension insurance in Macedonia. The company was established in 2005.
Prva Group, insurance holding company, plc. is a 51% owner of KB Prvo penzisko društvo AD Skopje. The remaining 49% stake is owned by the largest Macedonian bank, namely Komercijalna banka a.d. Skopje. The company had 27 full-time employees on 31 December 2012 (2011: 26).

Fondi Slloveno-Kosovar I Pensioneve Sh.A Pristhine Kosovo
The operations of Fondi Slloveno-Kosovar I Pensioneve Sh.A Pristhine Kosovo comprise third pillar supplementary pension insurance in Kosovo.
Prva Group, insurance holding company, plc. is a 67.4% owner of the company, which was established on 4 September 2006. The remaining 32.6% of the company is owned by Dukagjini Sh.p.k.. The company started to perform pension insurance transactions in 2007. The share capital of the company totals EUR 399,999. On 31 December 2012 the company had 5 members of staff in full-time employment (2011: 5).

DDOR-GARANT društvo za upravljnanje dobrovoljnim penzijskim fondom AD Beograd
The operations of DDOR-GARANT AD Beograd relate to the third pillar supplementary pension insurance in Serbia.
In 2012, Prva Group, insurance holding company, plc., held a 60% interest in the company, which was established in May 2006. The share capital of the company totals EUR 1,223,133. On 31 December 2012, the company had 14 full-time employees (2011: 13).

Prva zavarovalniško zastopniška družba d.o.o., Slovenia
The Company was established at the end of 2010 and is in the 100 % ownership of Prva Group plc. The Company's core activity is the sale of insurance services and products of Prva osebna zavarovalnica d.d. to

current and new clients as well as the increase of market shares of Prva osebna zavarovalnica d.d. within the personal insurance group. The nominal capital of the company amounts to EUR 7,500.

In addition to the above mentioned companies, Prva Group, insurance holding company, plc., has invested into associated company NLB Penzija AD in Montenegro, whose majority (51%) owner was Nova Ljubljanska banka, d.d., while Prva Group, insurance holding company, plc. held a 49 % stake in the company. Due to the fact that in 2012 the company was liquidated, it is no longer presented in the financial statements of Prva Group.

Table 4: Investments into subsidiary and associated companies on 31 December 2012

	Ownership	Book value of the Investment	Company Capital	Profit/Loss for year 2012
Subsidiaries				
Prva osebna zavarovalnica d.d.	100%	12,730,000	17,067,211	2,055,814
Ameriška ulica 8, 1000 Ljubljana				
KB Prvo penzisko društvo AD Skopje	51%	918,272	3,996,341	883,411
Blv.Ilinden 1, 1000 Skopje				
Fondi Slloveno- Kosovar I Pensioneve Sh.A Pristhine Kosovo	67.40%	511,985	375,871	-6,160
Rr.UCK, nr.50/2, 10000 Prishtine				
DDOR GARANT Beograd	60%	2,520,550	1,291,710	185,279
Maršala Birjuzova 3-5, 11000 Beograd				
PRVA zavarovalniško zastopniška družba, d.o.o.	100%	64,300	6,570	1,335
Ameriška ulica 8, 1000 Ljubljana				
Total		**16,745,108**	**22,737,703**	**3,119,679**

Ultimate parent

A-Z Finance d.o.o.
The ultimate parent of Prva Group plc. is A-Z Finance d.o.o. based at Devinska 1 in Ljubljana. A-Z Finance was founded in 1998 and is 100% owned by Alenka Žnidaršič Kranjc. The company holds a 62.5% stake in DEJ plc. which holds a 50.20% stake in Prva Group, plc. A-Z Finance draws up a consolidated annual report, which can be obtained at the head office of the company. DEJ d.o.o. does not prepare a consolidated annual report and is included in the consolidated annual report of A-Z Finance d.o.o.

Summary of significant accounting policies

Statement of compliance

The enclosed separate and consolidated financial statements of Prva Group plc. and the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations adopted by the IFRS Interpretations Committee, as adopted by the European Union.

On the balance sheet date, in terms of the EU's standard confirmation process, there are no discrepancies in the accounting policies of Prva Group, and the International Financial Reporting Standards (IFRS) adopted by the EU.

The financial statements have been compiled in accordance with the current regulations governing reporting requirements of insurance and pension companies applicable in the financial year 2012.

Basis of preparation

The financial statements of Prva Group plc. are prepared on the basis of accounting policies shown below.

The accounting policies used are consistent with those applied in previous years, except for the newly adopted standards and interpretations effective for periods beginning on or after 1 January 2012 as presented below.

Basic policies

The consolidated financial statements of the Group and the separate financial statements of the company are prepared based on original values, except for assets measured at fair value through profit or loss, and available-for-sale assets designated at the fair value through the comprehensive income statement. The

financial statements are presented in euro. All values are rounded to one euro, except when specially indicated otherwise.

Significant accounting assumptions and estimates

Significant accounting estimates

The preparation of financial statements requires the management to make certain estimates and assumptions that affect the carrying amounts of assets and liabilities of the Company and the Group, disclosure of potential liabilities on the balance sheet date and the amounts of revenues and expenses of the Company and the Group for the period ending on the balance sheet date.

Management estimates include but are not limited to: amortisation period and the residual value of intangible assets and property, plant and equipment, allowances for inventories and doubtful receivables, and claims arising from lawsuits. Future events and their effects cannot be determined with certainty. Accordingly, the accounting estimates made require the exercise of judgment and those used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Actual results may differ from those estimates.

The key assumptions concerning the future operations and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Significant management assumptions

In the process of applying the accounting policies, management had made the following judgment apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statement.

The most significant assumptions relate to:

- The classification of financial instruments, namely the division between financial instruments the Company intends to hold to maturity and those available for trading or sale.
- Technical provisions, which are calculated based on insurance contracts, considering past development of claims events and expectations for the future.
- Fair value of financial assets and impairment: the fair value of financial assets whose prices are not quoted on an active market is assessed in consideration of a number of assumptions. Potential changes in these assumptions are reflected in the amount and potentially also in the impairment of these assets. As a result of the financial crisis, uncertainty associated with the assessment of the fair value is even greater.

Investments in subsidiaries and associates in the separate financial statements of Prva Group plc.

Investments in subsidiaries and associated companies are recognised at cost less impairment losses. Subsidiaries are those companies over which the parent maintains a controlling interest. Investments in associated companies refer to enterprises where although the parent has a significant influence, they are not subsidiaries of the parent.

Consolidation bases

The consolidated financial statements comprise the financial statements of Prva Group, insurance holding company, plc., aud its subsidiaries as at 31 December 2012, including comparative data as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, as well as intra-group dividends, are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. When the Group loses control over a subsidiary during the financial year, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative exchange rate differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Bases for consolidation

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the carrying amount of the share of the net assets acquired was recognised in equity.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding commitment to cover these. Losses incurred prior to 1 January 2010 were not allocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained as its proportionate share of net assets at the date control was lost. The carrying values of such investments at 1 January 2010 have not been restated.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed an included in the general administrative costs.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages (step acquisitions), the acquisition date fair value of the acquirer's previously held interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change in other comprehensive income. When contingent consideration is recognised in equity, it should not be re-measured until it is finally settled with equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating unit that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Investments in associates and joint ventures

Investments in associated companies and joint-ventures are recognised using the equity method. An associated company is a company where the parent company has a considerable influence but the company is neither a subsidiary nor a joint-venture. A joint-venture is an investment in jointly controlled enterprises in line with the founding contract. Financial statements of associated companies and joint-ventures provide the basis for the

use of the equity method. The date of the reports of associated companies and joint-ventures is the same as for the Group. Associated companies and joint-ventures use the same accounting policies as the Group.

Investments in associated companies and joint-ventures are recognised in the balance sheet at acquisition cost plus changes (after the purchase) in the capital of an associate company or a joint-venture, less any impairment losses. A share of the result of an associated company or a joint-venture is reported in the income statement. If changes are recognised in the statement of comprehensive income or the capital of the associated company or a joint-venture, the Group recognises the share of these changes and discloses significant differences in the statement of comprehensive income or statement of changes in equity.

Conversion of foreign currency

The financial statements of the Company and the Group are presented in euro (EUR), which is the functional and reporting currency of the parent company and its subsidiaries in Slovenia. Transactions in a foreign currency are translated at the exchange rate of the European Central Bank prevailing on the date of the transaction.

Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate of the functional currency on the balance sheet date. All differences arising from the translation of foreign currency are recognised in the profit or loss. Non-monetary assets and liabilities, recognised in terms of historical cost in a foreign currency, are translated using the exchange rate on the day of the transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated at the exchange rate prevailing on the day when the fair value was determined.

The functional currencies of the foreign subsidiaries are as follows:

- Macedonian denar for KB Prvo penzisko drustvo Skopje,
- euro for Fondi Slloveno- Kosovar I Pensioneve Sh.A Pristhine Kosovo,
- Serbian dinar for DDOR GARANT Beograd,

On the reporting day, the financial statements of the aforementioned subsidiaries were translated into the reporting currency of the consolidated financial statements. The exchange rate of the European Central Bank on the reporting day was used for the balance sheet while the average exchange rate for the financial year was used for the income statement.

Exchange rate differences arising from the translation of the functional currencies into the reporting currency are recognised directly in the statement of comprehensive income until the sale of a subsidiary when the exchange rate differences are transferred to the income statement.

Land, buildings and equipment

Land is stated at cost. Buildings and equipment are recognised at cost less accumulated depreciation and impairment losses. The Company and the Group use the straight-line amortisation method over the estimated useful life of the assets. The depreciation rates did not change in 2012 and were identical to those used in 2011.

Table 5: Depreciation rates

Asset	Depreciation rates in %
Buildings	2.5
Equipment	10 – 33.3

A review of the book values of land, buildings and equipment is performed when events and changes in the circumstances show that the book value exceeds the recoverable amount. If events occur which show that the book value of an asset exceeds its estimated recoverable value, the asset is impaired to its recoverable value. The recoverable value of an asset is the net sales value or value in use, namely the higher of the two. The value in use is determined by discounting expected future cash flows to the net current value using pre-tax discount rates, which reflect the current market estimate of the time value of money and potential risks associated with each individual asset. For assets whose future cash flows are also dependent on the remaining assets in individual cash-generating units, the value in use is calculated on the basis of future cash flows of this cash-generating unit. Impairment losses are recognised as an item of operating expenses from revaluation.

Derecognition of land, buildings and equipment is carried out when the asset is sold or the Company or the Group no longer expect economic benefits from the continued use of individual assets. Gains and losses on derecognition of an asset are reported in the profit or loss in the year the individual asset is deleted from the books.

Residual value of assets, assessed on the basis of their useful life or the depreciation method are reviewed or changed if necessary on an annual basis prior to the preparation of the annual financial statements.

Subsequent expenditure that increases future economic benefits of the asset, increases the value of an item of property, plant and equipment.

Borrowing costs

Borrowing costs comprise interest and other costs incurred by the Company and the Group in relation to the borrowing of financial assets. Borrowing costs may also include interest on overdrawn accounts at banks and interest on borrowings raised, foreign exchange differences from borrowings raised in foreign currency, and financial lease costs. Borrowing costs are recognised in the period to which they pertain as expenses associated with financial assets and liabilities.

Intangible assets

Intangible assets acquired individually are recognised at cost while intangible assets acquired on the basis of a business combination are recognised at fair value on the day of the takeover. After initial recognition the historical cost method is used. The value in use of an individual intangible asset is limited. Amortisation of an item of intangible assets is recognised through profit or loss.

Intangible assets are amortised according to the straight-line depreciation method over their estimated useful lives using annual amortisation rates ranging from 10.0% to 33.3%.

Intangible assets created within the Group are not capitalised. The costs are expensed in the period in which they arise.

Intangible assets are tested on an annual basis for impairment individually or as a portion of the cash-generating unit. The useful life of an individual intangible asset is assessed once a year and adjusted as required.

Subsequent expenditure that increases future economic benefits of the asset, increases the value of an item of intangible assets.

Investments

The Company and the Group classify investments into the following categories:

- investments at fair value through profit or loss
- available-for-sale investments,
- investments held to maturity,
- loans and receivables.

The classifications are dependent on the purpose of acquisition.

Recognition of financial assets

The Company and the Group initially recognise all investments, except for investments classified at fair value through profit or loss, at fair value, which includes the purchase costs that are directly attributable to the acquisition. Investments classified at fair value through profit or loss are recognised at fair value (direct costs of acquisition are not included in the acquisition value).

Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit or loss, are measured at fair value. Realised gains and losses on investments classified at fair value through profit or loss are recognised directly in the income statement.

The fair value of investments which are actively traded on organised markets is their closing quoted price on the balance sheet date. If the financial instruments are not listed on the stock exchange, the fair value is determined on the basis of a similar instrument or, the fair value may be determined as the net current value of future cash flows which the Company or the Group expect from the financial asset.

Acquisition and sale of individual financial assets classified at fair value through profit or loss are recognised on the trading day; which is the day the Company or the Group commit to purchase or sell an individual asset.

Available-for-sale financial assets

After the initial recognition, all investments which the Company or the Group classify as available-for-sale are stated at fair value. Gains or losses from available-for-sale investments are recognised in the statement of comprehensive income as net unrealised gains or losses on available-for-sale investments until the investment is sold or otherwise divested. If the investment is impaired, the impairment is recognised in the income statement.

The acquisition and sale of individual financial assets classified as available-for-sale are recognised on the trading day; this is the day the Company or the Group commit to purchase or sell an individual asset.

