
CONSOLIDATED AND UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2012



HRVATSKO KREDITNO OSIGURANJE D.D.

I.	2012 Business Overview	2
	Annual Report on the Position and Performance of the Company in 2012	2
	Responsibility for the financial statements	9
	Independent Auditor's Report	10
II.	Financial Statements for the year ended 31 December 2012	
	Statement of comprehensive income	12
	Statement of financial position	13
	Statement of changes in equity	14
	Statement of cash flows	15
	1 - 41 Notes to the financial statements for the year 2012	16
III.	Financial statements and notes thereto in the format prescribed by the Croatian Financial Services Supervision Agency	63

I. 2012 BUSINESS OVERVIEW

ANNUAL REPORT ON THE POSITION AND PERFORMANCE OF THE COMPANY IN 2012

Activity, ownership structure, employees and organisation

Hrvatsko kreditno osiguranje d.d. (hereinafter: ("the Company")) was registered and started to operate in 2010. Thus, the year 2012 is the second full year of being in business. The Company is specialised for a specific niche of the insurance market in Croatia - trade credit insurance, intended for businesses engaged in domestic and foreign trade in goods and services. Given the special type of coverage, the Company is the first insurer in Croatia specialised exclusively for insurance of trade receivables with maturities of up to one year. The Company offers insurance coverage for commercial and political risks, and short-term receivables with maturities of up to one year.

In 2012 the Company had two key insurance products on offer: export insurance and domestic credit insurance.

In late 2010, to provide strategic support to its operations, the Company founded Poslovni info servis d.o.o. and started to operate as the Hrvatsko kreditno osiguranje Group ("the Group") comprising: Hrvatsko kreditno osiguranje d.d. and Poslovni info servis d.o.o.. Poslovni info servis d.o.o. started to operate in 2011. Its core activities comprise credit risk assessment and providing credit reports for the purpose of insurance.

In 2012, the Company's ownership structure underwent changes. Thus, the founders and shareholders of the Company until 22 March 2012 were Hrvatska banka za obnovu i razvitak (the Croatian development bank), Strossmayerov trg 9, Zagreb, Republic of Croatia, with a total of 19,125 ordinary registered shares, representing 51% of the share capital, and OeKB Südosteuropa Holding Ges.m.b.H, Am Hof 4, Vienna, Austria, with a total of 18,375 ordinary registered shares, representing 49% of the total share capital. Based on the Acquisition Agreement dated 22 March 2012, OeKB Südosteuropa Holding Ges.m.b.H. was merged into PRISMA Kreditversicherungs-Aktiengesellschaft, as the acquirer.. Based on a Share Purchase and Transfer Agreement, Hrvatska banka za obnovu i razvitak took over 18,375 ordinary shares from Prisma Kreditversicherungs-AG, Himmelfortgasse 29, 1010 Vienna, Austria and became the Company's sole owner on 25 September 2012.

The Group bases its activities on a small team of motivated staff and sees its strategic advantage in an integrated service based not only on underwriting risks but also on a systematic monitoring of assumed credit risks and providing advice to policyholders.

To ensure a high-quality service, the Company employs staff with university degrees willing to work permanently on improving their skills and adopting new knowledge required for understanding complex economic trends on the domestic and international markets. At 31 December 2012, the Group employed 13 persons, of which 10 by Hrvatsko kreditno osiguranje d.d. and 3 by Poslovni info servis. The number of staff at the Company increased by two compared to 2011.

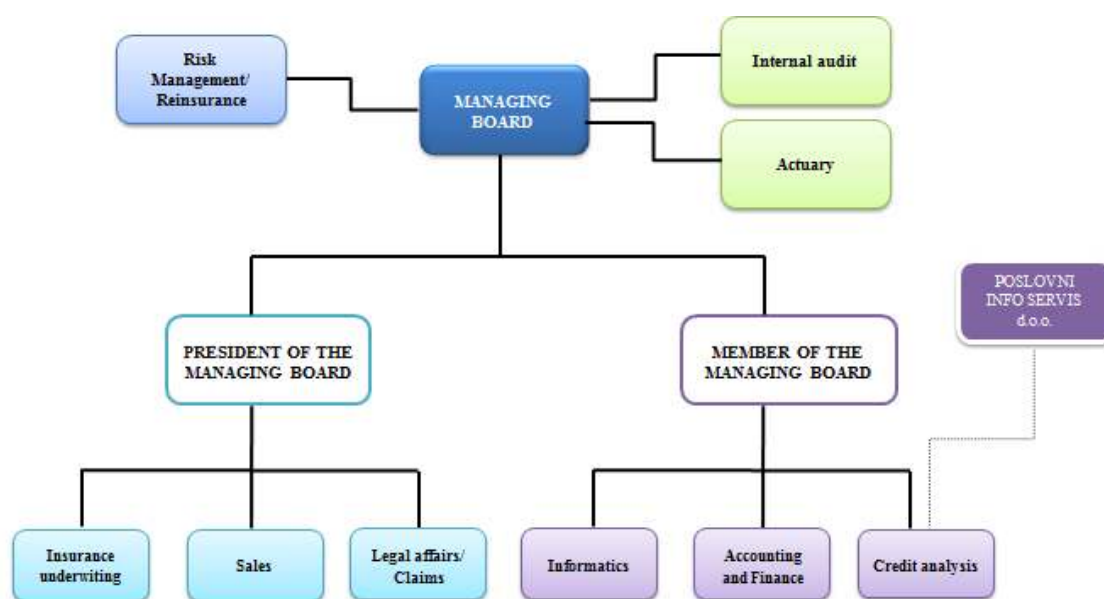
I. 2012 BUSINESS OVERVIEW (CONTINUED)

ANNUAL REPORT ON THE POSITION AND PERFORMANCE OF THE COMPANY IN 2012 (CONTINUED)

Given the size and current level of business development, the Company outsourced some of its activities (actuarial service, internal audit, general IT support, investing of technical provisions), in accordance with the applicable laws and requirements of the supervisory body.

In 2012, the organisational structure of the Company remained unchanged.

The organisational scheme of the HKO Group in 2012:



I. 2012 BUSINESS OVERVIEW (CONTINUED)

ANNUAL REPORT ON THE POSITION AND PERFORMANCE OF THE COMPANY IN 2012 (CONTINUED)

Governance

The legal status, organisation and governance of the Company as well as other issues of importance for the Company's operations and other reconciliations with the Companies Act and the Insurance Act are defined in the Company's Statute. The bodies in charge of the Company governance and management comprise the following: the Managing Board, Supervisory Board and the Shareholders' Assembly.

Managing Board

On 17 October 2012, the members of the Managing Board of Hrvatsko kreditno osiguranje d.d. changed as follows:

Managing Board since 17 October 2012:

Edvard Ribarić, President of the Board

Branka Perišić, Deputy President of the Board

Managing Board until 17 October 2012:

Edvard Ribarić, President of the Board

Anton Ludwig Steffko, Member of the Board

Officer holding a general power of attorney

Ružica Adamović

Management of Poslovni info servis d.o.o.

Until 18 December 2012: Ivana Paić-Mikulek, Managing Director

Since 18 December 2012: Ružica Adamović, Managing Director

The Supervisory Board of Hrvatsko kreditno osiguranje d.d.

On 17 October 2012, the members of the Supervisory Board of Hrvatsko kreditno osiguranje d.d. changed as follows:

Supervisory Board since 17 October 2012

Branimir Berković, Chairman

Ante Artuković, Deputy Chairman

Branka Perišić*, Member

Marija Jerkić, Member

Andreja Mergeduš, Member

* Branka Perišić – does not perform the function of a member of the Supervisory Board while acting as the Deputy Chairman.

I. 2012 BUSINESS OVERVIEW (CONTINUED)

ANNUAL REPORT ON THE POSITION AND PERFORMANCE OF THE COMPANY IN 2012 (CONTINUED)

Supervisory Board until 17 October 2012:

Branimir Berković, Chairman

Helmut Hans Altenburger, Deputy Chairman

Ante Artuković, Member

Audit Committee of Hrvatsko kreditno osiguranje d.d.

On 17 October 2012, the members of the Audit Committee changed as follows:

Audit Committee since 17 October 2012:

Branimir Berković, Chairman

Ante Artuković, Deputy Chairman

Branka Perišić, Member

Marija Jerkić, Member

Andreja Mergeduš, Member of the Supervisory Board

Katica Smojver, Member

Audit Committee until 17 October 2012:

Branimir Berković, Chairman

Helmut Hans Altenburger, Deputy Chairman

Ante Artuković, Member

Katica Smojver, Member

I. 2012 BUSINESS OVERVIEW (CONTINUED)

ANNUAL REPORT ON THE POSITION AND PERFORMANCE OF THE COMPANY IN 2012 (CONTINUED)

2012 Performance Results

Hrvatsko kreditno osiguranje d.d. closed the year 2012 with 35 concluded insurance contracts, of which 31 were concluded to insure export receivables and 4 relate to domestic receivables. The insurance covers 992 credit limits, which is 7.1 percent more than in the prior year. In the overall limit structure, domestic receivables consist of 177 credit limits, and exports comprise 815 credit limits in respect of customers from 45 countries worldwide.

The total volume insured in 2012 amounted to HRK 2,444 million, representing a 7-percent growth compared to 2011.

At 31 December 2012, the total exposure of the Company amounted to HRK 875,127 thousand and was structured by significance as follows: Italy (17.3%), Croatia (16.5%), Germany (9.6%), Serbia (8.6%) and Slovenia (7.0%).

In 2012, the total premium written amounted to HRK 7,678 thousand, which is an increase by 14.8% compared to 2011 when it was HRK 6,687 thousand.

In 2012, outward reinsurance premium accounted for 70.8 percent of the total premium written, which is slightly below the 72.9 percent share in 2011.

Net premium earned for 2012 amounted to HRK 1,731 thousand (1,248 thousand in 2011).

During 2012 the Company settled six claims, two of which fully liquidated, whereas the total claims amounted to HRK 820.4 thousand. The settled claims relate to customers from Hungary, Slovenia, Bosnia and Herzegovina and Croatia.

At the Company level, the claims ratio for the year 2012 was 41.6 percent (2011: 55.8%), expense ratio was 60.5 percent (2011: 56 percent), and the combined rate was 102.2 percent (2011: 111.8%).

The fiscal year 2012 is the second full year of the Company being operational and closed with an operating loss of HRK 608 thousand at the Group level, as expected, which represent a decrease by 44.9 percent compared to the loss for the year 2011 in the amount of HRK 1,104 thousand.. The current year's loss incurred by the Company amounted to HRK 484 thousand (2011: a loss in the amount of HRK 989 thousand): .

Acquisition costs, administrative and other operating expenses for the year 2012 at the Group level were in aggregate HRK 5,066 thousand (2011: HRK 4,337 thousand), whereas for the Company they amounted to HRK 4,440 thousand (2011: HRK 3,702 thousand).

At 31 December 2012 the total assets of the Company amounted to HRK 40,293 thousand and were 2.9 percent higher than in the previous year's total asset balance of HRK 39,164 thousand.

At 31 December 2012 the total assets of the HKO Group in the amount of HRK 40,120 thousand are 2.7 percent higher than the prior year's balance of HRK 39,062 thousand.

I. 2012 BUSINESS OVERVIEW (CONTINUED)

ANNUAL REPORT ON THE POSITION AND PERFORMANCE OF THE COMPANY IN 2012 (CONTINUED)

2012 Performance Results (continued)

At 31 December 2012 the total equity of the Company reported of HRK 35,412 thousand (35,807 thousand in 2011).

At 31 December 2012 the total equity of the Group reported of HRK 35,155 thousand (35,661 thousand in 2011).

The 2012 balance of technical provisions, net of reinsurer's share, was HRK 2,807 thousand (1,537 thousand in 2011).

Business goals and plans for the future

In 2013 the Company expects its premium revenue and the domestic credit insurance share of its total insurance portfolio to increase, as well as to strengthen its presence and positioning on the Croatian market as a provider of specialised insurance coverage for short-term political and commercial risks, along with intensified efforts to present its credit insurance service to businesses and attract new policyholders.

In providing the insurance services, the Company is particularly focused on professional standards and expertise as well as on direct customer access, the quality, availability and efficiency of the service.

Supervisory reports

During 2012 the Company was prompt in submitting its reports and compulsory notifications to the supervisory bodies, as specified in the Insurance Act, the regulations of the Croatian Financial Services Supervision Agency and other applicable regulations. The Company responded promptly to all requirements of the supervisory authorities involving the control of the Company's operations, mandatory disclosures and filings, to which no objections were made.

Research and development

In 2012 there were no research and development activities at the Company.

Information on purchase of own shares

From the establishment until the end of 2012 the Company did not purchase any of its shares.

Information about branches

Considering the specific nature of the trade receivables insurance against commercial and political risks, the Company establishes a direct relationship with its customers and has thus not established and has no intention to establish a local operation.

Risk management

The Company manages the risks actively, by setting up an adequate framework of managing, identifying, measuring, reporting, minimising and monitoring risks, as provided in the Risk Management Strategy, internal by-laws, the Insurance Act and the Agency's Guidelines for Identifying, Measuring and Monitoring Risk Exposures of Insurance and Reinsurance Companies (OG 159/2009). The most significant risks which arise from the Company's operations are the risks inherent to insurance operations, financial and operational risks. Through the adopted Risk Management Strategy and other internal by-laws, the Company seeks to minimise efficiently and continuously its risk exposures and the related negative effects.

I. 2012 BUSINESS OVERVIEW (CONTINUED)

ANNUAL REPORT ON THE POSITION AND PERFORMANCE OF THE COMPANY IN 2012 (CONTINUED)

Statement of compliance with the Code of Corporate Governance

The legal status, organisation and governance of the Company as well as other issues relevant for the Company's operations are defined in the Company's Statute as well as in accordance with the Companies Act and the Insurance Act.

The bodies of the Company comprise the Managing Board, the Supervisory Board and the Shareholders' Assembly. The operations of Hrvatsko kreditno osiguranje d.d. are managed by two members of the Managing Board, in accordance with the Rules of Procedure of the Managing Board.

As a rule, all decisions are taken using the four-eye principle, supported by an appropriate authorisation system.

The Company has not adopted the Code of Corporate Governance. However, in performing its business, it applies the guidelines provided in the Code to the extent that is appropriate to the Company's size and current status of its business.

Social responsibility

In 2012 Hrvatsko kreditno osiguranje d.d. became actively involved in providing support to the Rehabilitation Centre Silver, engaged in the rehabilitation of disabled persons and children with developmental difficulties, which includes rehabilitation with service dogs ((guide, rehabilitation and therapy dogs).

Events after the balance sheet date

There were no events subsequent to the balance sheet date that would materially affect the 2012 operating results.

Zagreb, 30 April 2013



Edvard Ribarić
President of the Managing Board



Branka Perišić
Deputy Board member

Responsibility for the financial statements

Pursuant to the Accounting Act, the Managing Board of Hrvatsko kreditno osiguranje d.d. (hereinafter: "the Company") is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("the IFRSs"), which give a true and fair view of the financial position and results of operations of the Company for that period.

After making appropriate enquiries, the Managing Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Managing Board continues to prepare the financial statements on a going-concern basis.

In preparing those financial statements, the responsibilities of the Company's Managing Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to assume that the Company will continue as a going concern.

The Managing Board of the Company is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and must also ensure that the financial statements comply with the Croatian Accounting Act. The Managing Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Company:

Edvard Ribarić

President of the Managing Board



Hrvatsko kreditno osiguranje d.d.

