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# CONSOLIDATED AND UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2011

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HRVATSKO KREDITNO OSIGURANJE D.D.

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## **I. 2011 BUSINESS OVERVIEW**

### **ANNUAL REPORT ON THE POSITION AND PERFORMANCE OF THE COMPANY IN 2011**

#### **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 2011 is the first 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 2011 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.

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 2011, the Group employed 11 persons, of which 9 by Hrvatsko kreditno osiguranje d.d. and 2 by Poslovni info servis. All the Group's employees have university degrees. The number of staff at the Company increased by two compared to 2010, three persons were employed during 2011, and one employee left the Company. 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 2011, the organisational structure of the Company remained unchanged.

## **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:

### Managing Board

There were no changes in the Managing Board of the Company during 2011. Thus, the members of the Managing Board of Hrvatsko kreditno osiguranje d.d. were as follows:

Edvard Ribarić, President of the Board

Anton Ludwig Steffko, Member of the Board

### Officer holding a general power of attorney

In January 2011 the Company appointed Mrs Ružica Adamović the officer holding a general power of attorney. The related notifications to the supervisory authority and entries in the court registry were made promptly and in accordance with the applicable regulations.

### Management of Poslovni info servis d.o.o.

There were no changes in the Management of Poslovni info servis d.o.o.. Thus, Mrs. Ivana Paić-Mikulek remained the Managing Director of the company.

### The Supervisory Board of Hrvatsko kreditno osiguranje d.d.

During 2011, the members of the Company's Supervisory Board were as follows:

Mr. Branimir Berković, Chairman

Mr. Helmut Hans Altenburger, Deputy Chairman

Mr. Ante Artuković, Member

### Audit Committee

During 2011 the members of the Company's Audit Committee were as follows:

Mr. Branimir Berković, Chairman

Mr. Helmut Hans Altenburger, Deputy Chairman

Mr. Ante Artuković, Member

Mrs. Katica Smojver, Member

## 2011 Performance Results

Hrvatsko kreditno osiguranje d.d. concluded the fiscal year 2011 with 36 insurance contracts, which is 10 contracts more than in the previous year. At 31 December 2011 the insurances covered 926 credit limits, 20 percent more versus prior year. The structure of credit insurance exposure covers two credit limits relating to domestic receivables, whereas 924 credit limits relate to export receivables from 46 countries. The Company closely monitors limits with transactions and insurance premiums, with 728 limits with transactions and insurance premiums reported in 2011 (2010: 406 limits).

The structure of credit insurance exposure by country reflects predominantly the structure of Croatian exports. Thus, the following five countries accounted for 57.7 percent of the total exposure of HRK 842,704.2 thousand at 31 December 2011: Italy (21.5%), Germany (12.1%), Bosnia and Herzegovina (8.4%), Serbia (8.2%) and Slovenia (7.8%).

In 2011, the total premium written amounted to HRK 6,687.3 thousand (in 2010 amounted HRK 1,551 thousand).

In 2011, outward reinsurance premium accounted for 72.89 percent of the total premium written, which is slightly below the 75.61 percent share in 2010.

Net premium earned for 2011 amounted to HRK 1,248.5 thousand (69 thousand in 2010).

During 2011 the Company settled two claims, one of which fully liquidated, whereas the total claims amounted to HRK 765.8 thousand. The settled claims relate to customers from Germany and Slovenia.

At the Company level, the claims ratio for the year 2011 was 55.8 percent (2010: 60.3%), expense ratio was 55.97 percent (2010: 246.3%), and the combined rate was 111.77 percent (2010: 306.6%).

The 2011 expense ratio at the Group level was 63.29 percent and the Group's combined ratio was 119.09 percent.

Fiscal year 2011 is the first full year of the Company's operation, in which the loss for the year at the Group level amounts to HRK 1,104 thousand, as expected (2010: a loss of HRK 730 thousand). The loss for the year incurred by the Company amounts to HRK 989 thousand (HRK 679 thousand in 2010).

Acquisition costs, administrative and other operating expenses for the year 2011 at the Group level were in aggregate HRK 4,337 thousand (2010: HRK 1,982 thousand), whereas for the Company they amounted to HRK 3,702 thousand (2010: HRK 1,922 thousand).

The total assets of the Company at 31 December 2011 were 0.5 percent higher than in the previous year and amounted to HRK 39,164 thousand.

The total assets of the HKO Group in the amount of HRK 39,062 thousand at 31 December 2011 were 0.3 percent higher than in the previous year.

**2011 Performance Results (continued)**

At 31 December 2011 the total equity of the Company reported of HRK 35,807 thousand (36,821 thousand in 2010).

At 31 December 2011 the total equity of the Group reported of HRK 35,661 thousand (36,771 thousand in 2010).

The 2011 balance of technical provisions, net of reinsurer's share, was HRK 1,537 thousand (453 thousand in 2010).

**Business goals and plans for the future**

In 2012 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 2011 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 2011 there were no research and development activities at the Company.

**Information on purchase of own shares**

From the establishment until the end of 2011 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.

## **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.

## **Events after the balance sheet date**

There were no events subsequent to the balance sheet date that would materially affect the 2011 operating results.

Zagreb, 24 April 2012



Anton Steffko

Member of the Managing Board

Hrvatsko kreditno  
osiguranje d.d.  
Z a g r e b



Edvard Ribarić

President of the Managing Board

## 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.

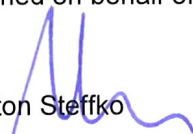
After making appropriate enquiries, the Managing Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Managing Board continues to prepare the financial statements on a going-concern basis.

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:

  
Anton Steffko

Member of the Managing Board

Hrvatsko kreditno  
osiguranje d.d.  
Z a g r e b

  
Edvard Ribarić

President of the Managing Board

Hrvatsko kreditno osiguranje d.d.

Bednjanska 14  
10000 Zagreb  
Republic of Croatia

Date

24 April 2012



## 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 59, which comprise the statement of financial position as of 31 December 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended 31 December 2011, 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *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.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik and Paul Trinder; Bank: Zagrebačka banka Zagreb d.d., Paromlinska 2, 10 000 Zagreb, bank account no. 2360000-1101896313; Foreign Currency Account: 2100312441 SWIFT Code: ZABHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, bank account no. 2340009-1110098294; Foreign Currency Account: 70010-519758 SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; Foreign Currency Account: 2100002537 SWIFT Code: RZBHR2X IBAN: HR48 2484 0082 1000 0253 7

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## **Independent Auditor's Report (continued)**

### *Opinion*

In our opinion, the financial statements, presented on pages 9 to 59, give a true and fair view of the financial position of the Company as of 31 December 2011, and of its financial performance as of 31 December 2011, 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 60 to 70, and comprise the statement of financial position at 31 December 2011 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 9 to 59, prepared in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

  
Branislav Vrtačnik, Certified Auditor and Member of the Board

Zagreb, Croatia  
30 April 2012

**Statement of Comprehensive Income**  
**For the year ended 31 December 2011**  
(All amounts are expressed in thousands of kunas)

		Company	Group	Company	Group
				18/01-	18/01-
	Notes	2011	2011	31/12/2010	31/12/2010
<b>Premium earned</b>					
Gross premium written	5	6,687	6,687	1,551	1,551
Premium impairment allowance originated and reversed on collection	5	(499)	(499)	-	-
Gross outward reinsurance premium	5	(4,874)	(4,874)	(1,173)	(1,173)
<b>Net premium written</b>		<b>1,314</b>	<b>1,314</b>	<b>378</b>	<b>378</b>
Changes in the gross unearned premium reserve	5	(147)	(147)	(820)	(820)
Changes in the gross unearned premium reserve, reinsurer's share	5	81	81	511	511
<b>Net premium earned</b>	5	<b>1,248</b>	<b>1,248</b>	<b>69</b>	<b>69</b>
Fee and commission income	6	858	1,372	549	549
Net investment income	7	1,596	1,626	589	590
Other operating income	8	76	28	11	7
<b>Net income</b>		<b>3,778</b>	<b>4,274</b>	<b>1,218</b>	<b>1,215</b>
Gross expense for returned premiums	9	(118)	(118)	-	-
Reinsurer's share	9	82	82	-	-
Gross reserve for returned premiums	9	(340)	(340)	-	-
Reinsurer's share	9	261	261	-	-
<b>Net expense and reserve for returned premiums</b>	9	<b>(115)</b>	<b>(115)</b>	<b>-</b>	<b>-</b>
Claims incurred	10	(766)	(766)	-	-
Claims incurred, reinsurer's share	10	536	536	-	-
Change in the claims provision	10	(3,008)	(3,008)	(458)	(458)
Change in the claims provision, reinsurer's share	10	2,070	2,070	314	314
<b>Net claims incurred</b>	10	<b>(1,168)</b>	<b>(1,168)</b>	<b>(144)</b>	<b>(144)</b>
Marketing expenses	11	(30)	(30)	(66)	(66)
Administrative expenses	12	(3,471)	(4,061)	(1,527)	(1,566)
Other operating expenses	13	(195)	(240)	(327)	(348)
Net exchange differences other than those on financial instruments	14	(6)	(6)	(2)	(2)
<b>Loss before taxation</b>		<b>(1,207)</b>	<b>(1,346)</b>	<b>(848)</b>	<b>(911)</b>
Tax income	15	218	242	169	181
<b>Loss for the year</b>		<b>(989)</b>	<b>(1,104)</b>	<b>(679)</b>	<b>(730)</b>
<b>Other comprehensive income</b>					
Gains on revaluation of financial assets available for sale		60	84	-	1
Decrease in the fair value of financial assets available for sale		(91)	(91)	-	-
Deferred tax	15	6	1	-	-
<b>Other comprehensive income</b>		<b>(25)</b>	<b>(6)</b>	<b>-</b>	<b>1</b>
<b>Total comprehensive loss after tax</b>		<b>(1,014)</b>	<b>(1,110)</b>	<b>(679)</b>	<b>(729)</b>
<b>Attributable to:</b>					
Equity holders of the Company		(1,014)	(1,110)	(679)	(730)
Non-controlling interests		-	-	-	-
		<b>(1,014)</b>	<b>(1,110)</b>	<b>(679)</b>	<b>(730)</b>
<b>Earnings per share</b>	16				
<u>From continuing operations:</u>					
Earnings per share (in HRK)		(26.38)	<b>(29.45)</b>	(18.89)	<b>(20.31)</b>