On the balance sheet day the Company assesses whether there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred. Financial assets available for sale are assessed for any important and prolonged decrease in fair value which means that the assets are overestimated. In assessing the prolonged decrease of fair value of equity securities below their cost, the Company checks whether the period from the first decrease of fair value of an equity instrument below its cost exceeds 9 months and if the decrease was below the cost for the whole duration of the nine month period. An important decrease of fair value is considered at least 40 percent decrease in fair value of an asset compared to its cost.

If any such signs of impairment of available-for-sale investments are present, the cumulative loss, measured as the difference between the estimated costs and the present fair value, less impairment losses previously recognised in profit or loss, is recognised and the expenses are recognised in the income statement.

Investments held to maturity

The Company or the Group recognise financial assets with fixed or determinable payments and fixed maturities which are not derivative instruments, as financial investments held to maturity, if the Company has a positive intention and ability to hold the investment until maturity. Investments which the Company maintains for an indefinite period of time are not classified into this group.

Investments which are recognised as held-to-maturity are carried at amortised cost using the effective interest rate method. The amortised cost is computed through the allocation of the premium or discount upon acquisition over the holding period until maturity. Gains and losses on investments designated at amortised cost are recognised in the income statement (divestment, impairment or effects of amortised discounts/premiums).

Investments classified as held-to-maturity financial assets are recognised on the transaction date.

Loans and receivables

Loans and receivables are financial assets with fixed and determinable payments which are not traded on the organised market. This group includes both loans and receivables obtained by the Company, as well as loans and receivables originating from the Company. Loans and receivables are carried at amortised cost using the effective interest rate method. Investments classified into loans and receivables are recognised on the transaction date.

Operating and other receivables

Operating receivables are recognised in the amounts arising from invoices issued less any bad debt allowances. The assessed bad debt allowances are based on the reasonable expectation of the Company that payment is no longer probable either in full or in a certain amount.

Cash and cash equivalents

Cash and cash equivalents comprise cash in banks and cash in hand as well as deposits with maturity of up to three months.

Equity

The equity of the Company consists of ordinary and preference shares.

Direct additional costs of issuing new shares less tax effects are recognised in equity. In the event that any of the Group companies purchase shares of the parent, the payment including the direct transaction costs less tax effects is recognised in equity as treasury shares until these shares are reissued, sold or withdrawn. In the event of a subsequent sale or reissue of these shares, all effects of the sale or issue are included in equity.

Ordinary shares

An ordinary share entitles its owner to a voting right and, based on the decision of the General Meeting, to dividends.

Preference shares

Preference shares are cumulative shares without voting rights which entitle their owners to a fixed 6% dividend per annum. The General Meeting adopts decisions on the payment of dividends at its sessions upon the proposal of the Management Board.
Preference shares are considered as a part of equity, since holders of ordinary shares decide at the General Meeting whether dividends will be paid out to preference shareholders or not.

Borrowings

All borrowings are initially recognised at fair value less the cost of acquisition. At initial recognition, borrowings are recognised at amortised cost using the effective interest rate method through profit or loss, taking into consideration the costs of acquisition and any discount or premium upon acquisition.

Upon elimination of these liabilities, gains or losses are recognised in the income statement.

Employee benefits

Employee benefits include salaries and other allowances in accordance with the collective employment agreement. Contributions to the pension fund at the national level, social security, health insurance and unemployment insurance are recognised by the Company as expenses of the period. The Company also recognises any potential future costs arising from the collective agreement in connection to employees in accordance with IAS 19. The aforementioned expenses are calculated using the projected credit unit method and are recognised over the entire employment period for individual employees for whom the collective agreement applies.

In the calculation, the following assumptions are used:
- full mortality table for Slovenia 2007,
- retirement age and pension period pursuant to ZPIZ,
- 2.5% salary increase,
- amount of termination benefit on retirement pursuant to the law, which is equal to the value of two average salaries of an employee or two average salaries in Slovenia, whichever is the highest,
- amount of jubilee awards and solidarity assistance pursuant to the Decree,
- discount interest rate of 3.9%.

Assumptions used in 2012 are the same as those used in 2011.

Operating lease

A lease is a contractual relationship in which the lessor transfers to the lessee the right to use of an asset for a set period of time in exchange for payment.

When the Company or the Group appears as a lessor, the lease is classified as a finance lease if substantially all of the risks and benefits associated with the ownership of an asset are transferred. When an asset is subject to a finance lease, the present value of the lease is recognised as a receivable and reported under the item “Loans”. The difference between the gross amount and the receivable's present value is recognised as a financial income. Lease income is recognised over the duration of the lease using the net investment method (before tax) that reflects fixed periodical rate of earnings and is reported as the interest income.

When the Company or the Group appears as a lessee, the item of property, plant and equipment obtained under finance lease is reported at the lower of fair value or present amount of minimum lease payments until the end of the lease, less accumulated depreciation and accumulated impairment losses. The assets are depreciated over their useful life. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Ally leases other than finance leases are considered operating leases. In operating lease, the book value of the leased asset is increased by initial costs of the operating lease and recognised on a straight-line basis over the lease term much like the lease income. Rental income is recognised when received.

Insurance contracts classification

Classification of insurance contracts of Prva osebna zavarovalnica is consistent with:

- International Financial Reporting Standard 4 (IFRS 4)
- International Actuarial Standard of Practice 3 (IASP 3)

An insurance contract is a "contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

IFRS 4 states that an event is uncertain when at the time of agreeing the contract it is not clear:
- whether the insured event will happen,
- when will it happen and
- what the policy benefits will be.

The insurance risk is deemed significant if an insured event could cause the insurer to pay significant extra amounts by whatever scenario other than those that do not include market component (they do not affect the economy of business). If under a scenario that includes a market component, significant extra amounts must be paid, condition specified in the previous sentence may be fulfilled even when there is an extremely low probability that the insured event will occur or when the expected (i.e. probability-weighted) present value of conditional cash flows accounts for a minor share of expected present value of all remaining cash flows.

The insurer assesses the significance of insurance risk in each individual case rather than based on the importance of financial statements. Therefore, the insurance risk is important also when there is a minimal probability of material claim for the whole group of contracts. Such assessment of individual contracts facilitates their designation as insurance contracts. However, when a relatively homogeneous group of contracts is comprised of contracts that transfer insurance risks, the insurer does not need to verify each individual contract in the group to identify a few contracts that transfer an insignificant insurance risk.

Prva osebna zavarovalnica d.d. and the Group classify insurance contracts into homogeneous groups for which the insurance company estimates the significance of insurance risk. Contracts in individual groups have common characteristics such as the class of insurance, insurance terms and conditions, type of cover and premium payment method (one time premium or regular payments of a premium).

Insurance contracts that bear significant insurance risk are accounted for in line with IFRS 4. If the insurance contracts do not have significant insurance risk, they are accounted for as financial contracts in line with IAS 39.

Detailed accounting treatments of individual categories stated above are explained below.

Liabilities for insurance contracts – technical provisions

Long term technical provisions for insurance contracts are formed in accordance with the Insurance Act and its implementing regulations, as well as in compliance with IFRS 4.

For all insurance transactions, Prva osebna zavarovalnica d.d. and the Group have to make adequate technical provisions which are designed to cover future liabilities from insurances and risk losses arising from insurance transactions. The insurance company should create the following technical provisions:
- Provisions for unearned premiums,
- Provisions for bonuses, rebates and rewards,
- Claims reserve,
- Other technical provisions,
- Mathematical provisions,
- Provisions for unit-linked insurances.

Technical provisions are calculated based on the balance as at the last day of the period.

At least once a year Prva osebna zavarovalnica and the Group assess the adequacy of the technical provisions. In case they are not adequate, additional provisions are formed and charged to the profit for the period.

Revenue and expenses from investments are recognised in the income statement. Written premium and written gross claims are also included in the income statement of the insurance company. The same applies to entry, exit and management fees.

Accounting treatment of technical provisions is classified by type of provision as specified in the chart of accounts of insurance companies.

Assets and liabilities from financial contracts

These represent pension funds assets, which guarantee the fulfilment of liabilities to the insurants. The subsidiary Prva osebna zavarovalnica manages four pension funds in accordance with the Pension and Disability Insurance Act (ZPIZ-1).

The assets comprise investments and cash. Investments in funds are categorised into:
- investments at fair value through profit or loss
- held-to-maturity investments
- loans and receivables.

Revenues and expenditures in respect of investments are directly recognised to insurants. Payment of premiums, realised and unrealised capital gains or losses are also included under this item and not in the income statement of the Company. In addition, entry fee and management fee are directly included under this item rather than in the income statement.

Liabilities in respect of voluntary supplementary insurance in Slovenia are made up of two parts, namely guaranteed liabilities and liabilities beyond guarantee. All pension schemes of the company contain guaranteed yield which ranges from 40% to 55% of the guaranteed yield in line with ZPIZ-1. Under the Slovenian legislation, the Company is liable for guaranteed liabilities and guaranteed yields.

Reinsurance

With reinsurance the insurance company transfers part of the risk to the Reinsurance Company and pays reinsurance fee.

Prva osebna zavarovalnica plc draws up reinsurance calculation at the end of each quarter of the year. The calculation is based on actuary calculation. Reinsurance premium is recognised as liability towards Reinsurance Company. At each end of the quarter, claim calculation is drawn up and reinsurance claims are recognised as a receivable from Reinsurance Company. Changes in unearned premium reinsured and changes in outstanding claim reserve reinsured are determined by Prva osebna zavarovalnica at the end of every month when calculating unearned premium and claim reserve.

The reinsurance part of technical provisions in the balance sheet is stated as an item of the insurance company's assets.

Revenue

Revenues are recognised if it is likely that the Company will acquire economic benefits from them and if such benefits can be reliably measured. Revenues originate from services offered by the Company to its subsidiary companies, namely services relating to investment, internal auditing, and lease of hardware and software.

The majority of revenues of the Group originate from:
- ***Entry fees***
  The Group, in performing its activity in accordance with the pension schemes and general terms and conditions, charges an entry fee, meaning that the collected assets transferred into an individual long term business are decreased by the amount of the entry fees and the fund is managed with assets which represent net premiums. The entire amount of entry fees is recognised as revenue when statements of account are made.
- ***Management fees***
  The Group manages eleven pension funds, for which it charges a management fee, meaning that the monthly value of assets in individual pension funds is decreased by the amount of the management fee.
- ***Exit fees***
  The Group is entitled to an exit fee in accordance with the pension schemes and general terms and conditions, meaning that the redemption value is decreased by the exit fee and this net value is then paid to the individual terminating the insurance.

Revenues from insurance premiums

Net revenues from insurance premiums are calculated as gross insurance premiums less the reinsurers' share adjusted for the change in gross unearned premium, which is further adjusted by the reinsurance undertaking's share in the unearned premium. The written gross insurance premium from insurance contracts is the insurance premium written in a period.

Gross insurance premiums are recognised in accounting records on the day of settlement of account rather than on the day of payment.

Interest

Interest income is calculated and recognised on the basis of the effective interest rate.

Dividends

Dividends are recognised when the Company or the Group obtain the right to issue dividend pay-outs.

Costs and expenses

Net expenses for claims

Net expenses for claims are gross claims (compensation and appraisal expenses), deducted for reinsured part and amended for the change in gross claim reserves, which are adjusted for the share of reinsurance in these reserves. Appraisal expenses include external and internal expenses for assessing the eligibility of claims for loss event.

Net operating expenses and acquisition costs

Net operating expenses comprise of direct and indirect acquisition costs as well as other operating expenses such as depreciation, payroll, costs of natural persons not engaged in activity and other operating expenses which are not included under other items of costs.

IFRS, BC 116, neither prohibits nor requires the deferral of acquisition costs. The standard does not state which costs can be deferred, the period of the deferral or the method of depreciation. Majority of direct or indirect acquisition costs are the costs of the period, whereas the direct costs of the insurances which are marketed via external network are deferred over a prolonged period of time. Deferred costs are recognized as assets in the balance sheet, whereas the change between the opening and closing balance of the period is stated as a separate item of acquisition costs in the income statement. The depreciation rate is set by actuary based on the dynamics of the utilisation of future corresponding premiums collected.

Financial expenses

Financial expenses are classified as expenses from investments and are divided into expenses from individual category of technical provisions and unearned premiums, and investment expenses, which are financed from other sources.

Taxes

Current tax

Current tax assets or liabilities for current and past periods are measured at amounts the Company or the Group expect to pay to the tax administration or at amounts of tax credits. Current tax liabilities or assets are measured using tax rates valid on the balance sheet date.

Deferred tax

Deferred income tax assets and liabilities are calculated according to the balance sheet liability method. Only deferred tax assets and liabilities originating from temporary differences are recognised.

Deferred tax assets are also recognised for unused tax losses and unused tax credits which are carried over into the following period if it is probable that the relevant amount of taxable profits will be available in future periods against which unused tax losses may be utilised.

Deferred tax assets are reviewed on the balance sheet date and are impaired for that portion of the assets for which it is no longer probable that a sufficient taxable profit will be available against which the unused tax losses could be utilised.

Deferred tax liabilities or assets are measured on the basis of tax rates expected to be used when the asset is realised or the liability paid. The tax rates (and tax regulations) valid on or substantially valid on the balance sheet date are used.

Deferred tax is recognised directly in the statement of comprehensive income if it refers to items recognised directly in the statement of comprehensive income.

Derecognition of financial instruments

A financial asset is derecognised in books of account when the risks and benefits and the control over contractual rights related to financial instruments are transferred. A financial liability is derecognised once it has been paid, extinguished or has become statute-barred.

Amendments to standards and interpretations

The accounting policies, used in the preparation of the financial statements are consistent with those of the annual financial statements for the year ended 31 December 2011, except for new and amended standards as of 1 January 2012, as presented below.