Branka Perišić

Deputy Board member



Bednjanska 14

10000 Zagreb

Republic of Croatia

Date

30 April 2013

Independent Auditor's Report

To the Owners of Hrvatsko kreditno osiguranje d.d.

We have audited the accompanying financial statements of Hrvatsko kreditno osiguranje d.d. (the "Company"), presented on pages 9 to 62, which comprise the statement of financial position as of 31 December 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of unconsolidated 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.

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Eric Daniel Olcott and Branislav Vrtačnik; poslovna banka: Zagrebačka banka d.d., Paromlinska 2, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, ž. račun/bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008-1100240905; SWIFT Code: RZBHR2X IBAN: HR10 2484 0081 1002 4090 5

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Independent Auditor's Report (continued)

To the Owners of Hrvatsko kreditno osiguranje d.d. (continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

The Management Board has prepared reporting forms in accordance with the Regulation on the Structure and Content of the Financial Statements of Insurance and/or Reinsurance Companies, adopted by the Croatian Financial Services Supervisory Agency on 19 November 2010. The reporting forms are provided as a supplement to these financial statements, set out on pages 64 to 73, and comprise the statement of financial position at 31 December 2012 and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended. These reporting forms are the responsibility of the Company's management and do not form an inseparable part of the financial statements prepared under International Financial Reporting Standards, but rather a requirement provided in the Decision of the Croatian Financial Services Supervisory Agency. The disclosures provided in the reporting forms have been derived from the statutory financial statements of the Company that are set out on pages 12 to 62, prepared in accordance with International Financial Reporting Standards.

Deloitte d.o.o.


Branislav Vrtačnik, Certified Auditor and Management Board member

Zagreb, Croatia

30 April 2013

Statement of Comprehensive Income

(All amounts are expressed in thousands of kunas)

	Notes	Company 2012	Group 2012	Company 2011	Group 2011
Premium earned					
Gross premium written	5	7,678	7,678	6,687	6,687
Premium impairment allowance originated and reversed on collection	5	(219)	(219)	(499)	(499)
Gross outward reinsurance premium	5	(5,437)	(5,437)	(4,874)	(4,874)
Net premium written		2,022	2,022	1,314	1,314
Changes in the gross unearned premium reserve	5	(577)	(577)	(147)	(147)
Changes in the gross unearned premium reserve, reinsurer's share	5	286	286	81	81
Net premium earned	5	1,731	1,731	1,248	1,248
Fee and commission income	6	998	1,477	858	1,372
Net investment income	7	1,711	1,742	1,596	1,626
Other operating income	8	710	672	76	28
Net income		5,150	5,622	3,778	4,274
Gross expense for returned premiums	9	(295)	(295)	(118)	(118)
Reinsurer's share	9	243	243	82	82
Gross reserve for returned premiums	9	66	66	(340)	(340)
Reinsurer's share	9	(70)	(70)	261	261
Net expense and reserve for returned premiums	9	(56)	(56)	(115)	(115)
Claims incurred	10	(820)	(820)	(766)	(766)
Claims incurred, reinsurer's share	10	592	592	536	536
Change in the claims provision	10	(2,762)	(2,762)	(3,008)	(3,008)
Change in the claims provision, reinsurer's share	10	1,786	1,786	2,070	2,070
Net claims incurred	10	(1,204)	(1,204)	(1,168)	(1,168)
Marketing expenses	11	(106)	(106)	(30)	(30)
Administrative expenses	12	(4,048)	(4,378)	(3,471)	(3,950)
Other operating expenses	13	(284)	(580)	(195)	(351)
Net exchange differences other than those on financial instruments	14	(2)	(2)	(6)	(6)
Loss before taxation		(550)	(704)	(1,207)	(1,346)
Tax income	15	66	96	218	242
Loss for the year		(484)	(608)	(989)	(1,104)
Other comprehensive income					
Gains on revaluation of financial assets available for sale		122	155	60	84
Decrease in the fair value of financial assets available for sale		(11)	(12)	(91)	(91)
Transfer of realized gain on asset available for sale in the statement of comprehensive income		-	(15)	-	-
Deferred tax	15	(22)	(26)	6	1
Other comprehensive income		89	102	(25)	(6)
Total comprehensive loss after tax		(395)	(506)	(1,014)	(1,110)
Attributable to:					
Equity holders of the Company		(395)	(506)	(1,014)	(1,110)
Non-controlling interests		-	-	-	-
		(395)	(506)	(1,014)	(1,110)
Earnings per share	16				
From continuing operations:					
Earnings per share (in HRK)		(12.91)	(16.22)	(26.38)	(29.45)

Statement of financial position as at 31 December
(All amounts are expressed in thousands of kunas)

	Notes	Company 2012	Group 2012	Company 2011	Group 2011
Assets					
Non-current assets					
Property and equipment	17	136	144	53	59
Intangible assets	18	124	125	240	240
Investments in subsidiaries	19	2,000	-	2,000	-
Held-to-maturity investments	20	1,064	1,064	1,069	1,069
Deferred tax assets	21	459	525	393	429
		3,783	1,858	3,755	1,797
Current assets					
Available-for-sale investments	22	2,113	3,227	983	2,061
Investments at fair value through profit or loss	23	773	948	392	519
Deposits with banks	24	30,692	31,027	31,316	31,640
Receivables from insurance operations	25	1,782	1,782	1,418	1,418
Other receivables	26	925	933	1,000	1,123
Cash and cash equivalents	27	225	345	300	504
		36,510	38,262	35,409	37,265
Total assets		40,293	40,120	39,164	39,062
Equity and liabilities					
Equity					
Share capital	28	37,500	37,500	37,500	37,500
Accumulated losses		(1,668)	(1,834)	(679)	(730)
Reserves on revaluation of available-for-sale investments	29	64	97	(25)	(5)
Loss for the period		(484)	(608)	(989)	(1,104)
		35,412	35,155	35,807	35,661
Technical provisions					
Gross technical provisions	30	8,047	8,047	4,774	4,774
Technical provisions, reinsurer's share	30	(5,240)	(5,240)	(3,237)	(3,237)
		2,807	2,807	1,537	1,537
Current liabilities					
Liabilities from insurance operations	31	1,541	1,541	1,349	1,349
Other liabilities	32	511	587	471	510
Deferred tax liability	21	22	30	-	5
Total liabilities		2,074	2,158	1,820	1,864
Total equity and liabilities		40,293	40,120	39,164	39,062

Statement of changes in equity

(All amounts are expressed in thousands of kunas)

Company	Share capital	Retained earnings and reserves	Other reserves	Profit for the year	Total equity attributable to the equity holders of the Company	Total equity
At 1 January of the previous year	37,500	-	-	(679)	36,821	36,821
Loss for the year	-	-	-	(989)	(989)	(989)
Other comprehensive income	-	-	(25)	-	(25)	(25)
Total comprehensive loss	-	-	(25)	(989)	(1,014)	(1,014)
Share capital paid in	-	(679)	-	679	-	-
At 31 December of the previous year	37,500	(679)	(25)	(989)	35,807	35,807
Loss for the year	-	-	-	(484)	(484)	(484)
Other comprehensive income	-	-	89	-	89	89
Total comprehensive loss	-	-	89	(484)	(395)	(395)
Transfer of prior-year profit to retained earnings	-	(989)	-	989	-	-
Balance at 31 December of the current year	37,500	(1,668)	64	(484)	35,412	35,412

(All amounts are expressed in thousands of kunas)

Group	Share capital	Retained earnings and reserves	Other reserves	Profit for the year	Total equity attributable to the equity holders of the Company	Total equity
At 1 January of the previous year	37,500	-	1	(730)	36,771	36,771
Loss for the year	-	-	-	(1,104)	(1,104)	(1,104)
Other comprehensive income	-	-	(6)	-	(6)	(6)
Total comprehensive loss	-	-	(6)	(1,104)	(1,110)	(1,110)
Share capital paid in	-	(730)	-	730	-	-
At 31 December of the previous year	37,500	(730)	(5)	(1,104)	35,661	35,661
Loss for the year	-	-	-	(608)	(608)	(608)
Other comprehensive income	-	-	102	-	102	102
Total comprehensive loss	-	-	102	(608)	(505)	(505)
Transfer of prior-year profit to retained earnings	-	(1,104)	-	1,104	-	-
Balance at 31 December of the current year	37,500	(1,834)	97	(608)	35,155	35,155

Statement of cash flows

(All amounts are expressed in thousands of kunas)

CASH FLOWS FROM OPERATING ACTIVITIES**Cash flows before working capital changes****Net profit before tax***Adjusted by:*

Depreciation

Amortisation

Impairment losses and gains/losses on remeasurement at fair value

Interest income

Increase in available-for-sale investments

Increase of investments at fair value through profit or loss

Decrease/increase in given deposits, loans and receivables

Increase in technical provisions

Increase in receivables from insurance operations

Increase/decrease in other receivables

Increase in other liabilities

Decrease/increase in working capital

Income taxes paid

CASH FLOWS FROM OPERATING ACTIVITIES

Payments for purchases of tangible assets

Payments for purchases of intangible assets

Payments made for held-to-maturity investments

Payments made for equity investments

CASH FLOWS FROM INVESTING ACTIVITIES

Additional share capital contributed in cash

CASH FLOWS FROM FINANCING ACTIVITIES

Effects of changes in foreign exchange rates on cash and cash equivalents

Net increase/decrease in cash and cash equivalents

Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of year

	Company 2012	Group 2012	Company 2011	Group 2011
Net profit before tax	(551)	(704)	(1,207)	(1,346)
<i>Adjusted by:</i>				
Depreciation	25	28	17	20
Amortisation	147	147	137	137
Impairment losses and gains/losses on remeasurement at fair value	199	195	481	472
Interest income	(1,684)	(1,695)	(1,538)	(1,548)
	(1,864)	(2,029)	(2,110)	(2,265)
Increase in available-for-sale investments	(1,038)	(1,057)	(987)	(992)
Increase of investments at fair value through profit or loss	(360)	(405)	(375)	8
Decrease/increase in given deposits, loans and receivables	623	613	2,223	2,250
Increase in technical provisions	1,270	1,270	1,084	1,084
Increase in receivables from insurance operations	(584)	(584)	(1,286)	(1,286)
Increase/decrease in other receivables	1,760	1,885	1,020	904
Increase in other liabilities	255	293	140	152
Decrease/increase in working capital	1,926	2,015	1,819	2,120
Income taxes paid	-	-	-	-
CASH FLOWS FROM OPERATING ACTIVITIES	62	(14)	(291)	(145)
Payments for purchases of tangible assets	(109)	(114)	(6)	(15)
Payments for purchases of intangible assets	(30)	(31)	(15)	(15)
Payments made for held-to-maturity investments	5	5	(14)	(14)
Payments made for equity investments	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES	(134)	(140)	(35)	(44)
Additional share capital contributed in cash	-	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES	-	-	-	-
Effects of changes in foreign exchange rates on cash and cash equivalents	(3)	(5)	(20)	(24)
Net increase/decrease in cash and cash equivalents	(75)	(159)	(346)	(213)
Cash and cash equivalents at beginning of year	300	504	646	717
Cash and cash equivalents at end of year	225	345	300	504

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

1. KEY DATA ABOUT THE COMPANY AND THE GROUP

Group

Hrvatsko kreditno osiguranje d.d. ("the Company") is the parent of the Group Hrvatsko kreditno osiguranje ("the Group"), operating in Croatia since 2010.

The Group comprises Hrvatsko kreditno osiguranje d.d. ("the Parent") and its subsidiary Poslovni info servis d.o.o. ("the Subsidiary"). The Group is engaged in non-life insurance operations, specialised for providing trade credit insurance covering commercial and political risks.

These financial statements incorporate the separate financial statements of the Company and the consolidated financial statements of the Group, as provided in International Accounting Standard 27 "Consolidated and Separate Financial Statements".

Company

Hrvatsko kreditno osiguranje d.d. ("the Company") is a private limited company registered in the register of the Commercial Court in Zagreb on 18 January 2010.

The Company is registered for credit insurance operations. The Croatian Financial Services Supervisory Agency ("the Agency") issued the operating licence to the Company on 24 September 2009.

The ownership structure of the Company changed in 2012 and its shareholders until 22 March 2012 were as follows:

Hrvatska banka za obnovu i razvitak (the Croatian development bank), Strossmayerov trg 9, Zagreb, Republic of Croatia, with a total of 19,125 ordinary registered shares, representing 51% of the share capital, and OeKB Südosteuropa Holding Ges.m.b.H, Am Hof 4, Vienna, Austria, with a total of 18,375 ordinary registered shares, representing 49% of the total share capital. Based on the Acquisition Agreement dated 22 March 2012, OeKB Südosteuropa Holding Ges.m.b.H. was merged into PRISMA Kreditversicherungs-Aktiengesellschaft, as the acquirer.. Based on a Share Purchase and Transfer Agreement, Hrvatska banka za obnovu i razvitak took over 18,375 ordinary shares from Prisma Kreditversicherungs-AG, Himmelpfortgasse 29, 1010 Vienna, Austria and became the Company's sole owner on 25 September 2012. 100% owner of the Company, HBOR, prepares consolidated financial statements, in which are included these financial statements.

. At 31 December 2012, the total subscribed capital paid in amounts to HRK 37,500,000. The Company's ordinary shares are dematerialised and registered in the name, and are maintained by the Central Clearing and Depository Company, Zagreb, under the ticker HKOS-R-A. The number of shares issued is 37,500, with the nominal value per share of HRK 1,000.

Subsidiary

The Company is the owner of the only share in Poslovni info servis d.o.o., a limited liability company ("PIS") for credit risk assessment and providing credit reports in connection with credit insurance operations. PIS is a fully owned subsidiary of the Company and was registered on 26 October 2010, with a share capital of HRK 2,000,000 and Business and Other Management Consulting as its registered business.

Headquarters

The HKO Group is headquartered in Zagreb, Bednjanska 14, Republic of Croatia.

2. BASIS OF PREPARATION

2.1. Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs"), as published by the International Accounting Standards Board.

These financial statements incorporate the consolidated financial statements of the Group and the separate financial statements of the Company, as provided in International Accounting Standard 27 "Consolidated and Separate Financial Statements".

The consolidated financial statements at 31 December 2012 comprise Hrvatsko kreditno osiguranje d.d. and its subsidiary Poslovni info servis d.o.o.

The accounting policies of the Subsidiary have been reconciled with those of the Parent to ensure comparability at the Group level. Subsidiaries are included in the consolidated financial statements using the full consolidation from the date of acquiring control and excluded from the consolidated financial statements from the date the control ceases.

Subsidiaries acquired by the Company and other Group entities are accounted for using the cost method. The cost of acquiring a subsidiary is measured at fair value of assets given, equity instruments issued and of liabilities incurred or assumed as of the date of exchange, increased by all costs directly attributable to the acquisition. In preparing the consolidated financial statements, intragroup balances, all unrealised gains and losses as well as income and expenses arising from intragroup transactions are eliminated.

2. BASIS OF PREPARATION (CONTINUED)

2.2. New accounting standards

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- Amendments to IAS 1 "Presentation of financial statements" - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012) (annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets,
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Company accounting policies and it is not expected that these have a material impact on the it.