# Statement of financial position

At 31 December

(All amounts are expressed in thousands of kunas)

	Notes	Company 2011	Group 2011	Company 2010	Group 2010
<b>Assets</b>					
<b>Non-current assets</b>					
Property and equipment	17	53	59	64	64
Intangible assets	18	240	240	362	362
Investments in subsidiaries	19	2,000	-	2,000	-
Held-to-maturity investments	20	1,069	1,069	1,055	1,055
Deferred tax assets	21	393	429	169	181
		<b>3,755</b>	<b>1,797</b>	<b>3,650</b>	<b>1,662</b>
<b>Current assets</b>					
Available-for-sale investments	22	983	2,061	-	1,051
Investments at fair value through profit or loss	23	392	519	-	501
Deposits with banks	24	31,316	31,640	33,539	33,890
Receivables from insurance operations	25	1,418	1,418	630	630
Other receivables	26	1,000	1,123	488	485
Cash and cash equivalents	27	300	504	646	717
		<b>35,409</b>	<b>37,265</b>	<b>35,303</b>	<b>37,274</b>
<b>Total assets</b>		<b>39,164</b>	<b>39,062</b>	<b>38,953</b>	<b>38,936</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
Share capital	28	37,500	37,500	37,500	37,500
Accumulated losses		(679)	(730)	-	-
Reserves on revaluation of available-for-sale investments	29	(25)	(5)	-	1
Loss for the period		(989)	(1,104)	(679)	(730)
		<b>35,807</b>	<b>35,661</b>	<b>36,821</b>	<b>36,771</b>
<b>Technical provisions</b>					
Gross technical provisions	30	4,774	4,774	1,279	1,279
Technical provisions, reinsurer's share	30	(3,237)	(3,237)	(826)	(826)
		<b>1,537</b>	<b>1,537</b>	<b>453</b>	<b>453</b>
<b>Current liabilities</b>					
Liabilities from insurance operations	31	1,349	1,349	970	970
Other liabilities	32	471	510	709	742
Deferred tax liability	21	-	5	-	-
<b>Total liabilities</b>		<b>1,820</b>	<b>1,864</b>	<b>1,679</b>	<b>1,712</b>
<b>Total equity and liabilities</b>		<b>39,164</b>	<b>39,062</b>	<b>38,953</b>	<b>38,936</b>

**Statement of changes in equity**
**For the year ended**

(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
<b>At 1 January of the previous year</b>	-	-	-	-	-	-
Loss for the year	-	-	-	(679)	(679)	(679)
<b>Total comprehensive loss</b>	-	-	-	<b>(679)</b>	<b>(679)</b>	<b>(679)</b>
Share capital paid in	37,500	-	-	-	37,500	37,500
<b>At 31 December of the previous year</b>	<b>37,500</b>	-	-	<b>(679)</b>	<b>36,821</b>	<b>36,821</b>
Loss for the year	-	-	-	(989)	(989)	(989)
Other comprehensive income	-	-	(25)	-	(25)	(25)
<b>Total comprehensive loss</b>	-	-	<b>(25)</b>	<b>(989)</b>	<b>(1,014)</b>	<b>(1,014)</b>
Transfer of prior-year profit to retained earnings	-	(679)	-	679	-	-
<b>Balance at 31 December of the current year</b>	<b>37,500</b>	<b>(679)</b>	<b>(25)</b>	<b>(989)</b>	<b>35,807</b>	<b>35,807</b>

**Statement of changes in equity**
**For the year ended**

(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
<b>At 1 January of the previous year</b>	-	-	-	-	-	-
Loss for the year	-	-	-	(730)	(730)	(730)
Other comprehensive income	-	-	1	-	1	1
<b>Total comprehensive loss</b>	-	-	<b>1</b>	<b>(730)</b>	<b>(729)</b>	<b>(729)</b>
Share capital paid in	37,500	-	-	-	37,500	37,500
<b>At 31 December of the previous year</b>	<b>37,500</b>	-	<b>1</b>	<b>(730)</b>	<b>36,771</b>	<b>36,771</b>
Loss for the year	-	-	-	(1,104)	(1,104)	(1,104)
Other comprehensive income	-	-	(6)	-	(6)	(6)
<b>Total comprehensive loss</b>	-	-	<b>(6)</b>	<b>(1,104)</b>	<b>(1,110)</b>	<b>(1,110)</b>
Transfer of prior-year profit to retained earnings	-	(730)	-	730	-	-
<b>Balance at 31 December of the current year</b>	<b>37,500</b>	<b>(730)</b>	<b>(5)</b>	<b>(1,104)</b>	<b>35,661</b>	<b>35,661</b>

**Statement of cash flows****For the year ended**

(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**

	<b>Company 2011</b>	<b>Group 2011</b>	<b>Company 2010</b>	<b>Group 2010</b>
<b>Net profit before tax</b>	<b>(1,207)</b>	<b>(1,346)</b>	<b>(848)</b>	<b>(912)</b>
<i>Adjusted by:</i>				
Depreciation	17	20	2	2
Amortisation	137	137	47	47
Impairment losses and gains/losses on remeasurement at fair value	481	472	-	1
Interest income	(1,538)	(1,548)	(575)	(575)
	<b>(2,110)</b>	<b>(2,265)</b>	<b>(1,374)</b>	<b>(1,437)</b>
Increase in available-for-sale investments	(987)	(992)	-	(1,051)
Increase of investments at fair value through profit or loss	(375)	8	-	(501)
Decrease/increase in given deposits, loans and receivables	2,223	2,250	(33,539)	(33,890)
Increase in technical provisions	1,084	1,084	453	453
Increase in receivables from insurance operations	(1,286)	(1,286)	(630)	(630)
Increase/decrease in other receivables	1,020	904	87	91
Increase in other liabilities	140	152	1,679	1,712
Decrease/increase in working capital	<b>1,819</b>	<b>2,120</b>	<b>(31,950)</b>	<b>(33,816)</b>
Income taxes paid	-	-	-	-
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(291)</b>	<b>(145)</b>	<b>(33,324)</b>	<b>(35,253)</b>
	-	-	-	-
Payments for purchases of tangible assets	(6)	(15)	(66)	(66)
Payments for purchases of intangible assets	(15)	(15)	(409)	(409)
Payments made for held-to-maturity investments	(14)	(14)	(1,055)	(1,055)
Payments made for equity investments	-	-	(2,000)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(35)</b>	<b>(44)</b>	<b>(3,530)</b>	<b>(1,530)</b>
Additional share capital contributed in cash	-	-	37,500	37,500
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>37,500</b>	<b>37,500</b>
Effects of changes in foreign exchange rates on cash and cash equivalents	(20)	(24)	-	-
<b>Net increase/decrease in cash and cash equivalents</b>	<b>(346)</b>	<b>(213)</b>	<b>646</b>	<b>717</b>
Cash and cash equivalents at beginning of year	646	717	-	-
<b>Cash and cash equivalents at end of year</b>	<b>300</b>	<b>504</b>	<b>646</b>	<b>717</b>

## **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 Company founders and owners are as follows: Hrvatska banka za obnovu i razvitak, Strossmayerov trg 9, Zagreb, Republic of Croatia, with an equity share of 51 percent, and OeKB Südosteuropa Holding Ges.m.b.H, Am Hof 4, Vienna, Austria, with an equity share of 49 percent.

At 31 December 2011, 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 2011 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.



## **2.2. 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 IFRS 1 *First-time Adoption of IFRS*- Limited Exemption from Comparative IFRS 7 *Disclosures* for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IAS 24 *Related-party Disclosures* – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 32 *Financial Instruments: Disclosure* - Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010);
- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (to be applied for annual periods beginning on or after 1 July 2010 or on or after 1 January 2011, depending on the standard/interpretation),
- Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010)

The adoption of the amended and revised Standards and Interpretation has not lead to changes in the Company's/Group's accounting policies.

**2.3. Standards and Interpretations in issue not yet adopted**

At the date of authorization of these financial statements the following Standards, revisions and Interpretations were in issue but not yet effective:

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013),
- IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 *Disclosures of Involvement with Other Entities* (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (as revised in 2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 1 *First-time Adoption of IFRS* - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 *Financial Instruments: Disclosures* - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- 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 12 *Income Taxes* - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2011),
- 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),
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1 January 2013),

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.