Newly adopted standards and interpretations

IFRS 1 – First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendment provides guidance on how the Company/Group can resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. A further amendment is the removal of the legacy of fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The amendments are effective in the EU for periods beginning on or after 1 January 2013. The amendment has no significant impact on the financial statements.

IFRS 7 – Financial Instruments: Disclosures – Transfer of Financial Assets

The amendments are effective for periods beginning on or after 1 July 2011 and were issued to improve the disclosure requirements relating to the transfer of financial assets. Amendments require disclosures for transfers of financial assets that are derecognised in their entirety, as well as those that are not, to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. The amendment requires retrospective application. The amendment affects disclosures only and has no impact on the financial statements.

Standards and interpretations issued but not yet effective and not early adopted

The Company and the Group have not early adopted any standard or interpretation issued but not yet effective. The Company and the Group intend to adopt these standards, if applicable, when they become effective.

The following new and amended standards will be applied in future periods as required by IFRSs and the European Union:

IFRS 7 – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (amended)
The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied.

IFRS 10 – Consolidated Financial Statements
This standard replaces the part of IAS 27 Consolidated and Separate Financial Statements which refers to consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. The standard is applicable in the EU for periods beginning on or after 1 January 2014. IFRS 10 establishes a single control model that applies to all entities. This will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. The standard also changes the definition of control.

IFRS 11 – Joint Arrangements
This standard replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly-controlled entities – non-monetary contributions by venturers. The new standard addresses only two forms of joint arrangements (joint operations and joint ventures), where there is joint control. IFRS 11 uses the principle of control in IFRS 10. In addition, IFRS 11 removes the option to account for jointly-controlled entities using proportionate consolidation, leaving only the option to use the equity method. The standard is effective in the EU for periods beginning on or after 1 January 2014.

IFRS 12 – Disclosure of Interests in Other Entities
This standard is effective in the EU for periods beginning on or after 1 January 2014 and includes disclosure requirements that were previously in IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 Investments in Associates and IAS 31 Interest in Joint Ventures. A number of new disclosures are also required, especially regarding judgments made to determine whether an entity controls another entity.

IFRS 13 – Fair Value Measurement

The new standard is applicable for periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRSs.

IAS 1 – Presentation of Financial Statements: Presentation of Items in Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments are effective for periods beginning on or after 1 July 2012.

IAS 12 – Deferred Tax (amended)

The amendment is effective in the EU for annual periods beginning on or after 1 January 2013. This amendment concerns the determination of deferred tax on investment property measured at fair value and also incorporates SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into IAS 12 for non-depreciable assets measured using the revaluation model in IAS 16. The aim of this amendment is to include a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and b) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

IAS 19 – Employee Benefits (amended)

In June 2011, the International Accounting Standards Board (the "the IASB") issued numerous amendments to IAS 19. The key amendment refers to the removal of the corridor mechanism for recognising changes in the value of defined benefit plans. This means all changes in the value of defined benefit plans will be recognised as they occur depending on the type of change either in profit or loss or in other comprehensive income. The amendments are effective for periods beginning on or after 1 January 2013.

IAS 27 – Separate Financial Statements (revised)

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The standard is effective in the EU for periods beginning on or after 1 January 2014.

IAS 28 – Investments in Associates and Joint Ventures (revised)

This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This revised standard is effective in the EU for periods beginning on or after 1 January 2014.

IAS 32 – Financial Instruments: Presentation (amended) – Offsetting Financial Assets and Financial Liabilities

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of 'currently has a legally enforceable right to set-off' and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 – Offsetting Financial Assets and Financial Liabilities amendments.

In compliance with the requirements of IFRSs and subject to the endorsement by the European Union, the Company / Group will have to apply in future periods the following amended and revised standards and interpretations:

IFRS 1 – First-time Adoption of International Financial Reporting Standards: Government loans (Amendment)

The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment sets out how a first-time adopter would account for a government loan with a below-market rate of interest when they transition to IFRSs. This amendment provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

IFRS 9 – Financial Instruments

The Standard replaces IAS 39. IFRS 9 Financial Instruments was published in November 2009 and contained requirements for financial assets. Requirements for financial liabilities were added to IFRS 9 in October 2010. Most of the requirements for financial liabilities were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities. In December 2011, the IASB amended IFRS 9 to require application for annual periods beginning on or after 1 January 2015 and to not require the restatement of comparative-period financial statements upon initial application.

Phase II of IFRS 9, relating to impairment, has been in the process of re-deliberations from January 2011.
In September 2012, the IASB issued a review draft on general hedge accounting requirements (Phase III of IFRS 9) which will be added to IFRS 9 Financial Instruments.

IFRS 10 – Consolidated Financial Statements: Investment Entities (amendment)

In October 2012, IASB issued an amendment to IFRS 10 Consolidated Financial Statements to provide an exception to the consolidation requirements for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. An entity must meet all three elements of the definition and consider whether it has four typical characteristics, in order to qualify as an investment entity. There is one exception to this requirement not to consolidated subsidiaries for investment entities. If an investment entity has a subsidiary that provides investment-related services (e.g. investment management services) to the entity or third parties, then the investment entity must consolidated its subsidiary. The amendment applies for annual periods beginning on or after 1 January 2014.

IFRS 12 – Disclosure of Interests in Other Entities: Investment Entities (amendment)

In addition to the amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities has also been amended to require additional disclosures for investment entities. The amendment applies for annual periods beginning on or after 1 January 2014.

IAS 27 – Separate Financial Statements: Investment Entities (amendment)

In addition to the amendments to IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements has also been amended to define the accounting for and disclosure of subsidiaries of investment entities in the separate financial statements of an investment entity. The amendment applies for annual periods beginning on or after 1 January 2014.

Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief.

The Company / Group is reviewing the impact of standards and interpretations which are not yet mandatory and have not yet been endorsed by the EU and, for the time being, has not assessed the impact of new pronouncements on its financial statements. The Company / Group will apply new standards and interpretations in accordance with their requirements, if endorsed by the EU.

Improvements to IFRS

In May 2012, the IASB issued its annual improvements to IFRSs which included improvements of some of the existing standards. The effective date for the amendments is for annual periods beginning on or after 1 January 2012, but the amendments have not been endorsed yet by the EU.

IFRS 1 – First-time Adoption of International Financial Reporting Standards: Repeated application of IFRS 1

This amendment clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS again, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS (according to IAS 8).

IFRS 1 – First-time Adoption of International Financial Reporting Standards: Borrowing costs

Upon transition to IFRS, an entity will be allowed to retain its previously capitalised borrowing costs, without adjustment. After transition, borrowing costs are recognised in accordance with IAS 23 Borrowing costs.

IAS 1 – Presentation of Financial Statements: Clarification of the requirements for comparative information

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information (this is generally the previous period information). If an entity chooses to voluntarily provide comparative information beyond the minimum required comparative period, it must include comparative information also in the related notes to the financial statements.

Also, the amendment requires entities to present a third balance sheet (the opening balance sheet) (a) when an entity changes its accounting policies; or (b) makes retrospective restatements or makes reclassifications which have a material effect on the balance sheet. In such cases the entity is not required to provide supporting notes for the opening balance sheet.

IAS 16 – Property, plant and equipment: Classification of servicing equipment
The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 – Financial instruments: Presentation: Tax effect of distributions to holders of equity instruments
The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 Income taxes to any income tax arising from distributions to equity holders.

IAS 34 – Interim financial reporting: Interim financial reporting and segment information for total assets and liabilities
This amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. It also ensures that interim disclosures are aligned with annual disclosures in IFRS 8 Operating segments.

The Company / Group is reviewing the impact of the improvements to IFRS which are not yet mandatory and have not yet been endorsed by the EU and, for the time being, has not assessed the impact of new pronouncements on its financial statements. The Company / Group will apply the improvements to IFRS in accordance with their requirements, if endorsed by the EU.

XI.2 ADDITIONAL DISCLOSURES TO THE BALANCE SHEET AND INCOME STATEMENT ITEMS

Disclosures which the Company is obliged to include in its annual report in compliance with the Companies Act and International Financial Reporting Standards are presented under separate headings and under the items to which they correspond.

XI.3 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

No events or circumstances occurred after the balance sheet date that would have an impact on the financial statements for the year ended 31 December 2012.

XI.4 SEGMENT REPORTING

1. GEOGRAPHICAL SEGMENTS

The Group operates or has operated in two main geographical areas, whereby Slovenia is the primary geographical segment the Group operates in. In addition, the Group is present in other non-member countries of the south-eastern Europe.

The following table displays revenues, data on profits, assets and certain liabilities broken down by geographical segments.

Table 6: Geographical segments EUR

Year Ended on 31 December 2012	*Slovenia*	*Third countries*	***Total***
Revenues by segment in 2012	11,407,301	3,091,105	**14,498,405**
Other data by segment			
Assets by segment	254,807,698	2,039,138	**256,846,836**
Financing:			
Property, plant and equipment	93,452	497,434	**590,886**
Intangible assets	622,482	115,028	**737,510**
Total financing	**715,934**	**612,462**	**1,328,396**

* before consolidation entries

Year Ended on 31 December 2011	*Slovenia*	*Third countries*	***Total***
Revenues by segment in 2011	10,548,016	2,744,785	**13,292,801**
Other data by segment			
Assets by segment	258,041,647	1,800,414	**259,842,061**
Financing:			
Property, plant and equipment	73,348	509,156	**582,504**
Intangible assets	653,761	101,419	**755,180**
Total financing	**727,109**	**610,575**	**1,337,684**

Revenues earned in Slovenia by individual segment relate to income generated by Prva Osebna zavarovalnica d.d., companies in the Group, and Prva zavarovalno zastopniška družba. Amounts earned by segments in third countries relate to subsidiaries in Kosovo, Macedonia and Serbia. The amounts presented are exclusive of consolidation entries.

2. OPERATING SEGMENTS

Primary operating segments of the Group include:

- Non-life insurance,
- Life assurance,
- Other

Table 7: Operating segments

EUR

Year Ended on 31 December 2012	Non-life insurance	Life insurance	Other	Total
Revenues by segment	428,795	13,896,733	172,877	**14,498,405**
Net profit	252,063	3,291,310	-512,715	**3,030,658**
Total assets	271,054	247,385,455	6,190,326	**256,846,836**

* before consolidation entries

Year Ended on 31 December 2011	Non-life insurance	Life insurance	Other	Total
Revenues by segment	420,721	13,322,562	969,625	**14,712,908**
Net profit	190,188	3,786,321	-254,334	**3,722,175**
Total assets	3,165,532	246,486,591	10,189,938	**259,842,061**

Non-life insurance represents amounts earned by Prva osebna zavarovalnica; Other relates to income generated by the Group and the remaining relates to Life insurance. The amounts presented are exclusive of consolidation entries.

XI.5 Notes to the income statement

1. OPERATING INCOME

Operating income of the Company refers only to services the Company charges to subsidiary companies. These incomes are eliminated from the consolidated revenues.

Income of the Group consists of:

- Net income from insurance premiums
- Other insurance income

1.1. NET INCOME FROM INSURANCE PREMIUMS

Table 8: Net income from insurance premiums

	Prva Group		The Group	
EUR	**2012**	2011	**2012**	2011
Gross insurance premiums written	0	0	6,563,276	3,928,816
Premiums written re-insured	0	0	-436,570	-272,442
Change of unearned premium	0	0	-31,616	-4,213
Total	**0**	**0**	**6,095,090**	**3,652,161**

1.2. OTHER INSURANCE INCOME

Other insurance income is composed from:

- entry fees
- management fees
- exit fees
- other services.

Table 9: Fee and commission income

	Prva Group		The Group	
EUR	**2012**	2011	**2012**	2011
Entry fees	0	0	1,911,975	2,014,507
Management fees	0	0	4,544,931	4,252,496
Exit fees	0	0	341,026	132,142
Revenues from operations	254,234	348,313	43,556	426,754
Total	**254,234**	**348,313**	**6,841,488**	**6,825,899**

Main part of other insurance income represents entry and management fees from supplementary pension insurance.

The entry fees are charged from paid-in premiums, not exceeding 2.95% of the paid-in premium at the year-end (2011: 2.95%).

The Group also charges annual management fee ranging from 1.2% to 1.5% for the administration and management of all pension funds (2011: 1.2% to 1.5%).

Upon the termination of the supplementary pension insurance, the administrator is entitled to an **exit fee** in the amount of 1% of the redemption value upon termination of the insurance contract (2011: 1%).

2. INTEREST INCOME AND EXPENSE

Interest income includes interest from bank deposits and interest from investments earned in 2012.

2.1 INTEREST INCOME

Table 10: Interest income

	Prva Group		The Group	
EUR	**2012**	**2011**	**2012**	**2011**
Financial assets	126,552	175,858	1,295,181	1,137,855
1. Held-to-maturity	14,317	5,868	881,129	902,110
2. Available-for-sale	112,236	169,990	410,619	233,457
3. Measured at fair value through profit or loss	0	0	3,434	2,288
Issued loans and deposits	212,767	360,119	123,863	566,357
Other	0	0	20,495	26,858
Total	**339,320**	**535,977**	**1,439,539**	**1,731,070**

2.2 INTEREST EXPENSE

Table 11: Interest expense

	Prva Group		The Group	
EUR	**2012**	**2011**	**2012**	**2011**
Other interest expense	-3,485	0	-1,390	196,104
Total	**-3,485**	**0**	**-1,390**	**196,104**

3. DIVIDEND INCOME

Table12: Dividend income

	Prva Group		The Group	
EUR	2012	2011	2012	2011
Dividend Income				
from available-for-sale financial assets	1,567,007	1,390,245	13,254	229,045
Total	**1,567,007**	**1,390,245**	**13,254**	**229,045**

4. NET GAINS/LOSSES FROM INVESTMENTS

Impairment losses of the Company Prva Group were mainly recognised on investments in shares of Nova Banka Bjelina.