2.3. Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 Financial Instruments, as amended in 2010, (effective for annual periods beginning on or after 1 January 2015),
- IFRS 10 Consolidated Financial Statements, published in May 2011, supersedes the previous version of IAS 27 (2008) Consolidated and Separate Financial Statements, (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 Joint Arrangements, published in May 2011, supersedes IAS 31 Interests in Joint Ventures (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 Disclosure of Interests in Other Entities, published in May 2011 (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 Fair Value Measurement, published in May 2011 (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 Separate Financial Statements (as amended in 2011), consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 Consolidated Financial Statements, (effective date of IAS 27 (as amended in 2011) for annual periods beginning on or after 1 January 2013),
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011). This version supersedes IAS 28 (2003) Investments in Associates (effective date of IAS 28 (as amended in 2011) for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 First –time Adoption of IFRS, published in March 2012, amendments for government loan with a below market rate of interest when transitioning to IFRS, (effective for annual periods beginning on or after 1 January 2013),
- IFRS 7 Financial Instruments: Disclosures, published in December 2011, amendments enhancing disclosures about offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013) and amendments requiring disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015),
- Amendments to IAS 1 Presentation of Financial Statements - Revising the way of presenting the other comprehensive income (effective for annual periods beginning on or after 1 July 2012).

2. BASIS OF PREPARATION (CONTINUED)

2.3. Standards and Interpretations in issue not yet adopted (continued)

- Amendments to IAS 19 Employee Benefits - Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures, published in December 2011, amendments to application guidance on the offsetting of financial assets and financial instruments (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, (effective for annual periods beginning on or after 1 January 2013),
- Annual improvements 2009 – 2011 Cycle, published in May 2012, a collection of amendments to IFRSs, in response to issues addressed during the 2009–2011 cycle. Five standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) are primarily affected by the amendments, with consequential amendments to numerous others (effective for annual periods beginning on or after 1 January 2013),
- Transition guidance, published in June 2012, amendment to IFRS 10, IFRS 11 and IFRS 12., (effective for annual periods beginning on or after 1 January 2013),
- Amendments to investment entities for IFRS 10, IFRS 12, IAS 27 published in October 2012 (effective for annual periods beginning on or after 1 January 2014).

The Managing Board has elected not to adopt these Standards, revisions and Interpretations in advance of their effective dates and anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements in the period of initial application, except for IFRS 9 which will affect the Company and its recognition and measurement of financial assets.

2. BASIS OF PREPARATION (CONTINUED)

2.4. Use of judgements, estimates and assumptions

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

Given a short-period of being in business, the Company does not have sufficient historical data and has based its estimates on market data, experiences of other insurers providing insurance of short-term receivables from political and commercial risks and the regulations of the Agency.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or also in future periods if the revision affects both current and future periods.

Estimates underlying the determination of provisions

Unearned premium reserve has been determined using the data from insurance contracts maintained in the Company's books. The policy records based on the contracts signed with policyholders underlying the unearned premium reserve include data about the premium calculation method.

Indirect claims handling costs are determined as 0.5 % of the sum of the gross provision for reported claims and the gross provision for claims incurred but not reported.

2.5. Basis of presentation

The fundamental assumptions underlying the preparation of the financial statements are the accrual basis of accounting and the going-concern assumption.

The financial statements for the period ended 31 December 2012 have been prepared on the historical cost basis with the exception of financial assets and liabilities, which are measured at fair value in accordance with IAS 39 "Financial instruments: Recognition and Measurement".

The accounting policies are applied consistently from period to period, unless stated otherwise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Functional and reporting currency

The financial statements are presented in the currency of the primary economic environment in which the Group and the Company operate (their functional currency), which is the Croatian kuna (HRK), rounded to the nearest thousand.

3.2. General measurement policies

Domestic currency cash and balances with banks as well as all other receivables and payables denominated in the local currency are reported in nominal amounts as of the reporting date and in kunas. Foreign currency cash and balances with banks as well as all other foreign-currency denominated receivables and payables translated to the local currency at the reporting date using the middle exchange rate of the Croatian National Bank in effect at the reporting date.

The reporting date is considered to be the date of the preparation of financial accounting reports by individual items, the preparation of interim financial statements and of the annual financial statements.

3.3. Classification of assets and liabilities by currency, and exchange differences

In currency terms, items are accounted for in Croatian kunas, foreign currency and as those under currency clause. Assets and liabilities denominated in foreign currencies are adjusted to the fluctuations of the relevant middle exchange rate of the Croatian National Bank, and items tied to a foreign currency are adjusted with the fluctuations of the contractually agreed rates. Exchange differences arisen on the retranslation are included in the statement of comprehensive income.

Differences arisen from the beginning until the end of an accounting period are recorded as positive or negative exchange differences and included in the statement of comprehensive income for the period in the net amount.

The exchange rates for principal currencies used in the preparation of the financial statements were the middle exchange rates of the Croatian National Bank in effect at the reporting date, which were as follows:

At 31 December 2011	EUR 1 =HRK 7.530420 USD 1=HRK 5.819940 CHF 1=HRK 6.194817
At 31 December 2012	EUR 1 =HRK 7.545624 USD 1=HRK 5.726794 CHF 1=HRK 6.245343

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.4. Intangible assets**

Subsequent to initial recognition, intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

They are amortised using the straight-line method over the estimated useful life of an asset, whereby the cost of the asset is written down in equal annual amounts over the asset's estimated useful life. The estimated useful life and depreciation rates applicable to intangible assets are presented below:

	Useful life, in years	Annual amortisation rate in %
Application software	3	33.3
Start-up costs and investments in other rights	5	20.0

Amortisation is recognised as an expense from the first day of the month subsequent to the month in which an asset is put in use.

Amortisation rates have been determined on the basis of the estimated useful life in accordance with the maximum rates provided by the applicable laws.

During the year, amortisation is determined on a monthly basis, and the final charge for the year is determined at the year end.

3.5. Tangible assets - Property, plant and equipment

Tangible assets - property, plant and equipment - are carried at cost. Depreciation of tangible assets is recognised in profit or loss and provided using the straight-line method over the estimated useful life of individual components of property, plant and equipment for each item separately.

The useful life of an asset is determined on the basis of prescribed rates, which represent maximum tax allowable depreciation.

The estimated useful life and depreciation rates applicable to intangible assets are presented below:

	Useful life, in years	Annual depreciation rate in %
Buildings	33	3.03
Equipment, office and other furniture	8	12.5
Computers and other IT equipment	3	33.3
Vehicles - personal cars	3	33.3
Other investments not specified above	5	20
Small inventory in use	<1	100.0%

Depreciation is recognised as an expense from the first day of the month subsequent to the month in which an asset is put in use. During the year, depreciation is determined on a monthly basis, and the final charge for the year is determined at the year end.

Gains and losses on retirement or disposal of tangible assets are recognised in the statement of comprehensive income for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial assets

Classification

Financial assets are classified into four main categories as follows:

- Financial assets at fair value through profit or loss
 - a. held for trading
 - b. not actively traded
- Loans and receivables
- Financial assets held to maturity
- Financial assets available for sale

Initial and subsequent measurement

Financial assets are measured initially at cost, which includes transaction costs, except for financial assets at fair value through profit or loss, which are measured net of transaction costs.

Financial assets at fair value through profit or loss and available for sale are subsequently measured at fair value, without deduction of transaction costs.

Financial assets not quoted on an active market and whose market prices are not measurable reliably is carried at cost, which includes transaction costs, less amortisation and impairment losses.

Loans and receivables, and held-to-maturity investments are measured at amortised cost less impairment. Amortised cost is calculated using the effective interest method. Any premium or discount, including the initial transaction costs, is included in the carrying amount of an asset and amortised using the effective interest rate.

Amortisation of initially recognised premium or discount and of transaction costs for purchased debt securities classified as available for sale are recognised in the statement of comprehensive income as an increase or decrease in interest income using effective interest method.

Exchange differences on these debt instruments are recognised in the statement of comprehensive income, and those on equity instruments from this portfolio are recognised in equity.

The fair value of financial assets is based on most recent bid prices obtained directly from a regulated capital market.

Fair value of financial assets backing technical provisions that are quoted on an active market in Croatia is determined using the average trading price weighted with the quantity of securities traded on the stock exchange and listed institutional and OTC transactions.

The fair value of units in investment funds is determined by reference to the unit price on a particular day, that is, at the balance sheet date as obtained from the investment fund management company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial assets (continued)

Gains and losses

Gains and losses on changes in the fair value of financial assets at fair value through profit or loss are recognised in the statement of comprehensive income.

For available for sale financial assets, gains and losses on changes in the fair value are recognised in equity, unless the assets are permanently impaired.

Impairment of financial assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of an item is estimated. The recoverable amount of loans and receivables and of held-to-maturity investments is determined as the difference between the carrying amount of an asset and the present value of future cash flows discounted using the original effective interest rate.

Cash flows expected within one year from the balance sheet date are not discounted.

The recoverable amount of investments in held-to-maturity investments and receivables is determined as the present value of future cash flows discounted using the original effective interest rate of the asset.

An impairment loss in respect of a security or receivables held to maturity is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. The income on the reversal cannot exceed the amount of the originally recognised loss.

For an impairment loss of a financial asset available for sale recognised directly in equity where there is objective evidence of impairment as per IAS 39, the cumulative loss recognised in equity is transferred to the statement of comprehensive income, even if the asset has not been derecognised.

Impairment losses on assets available for sale are presented in profit and loss account. If the fair value of an equity instrument subsequently increases, the increase will be recognised in equity, and earlier recognised impairment loss will remain presented in the profit and loss account. Impairment losses recognised in the profit and loss for debt instruments are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition.

Derecognition

A financial asset is derecognised when the Group loses the contractual rights to the cash flows from that asset, which is when the rights are exercised, expired or surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets at fair value through profit or loss are derecognised when sold, and the resulting gains and losses are recognised in the income statement as realised gains/losses, along with the corresponding receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6. Financial assets (continued)

Specific financial instruments

- Debt securities

Debt securities comprise bills of exchange, commercial papers and bonds with variable or fixed rates, as well as other debt instruments, regardless of the issuer.

On acquisition, debt securities may be classified into any of the following four categories of financial assets, depending on the terms specific to the debt security.

- Equity securities

Equity securities comprise shares in companies as well as fund shares/units. Equity securities are classified as either trading financial assets, financial assets not actively traded or available-for-sale financial assets.

At the end of each reporting period, equity securities classified as trading financial assets, financial assets not actively traded and available-for-sale financial assets are remeasured at fair value. For equity securities quoted in an active market, fair value is determined on the basis of the closing bid price obtained directly from the regulated capital market. Value estimates are used for a security not quoted in an active market that use as input prices in recent transactions, by reference to other substantially the same financial instruments, discounted cash flow analyses, while maximising the use of market input. If no such estimate can be derived reliably, the equity security is carried at cost less impairment losses.

- Investments in subsidiaries

The cost of acquiring a subsidiary is measured at fair value of assets given, equity instruments issued and of liabilities incurred or assumed as of the date of exchange, increased by all costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired including intangible assets is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss. In the separate financial statements of the Company, the investment in the subsidiary is carried at cost less impairment, if any.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses and deductions are also recognised, but only if there is an indication of impairment.

Trade receivables, loans, and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Premium and other receivables

Premiums receivable and other receivables are carried on the basis of the appropriate underlying evidence of transaction and the data about their values.

Receivables for outstanding premiums are presented in nominal amounts. An allowance is made for bad and doubtful receivables.

Foreign-currency denominated receivables are translated using the middle exchange rate of the Croatian National Bank in effect at the reporting date.

All receivables past due beyond 90 days from the contractual maturity are provided against in full. The carrying amounts of receivables are reviewed during the year and not later than before the preparation of the financial statements. Where there is objective evidence that a receivable is not recoverable, the entire amount receivable is written off.

3.8. Revenue

Revenue from insurance, investment income, fee and commission, other technical income from insurance, as well as other operating income is recognised on the prescribed account groups in accordance with the chart of accounts for the statement of comprehensive income specified in the Ordinance of the Agency on the Structure and Content of the Financial Statements of Insurance Companies.

Revenue is recognised in the statement of comprehensive income on the basis of the key accounting assumption under which income and expenses are recognised in the period in which they arise.

Gross premium written represents the main source of operating income and includes premium written during an accounting period (year), regardless of whether the entire premium or a part of it relates to subsequent accounting periods or not.

Premiums are reported in the gross amount, which includes the commissions payable to agents and excludes taxes and contributions on premiums. Written premiums include adjustments made to premiums written in previous accounting periods and estimates of written premium at the period-end.

The premium earned, including activities in progress, is recognized as income. Premiums are earned from the date of underwriting the risk over the period of the insurance coverage. Outward reinsurance premium is recognised as an expense in accordance with the reinsurance arrangement in the same accounting period as the premium arising from direct insurance operations.

Unearned premium reserve contains a portion of gross premium written expected to be earned in subsequent financial years and is determined using the 365-day method (*pro rata temporis*).

Reinsurance commission fee income includes commissions received or receivable from reinsurers under applicable reinsurance contracts.

Investment income represents interest income earned on investments in financial instruments, unrealised gains and other yields.

Interest income is recognized in the statement of comprehensive income as incurred, taking into account the effective yield on the underlying asset. Interest on monetary assets at fair value through profit or loss is accrued using the coupon rate and included in interest income.

Other income comprises income from fees for individual insurance requests.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Expenses

Expenses comprise claims, reinsurance costs, insurance acquisition costs, costs related to changes in technical provisions, costs incurred to refund premiums (bonuses and discounts), operating expenses, investment costs, other technical expenses as well as other expenses, including impairment allowance.

Claims

Claims incurred comprise all liquidated claims in an accounting period, regardless of the period in which they are incurred, and comprise claims and the costs of settling the claims in an accounting period.

Settled claims are recorded when the underlying claim is processed and determined as the amount required to be paid to settle the claim. Settled claims are increased by claims handling costs.

Claims provision

Claims provision, determined on the basis of individual claim assessment and using the statistical methods, represent the Company's provision for the estimated ultimate cost of settlement of all claims incurred but not settled as of the balance sheet date, whether reported or not.

Outstanding claims provisions are determined by reviewing individual claims and establishing a provision for claims incurred but not reported (IBNR), taking into account the internal and external predictable events, such as changes in the claims processing procedure, inflation, court trends, changes in the underlying legislation, as well as historical experience and trends.

Although the management considers the gross claim provision and the related recoveries from reinsurance as being adequately disclosed based on the currently available information and events, the ultimate liability may vary as a result of subsequent information and events, and may result in significant adjustments to the amounts provided against. The adjustments to the claims provisions established in prior years are reflected in the financial statements in the period of the adjustments and are disclosed separately if material.

Reinsurance

Expenses arising from reinsurance arise under reinsurance contracts and include expenses in respect of technical provisions. Reinsurance and technical provision expenses are controlled and verified by a licensed actuary appointed by the Company.

Other expenses

Other (operating) expenses include all costs of acquisition of insurance policies and administrative expenses. Acquisition costs comprise all costs directly incurred in concluding an insurance contract, such as agent costs, commissions, marketing and promotion expenses. Commission expense is recognised in the period in which it is incurred.

Administrative expenses include staff costs, depreciation charge, electricity and other costs. Other costs consist mainly of premium collection charges, insurance policy cancellation costs, portfolio management and administrative expenses on reinsurance operations.

Investment expense includes interest expense, impairment losses on investments, losses on disposal of investments, net foreign exchange losses and other investment costs.