## **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 2011 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". 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 2010	EUR 1 =HRK 7.385173 USD 1=HRK 5.568252 CHF 1=HRK 5.929961
At 31 December 2011	EUR 1 =HRK 7.530420 USD 1=HRK 5.819940 CHF 1=HRK 6.194817

**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**

*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**

*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 2011 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 <b>2011</b>	Company / Group <b>2010</b>
Gross premium written	6,687	1,551
Premium impairment allowance originated and reversed on collection	(499)	-
Gross outward reinsurance premium	(4,874)	(1,173)
Changes in the gross unearned premium reserve	(147)	(820)
Changes in the gross unearned premium reserve, reinsurer's share	81	511
<b>Net premium earned</b>	<b>1,248</b>	<b>69</b>

**Notes to the financial statements for the year 2011**

(All amounts are expressed in thousands of kunas)

**6. FEE AND COMMISSION INCOME**

	Company 2011	Group 2011	Company 2010	Group 2010
Reinsurance commission income	858	858	192	192
Risk underwriting fee income	-	514	357	357
	<b>858</b>	<b>1,372</b>	<b>549</b>	<b>549</b>

**7. NET INVESTMENT INCOME**

	Company 2011	Group 2011	Company 2010	Group 2010
Financial income				
Interest income	1,538	1,548	575	575
Net gains on financial assets at fair value through profit or loss	17	26	-	-
Foreign exchange gains on financial instruments	74	93	19	20
	<b>1,629</b>	<b>1,667</b>	<b>594</b>	<b>595</b>
Financial expenses				
Foreign exchange losses on financial instruments	(33)	(41)	(5)	(5)
	<b>(33)</b>	<b>(41)</b>	<b>(5)</b>	<b>(5)</b>
<b>Net investment income</b>	<b>1,596</b>	<b>1,626</b>	<b>589</b>	<b>590</b>

## Interest income

	2011	2011	2010	2010
Interest on given loans	-	1	-	-
Interest income on debt securities	89	89	13	13
Interest income on deposits with banks	1,447	1,457	559	559
Other (balances on accounts, penalties)	2	1	3	3
	<b>1,538</b>	<b>1,548</b>	<b>575</b>	<b>575</b>

## Net income from investments in assets backing technical provisions

	Company / Group 2011	Company / Group 2010
Financial income		
Interest income on debt securities	89	13
Net gains on financial assets at fair value through profit or loss	17	-
Foreign exchange gains on financial instruments	74	19
	<b>180</b>	<b>32</b>
Financial expenses		
Foreign exchange losses on financial instruments	(33)	(5)
	<b>(33)</b>	<b>(5)</b>

**8. OTHER OPERATING INCOME**

	Company 2011	Group 2011	Company 2010	Group 2010
Sublease income	48	-	4	-
Other operating income	28	28	7	7
	<b>76</b>	<b>28</b>	<b>11</b>	<b>7</b>

## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 9. NET EXPENSE AND RESERVE FOR RETURNED PREMIUMS

	Company / Group 2011	Company / Group 2010
<b>Credit insurance</b>		
Gross expense for returned premiums	(118)	-
Reinsurer's share	82	-
Gross provision for returned premiums	(340)	-
Reinsurer's share	261	-
<b>Net expense and reserve for returned premiums</b>	<b>(115)</b>	<b>-</b>

### 10. CLAIMS INCURRED

	Company / Group 2011	Company / Group 2010
<b>Credit insurance</b>		
Claims incurred	(766)	-
Claims incurred, reinsurer's share	536	-
Change in the claims provision	(3,008)	(458)
Change in the claims provision, reinsurer's share	2,070	314
<b>Net claims incurred</b>	<b>(1,168)</b>	<b>(144)</b>

### 11. MARKETING EXPENSES

	Company 2011	Group 2011	Company 2010	Group 2010
Marketing expenses	(30)	(30)	(66)	(66)
	<b>(30)</b>	<b>(30)</b>	<b>(66)</b>	<b>(66)</b>

**Notes to the financial statements for the year 2011**

(All amounts are expressed in thousands of kunas)

**12. ADMINISTRATIVE EXPENSES**

	Company 2011	Group 2011	Company 2010	Group 2010
<b>Payroll taxes and contributions</b>				
Net salaries	(1,055)	(1,253)	(415)	(430)
Taxes and contributions out of salaries	(768)	(870)	(315)	(322)
Contributions on salaries	(314)	(365)	(126)	(129)
	<b>(2,137)</b>	<b>(2,488)</b>	<b>(856)</b>	<b>(881)</b>
<b>Other administrative expenses</b>				
Cost of material	(24)	(27)	(13)	(13)
Energy	(80)	(80)	(14)	(14)
Other staff-related costs (exclusive of gross and net salary costs)	(72)	(122)	(36)	(41)
Entertainment	(9)	(18)	(2)	(2)
Bank and payment operation charges	(16)	(17)	(5)	(5)
Rental costs	(318)	(318)	(53)	(53)
Lease payments for vehicles	(196)	(196)	(50)	(50)
Non-material costs	(16)	(16)	(9)	(9)
Postage	(4)	(6)	(1)	(1)
Telecommunications	(48)	(48)	(2)	(2)
Actuarial services	(84)	(84)	-	-
Advisory and consultancy costs	(121)	(121)	(78)	(78)
Audit costs	(74)	(74)	(89)	(89)
Other taxes and contributions	(4)	(5)	-	-
Other (service) costs	(268)	(441)	(319)	(328)
	<b>(1,334)</b>	<b>(1,573)</b>	<b>(671)</b>	<b>(685)</b>
<b>Administrative expenses</b>	<b>(3,471)</b>	<b>(4,061)</b>	<b>(1,527)</b>	<b>(1,566)</b>

**13. OTHER OPERATING EXPENSES**

	Company 2011	Group 2011	Company 2010	Group 2010
Vacation and bonus accruals	(38)	(80)	(99)	(100)
Fees to regulatory bodies	(2)	(2)	-	-
Credit report costs	(1)	(1)	(122)	(122)
Other - start-up costs	-	-	(57)	(77)
Depreciation and amortisation	(154)	(157)	(49)	(49)
	<b>(195)</b>	<b>(240)</b>	<b>(327)</b>	<b>(348)</b>

**14. NET EXCHANGE DIFFERENCES OTHER THAN THOSE ON FINANCIAL INSTRUMENTS**

	Company 2011	Group 2011	Company 2010	Group 2010
Exchange differences on foreign-currency denominated liabilities	(6)	(6)	(2)	(2)
	<b>(6)</b>	<b>(6)</b>	<b>(2)</b>	<b>(2)</b>

## Notes to the financial statements for the year 2011

(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 2011	Group 2011	Company 2010	Group 2010
<b>Recognised in the income statement</b>				
Deferred tax income	218	242	169	181
<b>Income tax expense</b>	<b>218</b>	<b>242</b>	<b>169</b>	<b>181</b>
<b>Adjustments</b>				
<b>Profit before taxation</b>	<b>(1,207)</b>	<b>(1,346)</b>	<b>(848)</b>	<b>(911)</b>
Income tax at the rate of 20%	241	269	170	182
Tax non-deductible expenses at the rate of 20%	(23)	(27)	(1)	(1)
<b>Income tax expense recognised in the income statement</b>	<b>218</b>	<b>242</b>	<b>169</b>	<b>181</b>
<b>Income tax recognised in comprehensive income</b>				
Deferred tax income - addition	18	18	-	-
Deferred tax income - deduction	(12)	(17)	-	-
<b>Income tax recognised in comprehensive income</b>	<b>6</b>	<b>1</b>	<b>-</b>	<b>-</b>

### 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 2011	Group 2011	Company 2010	Group 2010
<b>Loss attributable to ordinary shareholders</b>				
Loss for the year attributable to ordinary shareholders	(989)	(1,104)	(679)	(730)
<b>Earnings per share</b>				
Weighted average number of ordinary shares during the year	37,500	37,500	35,944	35,944
<b>Loss per share (in HRK)</b>	<b>26.38</b>	<b>29.45</b>	<b>18.89</b>	<b>20.31</b>

## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 17. PROPERTY AND EQUIPMENT

	Company			Group		
	Computers	Furniture and equipment	Total	Computers	Furniture and equipment	Total
<b>Cost</b>						
Balance at 1 January 2010	-	-	-	-	-	-
Additions	5	61	66	5	61	66
<b>Balance at 31 December 2010</b>	<b>5</b>	<b>61</b>	<b>66</b>	<b>5</b>	<b>61</b>	<b>66</b>
<b>Accumulated depreciation</b>						
Balance at 01 January 2010	-	-	-	-	-	-
Charge for the year	(1)	(1)	(2)	(1)	(1)	(2)
<b>Balance at 31 December 2010</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>
<b>Balance at 31 December 2010</b>	<b>4</b>	<b>60</b>	<b>64</b>	<b>4</b>	<b>60</b>	<b>64</b>
<b>Cost</b>						
Balance at 1 January 2011	5	61	66	5	61	66
Additions	6	-	6	15	-	15
<b>Balance at 31 December 2011</b>	<b>11</b>	<b>61</b>	<b>72</b>	<b>20</b>	<b>61</b>	<b>81</b>
<b>Accumulated depreciation</b>						
Balance at 1 January 2011	1	1	2	1	1	2
Charge for the year	3	14	17	6	14	20
<b>Balance at 31 December 2011</b>	<b>4</b>	<b>15</b>	<b>19</b>	<b>7</b>	<b>15</b>	<b>22</b>
<b>Balance at 31 December 2011</b>	<b>7</b>	<b>46</b>	<b>53</b>	<b>13</b>	<b>46</b>	<b>59</b>
<b>Balance at 31 December 2010</b>	<b>4</b>	<b>60</b>	<b>64</b>	<b>4</b>	<b>60</b>	<b>64</b>

In 2011, the Group had neither investment properties nor freehold land and buildings.



## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 18. INTANGIBLE ASSETS

	Company	Group
	Intangible assets	Intangible assets HRK'000
<b>Cost</b>		
Balance at 1 January 2010	-	-
Additions	409	409
<b>Balance at 31 December 2010</b>	<b>409</b>	<b>409</b>
<b>Accumulated amortisation</b>		
Balance at 1 January 2010	-	-
Charge for the year	(47)	(47)
<b>Balance at 31 December 2010</b>	<b>(47)</b>	<b>(47)</b>
<b>Balance at 31 December 2010</b>	<b>362</b>	<b>362</b>
<b>Cost</b>		
Balance at 1 January 2011	409	409
Additions	15	15
<b>Balance at 31 December 2011</b>	<b>424</b>	<b>424</b>
<b>Accumulated amortisation</b>		
Balance at 1 January 2011	47	47
Charge for the year	137	137
<b>Balance at 31 December 2011</b>	<b>184</b>	<b>184</b>
<b>Balance at 31 December 2011</b>	<b>240</b>	<b>240</b>
<b>Balance at 31 December 2010</b>	<b>362</b>	<b>362</b>

Intangible assets consist of accounting and insurance software applications.

### 19. INVESTMENTS IN SUBSIDIARIES

	Company 2011	Company 2010
Investments in subsidiaries	2,000	2,000
	<b>2,000</b>	<b>2,000</b>

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 2011**

(All amounts are expressed in thousands of kunas)

**20. HELD-TO-MATURITY INVESTMENTS**

	Company 2011	Group 2011	Company 2010	Group 2010
<i>Debt securities</i>				
Listed debt securities:				
Bonds of the Croatian Ministry of Finance	1,069	1,069	1,055	1,055
	<b>1,069</b>	<b>1,069</b>	<b>1,055</b>	<b>1,055</b>

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	1,069	23

**21. DEFERRED TAX ASSETS**

	Company 2011	Group 2011	Company 2010	Group 2010
Deferred tax assets	393	429	169	181
	<b>393</b>	<b>429</b>	<b>169</b>	<b>181</b>
Deferred tax liability	-	(5)	-	-
	<b>-</b>	<b>(5)</b>	<b>-</b>	<b>-</b>
<b>Temporary differences:</b>				
Deferred tax assets on tax losses carried forward	387	423	-	-
Deferred tax assets on unrealised losses	6	6	-	-
Deferred tax liability on unrealised gains	-	(5)	-	-
	<b>393</b>	<b>424</b>	<b>-</b>	<b>-</b>

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

31 December 2015	169	181	-	-
31 December 2016	218	242	-	-
31 December 2017	-	-	-	-
31 December 2018	-	-	-	-
31 December 2019	-	-	-	-
	<b>387</b>	<b>423</b>	<b>-</b>	<b>-</b>

Deferred tax assets reported in the separate and consolidated financial statements at 31 December 2011 in the total amount of HRK 393 thousand and HRK 429 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 2011**

(All amounts are expressed in thousands of kunas)

**21. DEFERRED TAX ASSETS (CONTINUED)**

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

	Company 2011	Group 2011	Company 2010	Group 2010
Balance at 1 January	169	181	-	-
Recognition of deferred tax assets in transferable tax losses through profit and loss	218	242	169	181
Recognition of deferred taxes on unrealized fair value adjustments through comprehensive profit or loss	6	6	-	-
<b>Balance at 31 December</b>	<b>393</b>	<b>429</b>	<b>169</b>	<b>181</b>

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

	Company 2011	Group 2011	Company 2010	Group 2010
Balance at 1 January	-	-	-	-
Recognition of deferred taxes on unrealized fair value adjustments through comprehensive profit or loss	-	5	-	-
<b>Balance at 31 December</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>-</b>

**22. INVESTMENTS AVAILABLE FOR SALE**

	Company 2011	Group 2011	Company 2010	Group 2010
Bonds of the Croatian Ministry of Finance	983	983	-	-
Investment fund units	-	1,078	-	1,051
	<b>983</b>	<b>2,061</b>	<b>-</b>	<b>1,051</b>

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	138	983	21

**23. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	Company 2011	Group 2011	Company 2010	Group 2010
Investment fund units	392	519	-	501
<b>TOTAL</b>	<b>392</b>	<b>519</b>	<b>-</b>	<b>501</b>

**Notes to the financial statements for the year 2011**

(All amounts are expressed in thousands of kunas)

**24. DEPOSITS WITH BANKS**

	Company 2011	Group 2011	Company 2010	Group 2010
HRK deposits with banks	31,316	31,419	33,539	33,639
Foreign-currency deposits with banks	-	221	-	251
	<b>31,316</b>	<b>31,640</b>	<b>33,539</b>	<b>33,890</b>

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	-
				<b>324</b>	<b>-</b>

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
				<b>31,316</b>	<b>926</b>

Poslovni info servis d.o.o.

An overview of deposits at 31 December 2010 is set out below:

Bank	Currency	Maturity	Interest rate in %	Principal amount	Accrued interest not yet due
Erste&Steiermärkische Bank d.d.	HRK	28/12/2011	3.50%	100	-
Erste&Steiermärkische Bank d.d.	EUR	28/06/2011	2.26%	251	-
				<b>351</b>	<b>-</b>

Hrvatsko kreditno osiguranje d.d.

An overview of deposits at 31 December 2010 is set out below:

Bank	Currency	Maturity	Interest rate in %	Principal amount	Accrued interest not yet due
Erste&Steiermärkische Bank d.d.	HRK	07/06/2011	3.70%	19,500	228
Erste&Steiermärkische Bank d.d.	HRK	07/06/2011	3.70%	10,000	117
Erste&Steiermärkische Bank d.d.	HRK	28/06/2011	3.45%	4,039	36
				<b>33,539</b>	<b>381</b>

## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 25. RECEIVABLES FROM INSURANCE OPERATIONS

	Company / Group 2011	Company / Group 2010
<b>Premiums receivable</b>		
<u>Gross amount</u>		
Premiums receivable	1,062	459
Premiums receivable	<b>1,062</b>	<b>459</b>
<u>Loss provision</u>		
Outstanding premiums	(498)	-
	<b>564</b>	<b>459</b>
<b>Other amounts due from insurance operations</b>		
Reinsurer's commission receivable	235	171
Receivables under reinsurer's share in the claims	536	-
Other amounts due from insurance operations	83	-
	<b>854</b>	<b>171</b>
	<b>1,418</b>	<b>630</b>
<u>Premium loss provision</u>		
	<b>2011</b>	<b>2010</b>
Balance at 1 January	-	-
Increase in provisions by losses from impairment of insurance premiums	(521)	-
Subsequent collections	23	-
<b>Balance at 31 December</b>	<b>(498)</b>	<b>-</b>

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 2011**

(All amounts are expressed in thousands of kunas)

**26. OTHER RECEIVABLES**

	Company 2011	Group 2011	Company 2010	Group 2010
Accrued interest on deposits	926	926	381	381
Accrued interest on held-to-maturity investments	23	23	22	22
Accrued interest on investments available for sale	21	21	-	-
Fees receivable for credit risk assessments	2	183	-	-
Accrued interest on sight deposits on current accounts	-	-	1	2
Receivables from related company	22	-	1	1
Other receivables	3	3	76	76
Accrued income	5	9	7	3
	<b>1,002</b>	<b>1,165</b>	<b>488</b>	<b>485</b>
Provisions for potential losses on other receivables	(2)	(42)	-	-
	<b>1,000</b>	<b>1,123</b>	<b>488</b>	<b>485</b>

**27. CASH AND CASH EQUIVALENTS**

	Company 2011	Group 2011	Company 2010	Group 2010
Balances with banks	300	504	646	717
	<b>300</b>	<b>504</b>	<b>646</b>	<b>717</b>

**28. SHARE CAPITAL**

At 31 December 2011, 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 37,000 thousand. The structure of the Company shareholders at 31 December 2011 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
<b>Ownership structure:</b>			
Hrvatska banka za obnovu i razvitak	19,125	51	19,125
OeKB Südesteuropa Holding Ges.m.b.H.	18,375	49	18,375
<b>Total</b>	<b>37,500</b>	<b>100</b>	<b>37,500</b>

## 29. RESERVES ON REVALUATION OF AVAILABLE-FOR-SALE INVESTMENTS

	Company 2011	Group 2011	Company 2010	Group 2010
<b>Opening balance</b>		1		
Increase in the fair value	60	84	-	1
Decrease in the fair value	(91)	(91)	-	-
Deferred tax liability arising from increase in the fair value	6	1	-	-
<b>Closing balance</b>	<b>(25)</b>	<b>(5)</b>	<b>-</b>	<b>1</b>

## 30. TECHNICAL PROVISIONS

	Company / Group 2011	Company / Group 2010
<b>Premium written</b>		
Gross premium written	968	820
Premium written, reinsurers' share	(593)	(511)
	<b>375</b>	<b>309</b>
<b>Claims provision</b>		
Gross claims provision	3,323	441
Gross claims provision, reinsurer's share	(2,384)	(315)
	<b>939</b>	<b>126</b>
<b>Provision for returned premiums</b>		
Gross provision for returned premiums	341	-
Provision for returned premiums, reinsurer's share	(260)	-
	<b>81</b>	<b>-</b>
Equalisation reserve	142	18
<b>Total technical provision, net of reinsurer's share</b>	<b>1,537</b>	<b>453</b>
<b>Total technical provision, gross</b>	<b>4,774</b>	<b>1,279</b>
<b>Technical provisions, reinsurer's share</b>	<b>(3,237)</b>	<b>(826)</b>
<b>Investments backing technical provisions</b>	<b>2,075</b>	<b>1,055</b>

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 2011**

(All amounts are expressed in thousands of kunas)