Table 13: Net gains/losses from investments

	Prva Group		The Group	
EUR	2012	2011	2012	2011
Net gains from investments measured at fair value through profit or loss	0	35,300	47,331	-8,491
Net gains/losses from sale of available for sale securities	-36,526	85,400	-121,174	76,557
Impairment of investments	-347,611	-788,516	-370,887	-1,088,598
Net foreign exchange differences	0	114	63,205	-44,493
Total	**-384,137**	**-667,702**	**-381,526**	**-1,065,025**

5. NET EXPENSES FOR CLAIMS AND CHANGES IN TECHNICAL PROVISIONS

5.1 NET EXPENSES FOR CLAIMS

Table 14: Net claims

	Prva Group		The Group	
EUR	2012	2011	2012	2011
Gross claims charged	0	0	-994,536	-366,244
Re-insurance share of gross claims	0	0	7,646	96,700
Change of provisions for outstanding claims	0	0	-96,134	-257,228
Change of provisions for outstanding claims re-insured	0	0	46,741	215,195
Total	0	0	-1,036,283	-311,577

5.2 CHANGES IN TECHNICAL PROVISIONS

Table 15: Changes in technical provisions

	Prva Group		The Group	
EUR	2012	2011	2012	2011
Change of gross technical provisions	0	0		
- Life insurance guarantee fund	0	0	-2,589,040	-1,827,806
- Investment risk guarantee fund	0	0	-371,965	-202,330
- Health insurance guarantee fund	0	0	-5,408	-4,073
Total	0	0	**-2,966,413**	**-2,034,209**

6. COSTS OF ACQUIRING INSURANTS

Commissions to agents and marketing promotion costs directly attributed to the acquisition of insurants are included under costs of acquiring insurance. Commissions to agents refer to fees which are paid to outside contractors as an award for the successful acquisition of insurants. The presented item comprises also changes in deferred insurance acquiring costs.

Table 16: Costs of acquiring insurants

	Prva Group		The Group	
EUR	2012	2011	2012	2011
Commissions to agents costs	0	0	-1,903,311	-1,337,978
Marketing campaigns costs	0	0	-164,428	-143,927
Total	**0**	**0**	**-2,067,739**	**-1,481,905**

7. LABOUR COSTS

Salaries, holiday pay, reimbursements for meals and transportation to work, employer contributions and taxes for remitted salaries and payments of supplementary pension insurance are included under labour costs for 2012.

Prva Group plc. had 1 employee at the end of 2012 (2011:1), while there were 103 persons employed in the Group at the end of 2012 (2011: 90).

Table 17: Labour costs

	Prva Group		The Group	
EUR	2012	2011	2012	2011
Employee salaries	-53,829	-116,006	-2,118,476	-1,981,968
Holiday pay	-458	-2,525	-47,771	-42,644
Reimbursements for meals and transportation to work	-580	-976	-97,312	-90,866
Pension and social security contributions	-8,409	-19,598	-333,649	-209,276
- Pension security contributions	-4,466	-10,409	-155,819	-125,291
- Social security contribution	-3,943	-9,189	-177,830	-83,984
Payments to employees for supplementary pension insurance	-375	-5,033	-76,995	-53,624
Other labour costs	0	0	-7,755	-18,515
Total	**-63,651**	**-144,138**	**-2,681,958**	**-2,396,892**

8. OTHER REVENUE

The majority of other revenues represent commission received for acquiring of insurances.

9. OTHER COSTS

Other costs comprise the cost of services by individual persons, material operating costs, service operating costs, marketing costs, supervisory board costs, rental costs, deferred employee benefits and other costs.

Table 18: Other costs

	Prva Group		The Group	
EUR	2012	2011	2012	2011
Reimbursement of work-related costs	3,938	3,778	138,385	99,630
Costs of intellectual and personal services	27,879	84,108	335,254	255,274
Rental costs	12,303	16,102	425,701	436,143
Costs of other services	68,580	82,364	487,619	448,569
Other costs	24,518	39,819	575,095	655,484
Total	**137,217**	**226,171**	**1,962,053**	**1,895,100**

Table 19: Audit fees

	Prva Group		The Group	
Audit fees (EUR)	**2012**	**2011**	**2012**	**2011**
Audit of annual report	18,805	13,325	54,565	65,596
Other non-audit services	0	0	0	0
Other audit services	0	0	0	11,500
Tax advisory services	0	0	0	0
Total	**18,805**	**13,325**	**54,565**	**77,096**

10. DEFERRED AND CURRENT TAX

Table 20: Deferred tax – Prva Group

	Balance sheet		Recognised in comprehensive income	Recognised in profit or loss
EUR	31.12.2012	31.12.2011	31.12.2012	31.12.2012
Deferred income tax assets	0	0	0	0
Revaluation of HTM investments	0	0	0	0
Fixed asset depreciation	0	0	0	0
Impairment of investment and receivables	96,073	135,608	0	-39,535
Provisions for employees	0	0	0	0
Unused tax losses	27,105	38,134	0	-11,029
Deferred income tax liabilities	**0**	**0**	**0**	**0**
Revaluation of AFS investment to fair value	127,784	203,280	-75,496	0
Total deferred income tax assets (+) / liabilities	250,962	377,022	-75,496	-50,564

Table 21: Deferred tax – The Group

EUR	Balance sheet 31.12.2012	Recognised in comprehensive income 31.12.2011	Recognised in profit or loss 31.12.2012	Balance sheet 31.12.2012
Deferred tax assets				
Deferred income tax	0	0		
Revaluation of HTM investments	790	13,119		-12,329
Fixed asset depreciation	4,472	2,081		2,390
Impairment of investment and receivables	120,787	149,924		-28,997
Provisions for employees	1,542	1,792		-250
Unused tax losses	302,155	356,133		-53,978
Deferred income tax liabilities				
Revaluation of AFS investment to fair value	128,561,00	209,466	-80,906	
Total deferred income tax assets (+) / liabilities	558,307	732,515	-80,906	-93,164

As at 31 December 2012, deferred tax amounts were restated using tax rates effective at the time the Company expects to utilise these tax assets i.e. at the rate of 15% (2011: 20%).

The effect of the tax rate reduction from 20% to 15% amounted to EUR 94,255 for the Company and EUR 209,290 for the Group.

Table 22: Reconciliation of tax and accounting profits multiplied by the tax rate applicable in Slovenia

	Prva Group		The Group	
EUR	2012	2011	2012	2011
Pre-tax profit for the year	1,525,533	1,179,956	3,127,353	3,585,599
Income tax paid in Slovenia at 18% (2011– 20%)	274,596	235,991	562,923	717,120
Net increase / decrease in the tax basis	-351,391	-277,145	-670,296	-810,792
Expenses not recognised for tax purposes	78,818	50,763	174,053	91,442
Tax relief	2,023	9,609		
Deduction of foreign tax	0	0		
Deferred tax	**0**	**0**	**-93,164**	**147,409**
Income tax	0	0	-3,530	-2,230
Total tax	**0**	**0**	**-96,694**	**145,179**
Effective tax rate	**0%**	**0%**	**3.48%**	**4.05%**

In the financial year under review, the Company / Group accounted for the amount of current tax using the applicable tax rate of 18% (2011: 20%). The tax rate will gradually decrease to 15% in 2015.

11. EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the net profit for the financial period belonging to ordinary shareholders by the weighted average number of outstanding ordinary shares in the financial period. The weighted average number of outstanding ordinary shares is calculated using data on the number of outstanding ordinary shares while taking into consideration eventual purchases and sales within the period and the period in which the shares participated in the generating of profit. The adjusted earnings per share also take into account all potential ordinary shares. The Company does not have any potential ordinary shares.

Table 23: Earnings per share

	The Group 2012	2011
Net profit for the year	2,198,020	3,064,972
Less dividends paid out to owners of preference shares	-1,802	-1,700
Net profit for the year attributable to ordinary equity holders of the parent	2,196,218	3,063,288
Weighted average number of ordinary shares for calculating earnings per share	274,950	259,411
Earnings per share (in EUR)	7.98	11.81

XI.6 Notes to the balance sheet

12. PROPERTY, PLANT AND EQUIPMENT

Table 24: Movement in property, plant and equipment in 2012

	Prva Group		The Group	
EUR	Equipment	TOTAL	Buildings and equipment	TOTAL
COST				
Balance at 31 December 2011	173,951	173,951	1,328,137	1,328,137
Additions	985	985	92,720	92,720
Disposals	-7,656	-7,656	-11,319	-11,319
Balance at 31 December 2012	167,281	167,281	1,409,538	1,409,538
ACCUMULATED DEPRECIATION			0	0
Balance at 31 December 2011	132,310	132,310	745,633	745,633
Depreciation in 2012	11,482	11,482	76,818	76,818
Disposals	-7,657	-7,657	-3,799	-3,799
Balance at 31 December 2012	136,136	136,136	818,652	818,652
CARRYING AMOUNT				
Balance at 31 December 2011	41,641	41,641	582,504	582,504
Balance at 31 December 2012	31,145	**31,145**	590,886	**590,886**

The Company has not pledged any items of property, plant and equipment as collateral for loans. Within the Group, the Company in Macedonia has pledged its business premises in Macedonia as collateral for a loan issued by a non-controlling interest for a period of 5 years.

Table 25: Movement in property, plant and equipment in 2011

EUR	Equipment	Prva Group TOTAL	Buildings and equipment	The Group TOTAL
COST				
Balance at 31 December 2010	173,726	173,726	1,267,706	1,267,706
Additions	225	225	51,944	51,944
Disposals	0	0	8,487	8,487
Balance at 31 December 2011	173,951	173,951	1,328,137	1,328,137
ACCUMULATED DEPRECIATION				
Balance at 31 December 2010	101,143	101,143	635,622	635,622
Depreciation in 2011	31,166	31,166	101,692	101,692
Disposals	0	0	8,319	8,319
Balance at 31 December r 2011	132,310	132,310	745,633	745,633
CARRYING AMOUNT				
Balance at 31 December 2010	72,583	72,584	632,084	**632,084**
Balance eat 31 December 2011	41,641	**41,641**	**582,504**	**582,504**

13. INTANGIBLE ASSETS

Table 26: Movement in intangible assets in 2012

	Prva Group				The Group			
EUR	Software	Investments in progress	Long-term deferred acquisition costs	Total	Software	Investments in progress	Long-term deferred acquisition costs	Total
COST								
Balance at 31 December 2011	178,858	0	0	178,858	1,318,179	17,515	175,439	1,511,133
Additions	0	0	0	0	113,168	56,620	145,578	315,366
Transfers	0	0	0	0	0	6,840	118,687	125,527
Disposals	0	0	0	0	0	0	0	0
Balance at 31 December 2012	178,858	0	0	178,858	1,431,347	67,295	202,330	1,700,972
ACCUMULATED AMORTISATION								
Balance at 31 December 2011	52,450	0	0	52,450	755,953	0	0	755,953
Amortisation in 2012	35,056	0	0	35,056	207,509	0	0	207,509
Disposals	0	0	0	0	0	0	0	0
Balance at 31 December 2012	87,506	0	0	87,506	963,462	0	0	963,462
CARRYING AMOUNT								
Balance at 31 December 2011	126,408	0	0	126,408	562,226	17,515	175,439	755,180
Balance at 31 December 2012	91,352	0	0	91,352	494,039	41,140	202,330	737,510

Table 27: Movement in intangible assets in 2011

	Prva Group				Skupina			
EUR	Software	Investments in progress	Long-term deferred acquisition costs	Total	Software	Investments in progress	Long-term deferred acquisition costs	Total
COST								
Balance at 31 December 2010	162,538	0	0	162,538	1,038,502	28,915	134,972	1,202,389
Additions	0	16,320	0	16,320	52,603	245,320	40,467	338,390
Transfers	16,320	-16,320	0	0	256,720	-256,720	0	0
Disposals	0	0	0	0	0	0	0	0
Foreign exchange differences	0	0	0	0	-29,646	0	0	-29,646
Balance at 31 December 2011	178,858	0	0	178,858	1,318,179	17,515	175,439	1,511,133
ACCUMULATED AMORTISATION								
Balance at 31 December 2010	18,482	0	0	18,482	570,616	0	0	570,616
Amortisation in 2011	33,968	0	0	33,968	192,635	0	0	192,635
Disposals	0	0	0	0	0	0	0	0
Foreign exchange differences	0	0	0	0	-7,298	0	0	-7,298
Balance at 31 December 2011	52,450	0	0	52,450	755,953	0	0	755,953
CARRYING AMOUNT								
Balance at 31 December 2010	144,056	0	0	144,056	467,886	28,915	134,972	631,773
Balance at 31 December 2011	126,408	0	0	126,408	562,226	17,515	175,439	755,180

14. INTERESTS IN SUBSIDIARIES AND ASSOCIATES

14.1 INTERESTS IN SUBSIDIARIES

Table 28: Interests in subsidiaries

EUR

		Prva Group		
	Ownership	31.12.2012	31.12.2011	Changes during the year
Prva osebna zavarovalnica d.d.	100.00%	12,730,000	9,130,000	Injection of equity capital
KB Prvo penzisko društvo AD Skopje	51.00%	918,272	918,272	
Fondi Slloveno- Kosovar I Pensioneve Sh.A Pristhine Kosovo	67.40%	511,985	511,985	
DDOR GARANT Beograd	60.00%	2,520,550	2,520,550	
PRVA zavarovalniško zastopniška družba, d.o.o.	100.00%	64,300	64,300	
Total		**16,745,108**	**13,145,108**	

Interests in subsidiaries represent investments of Prva Group plc. in the following companies: Prva osebna zavarovalnica d.d., KB Prvo penzisko društvo AD, Skopje, Fondi Slloveno-Kosovar I Pensioneve sh.A Pristhine Kosovo, DDOR GARANT Beograd, and PRVA zavarovalniško zastopniška družba, d.o.o. These subsidiaries and the parent company Prva Group plc. form the Group.