Subsequent valuation is performed at amortised cost, with any difference between proceeds (net of transaction costs) and amount payable on maturity being recognised in the statement of comprehensive income statement over the period of the borrowings using effective interest method. In the financial statements, all expenses and costs pertaining to one accounting period are presented using the key accounting assumptions underlying the recognition of income and expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.10. Taxation**

Income tax is determined in accordance with applicable tax laws and regulations and at the rate specified by the law.

Income tax expense comprises current and deferred taxes. Income tax is reported in the statement of comprehensive income, except for the tax relating to items recognised directly in equity, in which case it is also recognised in equity.

Current tax

The tax currently payable is based on taxable profit for the year. The Company's liability for current tax is calculated using tax rates that are in force.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. At each reporting date, the Company reassesses its tax liability and reduces it if it is no longer probable that the related tax benefit will be utilised.

Deferred tax assets and liabilities are not discounted and are presented within non-current assets and/or non-current liabilities.

4. SEGMENT REPORTING

The Company's insurance portfolio is homogeneous in nature. In 2012 the Company was underwriting only the credit/accounts receivable insurance risks. Therefore, no data about operating segments are disclosed.

5. NET PREMIUM EARNED

Analysis of premiums according to the structure is set out below: All insurance contracts have been concluded in Croatia.

	Company / Group 2012	Company / Group 2011
Gross premium written	7,678	6,687
Premium impairment allowance originated and reversed on collection	(219)	(499)
Gross outward reinsurance premium	(5,437)	(4,874)
Changes in the gross unearned premium reserve	(577)	(147)
Changes in the gross unearned premium reserve, reinsurer's share	286	81
Net premium earned	1,731	1,248

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

6. FEE AND COMMISSION INCOME

	Company 2012	Group 2012	Company 2011	Group 2011
Reinsurance commission income	998	998	858	858
Risk underwriting fee income	-	479	-	514
	998	1,477	858	1,372

7. NET INVESTMENT INCOME

	Company 2012	Group 2012	Company 2011	Group 2011
Financial income				
Interest income	1,684	1,695	1,538	1,548
Net gains on financial assets at fair value through profit or loss	21	24	17	26
Gains on sale of financial investments (realised gains on available-for-sale assets)	-	15	-	-
Foreign exchange gains on financial instruments	75	91	74	93
	1,780	1,825	1,629	1,667
Financial expenses				
Foreign exchange losses on financial instruments	(69)	(83)	(33)	(41)
	(69)	(83)	(33)	(41)

Net investment income

	2012	2012	2011	2011
Interest income				
Interest on given loans	1	2	-	1
Interest income on debt securities	127	127	89	89
Interest income on deposits with banks	1,556	1,566	1,447	1,457
Other (balances on accounts, penalties)	-	-	2	1
	1,684	1,695	1,538	1,548

	Company / Group 2012	Company / Group 2011
Net income from investments in assets backing technical provisions		
Financial income		
Interest income on debt securities	127	89
Net gains on financial assets at fair value through profit or loss	-	17
Foreign exchange gains on financial instruments	75	74
	202	180
Financial expenses		
Foreign exchange losses on financial instruments	(69)	(33)
	(69)	(33)

8. OTHER OPERATING INCOME

	Company 2012	Group 2012	Company 2011	Group 2011
Sublease income	69	-	48	-
Other operating income	641	672	28	28
	710	672	76	28

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

9. NET EXPENSE AND RESERVE FOR RETURNED PREMIUMS

	Company/ Group 2012	Company/ Group 2011
Credit insurance		
Gross expense for returned premiums	(295)	(118)
Reinsurer's share	243	82
Gross provision for returned premiums	66	(340)
Reinsurer's share	(70)	261
Net expense and reserve for returned premiums	(56)	(115)

10. CLAIMS INCURRED

	Company/ Group 2012	Company/ Group 2011
Credit insurance		
Claims incurred	(820)	(766)
Claims incurred, reinsurer's share	592	536
Change in the claims provision	(2,762)	(3,008)
Change in the claims provision, reinsurer's share	1,786	2,070
Net claims incurred	(1,204)	(1,168)

11. MARKETING AND PROVISION EXPENSES

	Company 2012	Group 2012	Company 2011	Group 2011
Acquisition costs	(64)	(64)	-	-
Other acquisition costs, including media advertising costs	(42)	(42)	(30)	(30)
	(106)	(106)	(30)	(30)

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

12. ADMINISTRATIVE EXPENSES

	Company 2012	Group 2012	Company 2011	Group 2011
Payroll taxes and contributions				
Net salaries	(1,236)	(1,384)	(1,055)	(1,253)
Taxes and contributions out of salaries	(981)	(1,047)	(768)	(870)
Contributions on salaries	(342)	(373)	(314)	(365)
	(2,559)	(2,804)	(2,137)	(2,488)
Other administrative expenses				
Cost of material	(30)	(32)	(24)	(27)
Energy	(78)	(78)	(80)	(80)
Other staff-related costs (exclusive of gross and net salary costs)	(83)	(107)	(72)	(122)
Entertainment	(22)	(22)	(9)	(18)
Bank and payment operation charges	(17)	(20)	(16)	(17)
Rental costs	(326)	(326)	(318)	(318)
Lease payments for vehicles	(152)	(152)	(196)	(196)
Non-material costs	(29)	(46)	(16)	(16)
Postage	(6)	(7)	(4)	(6)
Telecommunications	(52)	(52)	(48)	(48)
Actuarial services	(84)	(84)	(84)	(84)
Advisory and consultancy costs	(134)	(134)	(121)	(121)
Audit costs	(113)	(113)	(74)	(74)
Other taxes and contributions	(4)	(5)	(4)	(5)
Other (service) costs	(359)	(396)	(268)	(330)
	(1,489)	(1,574)	(1,334)	(1,462)
Administrative expenses	(4,048)	(4,378)	(3,471)	(3,950)

13. OTHER OPERATING EXPENSES

	Company 2012	Group 2012	Company 2011	Group 2011
Vacation and bonus accruals	25	6	(38)	(80)
Fees to regulatory bodies	(5)	(5)	(2)	(2)
Credit report costs	-	(274)	(1)	(112)
Other - start-up costs	(132)	(132)	-	-
Depreciation and amortisation	(172)	(175)	(154)	(157)
	(284)	(580)	(195)	(351)

14. NET EXCHANGE DIFFERENCES OTHER THAN THOSE ON FINANCIAL INSTRUMENTS

	Company 2012	Group 2012	Company 2011	Group 2011
Exchange differences on foreign-currency denominated liabilities	(2)	(2)	(6)	(6)
	(2)	(2)	(6)	(6)

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

15. INCOME TAX

Income tax is determined in accordance with Croatian laws and regulations. The tax rate applied to taxable profit for the year is 20 %. The reconciliation between the total income tax expense and the accounting profit is as follows:

	Company 2012	Group 2012	Company 2011	Group 2011
Recognised in the income statement				
Deferred tax income	66	96	218	242
Income tax expense	66	96	218	242
Adjustments				
Profit before taxation	(550)	(704)	(1,207)	(1,346)
Income tax at the rate of 20%	110	141	241	269
Tax non-deductible expenses at the rate of 20%	(44)	(45)	(23)	(27)
Income tax expense recognised in the income statement	66	96	218	242
Income tax recognised in comprehensive income				
Deferred tax income - addition	2	2	18	18
Deferred tax income - deduction	(24)	(28)	(12)	(17)
Income tax recognised in comprehensive income	(22)	(26)	6	1

16. EARNINGS PER SHARE

For the purposes of determining earnings per share, earnings represent the Group's net profit for the year attributable to the ordinary shareholders of the Group. The number of ordinary shares is the weighted average number of ordinary shares in issue during the year.

	Company 2012	Group 2012	Company 2011	Group 2011
Loss attributable to ordinary shareholders				
Loss for the year attributable to ordinary shareholders	(484)	(608)	(989)	(1,104)
Earnings per share				
Weighted average number of ordinary shares during the year	37,500	37,500	37,500	37,500
Loss per share (in HRK)	12.91	16.22	26.38	29.45

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

17. PROPERTY AND EQUIPMENT

	Company			Group		
	Computers	Furniture and equipment	Total	Computers	Furniture and equipment	Total
Cost						
Balance at 1 January 2012	11	61	72	20	61	81
Additions	75	33	108	80	33	113
Balance at 31 December 2012	86	94	180	100	94	194
Accumulated depreciation						
Balance at 01 January 2012	4	15	19	7	15	22
Charge for the year	9	16	25	12	16	28
Balance at 31 December 2012	13	31	44	19	31	50
Cost						
Balance at 1 January 2011	5	61	66	5	61	66
Additions	6	-	6	15	-	15
Balance at 31 December 2011	11	61	72	20	61	81
Accumulated depreciation						
Balance at 1 January 2011	1	1	2	1	1	2
Charge for the year	3	14	17	6	14	20
Balance at 31 December 2011	4	15	19	7	15	22
Balance at 31 December 2012	73	63	136	81	63	144
Balance at 31 December 2011	7	46	53	13	46	59

In 2012, the Group had neither investment properties nor freehold land and buildings.

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

18. INTANGIBLE ASSETS

	Company Intangible assets	Group Intangible assets
Cost		
Balance at 1 January	424	424
Additions	30	31
Balance at 31 December 2012	454	455
Accumulated amortisation		
Balance at 1 January	183	183
Charge for the year	147	147
Balance at 31 December 2012	330	330
Cost		
Balance at 1 January	409	409
Additions	15	15
Balance at 31 December 2011	424	424
Accumulated amortisation		
Balance at 1 January	47	47
Charge for the year	137	137
Balance at 31 December 2011	183	183
Balance at 31 December 2012	124	125
Balance at 31 December 2011	240	240

Intangible assets consist of accounting and insurance software applications.

19. INVESTMENTS IN SUBSIDIARIES

	Company 2012	Company 2011
Investments in subsidiaries	2,000	2,000
	2,000	2,000

Hrvatsko kreditno osiguranje d.d. is the sole founder of Poslovni info servis d.o.o., a company registered at the Commerical Court in Zagreb on 26 October 2010.

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

20. HELD-TO-MATURITY INVESTMENTS

	Company 2012	Group 2012	Company 2011	Group 2011
<i>Debt securities</i>				
Listed debt securities:				
Bonds of the Croatian Ministry of Finance	1,064	1,064	1,069	1,069
	1,064	1,064	1,069	1,069

Bond ticker	Maturity	Coupon rate %	Nominal amount EUR 000	Carrying amount HRK 000	Accrued interest not yet due HRK 000
HRRHMFO142A8	10/02/2014	5.5	140	1,064	23

21. DEFERRED TAX ASSETS

	Company 2012	Group 2012	Company 2011	Group 2011
Deferred tax assets	459	525	393	429
	459	525	393	429
Deferred tax liability	(22)	(30)	-	(5)
	(22)	(30)	-	(5)
Temporary differences:				
Deferred tax assets on tax losses carried forward	453	519	387	423
Deferred tax assets on unrealised losses	6	6	6	6
Deferred tax liability on unrealised gains	(22)	(30)	-	(5)
	437	495	393	424

Expiry of deferred tax assets in respect of tax losses available for carry forward

31 December 2015	169	181	169	181
31 December 2016	218	242	218	242
31 December 2017	66	96	-	-
31 December 2018	-	-	-	-
31 December 2019	-	-	-	-
	453	519	387	423

Deferred tax assets reported in the separate and consolidated financial statements at 31 December 2012 in the total amount of HRK 453 thousand and HRK 518 thousand, respectively, has been recognised in respect of tax losses available for carry forward over five years from the year in which they are incurred. The Managing Board is confident that the tax losses incurred in the previous and in the current year will be utilised to reduce the tax liability over the next five years.

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

21. DEFERRED TAX ASSETS (CONTINUED)

Changes in deferred tax assets can be shown as follows::

	Company 2012	Group 2012	Company 2011	Group 2011
Balance at 1 January	393	429	169	181
Recognition of deferred tax assets in transferable tax losses through profit and loss	66	96	218	242
Recognition of deferred taxes on unrealized fair value adjustments through comprehensive profit or loss	-	-	6	6
Balance at 31 December	459	525	393	429

Changes in deferred tax liabilities can be shown as follows:

	Company 2012	Group 2012	Company 2011	Group 2011
Balance at 1 January	-	5	-	-
Recognition of deferred taxes on unrealized fair value adjustments through comprehensive profit or loss	22	25	-	5
Balance at 31 December	22	30	-	5

22. INVESTMENTS AVAILABLE FOR SALE

	Company 2012	Group 2012	Company 2011	Group 2011
Bonds of the Croatian Ministry of Finance	2,113	2,113	983	983
Investment fund units	-	1,114	-	1,078
	2,113	3,227	983	2,061

Bond ticker	Maturity	Coupon rate %	Nominal amount EUR 000	Carrying amount HRK 000	Accrued interest not yet due HRK 000
HRRHMFO142A8	14/07/2015	4.25	273	2,113	41

23. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Company 2012	Group 2012	Company 2011	Group 2011
Investment fund units	773	948	392	519
TOTAL	773	948	392	519

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

24. DEPOSITS WITH BANKS

	Company 2012	Group 2012	Company 2011	Group 2011
HRK deposits with banks	30,692	30,799	31,316	31,419
Foreign-currency deposits with banks	-	228	-	221
	30,692	31,027	31,316	31,640

Poslovni info servis d.o.o.

An overview of deposits at 31 December 2012 is set out below:

Bank	Currency	Maturity	Interest rate in %	Principal amount	Accrued interest not yet due
Erste&Steiermärkische Bank d.d.	HRK	28/12/2013	3.50%	107	-
Erste&Steiermärkische Bank d.d.	EUR	28/06/2013	1.25%	228	-
				335	-

Hrvatsko kreditno osiguranje d.d.

An overview of deposits at 31 December 2012 is set out below:

Bank	Currency	Maturity	Interest rate in %	Principal amount	Accrued interest not yet due
Erste&Steiermärkische Bank d.d.	HRK	14/06/2013	4.90%	18,692	497
Erste&Steiermärkische Bank d.d.	HRK	14/06/2013	4.90%	3,000	80
Erste&Steiermärkische Bank d.d.	HRK	14/06/2013	4.90%	1,000	27
Zagrebačka banka d.d.	HRK	14/06/2013	4.60%	8,000	202
				30,692	806

Poslovni info servis d.o.o.

An overview of deposits at 31 December 2011 is set out below:

Bank	Currency	Maturity	Interest rate in %	Principal amount	Accrued interest not yet due
Erste&Steiermärkische Bank d.d.	HRK	28/12/2012	3.50%	103	-
Erste&Steiermärkische Bank d.d.	EUR	28/12/2012	3.00%	221	-
				324	-

Hrvatsko kreditno osiguranje d.d.