**30. TECHNICAL PROVISIONS (CONTINUED)**

	Društvo/ Grupa 2011.	Društvo/ Grupa 2010.
<b>Premium written</b>		
Balance at 1 January	309	-
Gross increase	147	820
Increase reinsurers' share	(81)	(511)
<b>Balance at 31 December</b>	<b>375</b>	<b>309</b>
<b>Claims provision</b>		
Balance at 1 January	126	-
Gross increase	2,883	441
Increase reinsurers' share	(2,070)	(315)
<b>Balance at 31 December</b>	<b>939</b>	<b>126</b>
<b>Provision for returned premiums</b>		
Balance at 1 January	-	-
Gross increase	341	-
Increase reinsurers' share	(260)	-
<b>Balance at 31 December</b>	<b>81</b>	<b>-</b>
Equalisation reserve		
Balance at 1 January	18	-
Gross increase	124	18
<b>Balance at 31 December</b>	<b>142</b>	<b>18</b>
<b>Total technical provision, net of reinsurer's share</b>	<b>1,537</b>	<b>453</b>

**31. LIABILITIES FROM INSURANCE OPERATIONS**

	Company / Group 2011	Company / Group 2010
Liabilities to a foreign reinsurer	733	644
Liabilities to a domestic reinsurer	616	326
<b>TOTAL</b>	<b>1,349</b>	<b>970</b>

**32. OTHER LIABILITIES**

	Company 2011	Group 2011	Company 2010	Group 2010
Trade payables	46	76	169	173
Vacation and bonus accruals	135	138	99	100
Net salaries and benefits payable	71	86	92	106
Payroll taxes and contributions	90	90	-	-
Liabilities to related parties	2	2	-	-
Other	9	22	134	146
Accrued expenses	118	96	217	217
	<b>471</b>	<b>510</b>	<b>711</b>	<b>742</b>



## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 33. OPERATING LEASES

The Company and the Group as lessees	Company 2011	Group 2011	Company 2010	Group 2010
Minimum lease payments under operating leases recognised in the income statement for the year	318	318	50	50
Rentals paid for business premises charged to the income statement for the year	196	196	53	53

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:

	2011	2010
Solvency margin (Art. 99 of the Act)	602	140
<b>Solvency margin (Art. 98 and 99 of the Act)</b>	<b>602</b>	<b>140</b>
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)	201	47
<b>Regulatory capital (RC)</b>	<b>35,567</b>	<b>36,458</b>
<b>Capital</b>	<b>35,567</b>	<b>34,458</b>

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 2011

(All amounts are expressed in thousands of kunas)

### 35. TIER I 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:

Regulatory capital (RC)	35,567	36,458
Technical provisions (Note 28)	1,537	453

The regulatory capital for the year ended 31 December, determined in accordance with the Insurance Act, is as follows:

Share capital (Note 26)	37,500	37,500
Losses brought forward and loss for the year	(1,669)	(679)
Intangible assets	(240)	(363)
<b>Core capital</b>	<b>35,591</b>	<b>36,458</b>
Reserve on revaluation of financial assets	(24)	-
<b>Supplementary capital</b>	<b>(24)</b>	<b>-</b>
<b>Regulatory capital (RC)</b>	<b>35,567</b>	<b>36,458</b>

### 36. INVESTMENT OF ASSETS IN ACCORDANCE WITH THE INSURANCE ACT

	Investment limit - technical provisions, in %	Amount 2011	Actual in % 2011	Amount 2010	Actual in % 2010
Bonds and other debt securities	100.00%	2,052	100 %	1,055	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	-	-	-	-	-
<b>Investments under Article 115.1 of the Act</b>	<b>100.00%</b>	<b>2,052</b>		<b>1,055</b>	<b>100%</b>
<b>Investments under Article 115.2 of the Act</b>	<b>15.00%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Investments backing technical provisions</b>	<b>-</b>	<b>2,052</b>	<b>-</b>	<b>1,055</b>	<b>-</b>

### **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 2011 insurance of short-term foreign trade accounts receivable arising from the sale of goods and provision of services abroad prevailed.

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 contracts 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.

**37.1 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. For the largest part of the portfolio, quota-share reinsurance is arranged. The quota agreed for 2011 was as follows: 70 percent (reinsurer): 30 percent (the Company), covering all standard risks. For non-standard risks or risks that exceed the self-retention, the Company enters into facultative reinsurance. Two quota share reinsurance contracts were in effect during 2011 (for the coverage of marketable and non-marketable risks) and two facultative reinsurance contracts for the coverage of marketable risks. Reinsurance for the majority of the Company's insured portfolio has been arranged on a quota-share reinsurance basis (96.4 percent).

**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 2011 and 31 December 2010, 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 2011**

(All amounts are expressed in thousands of kunas)

**37.1 INSURANCE RISK MANAGEMENT (CONTINUED)****Concentration by geographical segment****2011**

<b>Total limit by country</b>	<b>Gross amount, in HRK '000</b>	<b>Share in the total limit, in %</b>	<b>Net of self-retention and reinsurance, expressed in HRK'000</b>	<b>Share in the total limit, in %</b>
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
<b>Total</b>	<b>842,704</b>	<b>100.00</b>	<b>193,293</b>	<b>100.00</b>

**2010**

<b>Total limit by country</b>	<b>Gross amount, in HRK '000</b>	<b>Share in the total limit, in %</b>	<b>Net of self-retention and reinsurance, expressed in HRK'000</b>	<b>Share in the total limit, in %</b>
Italy	131,201	19.53	21,669	14.47
Serbia	94,641	14.09	14,403	9.62
Germany	85,683	12.76	15,819	10.57
Slovenia	62,708	9.34	9,341	6.24
Bosnia and Herzegovina	49,813	7.42	7,082	4.73
Croatia	30,000	4.47	1,200	0.80
Czech Republic	28,646	4.26	5,061	3.38
Belgium	25,985	3.87	5,663	3.78
Hungary	20,564	3.06	3,609	2.41
Austria	19,630	2.92	3,842	2.57
Other countries	122,823	18.28	62,020	41.43
<b>Total</b>	<b>671,694</b>	<b>100.00%</b>	<b>149,708</b>	<b>100.00</b>

### 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 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
<b>Total</b>	<b>926</b>	<b>842,704</b>	<b>100.00</b>

#### Approved limits 31 December 2010

Limit bands, in HRK '000	Number of limits approved	Total, in HRK '000	in % of the total limit
Less than 1,000	604	213,547	31.80
1,000 - 2,000	107	141,013	20.99
2,000 - 3,000	31	75,329	11.21
3,000 - 4,000	6	21,269	3.17
4,000 - 5,000	8	35,227	5.24
5,000 - 6,000	3	17,724	2.64
6,000 - 7,000	1	6,277	0.93
Over 7,000	11	161,308	24.02
<b>Total</b>	<b>771</b>	<b>671,694</b>	<b>100.00%</b>

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

### **37.1 INSURANCE RISK MANAGEMENT (CONTINUED)**

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

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

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

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than reported claims. IBNR provisions are predominantly assessed by the Company's actuaries using statistical techniques such as chain-ladder methods, whereby historical data is extrapolated in order to estimate ultimate claims costs. Where no historical claims data are available at the Company, the calculations were based on the expected loss ratio of 60 percent.

IBNR provisions are initially estimated at a gross level and a separate calculation is performed to estimate the reinsurer's share. Credit insurance provisions are not discounted.

### **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.

In terms of the effect of exchange rate fluctuations on the technical provisions, the Company's largest exposure at 31 December 2011 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 406,853.36 and the reinsurer's share in the technical provisions would be higher by HRK 275,898,75.

The currency analysis of the financial assets and liabilities within the scope of IAS 39 at 31 December 2011 is set out below:

## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 37.2 FOREIGN CURRENCY RISK MANAGEMENT (CONTINUED)

Foreign currency risk  
management

	Company 2011				Group 2011			
	EUR	HRK	Other currencies	Total	EUR	HRK	Other currencies	Total
<b>Assets</b>								
<b>Non-current assets</b>								
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
	<b>1,069</b>	<b>2,686</b>	<b>-</b>	<b>3,755</b>	<b>1,069</b>	<b>728</b>	<b>-</b>	<b>1,797</b>
<b>Current assets</b>								
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
	<b>1,026</b>	<b>34,383</b>	<b>-</b>	<b>35,409</b>	<b>1,910</b>	<b>35,355</b>	<b>-</b>	<b>37,265</b>
<b>Total assets</b>	<b>2,095</b>	<b>37,070</b>	<b>-</b>	<b>39,164</b>	<b>2,979</b>	<b>36,083</b>	<b>-</b>	<b>39,062</b>
<b>Equity and liabilities</b>								
<b>Share capital and reserves</b>								
Share capital	-	37,500	-	37,500	-	37,500	-	37,500
Accumulated losses	-	(679)	-	(679)	-	(730)	-	(730)
Reserves on revaluation of available-for-sale investments	-	(25)	-	(25)	-	(5)	-	(5)
Loss for the period	-	(989)	-	(989)	-	(1,104)	-	(1,104)
<b>Total equity</b>	<b>-</b>	<b>35,807</b>	<b>-</b>	<b>35,807</b>	<b>-</b>	<b>35,661</b>	<b>-</b>	<b>35,661</b>
<b>Technical provisions</b>								
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)
	<b>1,310</b>	<b>223</b>	<b>4</b>	<b>1,537</b>	<b>1,310</b>	<b>223</b>	<b>4</b>	<b>1,537</b>
<b>Current liabilities</b>								
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
	<b>3</b>	<b>1,817</b>	<b>-</b>	<b>1,820</b>	<b>3</b>	<b>1,861</b>	<b>-</b>	<b>1,864</b>
<b>Total equity and liabilities</b>	<b>1,313</b>	<b>37,847</b>	<b>4</b>	<b>39,164</b>	<b>1,313</b>	<b>37,745</b>	<b>4</b>	<b>39,062</b>
<b>Net currency exposure</b>	<b>782</b>	<b>(778)</b>	<b>(4)</b>	<b>-</b>	<b>1,666</b>	<b>(1,662)</b>	<b>(4)</b>	<b>-</b>



## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 37.2 FOREIGN CURRENCY RISK MANAGEMENT (CONTINUED)

Foreign exchange risk  
management

	Company 2010				Group 2010			
	EUR	HRK	Other currencies	Total	EUR	HRK	Other currencies	Total
<b>Assets</b>								
<b>Non-current assets</b>								
Property and equipment	-	64	-	64	-	64	-	64
Intangible assets	-	362	-	362	-	362	-	362
Investments in subsidiaries	-	2,000	-	2,000	-	-	-	-
Held-to-maturity investments	1,055	-	-	1,055	1,055	-	-	1,055
Deferred tax assets	-	169	-	169	-	181	-	181
	<b>1,055</b>	<b>2,595</b>	<b>-</b>	<b>3,650</b>	<b>1,055</b>	<b>607</b>	<b>-</b>	<b>1,662</b>
<b>Current assets</b>								
Available-for-sale investments	-	-	-	-	200	851	-	1,051
Investments at fair value through profit or loss	-	-	-	-	401	100	-	501
Deposits with banks	-	33,539	-	33,539	251	33,639	-	33,890
Receivables from insurance operations	-	630	-	630	-	630	-	630
Other receivables	-	488	-	488	-	485	-	485
Cash and cash equivalents	-	646	-	646	-	717	-	717
	<b>-</b>	<b>35,303</b>	<b>-</b>	<b>35,303</b>	<b>852</b>	<b>36,422</b>	<b>-</b>	<b>37,274</b>
<b>Total assets</b>	<b>1,055</b>	<b>37,898</b>	<b>-</b>	<b>38,953</b>	<b>1,907</b>	<b>37,029</b>	<b>-</b>	<b>38,936</b>
<b>Equity and liabilities</b>								
<b>Share capital and reserves</b>								
Share capital		37,500	-	37,500	-	37,500	-	37,500
Reserves on revaluation of available-for-sale investments	-	-	-	-	-	1	-	1
Retained earnings	-	(679)	-	(679)	-	(730)	-	(730)
	<b>-</b>	<b>36,821</b>	<b>-</b>	<b>36,821</b>	<b>-</b>	<b>36,771</b>	<b>-</b>	<b>36,771</b>
Technical provisions								
Gross technical provisions	1,026	251	2	1,279	1,026	251	2	1,279
Technical provisions, reinsurer's share	(663)	(162)	(1)	(826)	(663)	(162)	(1)	(826)
	<b>363</b>	<b>89</b>	<b>1</b>	<b>453</b>	<b>363</b>	<b>89</b>	<b>1</b>	<b>453</b>
Liabilities from insurance operations	-	970	-	970	-	970	-	970
Other liabilities	-	709	-	709	-	742	-	742
Deferred tax liability	-	-	-	-	-	-	-	-
	<b>-</b>	<b>1,679</b>	<b>-</b>	<b>1,679</b>	<b>-</b>	<b>1,712</b>	<b>-</b>	<b>1,712</b>
<b>Total equity and liabilities</b>	<b>363</b>	<b>38,589</b>	<b>1</b>	<b>38,953</b>	<b>363</b>	<b>38,572</b>	<b>1</b>	<b>38,936</b>
<b>Net currency exposure</b>	<b>692</b>	<b>(691)</b>	<b>(1)</b>		<b>1,544</b>	<b>(1,543)</b>	<b>(1)</b>	

## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 37.2 FOREIGN CURRENCY RISK MANAGEMENT (CONTINUED)

#### Currency analysis of technical provisions

	Gross technical provisions	Technical provisions, reinsurer's share	Allocation coefficient by currency
<b>2011</b>			
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
<b>Total</b>	<b>4,774</b>	<b>3,237</b>	<b>1.0000</b>

	Gross technical provisions	Technical provisions, reinsurer's share	Allocation coefficient by currency
<b>2010</b>			
In HRK	251	162	0.1964
EUR denominated or tied to EUR (currency clause)	1,026	663	0.8023
In CHF	-	-	0.0000
Other currencies	2	1	0.0013
<b>Total</b>	<b>1,279</b>	<b>826</b>	<b>1.0000</b>

### 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 2011.

All the Company's interest-bearing assets at 31 December 2011 were at fixed rates.

Given that the Company's assets are at fixed rates and that no interest-bearing liabilities existed at 31 December 2011, 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 2011 was merely 1.0 and 1.3 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.

## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 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 (81.0 percent and 79.9 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 2011, 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 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	
<b>Assets</b>				
Held-to-maturity investments	1,069	2.7%	1,069	2.7%
Available-for-sale investments	983	2.5%	983	2.5%
Deposits with banks	31,316	79.9%	31,640	81.0%
Receivables from insurance operations	564	1.4%	564	1.4%
Other receivables	1,000	2.6%	1,123	2.9%
<b>Total</b>	<b>34,932</b>	<b>89.1%</b>	<b>35,379</b>	<b>90.5%</b>

## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 37.5 CREDIT RISK (CONTINUED)

#### *Credit risk exposure*

	Company 2010	% of the total assets at the reporting date	Group 2010	% of the total assets at the reporting date
	Total exposure in HRK'000		Total exposure in HRK'000	
<b>Assets</b>				
Held-to-maturity investments	1,055	2.7%	1,055	2.7%
Deposits with banks	33,539	85.6%	33,890	86.7%
Receivables from insurance operations	459	1.2%	459	1.2%
Other receivables	488	1.2%	485	1.2%
<b>Total</b>	<b>35,541</b>	<b>90.7%</b>	<b>35,889</b>	<b>91.8%</b>

#### *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
<b>Assets</b>								
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
<b>Total</b>	<b>34,932</b>	<b>-</b>	<b>-</b>	<b>34,932</b>	<b>35,379</b>	<b>-</b>	<b>-</b>	<b>35,379</b>

### 37.5 CREDIT RISK (CONTINUED)

*Concentration by geographical segment*

	Company 2010				Group 2010			
	Republic of Croatia	EU member states	Other countrie s	Total	Republic of Croatia	EU member states	Other countrie s	Total
<b>Assets</b>								
Held-to-maturity investments	1,055	-	-	1,055	1,055	-	-	1,055
Deposits with banks	33,539	-	-	33,539	33,890	-	-	33,890
Receivables from insurance operations	459	-	-	459	459	-	-	459
Other receivables	488	-	--	488	485	-	-	485
<b>Total</b>	<b>35,541</b>	<b>-</b>	<b>-</b>	<b>35,541</b>	<b>35,889</b>	<b>-</b>	<b>-</b>	<b>35,889</b>

### 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 2011

(All amounts are expressed in thousands of kunas)

### 37.6 LIQUIDITY RISK (CONTINUED)

Maturities of assets and liabilities (the Company)

						2011
	Up to 1 month	1-3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
<b>Assets</b>						
<b>Non-current assets</b>						
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
<b>Current assets</b>						
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
<b>Total assets</b>	<b>2,290</b>	<b>877</b>	<b>32,242</b>	<b>1,069</b>	<b>2,686</b>	<b>39,164</b>
<b>Equity and liabilities</b>						
Share capital	-	-	-	-	37,500	37,500
Retained earnings	-	-	-	-	(679)	(679)
Revaluation reserve on available-for-sale investments	-	-	-	-	(25)	(25)
Loss for the year	-	-	-	-	(989)	(989)
	-	-	-	-	35,807	35,807
<b>Technical provisions</b>						
Gross technical provisions	-	-	3,526	1,248	-	4,774
Technical provisions, reinsurer's share	-	-	(2,391)	(846)	-	(3,237)
	-	-	1,135	402	-	1,537
<b>Current liabilities</b>						
Liabilities from insurance operations	-	1,349	-	-	-	1,349
Other liabilities	218	118	135	-	-	471
Deferred tax liability	-	-	-	-	-	-
	218	1,467	135	-	-	1,820
<b>Total equity and liabilities</b>	<b>218</b>	<b>1,467</b>	<b>1,270</b>	<b>402</b>	<b>35,807</b>	<b>39,164</b>
<b>Net maturity position</b>	2,072	(590)	30,972	(667)	(32,131)	-
<b>Cumulative net position</b>	2,072	1,482	32,454	32,131	-	-

## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 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	<b>2011</b> Total
<b>Assets</b>						
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
				<b>1,069</b>	<b>728</b>	<b>1,797</b>
<b>Current assets</b>						
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
Other receivables	174	23	926	-	-	1,123
Cash and cash equivalents	504	-	-	-	-	504
	<b>3,822</b>	<b>877</b>	<b>32,566</b>	<b>-</b>	<b>-</b>	<b>37,265</b>
<b>Total assets</b>	<b>3,822</b>	<b>877</b>	<b>32,566</b>	<b>1,069</b>	<b>728</b>	<b>39,062</b>
<b>Equity and liabilities</b>						
<b>Share capital and reserves</b>						
Share capital	-	-	-	-	37,500	37,500
Retained earnings	-	-	-	-	(730)	(730)
Reserves on revaluation of available-for-sale investments	-	-	-	-	(5)	(5)
Loss for the year	-	-	-	-	(1,104)	(1,104)
	-	-	-	-	<b>35,661</b>	<b>35,661</b>
<b>Technical provisions</b>	-	-	-	-	-	-
Gross technical provisions	-	-	3,526	1,248	-	4,774
Technical provisions, reinsurer's share	-	-	(2,391)	(846)	-	(3,237)
	-	-	<b>1,135</b>	<b>402</b>	<b>-</b>	<b>1,537</b>
<b>Current liabilities</b>						
Liabilities from insurance operations	-	1,349	-	-	-	1,349
Other liabilities	254	118	138	-	-	510
Deferred tax liability	-	-	-	-	5	5
	<b>254</b>	<b>1,467</b>	<b>138</b>	<b>-</b>	<b>5</b>	<b>1,864</b>
<b>Total equity and liabilities</b>	<b>254</b>	<b>1,467</b>	<b>1,273</b>	<b>402</b>	<b>35,666</b>	<b>39,062</b>
<b>Net maturity position</b>	3,568	(590)	31,293	667	(34,938)	-
<b>Cumulative net position</b>	3,568	2,978	34,271	34,938	-	-

**Notes to the financial statements for the year 2011**

(All amounts are expressed in thousands of kunas)

**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	<b>2010</b> Total
<b>Assets</b>						
<b>Non-current assets</b>						
Property and equipment	-	-	-	-	64	64
Intangible assets	-	-	-	-	362	362
Investments in subsidiaries	-	-	-	-	2,000	2,000
Held-to-maturity investments	-	-	-	-	1,055	1,055
Deferred tax assets	-	-	-	169	-	169
	-	-	-	<b>169</b>	<b>3,481</b>	<b>3,650</b>
<b>Current assets</b>						
Available-for-sale investments						
Investments at fair value through profit or loss	-	-	-	-	-	-
Deposits with banks			33,539			33,539
Receivables from insurance operations	459	171	-	-	-	630
Other receivables	85	22	381	-	-	488
Cash and cash equivalents	646	-	-	-	-	646
	<b>1,190</b>	<b>193</b>	<b>33,920</b>	-	-	<b>35,303</b>
<b>Total assets</b>	<b>1,190</b>	<b>193</b>	<b>33,920</b>	<b>169</b>	<b>3,481</b>	<b>38,953</b>
<b>Equity and liabilities</b>						
Share capital	-	-	-	-	37,500	<b>37,500</b>
Reserves on revaluation of available-for-sale investments	-	-	-	-	-	-
Retained earnings	-	-	-	-	(679)	(679)
	-	-	-	-	<b>36,821</b>	<b>36,821</b>
<b>Technical provisions</b>						
Gross technical provisions	-	-	945	334	-	<b>1,279</b>
Technical provisions, reinsurer's share	-	-	(610)	(216)	-	(826)
	-	-	<b>335</b>	<b>118</b>	-	<b>453</b>
<b>Current liabilities</b>						
Liabilities from insurance operations	-	970	-	-	-	<b>970</b>
Other liabilities	405	56	248	-	-	<b>709</b>
Deferred tax liability	-	-	-	-	-	-
	<b>405</b>	<b>1,026</b>	<b>248</b>	-	-	<b>1,679</b>
<b>Total equity and liabilities</b>	<b>405</b>	<b>1,026</b>	<b>583</b>	<b>118</b>	<b>36,821</b>	<b>38,953</b>
<b>Net maturity position</b>	785	(833)	33,337	51	(33,340)	-
<b>Cumulative net position</b>	785	(48)	33,289	33,340	-	-



## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 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	<b>2010</b> Total
<b>Assets</b>						
<b>Non-current assets</b>						
Property and equipment	-	-	-	-	64	64
Intangible assets	-	-	-	-	362	362
Investments in subsidiaries	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	1,055	1,055
Deferred tax assets	-	-	-	181	-	181
	-	-	-	<b>181</b>	<b>1,481</b>	<b>1,662</b>
<b>Current assets</b>						
Available-for-sale investments	1,051	-	-	-	-	1,051
Investments at fair value through profit or loss	501	-	-	-	-	501
Deposits with banks	-	-	33,890	-	-	33,890
Receivables from insurance operations	459	171	-	-	-	630
Deferred acquisition costs	-	-	-	-	-	-
Other receivables	82	22	381	-	-	485
Cash and cash equivalents	717	-	-	-	-	717
	<b>2,810</b>	<b>193</b>	<b>34,271</b>	-	-	<b>37,274</b>
<b>Total assets</b>	<b>2,810</b>	<b>193</b>	<b>34,271</b>	<b>181</b>	<b>1,481</b>	<b>38,936</b>
<b>Equity and liabilities</b>						
<b>Share capital and reserves</b>						
Share capital	-	-	-	-	37,500	37,500
Reserves on revaluation of available-for-sale investments	-	-	-	-	1	1
Retained earnings	-	-	-	-	(730)	(730)
	-	-	-	-	<b>36,771</b>	<b>36,771</b>
<b>Technical provisions</b>						
Gross technical provisions	-	-	945	334	-	1,279
Technical provisions, reinsurer's share	-	-	(610)	(216)	-	(826)
	-	-	<b>335</b>	<b>118</b>	-	<b>453</b>
<b>Current liabilities</b>						
Liabilities from insurance operations	-	970	-	-	-	970
Other liabilities	436	56	250	-	-	742
Deferred tax liability	-	-	-	-	-	-
	<b>436</b>	<b>1,026</b>	<b>250</b>	-	-	<b>1,712</b>
<b>Total equity and liabilities</b>	<b>436</b>	<b>1,026</b>	<b>585</b>	<b>118</b>	<b>36,771</b>	<b>38,936</b>
<b>Net maturity position</b>	2,374	(833)	33,686	63	(35,290)	-
<b>Cumulative net position</b>	2,374	1,541	35,227	35,290	-	-

### **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 2011, 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 13,075 thousand and the required solvency margin by HRK 34,969 thousand.

### **37.9 FINANCIAL INSTRUMENTS**

Fair values of listed securities are determined on the basis of quoted prices (Note 19) or, where no relevant and reliable market price is available, using benchmark-based valuation methods (Note 20). 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 2011**

(All amounts are expressed in thousands of kunas)

**37.9 FINANCIAL INSTRUMENTS (CONTINUED)****Financial instruments**

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

**Financial instruments**

	Company 2010			Group 2010		
<b>Fair value of financial assets</b>						
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Available-for-sale investments</b>						
Investment fund units	-	-	-	1,051	-	-
<b>Investments at fair value through profit or loss</b>						
Investment fund units	-	-	-	501	-	-

## Notes to the financial statements for the year 2011

(All amounts are expressed in thousands of kunas)

### 38. RELATED-PARTY TRANSACTIONS

	2011			
Salary and benefit costs				
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
	2010			
Salary and benefit costs				
Key management personnel	438			
Name of the entity/person	Income	Expenses	Exposure	Liabilities
Hrvatska banka za obnovu i razvitak	-	3	1	24
Poslovni info servis d.o.o.	4	-	4	-
OeKB Sudosteupropa holding Ges.m.b.H.	-	38	-	2
Prisma Kreditversicherungs - AG	124	899	106	706
Total	128	940	111	732

### 39. CONTINGENT LIABILITIES

At 31 December 2011 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 2011.

## Notes to the financial statements for the year 2011

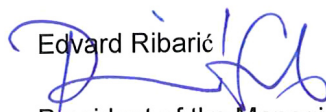

(All amounts are expressed in thousands of kunas)

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### 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were signed and authorised for issue on 26 April 2012.

These financial statements were authorised for issue by the Managing Board on 24 April 2012.

 Edvard Ribarić President of the Managing Board	 Anton Steffko Member of the Managing Board
<b>Hrvatsko kreditno osiguranje d.d.</b> Z a g r e b	

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

**For the year ended 31 December 2011**

(All amounts are expressed in thousands of kunas)

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Set out below are the statutory financial statements of Hrvatsko kreditno osiguranje d.d. and the notes thereto for the year 2011, 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) for the period 01/01/2011-31/12/2011
  - 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.

For the year ended 31 December 2011

(All amounts are expressed in thousands of kunas)