In 2012 subsidiary Prva osebna zavarovalnica d.d. raised additional capital of EUR 2,600,000 through payment of a capital contribution by the only shareholder. The amount of additional capital was paid-in in full and registered in the court register on 20 June 2012. As at 31 December 2012, investment in the subsidiary amounted to EUR 12,730,000.

Prva Group held 49% interest in NLB Penzija AG. As an associated company, it was accounted for in the consolidated financial statements under the equity method. As at 31 December 2012, the company is not reported in the financial statements of Prva Group, as it was liquidated on 7 August 2012 in accordance with a resolution of the general meeting of shareholders. Accordingly, in its financial statements as at 31 December 2012, Prva Group reports receivables on account of the initial capital paid-in in the amount of EUR 122,500. The receivable was repaid in full in January 2013.

Voting rights in subsidiaries are equal to the ownership share.

14.2 INTERESTS IN ASSOCIATES

Table 29: Changes in the value of investments in associated company NLB Pensia AG within the Group

EUR	2012	2011
Book value at 1 January	122,500	122,500
Gain/loss under the equity method	0	0
Purchase		
Sale	-122,500	
Equity method effects not reflected in profit or loss		
Book value at 31 December	0	122,500

15. ASSETS OF UNIT-LINKED POLICY HOLDERS

Table 30: Assets of policyholders that bear the investment risk

	Prva Group		The Group	
EUR	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Assets of policyholders that bear the investment risk	0	0	769,552	385,382
Total	**0**	**0**	769,552	385,382

16. INVESTMENTS IN SECURITIES

Investments in securities represent investments in shares and bonds.

Table 31: Investment securities

	Prva Group		The Group	
EUR	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Investments into securities held to maturity	492,847	492,142	17,371,675	15,759,799
Investments into securities available for sale	2,207,855	3,374,460	6,453,979	5,818,415
Investments into securities designated at fair value through profit or loss	0	0	425,065	365,308
Total	**2,700,702**	**3,866,603**	**24,250,720**	**21,943,522**

Table 32: Structure of securities based on type of interest rate

V EUR	Prva Group 31.12.2012	Prva Group 31.12.2011	The Group 31.12.2012	The Group 31.12.2011
Investments into securities held to maturity:	492,847	492,142	17,371,675	15,759,799
- debt securities at fixed rate of interest	0	0	14,822,166	13,205,381
- debt securities at variable rate of interest	492,847	492,142	2,549,509	2,554,418
Investments into securities available for sale	2,207,855	3,374,460	6,453,979	5,818,415
- debt securities at fixed rate of interest	1,128,376	2,064,492	4,547,468	3,888,769
- debt securities at variable rate of interest	96,902	116,049	96,902	116,049
- equity securities	982,577	1,193,919	1,809,609	1,813,597
Investments into securities designated at fair value through profit or loss	0	0	425,065	365,308
- debt securities at fixed rate of interest	0	0	425,065	365,308
- debt securities at variable rate of interest	0	0	0	0
- equity securities	0	0	0	0
Total	**2,700,702**	**3,866,603**	24,250,720	21,943,522

The effective interest rate on securities ranges from 1.82% to 8.64% (2011: from 3% to 10%).

16.1 INVESTMENTS IN SECURITIES HELD TO MATURITY

Table 33: Investments in securities held-to-maturity

EUR	Prva Group 31.12.2012	Prva Group 31.12.2011	The Group 31.12.2012	The Group 31.12.2011
Investments traded on the organised market	492,847	492,142	15,802,174	15,759,799
Investments not traded on the organised market	0	0	1,569,501	0
Total	**492,847**	**492,142**	**17,371,675**	**15,759,799**

Non-trading securities held to maturity are securities issued by the Republic of Macedonia.

16.1 INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

Table 34: Investments in available-for-sale securities

EUR	Prva Group 31.12.2012	Prva Group 31.12.2011	The Group 31.12.2012	The Group 31.12.2011
Investments traded on the organised market	2,122,480	3,289,085	6,040,524	5,733,040
Investments not traded on the organised market	85,375	85,375	413,455	85,375
Total	**2,207,855**	**3,374,460**	**6,453,979**	**5,818,415**

Investments traded on the organised market are valued on the basis of market prices, whereas investments not traded on the organised market are valued using valuation technique models, taking into account variables, gained on available published market data.

16.3 INVESTMENTS IN SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Table 35: Investments in securities measured at fair value through profit or loss

	Prva Group		The Group	
EUR	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Investments traded on the organised market	0	0	425,065	365,308
Investments not traded on the organised market	0	0	0	0
Total	**0**	**0**	425,065	365,308

Investments traded on the organised market are valued on the basis of market prices.

FAIR VALUE HIERARCHY OF SECURITIES

In accordance with IFRS 7.27 fair value hierarchy of financial assets and liabilities measured at fair value should be disclosed.

Assets and liabilities whose fair value is determined based on quoted prices on active markets are classified in Level 1.

Financial assets and liabilities whose fair value is determined based on valuation techniques, where inputs and assumptions of valuation model are gained and supported with data obtained from active markets are classified in Level 2. This group, mainly includes securities valued at quotation prices provided by the issuer or administrator of a certain security.

Assets and liabilities whose fair value is determined based on valuation techniques, where inputs and assumptions of valuation model are not supported with data obtained from active markets, are classified in Level 3 fair value hierarchy.

Table 36: Investments in securities classified according to fair value hierarchy for Prva Group

EUR

31.12.2012	Level 1	Level 2	Level 3	Total
Investments into securities designated at fair value through profit or loss	0	0	0	**0**
Investments into securities available for sale	2,122,480	0	0	**2,122,480**
Total	2,122,480	0	0	**2,122,480**

31.12.2011	Level 1	Level 2	Level 3	Total
Investments into securities designated at fair value through profit or loss	0	0	0	**0**
Investments into securities available for sale	3,289,085	0	0	**3,289,085**
Total	3,289,085	**0**	**0**	**3,289,085**

There were no transfers from level 1 to level 2 fair value hierarchies in 2012.

The Company's investment portfolio includes EUR 85,375 of investments measured at cost (2011: EUR 85,375. The Company regularly checks whether there are any signs of impairment. No impairment loss was recognised on these investments in 2012.

The Group's investment portfolio includes EUR 413,455 of investments measured at cost (2011: EUR 85,375. The Group regularly checks whether there are any signs of impairment. No impairment loss was recognised on these investments in 2012.

In the table above, the amounts of EUR 2,122,480 for 2012 and EUR 3,289,085 for 2011 representing investments into securities available for sale are not inclusive of EUR 85,375 of investments measured at cost.

Table 37: Investments in securities classified according to fair value hierarchy for the Group

EUR

31.12.2012	Level 1	Level 2	Level 3	Total
Investments into securities designated at fair value through profit or loss	425,065	0	0	425,065
Investments into securities available for sale	6,453,979	0	0	6,453,979
Total	**6,879,044**	**0**	**0**	**6,879,044**

31.12.2011	Level 1	Level 2	Level 3	Total
Investments into securities designated at fair value through profit or loss	365,308	0	0	365,308
Investments into securities available for sale	5,733,040	0	0	5,733,040
Total	**6,098,348**	**0**	**0**	**6,098,348**

There were no transfers from level 1 to level 2 fair value hierarchies in 2012.

Table 38: Investments in securities classified according to a fair value hierarchy – pension funds

EUR

31.12.2012	Level 1	Level 2	Level 3	Total
Investments in securities at fair value				
- equity securities	0	3,610,176	0	3,610,176
- debt securities	4,470,433	1,469,925	0	5,940,358
Total	**4,470,433**	**5,080,101**	**0**	**9,550,534**

31.12.2011	Level 1	Level 2	Level 3	Total
Investments in securities at fair value				
- equity securities	0	3,652,662	0	3,652,662
- debt securities	4,176,868	1,472,848	0	5,649,716
Total	**4,176,868**	**5,125,510**	**0**	**9,302,378**

Investments in the table above are part of financial contracts included in the balance sheet of the Group.

There were no transfers from level 1 to level 2 fair value hierarchies in 2012.

In its portfolio of pension funds' investments, the Group reports EUR 2,852,911 (2011: EUR 2,365,527) of investments measured at cost. The insurance company regularly checks if there are any signs of impairment. No impairment loss was recognised in 2012. The structure of pension funds' investments and the value of investments measured at fair value are included in Disclosure 18.

17. OTHER RECEIVABLES AND SHORT-TERM DEFERRED COSTS

Table 39: Other receivables and short-term deferred costs and accrued revenue

	Prva Group		The Group	
EUR	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Receivables from direct insurance operations	0	0	117,868	68,689
Short-term trade receivables	12,500	15,534	163,187	34,858
Short-term advance payments	1,290	1,290		0
Income tax credits	0	11,222		11,222
Receivables from the sale of insurers portfolio	0	0		0
Other receivables and assets	303,997	1,822,472	927,489	1,206,939
Deferred costs and accrued revenue	1,572	3,997	165,652	342,428
Total	**319,359**	**1,854,515**	**1,374,196**	**1,664,136**

18. ASSETS FROM FINANCIAL CONTRACTS

Table 40: Assets from financial contracts

EUR	31.12.2012	31.12.2011
Investments in securities	170,318,618	165,376,523
1. Held-to-maturity	157,915,173	153,708,619
2. Designated at fair value through profit or loss	12,403,445	11,667,904
2.1 equity securities	6,463,087	6,018,189
2.2 debt securities	5,940,358	5,649,715
Issued loans and deposits	25,277,395	37,865,780
Investment property	18,515,485	16,985,933
Cash and cash equivalents	4,774,611	1,689,930
Total Investments	**218,886,109**	**221,918,166**
Other receivables	**660,168**	**1,367,126**
Total assets	**219,546,277**	**223,285,292**

Assets from financial contracts refer to Prva osebna zavarovalnica. Assets from financial contracts of foreign operations are recognised in the off balance sheet records.

Table 41: Investments on accounts of pension insurants

EUR

		31.12.2012	31.12.2011
Long-term business fund 1	Investments in held-to-maturity securities	20,764,126	21,529,542
	Investments in securities measured at fair value	2,542,143	2,674,663
	Issued loans and deposits	2,590,805	8,437,602
	Property	1,706,202	1,687,847
	Cash and cash equivalents	573,400	251,914
Long-term business fund 2	Investments in held-to-maturity securities	32,809,435	30,009,701
	Investments in securities measured at fair value	2,465,548	2,277,795
	Issued loans and deposits	6,468,136	9,283,354
	Property	4,073,824	3,607,648
	Cash and cash equivalents	865,279	178,954
Long-term business fund 3	Investments in held-to-maturity securities	61,336,369	62,191,208
	Investments in securities measured at fair value	4,111,184	3,895,867
	Issued loans and deposits	8,548,631	10,041,579
	Property	7,369,015	6,910,198
	Cash and cash equivalents	1,932,183	728,848
Long-term business fund 4	Investments in held-to-maturity securities	43,005,243	39,978,168
	Investments in securities measured at fair value	3,284,570	2,819,579
	Issued loans and deposits	7,669,823	10,103,245
	Property	5,366,444	4,780,240
	Cash and cash equivalents	1,403,748	530,214
Total		**218,886,109**	**221,918,166**

Investments of pension funds in deposits with banks and savings banks represent long-term and short-term deposits, denominated in the euro. The annual interest rates of deposits range from 2.70% to 7.70% (2011: 3.00% - 9.00%).

Part of this amount is the investment into a subordinated debt with long-term maturity and a nominal interest rate of 6.70% to 8.20% annually.

Investments in held-to-maturity securities represent bonds of the Republic of Slovenia, EC/OECD countries and other countries, and corporate bonds from the organised markets of the Republic of Slovenia and EC and OECD countries as well as other countries.

Investments in securities designated at fair value through profit or loss represent shares traded on the securities market, shares not traded on the securities market, corporate bonds from the organised markets of the Republic of Slovenia and EC and EOCD countries, as well as other countries.

Investments in property are investments in investment property at the fair value. As at 31 December 2012, the fair value of property was EUR 18,515,485 (2011: EUR 16,985,933). The fair value was assessed by an appraiser based on comparable market prices and the most recent transaction. In 2012, pension funds received EUR 1,054,008 (2011: EUR 863,403) of rental income.

Table 42: Movement of investments on accounts of pension insurants

	EUR
	Assets of insurants
Balance at 31 December 2011	**221,918,166**
Increase	56,831,061
Revaluation	-3,539,863
Decrease	-56,322,256
Balance at 31 December 2012	**218,886,109**

	EUR
	Assets of insurants
Balance at 31 December 2010	203,558,415
Increase	63,986,500
Revaluation	-3,836,802
Decrease	-41,789,947
Balance at 31 December 2011	**221,918,166**

Table 43: Structure of securities based on the type of interest rate on accounts of policyholders of Prva osebna zavarovalnica

		EUR
	31.12.2012	**31.12.2011**
Debt securities	163,855,531	159,358,334
- Fixed rate of interest	138,578,220	129,236,169
- Variable rate of interest	25,277,311	30,122,165
Equity securities	6,463,087	6,018,189
Total	**170,318,618**	**165,376,523**

The effective interest rate on securities of pension funds ranges from 0.70 to 9.37% (2011: from 1.02 to 7.94%).