An overview of deposits at 31 December 2011 is set out below:

Bank	Currency	Maturity	Interest rate in %	Principal amount	Accrued interest not yet due
Erste&Steiermärkische Bank d.d.	HRK	07/06/2012	5.25%	20,039	593
Erste&Steiermärkische Bank d.d.	HRK	07/06/2012	5.25%	10,277	304
Erste&Steiermärkische Bank d.d.	HRK	09/06/2012	5.25%	1,000	29
				31,316	926

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

25. RECEIVABLES FROM INSURANCE OPERATIONS

	Company/ Group 2012	Company/ Group 2011
Premiums receivable		
<u>Gross amount</u>		
Premiums receivable	1,303	1,062
<u>Loss provision</u>		
Outstanding premiums	(392)	(498)
	911	564
Other amounts due from insurance operations		
Reinsurer's commission receivable	309	235
Receivables under reinsurer's share in the claims	460	536
Other amounts due from insurance operations	102	83
	871	854
	1,782	1,418
<u>Premium loss provision</u>		
Balance at 1 January	(498)	-
Increase in provisions by losses from impairment of insurance premiums	(744)	(521)
Subsequent collections	524	23
Write-offs – other adjustments	326	-
Balance at 31 December	(392)	(498)

Set out below is a maturity analysis of premiums receivable by maturity groupings at 31 December 2012:

	Not yet due	Up to 30 days	31-60 days	61-90 days	91-180 days	181- 365 days	Over 365 days	TOTAL
<i>Premiums receivable</i>	268	469	7	167	220	111	61	1,303

Set out below is a maturity analysis of premiums receivable by maturity groupings at 31 December 2011:

	Not yet due	Up to 30 days	31-60 days	61-90 days	91-180 days	181- 365 days	Over 365 days	TOTAL
<i>Premiums receivable</i>	181	189	113	81	240	258	-	1,062

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

26. OTHER RECEIVABLES

	Company 2012	Group 2012	Company 2011	Group 2011
Accrued interest on deposits	806	806	926	926
Accrued interest on held-to-maturity investments	23	23	23	23
Accrued interest on investments available for sale	41	41	21	21
Fees receivable for credit risk assessments	-	53	2	183
Accrued interest on sight deposits on current accounts	-	-	-	-
Receivables from related company	42	-	22	-
Other receivables	-	7	3	3
Accrued income	13	27	5	9
	925	957	1,002	1,165
Provisions for potential losses on other receivables	-	(24)	(2)	(42)
	925	933	1,000	1,123

27. CASH AND CASH EQUIVALENTS

	Company 2012	Group 2012	Company 2011	Group 2011
Balances with banks	225	345	300	504
	225	345	300	504

28. SHARE CAPITAL

At 31 December 2012, the share capital of the Company consisted of 37,500 ordinary shares, with a nominal value of HRK 1,000.00 per share. The total share capital amounted to HRK 37,500 thousand. The structure of the Company shareholders at 31 December 2012 by the number of shares and their equity shares is as follows:

Hrvatsko kreditno osiguranje d.d. and the Group

	Number of shares	Equity share %	Amount paid in
Ownership structure:			
Hrvatska banka za obnovu i razvitak	37,500	100	37,500
Total	37,500	100	37,500

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

29. RESERVES ON REVALUATION OF AVAILABLE-FOR-SALE INSTRUMENTS

	Company 2012	Group 2012	Company 2011	Group 2011
Opening balance	(25)	(5)	-	1
Increase in the fair value	122	155	60	84
Decrease in the fair value	(11)	(12)	(91)	(91)
Realised gains on available-for-sale assets recognised in profit or loss	-	(15)	-	-
Deferred tax liability arising from increase in the fair value	(22)	(26)	6	1
Closing balance	64	97	(25)	(5)

30. TECHNICAL PROVISIONS

	Company/ Group 2012	Company/ Group 2011
Premium written		
Gross premium written	1,544	968
Premium written, reinsurers' share	(879)	(593)
	665	375
Claims provision		
Gross claims provision	5,939	3,323
Gross claims provision, reinsurer's share	(4,170)	(2,384)
	1,769	939
Provision for returned premiums		
Gross provision for returned premiums	275	341
Provision for returned premiums, reinsurer's share	(191)	(260)
	84	81
Equalisation reserve	289	142
Total technical provision, net of reinsurer's share	2,807	1,537
Total technical provision, gross	8,047	4,774
Technical provisions, reinsurer's share	(5,240)	(3,237)
Investments backing technical provisions	3,177	2,075

According to the licence obtained from the Croatian Financial Services Supervisory Agency, Hrvatsko kreditno osiguranje d.d. is engaged in the insurance class 14 - Credit insurance.

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

30. TECHNICAL PROVISIONS (CONTINUED)

	Company/ Group 2012	Company/ Group 2011
Premium written		
Balance at 1 January	375	309
Gross increase	576	147
Increase reinsurers' share	(286)	(81)
Balance at 31 December	665	375
Claims provision		
Balance at 1 January	939	126
Gross increase	2,616	2,883
Increase reinsurers' share	(1,786)	(2,070)
Balance at 31 December	1,769	939
Provision for returned premiums		
Balance at 1 January	81	-
Gross increase	(66)	341
Increase reinsurers' share	69	(260)
Balance at 31 December	84	81
Equalisation reserve		
Balance at 1 January	142	18
Gross increase	147	124
Balance at 31 December	289	142
Total technical provision, net of reinsurer's share	2,807	1,537

31. LIABILITIES FROM INSURANCE OPERATIONS

	Company/ Group 2012	Company/ Group 2011
Liabilities to a foreign reinsurer	921	733
Liabilities to a domestic reinsurer	620	616
TOTAL	1,541	1,349

32. OTHER LIABILITIES

	Company 2012	Group 2012	Company 2011	Group 2011
Trade payables	66	139	46	76
Vacation and bonus accruals	110	128	135	138
Net salaries and benefits payable	85	99	71	86
Payroll taxes and contributions	80	88	90	90
Liabilities to related parties	160	118	118	96
Other	1	1	2	2
Accrued expenses	9	14	9	22
	511	587	471	510

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

33. OPERATING LEASES

The Company and the Group as lessees	Company 2012	Group 2012	Company 2011	Group 2011
Minimum lease payments under operating leases recognised in the income statement for the year	151	151	318	318
Rentals paid for business premises charged to the income statement for the year	326	326	196	196

At the balance sheet date, the Group had no outstanding commitments under operating lease agreements.

Operating lease payments represent amounts payable by the Group for certain motor vehicles and business premises. The average lease term for vehicles is five years. Business premise leases have been contracted for an indefinite term.

34. CAPITAL ADEQUACY

Pursuant to Articles 98 and 99 of the Insurance Act, the capital adequacy ratio was determined as follows:

	2012	2011
Solvency margin (Art. 99 of the Act)	691	602
Solvency margin (Art. 98 and 99 of the Act)	691	602
Minimum share capital (Art. 19 of the Act)	22,500	22,500
1/3 of the solvency margin (Art. 98 and 99 of the Act)	230	201
Regulatory capital (RC)	35,224	35,567
Capital	33,224	35,567

The capital adequacy requirement has been met.

RC \geq 1/3 of the solvency margin

RC \geq min SC

Capital \geq solvency margin

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

35. TIER AND REGULATORY CAPITAL

The Tier I capital and regulatory capital, as determined for insurance companies in accordance with Article 94 and Article 100 respectively of the Insurance Act, were as follows:

	2012	2011
Regulatory capital (RC)	35,224	35,567
Technical provisions (Note 30)	2,807	1,537
Share capital (Note 28)	37,500	37,500
Losses brought forward and loss for the year	(2,152)	(1,669)
Intangible assets	(124)	(240)
Core capital	35,224	35,591
Reserve on revaluation of financial assets	-	(24)
Supplementary capital	-	(24)
Regulatory capital (RC)	35,224	35,567

36. INVESTMENTS OF ASSETS IN ACCORDANCE WITH THE INSURANCE ACT

	Investment limit - technical provisions, in %	Amount 2012	Actual in % 2012	Amount 2011	Actual in % 2011
Bonds and other debt securities	100.00%	3,177	100 %	2,052	100 %
Listed shares on Croatian capital markets	25.00%			-	-
Unlisted shares of domestic issuers	-			-	-
Shares in domestic limited liability companies	-			-	-
Units and shares in domestic investment funds	40.00%			-	-
Loans to corporate entities	20.00%			-	-
Deposits with banks	30.00%			-	-
Real estate	30.00%			-	-
Balances with banks	-			-	-
Investments under Article 115.1 of the Act	100.00%	3,177		2,052	
Investments under Article 115.2 of the Act	15.00%	-		-	-
Investments backing technical provisions	-	3,177		2,052	-

37. RISK MANAGEMENT

The Managing Board is responsible for managing the risks to which the Group and the Company are exposed on a systematic and ongoing basis and for reporting on those risks in regular time intervals, depending on the risk profile of the Company, with a special attention paid to those risk exposures that may cause significant financial losses or impair the Group's reputation.

Risks are managed at the level of all staff, organisational units and processes both at the Company and within the Group.

The Company's risk management strategy is based on the Company's internal by-laws, the Insurance Act, regulations and Guidelines for Identifying, Measuring and Monitoring Risks of Insurance and Reinsurance Companies in Their Operations (Official Gazette 159/2009).

In managing those risks, the primary purpose is to establish an appropriate risk management system comprising identification and measurement of the assumed risks, appropriate risk management and monitoring, compliance with the applicable risk management rules and limits, as well as legal regulations, ensuring an appropriate internal control system, as well as risk reporting and minimisation structure in order to protect the Company against events that might have a diminishing or hindering impact on the accomplishment of its business goals.

The Company monitors risks by eight key risk groups: insurance risk (including significant business risks, claim occurrence risks, premiums/tariffs, provisioning, reinsurance), market risks (currency, interest rate and pricing risks), credit risk, liquidity risk, concentration risk (monitored together with the insurance risk), operational risks, strategic risks (including capital management), reputation risk (including legal risks).

37.1. Insurance risk management

The Company is exposed to the actuarial risk and the acquisition risk that arise from the insurance of short-term receivables against commercial and political risks. In 2012 the Company was engaged primarily in underwriting short-term receivables insurance from exports of goods and services (68.6%), and to a lesser extent ((31.4% of the total reported insurance revenue) short-term receivables from deliveries of goods and services in Croatia. . The underwriting (i.e. insurance) risk is the risk arising from uncertainty of the insurance business. The most significant insurance risk components are the premium risk and the reserve risk. They are associated with the adequacy of premium tariffs and reserves to the insurance liabilities and capital base.

Premium risk is present at the point of issuing an insurance policy before the insured risk occurs. It represents the risk that the costs and claims incurred will exceed the premiums received under the underlying insurance contract. Reserve risk is the risk that the absolute level of technical provisions may be misestimated.

The Company manages the insurance risks by setting acquisition limits, clearly defined approval procedures for transactions involving new products or exceeding the set limits, the pricing and structure of its products and managing reinsurance arrangements. The acquisition strategy is aimed at establishing a balanced portfolio and is based on the principle that policyholders provide coverage for the entire open trade account portfolio. All the insurance contract are generally concluded for an indefinite duration. However, the terms and conditions are subject to modifications at least annually, and the insurer is entitled to deny contract renewal or renew a contract with changed terms and conditions. The most significant insurance risk management segment is the approval of individual insured sums (i.e. limits) within an insurance contract. The limits are monitored on an ongoing basis and reviewed at least annually. During an insurance year, the insurer may terminate or reduce the limit if the risk assessment deteriorates.

37. RISK MANAGEMENT (CONTINUED)

37.1. Insurance risk management (continued)

The Company does not approve automatic limit coverage, but rather reviews every individual limit against the available financial data, credit reports of reputable credit rating agencies, reinsurance approvals, using the four-eye method. When approving limits, the Company considers exposure to a group of related entities and territorial exposure. Also, policyholders participate in the loss (self-retention) up to minimum 15 percent of the individual limit for export credit insurance and up to 20 percent for domestic credit insurance.

The Company arranges reinsurance for all the risks it underwrites so as to manage its loss exposure and safeguard its capital base. The entire portfolio is reinsured on the basis of quota share (proportional) reinsurance. For non-standard risks or risks that exceed the self-retention, the Company enters into facultative reinsurance.

Concentrations of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of underwriting risk, which determines the extent to which a particular event or series of events could impact significantly the Company's liabilities. Such concentrations may arise from a single insurance contract or a number of related contracts where significant liabilities could arise.

Risk concentrations may arise from low-frequency, high-severity events such as economic slowdown on the markets that expose the Company to insurance risk, or from political risks on certain markets. The Company manages those risks by managing its country exposures and monitoring systematically economic trends on the markets with higher exposures.

The Managing Board is satisfied that, in accounts receivable insurance business, it is not exposed to any significant territorial or industry concentrations.

The techniques and assumptions the Company uses to determine those risks include:

- setting limits for each individual risk and by country;
- defining minimum policyholder share in the loss per individual risk;
- determining the maximum obligation of the insurer that represents the maximum cumulative claims to be settled by the insurer under an insurance contract over a single insurance year, depending on the total premium paid for the period;
- assessing the probable maximum loss;
- proportional, quota-share and facultative reinsurance.

Set out in the table below are the liability concentrations by approved insured sums (limits) at 31 December 2012 and 31 December 2011, analysed by country. The concentrations by country are presented gross (prior to reinsurance) and net (of self-retention and reinsurance). The limits below include self-retention of the insured and the reinsurer's share:

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)**37.1. Insurance risk management (continued)****Concentration by geographical segment****2012**

Total limit by country	Gross amount, in HRK '000	Share in the total limit, in %	Net of self-retention and reinsurance, expressed in HRK'000	Share in the total limit, in %
Italy	151,003	17.25	51,563	20.03
Croatia	144,424	16.50	43,488	16.90
Germany	83,907	9.59	30,801	11.97
Serbia	75,268	8.60	17,392	6.76
Slovenia	61,225	7.00	13,421	5.21
Bosnia and Herzegovina	52,405	5.99	12,545	4.87
Russia	38,936	4.45	6,270	2.44
Hungary	28,987	3.31	11,408	4.43
Macedonia	24,146	2.76	5,701	2.21
Austria	20,229	2.31	7,501	2.91
Other countries	194,597	22.24	57,304	22.26
Total	875,127	100.00	257,394	100.00

2011

Total limit by country	Gross amount, in HRK '000	Share in the total limit, in %	Net of self-retention and reinsurance, expressed in HRK'000	Share in the total limit, in %
Italy	181,374	21.52	44,096	22.81
Germany	101,781	12.08	24,602	12.73
Bosnia and Herzegovina	70,906	8.41	16,446	8.51
Serbia	69,205	8.21	15,621	8.08
Slovenia	63,195	7.50	13,833	7.16
Russia	43,594	5.17	9,299	4.81
Belgium	30,668	3.64	6,846	3.54
Croatia	30,000	3.56	2,400	1.24
Macedonia	24,376	2.89	5,724	2.96
Austria	22,840	2.71	5,668	2.93
Other countries	204,765	24.30	48,758	25.22
Total	842,704	100.00	193,293	100.00

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)

37.1. Insurance risk management (continued)

Exposure by limit groupings

The exposures to insured sum limit groupings are presented gross, before reinsurer's share, including self-retention of the insured (share in the loss of the insured).

Approved limits 31 December 2012

Limit bands, in HRK '000	Number of limits approved	Total, in HRK '000	in % of the total limit
Less than 1,000	724	242,774	27.74
1,000 - 2,000	123	170,349	19.47
2,000 - 3,000	40	94,292	10.77
3,000 - 4,000	42	140,861	16.10
4,000 - 5,000	6	27,013	3.09
5,000 - 6,000	2	10,790	1.23
6,000 - 7,000	3	18,036	2.06
Over 7,000	13	171,012	19.54
Total	953	875,127	100.00

*Number of limit approved is listed by number of clients

Approved limits 31 December 2011

Limit bands, in HRK '000	Number of limits approved	Total, in HRK '000	in % of the total limit
Less than 1,000	707	252,564	29.97
1,000 - 2,000	125	174,003	20.65
2,000 - 3,000	41	97,858	11.61
3,000 - 4,000	22	73,888	8.77
4,000 - 5,000	12	54,219	6.43
5,000 - 6,000	2	10,844	1.29
6,000 - 7,000	4	24,474	2.90
Over 7,000	13	154,854	18.38
Total	926	842,704	100.00

The band "Over HRK 7,000 thousand" includes several insured sums approved that are assessed as low-risk bearing, covered mostly by reinsurance.

37. RISK MANAGEMENT (CONTINUED)

37.1. Insurance risk management (continued)

Key assumptions with most significant impact on the recognised assets, liabilities, income and expenses from insurance operations

The risk of inappropriate premium pricing assumes the risk of premium rates being too low or the pricing structure being inappropriate which may result in a higher than budgeted loss ratio. The Company develops its premium price lists using both internal and external inputs, including the historical premium and claim data. . This approach allows adjustments to the price list and, hence, reduces significantly the probability of error. An inappropriate price list is identified based on an analysis of regular loss ratio reports. Actual loss ratio reports are available on request and are developed at least at each quarter end.

The Company manages the risk of the actual loss ratio exceeding the budgeted due to potential inadequate technical provisions at the beginning of the period by forming technical provisions using methods considered to reflect most appropriately the commitments under concluded insurance contracts. Insufficient technical provisions are identified by analysing actual loss ratio reports, which are available on request and created at least at the end of each quarter.

The risk of loss arising from large individual exposures or catastrophic losses due to excessive self-retention is managed by applying prudent methods limiting self-retention with respect to the Company's capital. The balance of self-retention is reviewed at the beginning of each calendar year.

37.2. Foreign exchange risk management

Assets and liabilities of the Group and the Company are mainly denominated in the Croatian kuna and in euro, to a lesser extent, with other currencies being represented insignificantly. The exposure of the Group and the Company to fluctuations in foreign exchange rates is not large.

The majority of the Company's technical provisions are denominated in euros. The assets backing the technical provisions are also euro-denominated (an eurobond of the Republic of Croatia). In line with the applicable legal provisions, the Company maintains the level of its assets backing the technical provisions at the prescribed minimum which equals the balance of technical provisions net of reinsurer's share. Therefore, the foreign exchange risk on technical provisions is either insignificant or non-existent, as technical provisions are formed in the currency of the obligations and translated to Croatian kunas at the reporting date. Consequently, any change in the applicable exchange rate equally affects both the technical provisions and the assets backing those provisions.

In terms of the effect of exchange rate fluctuations on the technical provisions, the Company's largest exposure at 31 December 2012 was to the euro exchange rate. If the exchange rate against euro would increase 10 percent, the nominal amount of gross technical provisions in HRK would increase by HRK 677,994.30 and the reinsurer's share in the technical provisions would be higher by HRK 441,696.19

The currency analysis of the financial assets and liabilities within the scope of IAS 39 at 31 December 2012 is set out below:

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)

37.2. Foreign currency risk management (continued)

Foreign currency risk management

	Company 2012				Group 2012			
	EUR	HRK	Other currencies	Total	EUR	HRK	Other currencies	Total
Assets								
Non-current assets								
Property and equipment	-	136	-	136	-	144	-	144
Intangible assets	-	124	-	124	-	125	-	125
Investments in subsidiaries	-	2,000	-	2,000	-	-	-	-
Held-to-maturity investments	1,064	-	-	1,064	1,064	-	-	1,064
Deferred tax assets	-	459	-	459	-	525	-	525
	1,064	2,719	-	3,783	1,064	794	-	1,858
Current assets								
Available-for-sale investments	2,113	-	-	2,113	2,330	897	-	3,227
Investments at fair value through profit or loss	-	773	-	773	175	773	-	948
								31,027
Deposits with banks	-	30,692	-	30,692	228	30,799	-	7
Receivables from insurance operations	120	1,662	-	1,782	120	1,662	-	1,782
Other receivables	64	861	-	925	63	870	-	933
Cash and cash equivalents	-	225	-	225	-	345	-	345
	2,297	34,213	-	36,510	2,916	35,346	-	38,262
Total assets	3,361	36,932	-	40,293	3,980	36,140	-	40,120
Equity and liabilities								
Share capital and reserves								
Share capital	-	37,500	-	37,500	-	37,500	-	37,500
Accumulated losses	-	(1,668)	-	(1,668)	-	(1,834)	-	(1,834)
Reserves on revaluation of available-for-sale investments	-	64	-	64	-	97	-	97
Loss for the period	-	(484)	-	(484)	-	(608)	-	(608)
Total equity	-	35,412	-	35,412	-	35,155	-	35,155
Technical provisions								
Gross technical provisions	6,780	1,235	32	8,047	6,780	1,235	32	8,047
Technical provisions - reinsurer's share	(4,415)	(804)	(21)	(5,240)	(4,415)	(804)	(21)	(5,240)
	2,365	431	11	2,807	2,365	431	11	2,807
Current liabilities								
Liabilities from insurance operations	481	1,060	-	1,541	481	1,060	-	1,541
Other liabilities	19	492	-	511	20	567	-	587
Deferred tax liability	-	22	-	22	-	30	-	30
	500	1,574	-	2,074	501	1,657	-	2,158
Total equity and liabilities	2,865	37,417	11	40,293	2,866	37,243	11	40,120
Net currency exposure	496	(485)	(11)	-	1,114	(1,103)	(11)	-

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)

37.2. Foreign currency risk management (continued)

Foreign exchange risk
management

	Company 2011				Group 2011			
	EUR	HRK	Other currencies	Total	EUR	HRK	Other currencies	Total
Assets								
Non-current assets								
Property and equipment	-	53	-	53	-	59	-	59
Intangible assets	-	240	-	240	-	240	-	240
Investments in subsidiaries	-	2,000	-	2,000	-	-	-	-
Held-to-maturity investments	1,069	-	-	1,069	1,069	-	-	1,069
Deferred tax assets	-	393	-	393	-	429	-	429
	1,069	2,686	-	3,755	1,069	728	-	1,797
Current assets								
Available-for-sale investments	983	-	-	983	1,552	509	-	2,061
Investments at fair value through profit or loss	-	392	-	392	93	426	-	519
Deposits with banks	-	31,316	-	31,316	221	31,419	-	31,640
Receivables from insurance operations	-	1,418	-	1,418	-	1,418	-	1,418
Other receivables	43	957	-	1,000	44	1,079	-	1,123
Cash and cash equivalents	-	300	-	300	-	504	-	504
	1,026	34,383	-	35,409	1,910	35,355	-	37,265
Total assets	2,095	37,069	-	39,164	2,979	36,083	-	39,062
Equity and liabilities								
Share capital and reserves								
Share capital	-	37,500	-	37,500	-	37,500	-	37,500
Accumulated loss	-	(679)	-	(679)	-	(730)	-	(730)
Reserves on revaluation of available-for-sale investments	-	(25)	-	(25)	-	(5)	-	(5)
Retained earnings	-	(989)	-	(989)	-	(1,104)	-	(1,104)
	-	35,807	-	35,807	-	35,661	-	35,661
Technical provisions								
Gross technical provisions	4,069	691	14	4,774	4,069	691	14	4,774
Technical provisions, reinsurer's share	(2,759)	(468)	(10)	(3,237)	(2,759)	(468)	(10)	(3,237)
	1,310	223	4	1,537	1,310	223	4	1,537
Current liabilities								
Liabilities from insurance operations	-	1,349	-	1,349	-	1,349	-	1,349
Other liabilities	3	468	-	471	3	507	-	510
Deferred tax liability	-	-	-	-	-	5	-	5
	3	1,817	-	1,820	3	1,861	-	1,864
Total equity and liabilities	1,313	37,847	4	39,164	1,313	37,745	4	39,062
Net currency exposure	782	(778)	(4)	-	1,666	(1,662)	(4)	-

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)

37.2. Foreign currency risk management (continued)

Currency analysis of technical provisions

	Gross technical provisions	Technical provisions, reinsurer's share	Allocation coefficient by currency
2012			
In HRK	1,235	804	0.1535
EUR denominated or tied to EUR (currency clause)	6,780	4,415	0.8426
In CHF	-	-	
Other currencies	32	21	0.0039
Total	8,047	5,240	1.0000

	Gross technical provisions	Technical provisions, reinsurer's share	Allocation coefficient by currency
2011			
In HRK	691	468	0.1447
EUR denominated or tied to EUR (currency clause)	4,068	2,759	0.8522
In CHF	-	-	0.0000
Other currencies	15	10	0.0031
Total	4,774	3,237	1.0000

37.3. Interest rate risk management

Interest rate risk exist to the extent that interest-bearing assets and liabilities mature and reprice at various dates. Exposure to the risk of fluctuations in interest rates may arise from changes in future cash flows resulting from changes in market interest rates. The Group's and the Company's exposures to the risk of fluctuations in interest rates are concentrated in their investment portfolios, since neither the Group nor the Company had any borrowings as of 31 December 2012.

All the Company's interest-bearing assets at 31 December 2012 were at fixed rates.

Given that the Company's assets are at fixed rates and that no interest-bearing liabilities existed at 31 December 2012, the Company is not exposed to interest rate risk and, consequently, does not make any disclosures in connection with its interest rate sensitivity.

37.4. Equity price risk

The Group and the Company are exposed to the equity price risk to the extent that they hold marketable securities that are carried at fair value. The exposure to the equity price risk is minimal because the share of securities measured at fair value at 31 December 2012 was merely 7.2 percent and 10.4 percent of the total investments of the Company and the Group, respectively.

Therefore, no disclosures about the Group's sensitivity to equity price risk have been made.

37. RISK MANAGEMENT (CONTINUED)
37.5. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group or the Company, or the risk of the potential loss in market value resulting from adverse changes in a borrower's ability to repay the debt. The Company manages this risk by up-front, stringent underwriting analysis, and entering into deals only with counterparties with sound credit standing. Assets are invested in accordance with a pre-defined internal procedures and regulations of the Agency governing investments of technical provisions. The Company has adopted a prudent investment policy, under which it invested solely in fixed-yield government bonds. The majority of investments comprise short-term deposits with first-class banks in Croatia (77.3 percent and 76.2 percent of the total investments of the Group and the Company, respectively).

The Company invested its assets only in the territory of the Republic of Croatia.

Credit risk also arises on making reinsurance arrangements. Thus, the Company enters into reinsurance contracts with reinsurers of sound credit ratings, reputation and many years of experience. In 2012, the Company concluded reinsurance contracts with two reinsurers, comprising quota-share reinsurance contracts and two facultative reinsurance contracts.

Receivables from reinsurance include claims and commissions receivable. At the reporting date, there were not delayed payments or written-off receivables from reinsurers.

The Company is exposed to the risk of collecting premiums from policy holders, whereas the Group is additionally exposed to the risk of collecting the risk assessment fees. The maturity analysis of premiums receivable is provided in note 25, while no maturity analysis of risk assessment fees receivable has been presented because it is not significant. The Company manages the risk exposures, by monitoring the regularity of collection and contractual provisions that specify the obligation to pay premiums regularly as a prerequisite for disbursing claims.

Credit risk exposure

	Company 2012		Group 2012	
	Total exposure in HRK'000	% of the total assets at the reporting date	Total exposure in HRK'000	% of the total assets at the reporting date
Assets				
Held-to-maturity investments	1,064	2.6%	1,064	2.7%
Available-for-sale investments	2,113	5.2%	3,226	8.0%
Deposits with banks	30,692	76.2%	31,027	77.3%
Receivables from insurance operations	911	2.3%	911	2.3%
Other receivables	925	2.3%	933	2.3%
Total	35,705	88.6%	37,161	92.6%

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)

37.5. Credit risk (continued)

Credit risk exposure

	Company 2011	% of the total assets at the reporting date	Group 2011	% of the total assets at the reporting date
	Total exposure in HRK'000		Total exposure in HRK'000	
Assets				
Held-to-maturity investments	1,069	2.7%	1,069	2.7%
Deposits with banks	983	2.5%	983	2.5%
Receivables from insurance operations	31,316	79.9%	31,640	81.0%
Other receivables	564	1.4%	564	1.4%
	1,000	2.6%	1,123	2.9%
Total	34,932	89.1%	35,379	90.5%

Concentration by geographical segment

	Company 2012				Group 2012			
	Republic of Croatia	EU member states	Other countries	Total	Republic of Croatia	EU mem ber states	Other countries	Total
Assets								
Held-to-maturity investments	1,064	-	-	1,064	1,064	-	-	1,064
Available-for-sale investments	2,113	-	-	2,113	3,226	-	-	3,226
Deposits with banks	30,692	-	-	30,692	31,027	-	-	31,027
Receivables from insurance operations	911	-	-	911	911	-	-	911
Other receivables	925	-	-	925	933	-	-	933
Total	35,705	-	-	35,705	37,161	-	-	37,161

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)

37.5. Credit risk (continued)

Concentration by geographical segment

	Company 2011				Group 2011			
	Republic of Croatia	EU member states	Other countries	Total	Republic of Croatia	EU member states	Other countries	Total
Assets								
Held-to-maturity investments	1,069	-	-	1,069	1,069	-	-	1,069
Available for sale investments	983	-	-	983	983	-	-	983
Deposits with banks	31,316	-	-	31,316	31,640	-	-	31,640
Receivables from insurance operations	564	-	-	564	564	-	-	564
Other receivables	1,000	-	-	1,000	1,123	-	-	1,123
Total	34,932	-	-	34,932	35,379	-	-	35,379

37.6. Liquidity risk

Liquidity risk arises from the inability to provide sufficient funding for the assets at appropriate maturities as well as the inability to liquidate an asset at a reasonable price and in an appropriate timeframe. Liquidity risk is managed at the Group and Company levels, by monitoring short-, medium- and long-term positions, maintaining adequate reserves in accordance with the Insurance Act to allow the Company to cover all of its contingent liabilities from claims and other obligations at any time. Actuarial calculations of technical provisions are performed on a quarterly basis to ensure sufficient levels of provisions. The Company maintains a portfolio of liquid assets as part of its liquidity risk management strategy, to ensure continuity in business and meet legal requirements.

The Company's liquidity level was sufficient to enable the Company settling all of its liabilities on time.

The maturities and matching of the financial assets and liabilities at the reporting date are analysed below.