19. ISSUED LOANS AND DEPOSITS

Table 44: Issued loans and deposits

	Prva Group		The Group	
EUR	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Issued loans and deposits	2,754,002	7,606,280	8,118,101	9,820,886
Total	**2,754,002**	**7,606,280**	**8,118,101**	**9,820,886**

Issued loans and deposits of Prva Group plc. represent deposits in banks. The interest rate for new deposits amounts to an average 2-4% nominal interest rate. The interest rate for older deposits ranges between 5 to 7%. The interest rates on deposits are fixed.

In the upcoming year, all of the Company's deposits will fall due and the remaining deposits will mature in 2013. In the next year, 64% of the Group's deposits will fall due, whereas 36% of deposits will mature in the period of one to five years.

All of the Company's deposits are denominated in euro. 8.5% of the Group's deposits are denominated in the Macedonian denar (MKD), 6.5% in the Serbian denar and all other deposits are denominated in euro.

20. CASH AND CASH EQUIVALENTS

Table 45: Cash and cash equivalents

	Prva Group		The Group	
EUR	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Cash in hand	0	0	188	29,884
Cash on current accounts (local currency)	14,804	5,608	53,863	49,607
Cash on current accounts (foreign currency)	0	2,000	18,099	2,947
Deposits at banks with maturity up to 3 months	28,000	73,000	663,485	460,787
Total	**42,804**	**80,608**	**735,635**	**543,225**

Deposits with maturity up to three months are disclosed together with related interests as calculated in accordance with contractual terms. These funds are intended for the current coverage of costs and current placements.

21. CAPITAL

As at 31 December 2012, the subscribed capital amounted to EUR 14,026,588, of which EUR 7,150,156 relates to regular shares, with the difference of EUR 6,876,432 relating to preference shares.

Pursuant to the decision to increase the subscribed capital of the company from the company's own assets adopted at the General Meeting of 1 June 2012, Prva Group in 2012 increased the subscribed capital of the company from the company's own assets in the amount of EUR 857,516.00. After the increase, the subscribed capital amounts to EUR 15,149,636.00. This capital increase was implemented through the issuing of new shares, namely by issuing 15,566/259,440 of a new PPDN share for every PPDN share owned on 2 July 2012, and 10,812/180,200 of a new PPDP share for every PPDG share owned on 2 July 2012. The newly issued shares were registered in the central registry on 3 July 2012.

Following its share capital increase and in accordance with a resolution to reduce the share capital through reduction of the nominal amount of shares, adopted by the general meeting on 1 June 2012 Prva Group, reduced the amount of its share capital. In the capital reduction procedure:

- The company on 20 July 2012 received the decision of the County Court in Ljubljana thereby decreasing the capital of the company by EUR 1,123,048.00; after the capital reduction, the company's subscribed capital amounts to EUR 14,026,588.00,
- The company on 3 August 2012 issued in the Official Gazette of the RS a notice on the capital reduction, thereby informing the company's creditors of their right to demand security if they notify the court within six months of the publication of the decision
- On 23 August 2012, the exchange of securities was registered in the central registry of securities. Namely, every regular class A registered PPDN share with a nominal value on EUR 28 on 22 August 2012 was replaced with a new regular class A registered PPDS share with a nominal value of EUR 26, while every preferential class B registered PPDP share with a nominal value on EUR 39 on 22 August 2012 was replaced with a new preferential class B registered PPDL share with a nominal value of EUR 36.

Payments to the shareholders due to the capital reduction were performed in February 2013, after expiry of the 6-month period beginning with the notification of registration of the capital reduction, after creditors that came forward in the respective timeframe were paid out or provided insurance.

The capital of the Group represents the capital of Prva Group and the capital of a non-controlling interest.

Table 46: Share capital

EUR

	31.12.2012	31.12.2011
Approved share capital (ordinary shares with a face value of EUR 26.00)	7,150,156	7,264,320
Approved share capital (preference shares with a face value of EUR 36.00)	6,876,432	7,027,800
Share capital (ordinary shares with a face value of EUR 26.00)	7,150,156	7,264,320
Share capital (preference shares with a face value of EUR 36.00)	6,876,432	7,027,800
Total share capital (issued and paid-in capital)	14,026,588	14,292,120

Table 46: The number of issued and paid-up shares

	Ordinary shares		Preference shares	
	2012	2011	2012	2011
As at 1 January	259.440	244.755	180.200	170.000
Issued	15.566	14.685	10.812	10.200
As at 31 December	275.006	259.440	191.012	180.200

The Company or the Group has no treasury shares.

RESERVES

Share premium comprises the surplus of capital paid (payments above the minimum emission values of shares or stakes) in the amount of EUR 6,859,429 (2011: EUR 7,716,945) and cannot be distributed. Other profit reserves amount to EUR 3,386 (2011: 3,386).

Exchange rate differences arising from the translation of the functional currencies into the reporting currency are recognised directly in the statement of comprehensive income until the sale of a subsidiary when the exchange rate differences are transferred to the income statement. These reserves cannot be distributed.

Retained earnings have not been earmarked for any specific purpose and can be used to finance dividend payments in subsequent years.

Table 47: The structure and movement of reserves in 2012

EUR

	Prva Group				The Group			
	Share premium and other profit reserves	Revaluation reserve	Retained earnings	Total	Share premium and other profit reserves	Revaluation reserve	Retained earnings	Total
1 Jan 2012	7,720,332	-813,119	1,778,243	8,685,456	7,174,189	-910,613	4,964,924	11,228,500
Change	-857,516	89,009	-228,569	-997,076	-857,516	-28,461	492,681	-393,296
31 Dec 2012	6,862,816	-724,111	1,549,674	7,688,379	6,316,672	-939,073	5,457,605	10,835,204

Table 48: Structure and movement of reserves in 2011

EUR

	Prva Group				The Group			
	Capital surplus and other profit reserves	Revaluation reserve	Retained earnings	Total	Capital surplus and other profit reserves	Revaluation reserve	Retained earnings	Total
1 Jan 2011	8,765,503	-553,179	3,076,239	11,750,871	8,219,358	-525,932	4,403,336	12,096,762
Change	-1,045,170	-259,940	-1,297,996	-2,603,106	-1,045,170	-384,681	561,588	-868,263
31 Dec 2011	7,720,332	-813,119	1,778,243	8,685,456	7,174,189	-910,613	4,964,924	11,228,500

DIVIDENDS PROPOSED AND PAID

At 31 December 2012 the distributable profit of Prva Group amounts to EUR 1,549,674 and is comprised of retained earnings of EUR 74,705 and of the current year's profit amounting to EUR 1,474,696. Changes in the share premium are described in detail in Disclosure 19.

The Company intends to pay dividends to ordinary and preference shareholders for the 2012 business year in total amount of EUR 1.2 million and the proposal will be submitted for approval to the General Meeting which will be held in May 2013. Dividends, which are announced after the reporting period, are not included in the liabilities item in the balance sheet.

Dividends were paid out also in previous years. In 2012, a total of EUR 1.7 million of dividends were paid to holders of preference and ordinary shares.

22. TECHNICAL PROVISIONS

Table 49: Technical provisions

	Prva Group		The Group	
EUR	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Non-life insurance	**0**	**0**	411,936	**401,547**
Gross unearned premiums	0	0	75,673	77,523
Gross provision for outstanding claims	0	0	326,782	319,951
Gross mathematical provisions			9,481	4,073
Life insurance	**0**	**0**	**5,593,630**	**2,509,855**
Gross unearned premiums	0	0	58,338	24,871
Gross mathematical provisions	0	0	4,417,788	1,828,748
Gross provisions in favour of unit-linked insurance underwriters	0	0	748,192	376,227
Gross provision for outstanding claims	0	0	369,312	280,009
Total	**0**	**0**	**6,005,565**	**2,911,402**

23. LIABILITIES FROM FINANCIAL CONTRACTS

While Prva Group does not have any liabilities from financial contracts, its subsidiaries do. Only Prva osebna zavarovalnica recognised these liabilities in the balance sheet in accordance with IFRS.

Table 50: Liabilities from financial contracts

EUR	31.12.2012	31.12.2011
Other liabilities	313,773	344,668
Net liabilities to pension policyholders	219,232,504	222,940,624
Total	**219,546,277**	**223,285,292**

Liabilities from financial contracts of companies abroad are reported in the off balance sheet records in accordance with IFRS. Furthermore, these liabilities are reported in the off balance sheet records also in the consolidated financial statements as required by IFRS.

Prva osebna zavarovalnica reports its financial contracts in the balance sheet in accordance with IFRS and consequently, these are reported also in the consolidated balance sheet.

Table 51: Other liabilities from financial contracts

EUR	31.12.2012	31.12.2011
Liabilities from insurance operations	310,840	342,144
Other liabilities	2,933	2,524
Total	**313,773**	**344,668**

Liabilities from insurance operations are liabilities for fees and commission and liabilities to insurants of Prva osebna zavarovalnica d.d.

Table 52: Net liabilities to pension policyholders

EUR

	Fund 1	Fund 2	Fund 3	Fund 4	TOTAL
Guaranteed value of mathematical provisions					
In 2011	33,726,656	43,743,826	80,306,757	56,230,680	214,007,918
In 2012	27,591,509	44,826,041	79,562,233	58,463,935	210,443,718
Value of mathematical provisions not guaranteed					
In 2011	1,040,713	1,770,203	3,879,738	2,242,051	8,932,706
In 2012	663,016	1,916,119	3,876,192	2,333,459	8,788,786
Total mathematical provisions					
In 2011	34,767,369	45,514,029	84,186,495	58,472,731	222,940,624
In 2012	28,254,525	46,742,160	83,438,425	60,797,394	219,232,504

Net liabilities to pension policyholders represent mathematical provisions which are managed separately for each individual long term business fund.

Mathematical provisions must comply with the Decision on Detailed Rules and Minimum Standards to be Applied in the Calculation of Technical Provisions and at any time equal at least the amount of the redemption value of the insurance.

Thus, provisions are formed for each individual pension fund and comprise the guaranteed funds on the personal account of policyholders and provisions for returns exceeding the guaranteed return. The guaranteed value of the fund consists of the payment of the net premium and prescribed guaranteed return. Mathematical provisions are not reinsured.

Table 53: Movements in liabilities due to pension insurance policyholders in 2012 and 2011

EUR

	Guarantee fund 1	Guarantee fund 2	Guarantee fund 3	Guarantee fund 4	TOTAL
Balance at 1 Jan 2011	30,870,854	38,717,739	82,523,782	51,415,858	203,528,232
Payments	2,219,781	6,329,165	10,281,367	7,004,087	25,834,400
Redemption and net transfers	1,144,631	-236,253	-9,876,154	-768,380	-9,736,156
Net result from investments	971,598	1,323,289	2,853,204	1,818,093	6,966,184
Fees	-439,495	619,911	-1,595,704	-996,926	-3,652,036
Balance at 31 Dec 2011	**34,767,369**	**45,514,029**	**84,186,495**	**58,472,731**	**222,940,624**
Balance at 1 Jan 2012	34,767,369	45,514,029	84,186,495	58,472,731	222,940,624
Payments	2,698,713	6,161,227	9,241,301	6,533,332	24,634,573
Redemption and net transfers	-9,549,720	-5,963,998	-11,593,471	-5,275,564	-32,382,753
Net result from investments	854,363	1,740,542	3,205,093	2,155,376	7,955,374
Fees	-516,200	-709,640	-1,600,993	-1,088,481	-3,915,314
Balance at 31 Dec 2012	**28,254,525**	**46,742,160**	**83,438,425**	**60,797,395**	**219,232,504**

24. FINANCIAL LIABILITIES FROM BORROWINGS

Borrowings in total amount of EUR 154,927 (2011: EUR 230,277) represent borrowings received by the subsidiary in Macedonia from the non-controlling interest for a period of more than 5 years for the purchase of business premises. The company has pledged real estate in Macedonia as collateral.

25. OTHER LIABILITIES, OTHER PROVISIONS AND SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE

Table 54: Liabilities

	Prva Group		The Group	
EUR	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Other provisions	0	0	80,570	57,015
Other liabilities	1,211,226	4,239,659	1,861,054	4,555,550
Accrued costs	9,240	3,449	1,126,219	905,915
Total	**1,220,466**	**4,243,108**	**3,067,844**	**5,518,480**

Other liabilities of Prva Group represent liabilities to shareholders on account of share capital decrease, which was settled on 22 February 2013.

The Group companies settle their liabilities at maturity. Only larger companies, i.e. KB Prvo, Macedonia and Prva osebna zavarovalnica, Slovenia have open liabilities above EUR 100,000. These are accounts payable to suppliers, to employees and liabilities relating to the purchase of securities.

26. OFF BALANCE SHEET LIABILITIES

The Company's and Group's off-balance sheet liabilities refer to liabilities arising from the lease contract for business premises.

Table 55: Movements in rent liabilities (EUR)

	Prva Group		The Group	
Maturity	**2012**	**2011**	**2012**	**2011**
In one year	11,832	11,832	247,896	254,232
In one to five years	28,800	47,328	973,056	1,016,928
In more than 5 years	0	0	0	
Total	40,632	59,160	1,220,952	1,271,160

In accordance with Slovene legislation, assets and liabilities from financial contracts of subsidiaries are carried in the off balance sheet records.

Table 56: Assets of long-term business funds of foreign companies, included in off-balance sheet items (Group disclosure)

EUR	**31.12.2012**	**31.12.2011**
Fondi Kosovo	4,929,223	4,856,294
KB Prvo Makedonija	185,860,912	139,054,463
DDOR Garant Srbija	25,779,269	22,425,340
Total	**216,569,404**	**166,336,098**

XI.1 Other disclosures

27. REMUNERATIONS OF MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD, AND RELATED PARTY TRANSACTIONS

In 2012, a total of EUR 70,911 was paid to the Management Board and members of the Supervisory Board of Prva Group plc., which is 44.6% less than in 2011.