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)**37.6. Liquidity risk (continued)**

Maturities of assets and liabilities (the Company)

						2012
	Up to 1 month	1-3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Non-current assets						
Property and equipment	-	-	-	-	136	136
Intangible assets	-	-	-	-	124	124
Investments in subsidiaries	-	-	-	-	2,000	2,000
Investments in associates	-	-	-	1,064	-	1,064
Held-to-maturity investments	-	-	-	-	459	459
Deferred tax assets	-	-	-	1,064	2,719	3,783
Current assets						
Available-for-sale investments	2,113	-	-	-	-	2,113
Investments at fair value through profit or loss	773	-	-	-	-	773
Deposits with banks	-	-	30,692	-	-	30,692
Receivables from insurance operations	911	871	-	-	-	1,782
Other receivables	96	23	806	-	-	925
Cash and cash equivalents	225	-	-	-	-	225
	4,118	894	31,498	-	-	36,510
Total assets	4,118	894	31,498	1,064	2,719	40,293
Equity and liabilities						
Share capital	-	-	-	-	37,500	37,500
Retained earnings	-	-	-	-	(1,668)	(1,668)
Revaluation reserve on available-for-sale investments	-	-	-	-	64	64
Loss for the year	-	-	-	-	(484)	(484)
	-	-	-	-	35,412	35,412
Technical provisions						
Gross technical provisions	-	-	5,944	2,103	-	8,047
Technical provisions, reinsurer's share	-	-	(3,871)	(1,369)	-	(5,240)
	-	-	2,073	734	-	2,807
Current liabilities						
Liabilities from insurance operations	-	1,541	-	-	-	1,541
Other liabilities	396	1	114	-	-	511
Deferred tax liability	-	-	-	-	22	22
	396	1,542	114	-	22	2,074
Total equity and liabilities	396	1,542	2,187	734	35,434	40,293
Net maturity position	3,722	(648)	29,311	330	(32,715)	-
Cumulative net position	3,722	3,074	32,385	32,715	-	-

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)**37.6. Liquidity risk (continued)**

Maturities of assets and liabilities (the Group)

	Up to 1 month	1-3 months	3 months to 1 year	1 to 3 years	Over 3 years	2012 Total
Assets						
Non-current assets						
Property and equipment	-	-	-	-	144	144
Intangible assets	-	-	-	-	125	125
Investments in subsidiaries	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	1,064	-	1,064
Deferred tax assets	-	-	-	-	525	525
	-	-	-	1,064	794	1,858
Current assets						
Available-for-sale investments	3,227	--	-	-	-	3,227
Investments at fair value through profit or loss	948	-	-	-	-	948
Deposits with banks	-	-	31,027	-	-	31,027
Receivables from insurance operations	911	871	-	-	-	1,782
Other receivables	104	23	806	-	-	933
Cash and cash equivalents	345	-	-	-	-	345
	5,535	894	31,833	-	-	38,262
Total assets	5,535	894	31,833	1,064	794	40,120
Share capital and reserves						
Share capital	-	-	-	-	37,500	37,500
Retained earnings and reserves	-	-	-	-	(1,834)	(1,834)
Other reserves	-	-	-	-	97	97
Profit for the year	-	-	-	-	(608)	(608)
Total equity	-	-	-	-	35,155	35,155
Technical provisions						
Gross technical provisions	-	-	5,944	2,103	-	8,047
Technical provisions, reinsurer's share	-	-	(3,871)	(1,369)	-	(5,240)
	-	-	2,073	734	-	2,807
Current liabilities						
Liabilities from insurance operations	0	1,541	-	-	-	1,541
Other liabilities	454	1	132	-	-	587
Deferred tax liability	0	-	0	-	30	30
	454	1,542	132	-	30	2,158
Total equity and liabilities	454	1,542	2,205	734	35,185	40,120
Net maturity position	5,081	(648)	29,628	330	(34,391)	-
Cumulative net position	5,081	4,433	34,061	34,391	-	-

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)

37.6. Liquidity risk (continued)

Maturities of assets and liabilities (the Company)

	Up to 1 month	1-3 months	3 months to 1 year	1 to 3 years	Over 3 years	2011 Total
Assets						
Non-current assets						
Property and equipment	-	-	-	-	53	53
Intangible assets	-	-	-	-	240	240
Investments in subsidiaries	-	-	-	-	2,000	2,000
Investments in associates	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	1,069	-	1,069
Deferred tax assets	-	-	-	-	393	393
	-	-	-	1,069	2,686	3,755
Current assets						
Available-for-sale investments	983	-	-	-	-	983
Investments at fair value through profit or loss	392	-	-	-	-	392
Deposits with banks	-	-	31,316	-	-	31,316
Receivables from insurance operations	564	854	-	-	-	1,418
Other receivables	51	23	926	-	-	1,000
Cash and cash equivalents	300	-	-	-	-	300
	2,290	877	32,242	-	-	35,409
Total assets	2,290	877	32,242	1,069	2,686	39,164
Equity and liabilities						
Share capital	-	-	-	-	37,500	37,500
Retained earnings	-	-	-	-	(679)	(679)
Reserves on revaluation of available-for-sale investments	-	-	-	-	(25)	(25)
Current year loss	-	-	-	-	(989)	(989)
	-	-	-	-	35,807	35,807
Technical provisions						
Gross technical provisions	-	-	3,526	1,248	-	4,774
Technical provisions, reinsurer's share	-	-	(2,391)	(846)	-	(3,237)
	-	-	1,135	402	-	1,537
Current liabilities						
Liabilities from insurance operations	-	1,349	-	-	-	1,349
Other liabilities	218	118	135	-	-	471
Deferred tax liability	-	-	-	-	-	-
	218	1,467	135	-	-	1,820
Total equity and liabilities	218	1,467	1,270	402	35,807	39,164
Net maturity position	2,072	(590)	30,972	(667)	(33,121)	-
Cumulative net position	2,072	1,482	32,454	32,131	-	-

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)**37.6. Liquidity risk (continued)**Maturities of assets and liabilities
(the Group)

	Up to 1 month	1-3 months	3 months to 1 year	1 to 3 years	Over 3 years	2011 Total
Assets						
Non-current assets						
Property and equipment	-	-	-	-	59	59
Intangible assets	-	-	-	-	240	240
Investments in subsidiaries	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	1,069	-	1,069
Deferred tax assets	-	-	-	-	429	429
				1,069	728	1,797
Current assets						
Available-for-sale investments	2,061	-	-	-	-	2,061
Investments at fair value through profit or loss	519	-	-	-	-	519
Deposits with banks	-	-	31,640	-	-	31,640
Receivables from insurance operations	564	854	-	-	-	1,418
Deferred acquisition costs	174	23	926	-	-	1,123
Other receivables	504	-	-	-	-	504
Cash and cash equivalents	3,822	877	32,566	-	-	37,265
	3,822	877	32,566	1,069	728	39,062
Equity and liabilities						
Share capital and reserves						
Share capital	-	-	-	-	37,500	37,500
Retained earnings	-	-	-	-	(730)	(730)
Reserves on revaluation of available-for-sale investments	-	-	-	-	(5)	(5)
Retained earnings	-	-	-	-	(1,104)	(1,104)
	-	-	-	-	35,661	35,661
Technical provisions						
Gross technical provisions	-	-	3,526	1,248	-	4,774
Technical provisions, reinsurer's share	-	-	(2,391)	(846)	-	(3,237)
	-	-	1,135	402	-	1,537
Current liabilities						
Liabilities from insurance operations	-	1,349	-	-	-	1,349
Other liabilities	254	118	138	-	-	510
Deferred tax liability	-	-	-	-	5	5
	254	1,467	138	-	5	1,864
Total equity and liabilities	254	1,467	1,273	402	35,666	39,062
Net maturity position	3,568	(590)	31,293	667	(34,938)	-
Cumulative net position	3,568	2,978	34,271	34,938	-	-

37. RISK MANAGEMENT (CONTINUED)**37.7. Operational risk management**

Operational risk relates to the possibility of loss resulting from events in connection with the organisation of business processes, data processing (information security), staff, legal risks, and compliance risks. The Company manages its operational risk in a manner appropriate to its classification as a new small company, primarily through process descriptions, written procedures and regular communication with all of its staff.

37.8. Capital risk management

The key objectives of the Company in managing its capital risk are as follows:

- to meet capital adequacy requirements provided in the Insurance Act and applicable regulations;
- to maintain the ability of the Company to continue as a going concern;
- to provide an adequate return to shareholders and benefits to other stakeholders.

The Insurance Act and the regulations of the Croatian Financial Services Supervisory Agency ("the Agency") specify the minimum amount and type of capital and regulatory capital to be maintained in addition to the insurance liabilities. The Company's capital and regulatory capital (as presented below) must be maintained at all times throughout the year at levels sufficient to satisfy insurance solvency requirements. An insurance company meets the capital adequacy requirements if all of the following three conditions are met:

1. Capital is equal to, or higher than the solvency margin.
2. Regulatory capital is equal to, or higher than one-third of the solvency margin.
3. Regulatory capital is equal to, or higher than the minimum share capital under the Insurance Act.

At 31 December 2012, the Company met all the capital adequacy and solvency requirements (Notes 34 and 35). The Company's regulatory capital exceeds its share capital by HRK 12,724 thousand.

37.9. Financial instruments

Fair values of listed securities are determined on the basis of quoted prices (Note 22) or, where no relevant and reliable market price is available, using benchmark-based valuation methods (Note 23). The Management Board is satisfied that the Company's assets and liabilities carried at amortised cost reflect the fair values of those securities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1 and 2 in the period. The Company's financial instruments were classified only as Level 1, and no reclassifications between Level 1 and Level 2 took place during the year.

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

37. RISK MANAGEMENT (CONTINUED)**37.9. Financial instruments (continued)****Financial instruments**

	Company 2012			Group 2012		
Fair value of financial assets						
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Available-for-sale investments						
Debt securities	2,113	-	-	2,113	-	-
Investment fund units	-	-	-	1,113	-	-
Investments at fair value through profit or loss						
Investment fund units	773	-	-	948	-	-

Financial instruments

	Company 2011			Group 2011		
Fair value of financial assets						
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Available-for-sale investments						
Investment fund units	983	-	-	983	-	-
	-	-	-	1,078	-	-
Investments at fair value through profit or loss						
Investment fund units	392	-	-	518	-	-

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

38. RELATED-PARTY TRANSACTIONS

	2012
<i>Salary and benefit costs</i>	
Key management personnel	1,366

Name of the entity/person	Income	Expenses	Exposure	Liabilities
Hrvatska banka za obnovu i razvitak	-	15	-	1
Poslovni info servis d.o.o.	69	28	41	-
OeKB Sudosteupropa holding Ges.m.b.H.	-	51	-	-
Prisma Kreditversicherungs – AG	684	2,314		
Total	753	2,357	41	1

	2011
<i>Salary and benefit costs</i>	
Key management personnel	995

Name of the entity/person	Income	Expenses	Exposure	Liabilities
Hrvatska banka za obnovu i razvitak	-	22	-	24
Poslovni info servis d.o.o.	48	-	22	-
OeKB Sudosteupropa holding Ges.m.b.H.	-	74	-	2
Prisma Kreditversicherungs – AG	1,109	3,132	711	706
Total	1,157	3,228	733	732

Croatian Bank for Reconstruction and Development on behalf of the Republic of Croatia, under the reinsurance contract, has reinsured non-marketable risks from which the Company realized income in the amount of HRK 822 thousand while expenses amounted to HRK 2,203 thousand. From the revenue mentioned above, HRK 362 thousand relates to undue receivables and HRK 620 thousand refers to undue liabilities which have been settled by the date of preparation of these financial statements.

39. CONTINGENT LIABILITIES

At 31 December 2012 neither the Group nor the Company was exposed to a potential litigation under which the Company could be contingently liable.

40. EVENTS AFTER THE BALANCE SHEET DATE

There were no events subsequent to the balance sheet date that would significantly affect the financial statement presentation as of 31 December 2012.

Notes to the financial statements for the year 2012

(All amounts are expressed in thousands of kunas)

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were signed and authorised for issue on 30 April 2013.

These financial statements were authorised for issue by the Managing Board on 30 April 2013.

Edvard Ribarić

Branka Perišić

President of the Managing Board

Deputy Board Member



Set out below are the statutory financial statements of Hrvatsko kreditno osiguranje d.d. and the notes thereto for the year 2012, as defined by the Insurance Act. The statements have been prepared in the format and volume provided in the Ordinance on the Structure and Content of the Financial Statements for Insurance and Reinsurance Companies.

1. Statement of Comprehensive Income (Income Statement)
 - Reconciliation between the statement of comprehensive income under the Agency format and the format included in these financial statements
2. - Statement of Financial Position (Balance Sheet) as per the Agency format
 - Reconciliation between the statement of financial position under the Agency format and the format included in these financial statements
3. Statement of Changes in Equity under the Agency format
4. Statement of cash flows - indirect method, under the Agency format
5. Summary of accounting policies, including the accounting policies applicable to assets backing technical provisions
6. Notes to the financial statements
7. Claims ratio, expense ratio and combined ratio
8. Structure of acquisition costs and administrative expenses by type of insurance
9. Capital, regulatory capital and capital adequacy calculation inputs in accordance with the Insurance Act, comprising core capital, supplementary capital and regulatory capital versus the solvency margin
10. Structure of investments backing technical provisions in accordance with the Insurance Act and the related regulations and a reconciliation with the balance of the technical provisions
11. Income and expenses in relation to investment of assets backing technical provisions
12. Data about the matching of assets backing technical provisions and the liabilities under insurance contracts
13. Balances of, and movements in off-balance sheet items
14. Total fees charged by an independent auditor or an audit company for the statutory audit of annual financial statements for a particular year, total fees for other assurance services, total fees for tax advisory services, and total fees for services other than audit services.
15. Shareholder structure

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

1. Statement of Comprehensive Income (Income Statement) for the period 01/01/2012-31/12/2012

Item #	Item description	Company 2011	Company 2012
I	Earned premium	1,248	1,731
1	Gross premium written	6,687	7,678
2	Impairment allowance and recovered impairment allowance on insurance/reinsurance premiums	(499)	(219)
3	Outward reinsurance premiums (-)	(4,874)	(5,437)
4	Change in the gross unearned premium reserve (+/-)	(147)	(577)
5	Change in the gross unearned premium reserve, reinsurers' share, (+/-)	81	286
II	Investment income	1,629	1,780
1	Interest income	1,538	1,684
2	Unrealised gains on FVTPL investments	5	2
3	Gains from sale of financial investments	12	19
3.1	<i>Investments at fair value through profit or loss</i>	12	19
4	Net foreign exchange gains	74	75
III	Fee and commission income	858	998
IV	Other technical income, net of reinsurers' share	0	182
V	Other income	181	663
VI	Claims incurred, net	(1,043)	(1,058)
1	Liquidated claims	(230)	(228)
1.1	<i>Gross amount (-)</i>	(766)	(820)
1.2	<i>Reinsurers' share (+)</i>	536	592
2	Change in the claims provision (+/-)	(813)	(830)
2.1	<i>Gross amount (-)</i>	(2,883)	(2,616)
2.2	<i>Reinsurers' share (+)</i>	2,070	1,786
VII	Change in mathematical reserves and in other technical provisions, net of reinsurers' share (+/-)	(205)	(150)
1	Change in other technical provisions, net of reinsurers' share (+/-)	(205)	(150)
1.1	<i>Gross amount (-)</i>	(465)	(81)
1.2	<i>Reinsurers' share (+)</i>	260	(69)
VIII	Expenses on return of premiums, net of reinsurers' share	(35)	(52)
1	Result-dependent (bonuses)	(35)	(52)
IX	Operating expenses, net	(3,660)	(4,300)
1	Acquisition costs	(30)	(106)
1.1	<i>Other acquisition costs</i>	(30)	(106)
2	Administrative expenses	(3,630)	(4,194)
2.1	<i>Depreciation</i>	(154)	(172)
2.2	<i>Payroll taxes and contributions</i>	(2,137)	(2,559)
2.3	<i>Other administrative expenses</i>	(1,339)	(1,463)
X	Investment expenses	(33)	(69)
1	Net foreign exchange losses	(33)	(69)
XI	Other technical expenses, net of reinsurers' share	(4)	(165)
1	Other technical expenses	(4)	(165)
XII	Other expenses, including impairment allowance	(143)	(110)
XIII	Profit or loss for the period before tax (+/-)	(1,207)	(550)
XIV	Income tax or tax loss	218	66
1	Deferred tax expense / (income)	218	66
XV	Profit or loss for the period before tax (+/-)	(989)	(484)
XVI	TOTAL INCOME	4,134	5,420
XVII	TOTAL EXPENSES	(5,123)	(5,904)
XVIII	Other comprehensive income	(25)	89
1	Gains/losses on revaluation of financial assets available for sale	(31)	111
2	Income tax on other comprehensive income	6	(22)
XIX	Total comprehensive income	(1,014)	(395)

Financial statements and notes thereto in the format prescribed by the Croatian Financial Services Supervisory Agency

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

Reconciliation between the statement of comprehensive income under the Agency format and the format included in these financial statements

Format defined by the Croatian Financial Services Supervisory Agency		1	2	3	4	5	6	7	8	9		Format from the audited financial statements
Earned premium	1,731	-	-	-	-	-	-	-	-	-	1,731	Net premium earned
Investment income	1,780	(69)	-	-	-	-	-	-	-	-	1,711	Net investment income
Fee and commission income	998	-	-	-	-	-	-	-	-	-	998	Fee and commission income
Other technical income, net of reinsurers' share	182	-	-	-	(182)	-	-	-	-	-	-	
Other income	663	-	-	-	182	(135)	-	-	-	-	710	Other operating income
Claims incurred, net	(1,058)	-	(146)	-	-	-	-	-	-	-	(1,204)	Net claims incurred
Change in mathematical reserves and in other technical provisions, net of reinsurers' share	(150)	-	146	(52)	-	-	-	-	-	-	(56)	Net expense and reserve for returned premiums
Expenses on return of premiums, net of reinsurers' share	(52)	-	-	52	-	-	-	-	-	-	-	
Acquisition costs	(106)	-	-	-	-	-	-	-	-	-	(106)	Marketing expenses
Administrative expenses	(4,194)	-	-	-	-	-	172	-	2	(28)	(4,048)	Administrative expenses
Investment expenses	(69)	69	-	-	-	-	-	-	-	-	-	
Other technical expenses, net of reinsurers' share	(165)	-	-	-	-	-	-	137	-	28	-	
Other expenses, including impairment allowance	(110)	-	-	-	-	135	(172)	(137)	(2)	-	(286)	Other operating expenses and net exchange differences other than those on financial instruments
Profit or loss for the period before tax (+/-)	(550)	-	-	-	-	-	-	-	-	-	(550)	Loss before taxation
Income tax or tax loss	66	-	-	-	-	-	-	-	-	-	66	Tax income
Profit or loss for the period before tax (+/-)	(484)	-	-	-	-	-	-	-	-	-	(484)	Loss for the period
Other comprehensive income	89	-	-	-	-	-	-	-	-	-	89	Other comprehensive income
Total comprehensive income	(395)	-	-	-	-	-	-	-	-	-	(395)	Total comprehensive loss after tax

Explanation of differences:

- 1) Reclassification of investment expenses to "Net investment income"
- 2) Reclassification of changes in other technical provisions to "Claims incurred"
- 3) Reclassification of expenses for returned premiums to "Net expense and provision for returned premiums"
- 4) Reclassification of other technical income to other operating income
- 5) Reclassification of other operating income to other operating expenses
- 6) - 9) Reclassification of administrative expenses and other technical expenses to "Other operating expenses".

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

2. Statement of Financial Position (Balance Sheet), at 31 Dec 2012

Item description		Company 2011	Company 2012
Item #	ASSETS		
A	Intangible assets	240	124
1	Other intangible assets	240	124
B	Tangible assets	53	136
1	Equipment	53	136
C	Investments	35,760	36,642
I	Investments in subsidiaries, associates and joint ventures	2,000	2,000
1	Shares in subsidiaries	2,000	2,000
II	Other financial investments	33,760	34,642
1	Held-to-maturity investments	1,069	1,064
1.1	Debt securities and other fixed-income securities	1,069	1,064
2	Available-for-sale investments	983	2,113
2.1	Debt securities and other fixed-income securities	983	2,113
3	Investments at fair value through profit or loss	392	773
3.1	Units and shares in investment funds	392	773
4	Deposits, loans and receivables	31,316	30,692
4.1	Deposits with credit institutions (banks)	31,316	30,692
D	Technical provisions, reinsurers' share	3,237	5,240
1	Unearned premium, reinsurers' share	593	879
2	Claims provision, reinsurers' share	2,384	4,170
3	Provision for returned premium and independent of the result (bonuses and discounts), reinsurer's share	260	191
E.	Deferred and current tax assets	393	459
1	Deferred tax assets	393	459
F	Receivables	1,442	1,824
1	Receivables from direct insurance operations	564	911
1.1	From insured persons	564	911
2	Receivables from co-insurance and reinsurance operations	853	871
3	Other receivables	25	42
3.1	Other receivables	25	42
G.	Other assets	300	225
1	Cash with banks and in hand	300	225
1.1	Balances on the business account	300	225
H	Prepaid expenses and accrued income	976	883
1	Accrued interest and prepaid rentals	970	870
2	Other prepaid expenses and accrued income	6	13
	TOTAL ASSETS	42,401	45,533

Financial statements and notes thereto in the format prescribed by the Croatian Financial Services Supervisory Agency

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

EQUITY AND LIABILITIES		Company 2011	Company 2012
Item #	Item description		
A	Equity	35,807	35,412
1	Subscribed capital	37,500	37,500
1.1	<i>Paid-in capital - ordinary shares</i>	37,500	37,500
2	Revaluation reserve	(25)	64
2.1	<i>Financial investments</i>	(25)	64
3	Retained earnings / Accumulated losses	(679)	(1,668)
3.1	<i>Accumulated losses (-)</i>	(679)	(1,669)
4	Profit or loss for the period	(989)	(484)
4.1	<i>Loss for the period (-)</i>	(989)	(484)
B	Technical provisions	4,774	8,047
1	Unearned premium, gross	968	1,544
2	Claims provision, gross	3,324	5,940
3	Provision for returned premium and independent of the result (bonuses and discounts), gross	340	274
4	Equalisation reserve, gross	142	289
C	Odgođena i tekuća porezna obveza	0	22
1	Odgođena porezna obveza	0	22
D	Other liabilities	1,567	1,782
1	Receivables from co-insurance and reinsurance operations	1,349	1,541
2	Other liabilities	218	241
E	Accrued expenses and deferred income	253	270
1	Other accrued expenses and deferred income	253	270
F	TOTAL EQUITY AND LIABILITIES	42,401	45,533

Financial statements and notes thereto in the format prescribed by the Croatian Financial Services Supervisory Agency

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

Reconciliation between the statement of financial position under the Agency format and the format included in these financial statements

Format defined by the Croatian Financial Services Supervisory Agency		1	2	3		Format from the audited financial statements
Intangible assets	124	-	-	-	124	Intangible assets
Tangible assets	136	-	-	-	136	Property and equipment
Investments in subsidiaries, associates and joint ventures	2,000	-	-	-	2,000	Investments in subsidiaries
Held-to-maturity investments	1,064	-	-	-	1,064	Held-to-maturity investments
Available-for-sale investments	2,113	-	-	-	2,113	Available-for-sale investments
Investments at fair value through profit or loss	773	-	-	-	773	Investments at fair value through profit or loss
Deposits, loans and receivables	30,692	-	-	-	30,692	Deposits with banks
Technical provisions, reinsurers' share	5,240	5,240	-	-	-	
Deferred and current tax assets	459	-	-	-	459	Deferred tax assets
Receivables from direct insurance operations	911	-	-	(871)	1,782	Receivables from insurance operations
Receivables from co-insurance and reinsurance operations	871	-	-	871	-	
Other receivables	42	-	(883)	-	925	Other receivables
Cash with banks and in hand	225	-	-	-	225	Cash and cash equivalents
Prepaid expenses and accrued income	883	-	883	-	-	
Total assets	45,533	5,240	-	-	40,293	Total assets

Explanation of differences:

- 1) Assets reduced by the reinsurer's share in technical provisions
- 2) Prepaid expenses and accrued income included in "Other receivables"
- 3) Receivables from co-insurance and reinsurance operations included in "Receivables from insurance operations"

Financial statements and notes thereto in the format prescribed by the Croatian Financial Services Supervisory Agency

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

Reconciliation between the statement of financial position under the Agency format and the format included in these financial statements (continued)

Format defined by the Croatian Financial Services Supervisory Agency		1	2		Format from the audited financial statements
Subscribed capital	37,500	-	-	37,500	Share capital
Revaluation reserve	64	-	-	64	Reserves on revaluation of available-for-sale investments
Retained earnings / Accumulated losses	(1,668)	-	-	(1,668)	Accumulated losses
Profit or loss for the period	(484)	-	-	(484)	Loss for the period
Technical provisions	8,047	5,240	-	2,807	Technical provisions
Receivables from co-insurance and reinsurance operations	22	-	-	22	Liabilities from insurance operations
Other liabilities	1,541	-	-	1,541	Other liabilities
Accrued expenses and deferred income	241	-	(270)	511	
Total equity and liabilities	270	-	270	-	Total equity and liabilities

Explanation of differences:

1) Equity and liabilities reduced by the reinsurer's share in technical provisions

2) Accrued expenses and deferred income included in "Other liabilities"

Appendix to the financial statements

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

3. Statement of Changes in Equity For the period 01/01/2012-31/12/2012

#	Item description	Attributable to the equity holders of the parent					Total equity	Total equity	Attributable to non-controlling interest	Total equity
		Paid-in capital (ordinary and preference shares)	Revaluation reserve	Reserves (legal, statutory, other)	Retained profit or accumulated losses	Profit/Loss for the year				
I	At 1 January of the prior year	37,500	-	-	-	(679)	36,821	36,821	-	36,821
II	Comprehensive income or loss for the prior year	-	(25)	-	-	(989)	(1,014)	(1,014)	-	(1,014)
1	Profit or loss for the period	-	-	-	-	(989)	(989)	(989)	-	(989)
2	Other comprehensive income or loss for the prior year	-	(25)	-	-	-	(25)	(25)	-	(25)
2.1	Nerealizirani dobici ili gubici od financijske imovine raspoložive za prodaju	-	(25)	-	-	-	(25)	(25)	-	(25)
III	Transactions with owners (prior period)	-	-	-	(679)	679	0	0	-	-
1	Increase/Decrease in subscribed capital	-	-	-	(679)	679	0	0	-	-
IV	Closing balance for the prior year	37,500	(25)	-	(679)	(989)	35,807	35,807	-	35,807
V	At 1 January of the current year	37,500	(25)	-	(679)	(989)	35,807	35,807	-	35,807
VI	Comprehensive income or loss for the current year	-	89	-	-	(484)	(395)	(395)	-	(395)
1	Profit or loss for the period	-	-	-	-	(484)	(484)	(484)	-	(484)
2	Other comprehensive income or loss for the current year	-	89	-	-	-	89	89	-	89
2.1	Unrealised gains or losses on financial assets available for sale	-	89	-	-	-	89	89	-	89
VII	Transactions with owners (current period)	-	-	-	(989)	989	-	-	-	-
3	Other transactions with the owners	-	-	-	(989)	989	-	-	-	-
VII	Closing balance for the current year	37,500	64	-	(1,668)	(484)	35,412	35,412	-	35,412

Financial statements and notes thereto in the format prescribed by the Croatian Financial Services Supervisory Agency

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

4. Statement of cash flows - indirect method

Item #	Item description	Company 2012	Company 2011
I	Cash flows from operating activities	59	(311)
1	Cash flows before working capital changes	(1,863)	(2,110)
1.1	Profit / Loss before tax	(550)	(1,207)
1.2	Adjusted by:	(1,313)	(903)
1.2.1	<i>Depreciation of property and equipment</i>	25	17
1.2.2	<i>Amortisation</i>	147	137
1.2.3	<i>Impairment losses and gains/losses on remeasurement at fair value</i>	199	481
1.2.4	<i>Interest income</i>	(1,684)	(1,538)
2	Increase/decrease in operating assets and liabilities	1,922	1,799
2.1	Increase/decrease in available-for-sale investments	(1,042)	(1,007)
2.2	Increase/decrease of investments at fair value through profit or loss	(360)	(375)
2.3	Increase/decrease in given deposits, loans and receivables	624	2,223
2.4	Increase/decrease of reinsurer's share in technical provisions	(2,003)	(2,412)
2.5	Increase/decrease in receivables	(601)	(1,234)
2.6	Increase/decrease in other assets	6	(5)
2.7	Increase/decrease in prepaid expenses and accrued income	1,777	973
2.8	Increase/decrease in technical provisions	3,273	3,496
2.9	Increase/decrease in other liabilities	231	202
2.10	Increase/decrease in accrued expenses and deferred income	17	(62)
II	Cash flows from investing activities	(134)	(35)
1	Payments for purchases of tangible assets	(109)	(6)
2	Payments for purchases of intangible assets	(30)	(15)
3	Increase/decrease of investments in subsidiaries, associates and joint ventures	5	0
4	Payments made for held-to-maturity investments		(14)
III	Cash flows from financing activities	0	0
IV	NET CASH	(75)	(346)
V	Net increase/(decrease) in cash and cash equivalents	(75)	(346)
1	Cash and cash equivalents at beginning of period	300	646
2	Cash and cash equivalents at end of period	225	300

5. Summary of accounting policies, including the accounting policies applicable to assets backing technical provisions

See Note 3 - Summary of significant accounting policies.

6. Notes to the financial statements

See notes 5-32 to the financial statements.

7. Claims ratio, expense ratio and combined ratio

	#	2011	2012
Claims incurred, gross	1	3,649	3,436
Gross premium written	2	6,687	7,678
Changes in the gross unearned premium reserve	3	147	577
Administrative expenses	4	3,631	4,193
Acquisition costs	5	30	106
Claims ratio	1 (2-3)	55.8%	41.6%
Expense ratio	(4+5)/(2-3)	56.0%	60.5%
Combined ratio	1/(2-3)+(4+5)/(2-3)	111.8%	102.2%

8. Structure of acquisition costs and administrative expenses by type of insurance

See notes 12-13 to the financial statements.

9. Capital, regulatory capital and capital adequacy calculation inputs in accordance with the Insurance Act, comprising core capital, supplementary capital and regulatory capital versus the solvency margin

See notes 34-35 to the financial statements.

10. Structure of investments backing technical provisions in accordance with the Insurance Act and the related regulations and reconciliation with the balance of the technical provisions

See notes 36 and 30 to the financial statements.

Financial statements and notes thereto in the format prescribed by the Croatian Financial Services Supervisory Agency

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

11. Income and expenses in relation to investment of assets backing technical provisions

	2011	2012
<i>Net income from investments in assets backing technical provisions</i>		
Financial income		
Interest income on debt securities	89	127
Net gains on financial assets at fair value through profit or loss	17	-
Foreign exchange gains on financial instruments	74	75
	180	202
Financial expenses		
Foreign exchange losses on financial instruments	(33)	(69)
	(33)	(69)

12. Data about the matching of assets backing technical provisions and the liabilities under insurance contracts

See notes 37.2 and 37.6 to the financial statements.

13. Balances of, and movements in off-balance sheet items

There were no off-balance sheet items at 31 December 2012.

14. Total fees charged by an independent auditor or an audit company for the statutory audit of annual financial statements for a particular year, total fees for other assurance services, total fees for tax advisory services, and total fees for services other than audit services.

<i>Total costs of the appointed auditor:</i>	2011	2012
Audit of the annual financial statements	(74)	(113)
	(74)	(113)

15. Shareholder structure

See Note 28 to the financial statements.