Table 57: Costs of the Management and Supervisory Boards (including attendance fees of subsidiaries) for Prva Group

EUR

	2012	2011
Management	55,504	113,294
Supervisory Board	15,407	14,650
Total payouts	**70,911**	**127,944**

In 2012, Prva Group did not provide members of its Management or Subsidiary boards with any prepayments or loans, nor did it assume any liabilities on their behalf. Remunerations made in 2012 are presented below.

Table 58: Remunerations to members of the Management and Supervisory Boards of Prva Group plc

EUR

	Salary	Pension insurance	Benefits	Holiday pay	Attendance fee	Reward	Total
Alenka Žnidaršič Kranjc	29.030	224	287	457,84	0	25.506	55.504
Total	**29.030**	**224**	**287**	**458**	**0**	**25.506**	**55.504**

EUR

Members	Function	Attendance fee	Total gross	Income tax	Net	Contr. for pension and disab. insurance 6%
SILVO SVETE	1,875	500	2,375	534	1,841	143
JOŽE MERMAL	2,500	758	3,258	733	2,525	195
ZVONIMIR KRISTANČIČ	2,500	758	3,258	733	2,525	195
LINDSAY STUART	2,500	758	3,258	733	2,525	195
DUŠAN ŠEŠOK	2,500	758	3,258	733	2,525	195
Total	**11,875**	**3,532**	**15,407**	**3,467**	**11,940**	**924**

The following other entities are considered related to Prva Group and the Group:

- A-Z Finance d.o.o.
- EBRD, United Kingdom
- Dej d.o.o.
- Druga d.o.o
- Makrofin d.o.o.
- Deos, d.d.

Table 59: Transactions of Prva Group with its subsidiaries in 2012

EUR

PG - related parties	Costs - purchases from related parties	Revenue -sales to related parties
POZ	15,132	82,500
KB Prvo	0	150,000
DDOR	0	4,800
FONDI	0	16,926

PG - related parties	Receivables due from subsidiaries	Liabilities to subsidiaries
POZ	0	1,546
KB Prvo	12,500	0
DDOR	0	0
FONDI	0	0

PG - related parties	Dividend income	Interest income	Interest expense
POZ	1,357,800	109,644	2,095
KB Prvo	206,219	0	0
DDOR	0	0	0
FONDI	0	0	0

POZ - PZZD, DEOS	Costs - purchases from related parties	Liabilities to related parties
Prva zavarovalno zastopniška družba d.o.o.	50,667	2,927
Deos d.d.	4,896	408

The Company, the Group and individual subsidiaries recorded no other significant related-party transactions in 2012.

The parent charged to its subsidiaries fees for investment management and internal audit services, as well as rent for hardware and software.

All transactions with subsidiaries have been carried out under market conditions.

28. FINANCIAL AND RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The basic financial instruments of the Company and the Group comprise financial investments, money deposits and cash on accounts at banks. The main purpose of these financial instruments is to attain long-term yields for the Company and the Group. The Company and the Group also have other financial instruments such as trade receivables and supplier payables which arise upon their business operations.

The main types of risk originating from the financial instruments of the Company and Group are market risk, liquidity risk and credit risk. The Management Board reviews and approves risk management policies which are summarised below.

INSURANCE RISK MANAGEMENT

Each insurance contract is exposed to uncertainties whether insurance event will appear, when it will appear and what the repayment will be. By nature, the insurance risks that arise from insurance contracts are coincidental and thus unpredictable.

Insurance risks relate to uncertainty of the insurance transactions. The most important components of insurance risks are:

- Risk of unsuitable amount of premium (premium risk) and
- Risk of inappropriate amount of technical provisions (provision risk)

Premium risk is the risk that costs and claims will be higher than written premiums. This can occur when the frequency or the amount of claims is higher than expected. Claim events are random variables and therefore actual numbers and amounts vary from statistical average. Provision risk is the risk of inappropriate amount of technical provisions set aside.

Experiences show that portfolio size and spread decrease these variances. Prva osebna zavarovalnica has implemented a process of accepting insurances that differentiates among different types of risks and aims to achieve appropriate portfolio size risks in order to decrease variability of expected claims.

The insurance company manages risks with the help of criteria set for accepting insurances which depends on the amount of the sum insured and the type of risk. Furthermore, the insurance company manages these risks through appropriate development of products, pricing and reinsurance.

FINANCIAL RISK MANAGEMENT

The basic financial instruments of the Company and the Group comprise financial investments, bank loans, money deposits and cash on accounts at banks. The main purpose of these financial instruments is to attain the long-term yields of the insurance company. The insurance company also has other financial instruments such as trade receivables and supplier payables which arise upon its business operations.

The main types of risk originating from the financial instruments of the insurance company include market risk, liquidity risk and credit risk. The Management Board reviews and approves risk management policies which are summarised below.

CAPITAL MANAGEMENT

Prva Group manages its capital with the aim of ensuring both smooth and continued operations of the company and maximum profitability for its shareholders, through optimal balance between borrowings and capital.

29. CREDIT RISK

The Company and the Group operate only with well established, trustworthy clients. They are exposed to credit risk in terms of investments in securities, issued loans, deposits and cash. The Company is exposed to the risk of the counter party default due to insolvency.

In relation to other financial resources, such as cash, deposits at banks and financial assets designated as available-for-sale, the Company's risk exposure results from the risk of outstanding liabilities from the other contracting party. The maximum exposure equals the carrying amount of these financial instruments.

Securities in the table below are categorised in different groups according to their credit rating. Risk-free investments are all investments with rating A to AAA and all Slovenian banks, whereas medium-risk investments are all investments with rating BBB. Equity securities and the investments of unit-linked insurances are not included in this analysis.

Table 60: The credit quality of the financial investments of Prva Group in 2012

	Risk-free investments (high creditworthiness of the debtor)	Medium-risk investments (medium creditworthiness of the debtor)	Medium-risk investments - no rating	Speculative investments (low creditworthiness of the debtor)	Unsettled investments due	Total
Deposits and loans	1,895,515	0	858,487	0	0	2,754,002
Financial asseat AFS	96,902	0	1,075,953	52,435	0	1,225,290
Financial assests HTM	492,847	0	0	0	0	492,847
Financial assests at FVTPL	0	0	0	0	0	0
Reeivables and other financial assets	0	0	176,572	0	141,215	317,787
Cash and cash equivalents	42,804	0	0	0	0	42,804
	2,528,068	**0**	**2,111,012**	**52,435**	**141,215**	**4,832,730**

The amount of financial assets available for sale presented in the table above differs from the carrying amount apparent in the balance sheet by EUR 982,577 (2011: EUR 1,193,918) as it does not include investments into the equity shares of RZP, with regards to which the Company identified no credit risk, although the risk of the change in value of the shares is present as disclosed below.

The amount of unsettled and impaired investments in the total value of EUR 193,650 represents the investment into Poteza (in bankruptcy) and securities issued by the Hellenic Republic.

Table 61: The credit quality of the financial investments of Prva Group in 2011

	Risk-free investments (high creditworthiness of the debtor)	Medium-risk investments (medium creditworthiness of the debtor)	Medium-risk investments - no rating	Speculative investments (low creditworthiness of the debtor)	Unsettled investments due	Total
Deposits and loans	4,090,001	0	3,516,279	0	0	7,606,280
Financial asseat AFS	116,049	187,516	1,762,827	114,150	0	2,180,542
Financial assests HTM	492,142	0	0	0	0	492,142
Financial assests at FVTPL	0	0	0	0	0	0
Reeivables and other financial assets	0	0	1,698,080	0	141,215	1,839,295
Cash and cash equivalents	80,608	0	0	0	0	80,608
	4,778,800	**187,516**	**6,977,186**	**114,150**	**141,215**	**12,198,867**

Table 62: Movements in write-downs of impaired investments of the Prva Group

EUR

	31.12.2012	31.12.2011
Balance at 1 January	**1,295,132**	**506,616**
Net change	-87,744	-788,516
- increase	-347,711	-788,516
- decrease	259,967	0
Balance at 31 December	**1,382,876**	**1,295,132**

Reduction in the investment impairment loss is presented in the income statement in note »Net gains/losses on disposal of investments«.

Table 63: The credit quality of the financial investments of the Group in 2012

	Risk-free investments (high creditworthiness of the debtor)	Medium-risk investments (medium creditworthiness of the debtor)	Medium-risk investments - no rating	Speculative investments (low creditworthiness of the debtor)	Unsettled investments due	Total
Deposits and loans	6,815,179	0	1,302,922	0	0	8,118,101
Financial asseat AFS	3,434,056	0	1,156,766	53,552	0	4,644,374
Financial assests HTM	10,577,222	4,807,142	1,987,311	0	0	17,371,675
Financial assests at FVTPL	0	425,065	0	0	0	425,065
Reeivables and other financial assets	0	0	1,222,862	0	151,334	1,374,196
Cash and cash equivalents	735,634	0	0	0	0	735,634
	21,562,091	**5,232,207**	**5,669,861**	**53,552**	**151,334**	**32,669,045**

The amount of financial assets available for sale presented in the table above differs from the carrying amount apparent in the balance sheet by EUR 1,809,609 (2011: EUR 1,813,597) as it does not include investments into the equity shares of RZP, with regards to which the Company identified no credit risk, although the risk of the change in value of the shares is present as disclosed below.

The amount of unsettled and impaired investments in the total value of EUR 193,650 represents the investment into Poteza (in bankruptcy) and securities issued by the Hellenic Republic.

Table 64: The credit quality of the financial investments of the Group in 2011

	Risk-free investments (high creditworthiness of the debtor)	Medium-risk investments (medium creditworthiness of the debtor)	Medium-risk investments - no rating	Speculative investments (low creditworthiness of the debtor)	Unsettled investments due	Total
Deposits and loans	5,409,217	0	4,411,669	0	0	9,820,886
Financial asseat AFS	1,926,795	687,877	1,214,770	175,375	0	4,004,817
Financial assests HTM	4,238,933	4,308,008	7,033,447	179,411	0	15,759,799
Financial assests at FVTPL	365,308	0	0	0	0	365,308
Reeivables and other financial assets		0	1,159,152	0	151,334	1,310,486
Cash and cash equivalents	543,225	0	0	0		543,225
	12,483,478	**4,995,885**	**13,819,038**	**354,786**	**151,334**	**31,804,521**

Investments are widely spread and do not exceed 10% of exposure to individual issuer. No receivables of the Group are due and outstanding and none of the Group's assets have been pledged as collateral.

Table 65: Movements in write-downs of impaired investments of the Group

EUR	31.12.2012	31.12.2011
Balance at 1 January	**1,595,214**	**506,616**
Net change	122,979	1,088,598
- increase	-370,987	-1,088,596
- decrease	493,966	0
Balance at 31 December	**1,472,235**	**1,595,214**

Table 66: The credit quality of financial investments of the pension long-term business funds included in the item assets from financial contracts in 2012 and 2011 (in EUR)

	31.12.2012	%	31.12.2011	%
1. Rating - AAA	5,490,755	2.83	6,312,832	3.17
2. Rating - AA	4,383,341	2.26	687,540	0.35
3. Rating - A	45,207,539	23.28	57,638,343	28.98
4. Rating - BBB	53,236,450	27.42	35,932,498	18.06
5. Below BBB	42,412,388	21.84	45,406,838	22.83
6. No rating	43,441,735	22.37	52,935,993	26.61
Total	194,172,208	100.00	198,914,044	100.00

In accordance with the Insurance Act, investments are spread, therefore long term business funds are not significantly exposed to one individual issuer. As a result of the financial crisis in the euro zone, the amount of no rating investments and investments with low creditworthiness of debtors has risen. The "no rating« class includes mainly investments in cash deposits held at Slovenian banks and debt securities of Slovenian issuers. Class 5 »Below BBB« includes mainly the bonds of certain European states and bonds of companies engaged in

cyclical industries, whose credit rating deteriorated due to the economic crisis. Equity securities and real estate are not included in the analysis as they carry no direct credit risk.

The Company and pension funds have no outstanding receivables or investments. None of the investments are pledged as collateral.

The Company and Group regularly assess credit risk arising from deposits at banks and by following a conservative investments policy invest any surplus assets in deposits of local banks for which the Company and the Group believe there is no risk of default on repayment i.e. no credit risk.

Table 67: Credit risk structure per investment type

EUR

	31.12.2012	31.12.2011
Bonds	155,348,900	148,030,245
Deposits and loans, call deposits and certificates of deposit	29,988,679	39,508,560
Structured products	8,834,629	11,375,239
Total	**194,172,208**	**198,914,044**

In accordance with the Insurance Act, investments are spread, therefore long term business funds are not significantly exposed to one individual issuer. The assets of the long-term business funds are not insured. The pension funds' receivables include EUR 327,992 of outstanding and due receivables from investments. The insurance company's receivables include EUR 10,119 of outstanding and due receivables from investments. The relevant amount of impairment loss was recognised on these receivables.

Table 68: Movements in the write-downs of impaired investments – long-term business fund assets from financial contracts

EUR	31.12.2012	31.12.2011
Balance at 1 January	**7,069,904**	**3,119,573**
Net change	-3,114,827	3,950,331
- increase	3,507,670	3,950,331
- decrease	-6,622,497	0
Balance at 31 December	**3,955,078**	**7,069,904**

Table 69: Maturity structure of receivables

	Prva Group		The Group	
Gross receivables	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
Not matured	317,787	1,839,295	1,318,029	1,274,294
Up to 90 days	0	0	39,474	27,125
More than 90 days	0	0	250,180	138,888
Total	**317,787**	**1,839,295**	**1,607,683**	**1,440,307**

	Prva Group		The Group	
Receivable allowances	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
Not matured	0	0	0	0
Up to 90 days	0	0	8,322	4,821
More than 90 days	0	0	225,165	125,000
Total	**0**	**0**	**233,487**	**129,821**

	Prva Group		The Group	
Carrying amount of receivables	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
Not matured	317,787	1,839,295	1,318,029	1,274,294
Up to 90 days	0	0	31,152	22,304
More than 90 days	0	0	25,015	13,888
Total	**317,787**	**1,839,295**	**1,374,196**	**1,310,486**

30. LIQUIDITY RISK

The Company and the Group manage liquidity risk through cash flow planning. The Company uses cash flow forecasts to take into account the maturity of financial investment including planned outflows which relate to the Company's operations.

Financial investments of the Company and the Group are financed with the Company's capital. At the end of the year, the Company and the Group report only liabilities for running costs with maturity of up to 3 months. The following tables represent the structure of assets and liabilities according to maturity.

Table 70: Overview of the liquidity of the financial assets and liabilities of Prva Group

	Prva Group					
EUR	31.12.2012			31.12.2011		
ASSETS	TOTAL	Maturity up to 12 months	Maturity above 12 months	TOTAL	Maturity up to 12 months	Maturity above 12 months
Investments	**22,242,616**	**2,796,806**	**19,445,810**	**24,821,098**	**4,195,065**	**20,626,033**
Share in subsidiaries	16,745,108		16,745,108	13,145,108		13,145,108
Share in associated company	0		0	122,500		122,500
Investments into securities	2,700,702	0	2,700,702	3,866,603	0	3,866,603
1. Held to maturity	492,847	0	492,847	492,142	0	492,142
2. Available for sale	2,207,855	0	2,207,855	3,374,460	0	3,374,460
Issued loans and deposits	2,754,002	2,754,002	0	7,606,280	4,114,457	3,491,823
Cash	42,804	42,804		80,608	80,608	
Other receivables	317,787	317,787		1,839,295	1,839,295	
Assets from financial contracts	**0**		**0**	**0**		**0**
TOTAL ASSETS	**22,682,900**	**3,367,127**	**19,568,307**	**26,828,442**	**6,426,601**	**20,794,082**
LIABILITIES						
Other liabilities	1,211,226	1,211,226	0	**4,239,659**	**4,239,659**	0
TOTAL LIABILITIES	**1,211,226**	**1,211,226**	**0**	**4,239,659**	**4,239,659**	**0**

Table 71: Overview of the liquidity of the financial assets and liabilities of the Group

EUR	THE GROUP 31.12.2012			31.12.2011		
ASSETS	TOTAL	Maturity up to 12 months	Maturity above 12 months	TOTAL	Maturity up to 12 months	Maturity above 12 months
Investments						
Share in associated company	0	0	0	129,419	0	129,419
Assets of unit-linked insurants	769,552	0	769,552	385,382	0	385,382
Investments into securities	24,250,720	1,254,683	22,996,036	21,943,522	1,227,503	20,716,019
1. Held to maturity	17,371,675	643,484	16,728,191	15,759,799	1,179,394	14,580,405
2. Available for sale	6,453,979	186,134	6,267,845	5,818,415	48,109	5,770,306
3. Measured at fair value through profit or loss	425,065	425,065	0	365,308	0	365,308
Issued loans and deposits	8,118,101	7,464,396	653,705	9,820,886	6,836,846	2,984,040
Cash	735,634	735,634	0	543,225	543,225	0
Other receivables	1,374,196	1,374,196	0	1,310,486	1,310,486	0
Assets from financial contracts	219,546,277	21,561,455	197,984,822	223,285,292	39,621,904	183,663,388
TOTAL ASSETS	**254,794,479**	**32,390,364**	**221,634,563**	**257,771,862**	**49,471,275**	**208,300,587**
LIABILITIES						
Other liabilities	1,861,054	333,192	1,527,862	4,555,550	4,268,773	286,777
Liabilities from financial contracts	219,546,277	21,561,455	197,984,822	223,285,292	39,621,904	183,663,388
TOTAL LIABILITIES	**221,407,301**	**677,860**	**199,512,684**	**227,840,842**	**43,890,677**	**183,950,165**

Table 72: Overview of the structure of liabilities of Prva Group considering expected non-discounted cash flow in 2012

EUR		Prva Group 31.12.2012					
LIABILITIES	Notes	TOTAL	Maturity up to 1 year	Maturity from 1 to 5 years	Maturity more than 5 years	Liabilities without maturity	Carrying amount
Other liabilities and accrued costs	25	1,220,466	1,220,466	0	0	0	1,220,466
TOTAL LIABILITIES		**1,220,466**	**1,220,466**	**0**	**0**	**0**	**1,220,466**

Table 73: Overview of the structure of liabilities of Prva Group considering expected non-discounted cash flow in 2011

EUR		Prva Group 31.12.2011					
LIABILITIES	Notes	TOTAL	Maturity up to 1 year	Maturity from 1 to 5 years	Maturity more than 5 years	Liabilities without maturity	Carrying amount
Other liabilities and accrued costs	25	4,243,108	4,243,108	0	0	0	4,243,108
TOTAL LIABILITIES		**4,243,108**	**4,243,108**	**0**	**0**	**0**	**4,243,108**

Table 74: Overview of the structure of liabilities of the Group considering expected non-discounted cash flow in 2012

EUR		The Group 31.12.2012					
LIABILITIES	Notes	TOTAL	Maturity up to 1 year	Maturity from 1 to 5 years	Maturity more than 5 years	Liabilities without maturity	Carrying amount
Other liabilities	25	3,222,771	3,064,737	132,230	25,805	0	3,067,844
Liabilities from financial contracts	23	264,288,993	26,336,066	107,511,590	105,134,773	25,306,564	219,546,277
TOTAL LIABILITIES		**267,511,764**	**29,400,803**	**107,643,820**	**105,160,578**	**25,306,564**	**222,614,121**

Table 75: Overview of the structure of liabilities of Prva Group considering expected non-discounted cash flow in 2011

EUR		The Group 31.12.2011					
LIABILITIES	Notes	TOTAL	Maturity up to 1 year	Maturity from 1 to 5 years	Maturity more than 5 years	Liabilities without maturity	Carrying amount
Other liabilities	25	5,845,101	5,543,986	301,115	0	0	5,518,480
Liabilities from financial contracts	23	269,004,367	39,621,904	91,006,464	115,192,762	23,183,238	223,285,292
TOTAL LIABILITIES		**273,574,255**	**43,890,677**	**91,307,579**	**115,192,762**	**23,183,238**	**228,803,772**

31. INTEREST RATE RISK

The exposure of the Company and Group to changes in market interest rates is very low as it mainly stems from long-term debt securities and variable exchange rate deposits, which are all included in the portfolio until their maturity.

As at 31 December 2012 the Company recorded EUR 589,749 of variable interest rate investments (2011: EUR 608,191). The classification of investments per form of interest rate is disclosed in Note 11. The effect of interest rate changes on the profit or loss of the Company is presented in the table below.

An overview of the classification of assets per fixed and variable interest rate per type of financial investment is presented in the disclosure of investments.

Table 76: Interest rate risk of Prva Group

EUR

	2012		2011	
	Change in market interest rate	Impact on profit or loss (in EUR)	**Change in market interest rate**	Impact on profit or loss (in EUR)
Interest rate risk	+/-10 bt	589	+/-10 bt	608

The Company and the Group are not significantly exposed to interest rate risk and the effect does not have a considerable impact on the financial statements.

The Company and the Group adopt decisions for mitigating interest risk on the basis of active monitoring of the development of events on the international capital markets. At the same time, interest rate risk of funds managed by Prva osebna zavarovalnica relates to guaranteed return which a fund must ensure to policyholders in line with the pension schemes. Through active management of investments, the Group mitigates its interest rate risk.

As at 31 December 2012 the Group recorded EUR 2,646,411 of variable interest rate investments (2011: EUR 2,670,467). The classification of investments per form of interest rate is disclosed in Note 11. The effect of interest rate changes on the profit or loss of the Group is presented in the table below.

Table 77: The Group's interest rate risk

EUR

	2012		2011	
	Change in market interest rate	Impact on profit or loss (in EUR)	**Change in market interest rate**	Impact on profit or loss (in EUR)
Interest t rate risk	+/-10 bt	2.646	+/-10 bt	3.253

32. FAIR VALUE

Table 78: Overview of the carrying and fair value of financial instruments of the Company

	Book value		Fair value	
EUR	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Total financial assets	**5,815,295**	**13,392,786**	**5,564,644**	**13,164,457**
Investments into securities:	2,700,702	3,866,603	2,450,051	3,638,274
1. Held to maturity	492,847	492,142	242,196	263,814
2. Available for sale	2,207,855	3,374,460	2,207,855	3,374,460
Issued loans and deposits	2,754,002	7,606,280	2,754,002	7,606,280
Trade receivables (insurants)	12,500	15,534	12,500	15,534
Other receivables (assets)	305,287	1,823,761	305,287	1,823,761
Cash	42,804	80,608	42,804	80,608
Assets on accounts of pension insurance holders	0	0	0	0
Total financial liabilities	**0**	**0**	**0**	**0**
Liabilities to pension insurance holders	0	0	0	0

Table 79: Overview of the carrying and fair value of financial instruments held by the Group

	Book value		Fair value	
EUR	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Total financial assets	**254,794,481**	**256,903,411**	**258,104,225**	**249,035,189**
Investments into securities:	24,250,719	21,943,522	23,488,405	20,322,867
1. Held to maturity	17,371,675	15,759,799	16,609,361	14,139,144
2. Available for sale	6,453,979	5,818,415	6,453,979	5,818,415
3. Measured at fair value through profit or loss	425,065	365,308	425,065	365,308
Issued loans and deposits	8,118,101	9,820,886	7,154,262	9,820,886
Trade receivables (insurants)	117,868	103,547	68,689	103,547
Other receivables (assets)	1,256,328	1,206,939	1,595,447	1,206,939
Cash	735,636	543,225	735,636	543,225
Investments in favour of unit-linked insurants	769,552	385,382	769,552	385,382
Assets on accounts of pension insurance holders	219,546,277	223,285,292	224,472,500	217,037,745
Total financial liabilities	**220,294,469**	**223,285,292**	**225,220,692**	**217,413,972**
Liabilities to pension insurance holders	219,546,277	223,285,292	224,472,500	217,037,745
ZTR in favour of unit-linked insurants	748,192	376,227	748,192	376,227

33. ASSETS AND LIABILITIES IN FOREIGN CURRENCY

The Group's liabilities and receivables are converted according to the reference exchange rate of the European Central Bank as at 31 December 2012. Due to successful balancing of exposure to currencies by individual companies in the Group, the Group is not exposed to major currency risk. Foreign currency translation reserves are recognised through the statement of comprehensive income.

As at 31 December 2012 the pension funds have no investments in foreign currencies. All liabilities are denominated in euro.

The table below represents sensitivity to changes in important currencies to which the Group is exposed given that all other parameters remain the same.

With regards to the BAM currency, the table includes the value of the investment in the Nova Banka Bjelina bank, while the MKD currency represents the volatility in the assets of the Macedonian subsidiary. The same applies to bonds denominated in RSD which are included in the portfolio of the Belgrade subsidiary.

Table 80: Currency risk of the Group

	2012		2011	
Currency	Change of exchange rate	Impact on pre-tax income	Change of exchange rate	Impact on pre-tax income
BAM	5%	64,995	5%	80,858
	-5%	-64,995	-5%	-80,858
MKD	5%	21,971	5%	22,833
	-5%	-21,971	-5%	-22,833
RSD	5%	3,857	5%	6,988
	-5%	-3,857	-5%	-6,988

As at 31 December 2012, 3.49% of the Company's financial assets are denominated in a foreign currency, whereas all liabilities are denominated in the euro, thus the Company's exposure to currency risk is low.

34. THE RISK OF CHANGES TO THE MARKET PRICES OF SECURITIES

The Company is exposed to the risk of changes to the market prices of securities in the case of equity securities quoted on financial markets. As at 31 December 2012, the Company recorded EUR 982,577 of such investments (2011: EUR 1,193,919).

Table 81: The effect of changes to the market prices of equity securities - the Company

	2012		2011	
	Index change in %	Impact on capital (EUR)	Index change in %	Impact on capital (EUR)
Other	+/-10	98,257	+/-10	119,392

The Group is exposed to the risk of changes to the market prices of securities in the case of equity securities quoted on financial markets. As at 31 December 2012, the Group recorded EUR 1,809,609 of such investments (2011: EUR 1,813,597).

Table 82: The effect of changes to the market prices of equity securities - the Company

	2012		2011	
	Index change in %	Impact on capital (EUR)	Index change in %	Impact on capital (EUR)
Other	+/-10	180,960	+/-10	181,359

In 2012, due to the sale of debt securities carried by the Company at fair value, the risk of changes to the market value of this portfolio as a result of increases to market interest rates also fell. If the market interest

rate was to grow by 100 bp, the market value of the Company's portfolio would fall by EUR 24,229 (2011: EUR 32,709). The overall change would impact the equity. At the level of the Group, the overall effect would amount to EUR 121,207 (2011: EUR 109,270).

Neither of the illustrations above includes securities of the long-term business fund carrying investment risk, with respect to which the insurance company is not exposed to market risk as a result of the management arrangement.

35. OTHER DETAILS

Prva Group had not issued any participation rights instruments, convertible bonds or similar securities or issued rights.

There were no material events after balance sheet date.