**1. Statement of Comprehensive Income (Income Statement) for the period 01/01/2011-31/12/2011**

Item #	Item description	Company 2010	Company 2011
<b>I</b>	<b>Earned premium</b>	<b>69</b>	<b>1,248</b>
1	Gross premium written	1,551	6,687
2	Impairment allowance and recovered impairment allowance on insurance/reinsurance premiums	-	(499)
3	Outward reinsurance premiums (-)	(1,173)	(4,874)
4	Change in the gross unearned premium reserve (+/-)	(820)	(147)
5	Change in the gross unearned premium reserve, reinsurers' share, (+/-)	511	81
<b>II</b>	<b>Investment income</b>	<b>594</b>	<b>1,629</b>
1	Interest income	575	1,538
2	Unrealised gains on FVTPL investments	-	5
3	Gains from sale of financial investments	-	12
3.1	<i>Investments at fair value through profit or loss</i>	-	12
4	Net foreign exchange gains	19	74
<b>III</b>	<b>Fee and commission income</b>	<b>192</b>	<b>858</b>
<b>IV</b>	<b>Other income</b>	<b>368</b>	<b>181</b>
<b>V</b>	<b>Claims incurred, net</b>	<b>(126)</b>	<b>(1,043)</b>
1	Liquidated claims	-	(230)
1.1	<i>Gross amount (-)</i>	-	(766)
1.2	<i>Reinsurers' share (+)</i>	-	536
2	Change in the claims provision (+/-)	(126)	(813)
2.1	<i>Gross amount (-)</i>	(440)	(2,883)
2.2	<i>Reinsurers' share (+)</i>	314	2,070
<b>VI</b>	<b>Change in mathematical reserves and in other technical provisions, net of reinsurers' share (+/-)</b>	<b>(18)</b>	<b>(205)</b>
1	Change in other technical provisions, net of reinsurers' share (+/-)	(18)	(205)
1.1	<i>Gross amount (-)</i>	(18)	(465)
1.2	<i>Reinsurers' share (+)</i>	-	260
<b>VII</b>	<b>Expenses on return of premiums, net of reinsurers' share</b>	<b>-</b>	<b>(35)</b>
1	Result-dependent (bonuses)	-	(35)
<b>VIII</b>	<b>Operating expenses, net</b>	<b>(1,800)</b>	<b>(3,660)</b>
1	Acquisition costs	(66)	(30)
1.1	<i>Other acquisition costs</i>	(66)	(30)
2	Administrative expenses	(1,734)	(3,630)
2.1	<i>Depreciation</i>	(49)	(154)
2.2	<i>Payroll taxes and contributions</i>	(979)	(2,137)
2.3	<i>Other administrative expenses</i>	(706)	(1,339)
<b>IX</b>	<b>Investment expenses</b>	<b>(5)</b>	<b>(33)</b>
1	Net foreign exchange losses	(5)	(33)
<b>X</b>	<b>Other technical expenses, net of reinsurers' share</b>	<b>(122)</b>	<b>(4)</b>
1	Other technical expenses	(122)	(4)
<b>XI</b>	<b>Other expenses, including impairment allowance</b>	<b>-</b>	<b>(143)</b>
<b>XII</b>	<b>Profit or loss for the period before tax (+/-)</b>	<b>(848)</b>	<b>(1,207)</b>
<b>XIII</b>	<b>Income tax or tax loss</b>	<b>169</b>	<b>218</b>
1	Deferred tax expense / (income)	169	218
<b>XIV</b>	<b>Profit or loss for the period before tax (+/-)</b>	<b>(679)</b>	<b>(989)</b>
<b>XV</b>	<b>TOTAL INCOME</b>	<b>1,392</b>	<b>4,134</b>
<b>XVI</b>	<b>TOTAL EXPENSES</b>	<b>(2,071)</b>	<b>(5,123)</b>
<b>XVII</b>	<b>Other comprehensive income</b>	<b>-</b>	<b>(25)</b>
1	Gains/losses on revaluation of financial assets available for sale	-	(31)
2	Income tax on other comprehensive income	-	6
<b>XVIII</b>	<b>Total comprehensive income</b>	<b>(679)</b>	<b>(1,014)</b>

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

**For the year ended 31 December 2011**

(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

<b>Format defined by the Croatian Financial Services Supervisory Agency</b>		1	2	3	4	5	6	7	8		<b>Format from the audited financial statements</b>
Earned premium	1,248	-	-	-	-	-	-	-	-	1,248	Net premium earned
Investment income	1,629	(33)	-	-	-	-	-	-	-	1,596	Net investment income
Fee and commission income	858	-	-	-	-	-	-	-	-	858	Fee and commission income
Other income	181	-	-	-	(105)	-	-	-	-	76	Other operating income
Claims incurred, net	(1,043)	-	(125)	-	-	-	-	-	-	(1,168)	Net claims incurred
Change in mathematical reserves and in other technical provisions, net of reinsurers' share	(205)	-	125	(35)	-	-	-	-	-	(115)	Net expense and reserve for returned premiums
Expenses on return of premiums, net of reinsurers' share	(35)	-	-	35	-	-	-	-	-	-	
Acquisition costs	(30)	-	-	-	-	-	-	-	-	(30)	Marketing expenses
Administrative expenses	(3,630)	-	-	-	-	154	6	(1)	-	(3,471)	Administrative expenses
Investment expenses	(33)	33	-	-	-	-	-	-	-	-	
Other technical expenses, net of reinsurers' share	(4)	-	-	-	-	-	-	1	3	-	
Other expenses, including impairment allowance	(143)	-	-	-	105	(154)	(6)	-	(3)	(201)	Other operating expenses and net exchange differences other than those on financial instruments
Profit or loss for the period before tax (+/-)	(1,207)	-	-	-	-	-	-	-	-	(1,207)	Loss before taxation
Income tax or tax loss	218	-	-	-	-	-	-	-	-	218	Tax income
Profit or loss for the period before tax (+/-)	(989)	-	-	-	-	-	-	-	-	(989)	Loss for the period
Other comprehensive income	(25)	-	-	-	-	-	-	-	-	(25)	Other comprehensive income
<b>Total comprehensive income</b>	<b>(1,014)</b>	-	-	-	-	-	-	-	-	<b>(1,014)</b>	<b>Total comprehensive loss after tax</b>

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 operating income to other operating expenses
- 5) - 8) Reclassification of administrative expenses and other technical expenses to "Other operating expenses".



For the year ended 31 December 2011

(All amounts are expressed in thousands of kunas)

2. Statement of Financial Position (Balance Sheet), at 31 Dec 2011

Item description		Company 2010	Company 2011
Item #	ASSETS		
<b>A</b>	<b>Intangible assets</b>	<b>362</b>	<b>240</b>
1	Other intangible assets	362	240
<b>B</b>	<b>Tangible assets</b>	<b>64</b>	<b>53</b>
1	Equipment	64	53
<b>C</b>	<b>Investments</b>	<b>36,594</b>	<b>35,760</b>
<b>I</b>	<b>Investments in subsidiaries, associates and joint ventures</b>	<b>2,000</b>	<b>2,000</b>
1	Shares in subsidiaries	2,000	2,000
<b>II</b>	<b>Other financial investments</b>	<b>34,594</b>	<b>33,760</b>
<b>1</b>	<b>Held-to-maturity investments</b>	<b>1,055</b>	<b>1,069</b>
1.1	Debt securities and other fixed-income securities	1,055	1,069
<b>2</b>	<b>Available-for-sale investments</b>	<b>-</b>	<b>983</b>
2.1	Debt securities and other fixed-income securities	-	983
<b>3</b>	<b>Investments at fair value through profit or loss</b>	<b>-</b>	<b>392</b>
3.1	Units and shares in investment funds	-	392
<b>4</b>	<b>Deposits, loans and receivables</b>	<b>33,539</b>	<b>31,316</b>
4.1	Deposits with credit institutions (banks)	33,539	31,316
<b>D</b>	<b>Technical provisions, reinsurers' share</b>	<b>826</b>	<b>3,237</b>
1	Unearned premium, reinsurers' share	512	593
2	Claims provision, reinsurers' share	314	2,384
3	Provision for returned premium and independent of the result (bonuses and discounts), reinsurer's share	-	260
<b>E.</b>	<b>Deferred and current tax assets</b>	<b>169</b>	<b>393</b>
1	Deferred tax assets	169	393
<b>F</b>	<b>Receivables</b>	<b>706</b>	<b>1,442</b>
<b>1</b>	<b>Receivables from direct insurance operations</b>	<b>459</b>	<b>564</b>
1.1	From insured persons	459	564
<b>2</b>	<b>Receivables from co-insurance and reinsurance operations</b>	<b>171</b>	<b>853</b>
<b>3</b>	<b>Other receivables</b>	<b>76</b>	<b>25</b>
3.1	Other receivables	76	25
<b>G.</b>	<b>Other assets</b>	<b>647</b>	<b>300</b>
<b>1</b>	<b>Cash with banks and in hand</b>	<b>646</b>	<b>300</b>
1.1	Balances on the business account	646	300
<b>2</b>	<b>Other</b>	<b>1</b>	<b>-</b>
<b>H</b>	<b>Prepaid expenses and accrued income</b>	<b>411</b>	<b>976</b>
1	Accrued interest and prepaid rentals	409	970
2	Other prepaid expenses and accrued income	2	6
<b>I</b>	<b>TOTAL ASSETS</b>	<b>39,779</b>	<b>42,401</b>

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

**For the year ended 31 December 2011**

(All amounts are expressed in thousands of kunas)

<b>EQUITY AND LIABILITIES</b>		Company <b>2010</b>	Company <b>2011</b>
<b>Item #</b>	<b>Item description</b>		
<b>A</b>	<b>Equity</b>	<b>36,821</b>	<b>35,807</b>
<b>1</b>	<b>Subscribed capital</b>	<b>37,500</b>	<b>37,500</b>
1.1	<i>Paid-in capital - ordinary shares</i>	37,500	37,500
<b>2</b>	<b>Revaluation reserve</b>	-	<b>(25)</b>
2.1	<i>Financial investments</i>	-	(25)
<b>3</b>	<b>Retained earnings / Accumulated losses</b>	-	<b>(679)</b>
3.1	<i>Accumulated losses (-)</i>	-	(679)
<b>4</b>	<b>Profit or loss for the period</b>	<b>(679)</b>	<b>(989)</b>
4.1	<i>Loss for the period (-)</i>	(679)	(989)
<b>B</b>	<b>Technical provisions</b>	<b>1,279</b>	<b>4,774</b>
1	Unearned premium, gross	820	968
2	Claims provision, gross	441	3,324
3	Provision for returned premium and independent of the result (bonuses and discounts), gross	-	340
4	Equalisation reserve, gross	18	142
<b>C</b>	<b>Other liabilities</b>	<b>1,364</b>	<b>1,567</b>
1	Receivables from co-insurance and reinsurance operations	970	1,349
2	Other liabilities	394	218
<b>D</b>	<b>Accrued expenses and deferred income</b>	<b>315</b>	<b>253</b>
1	Other accrued expenses and deferred income	315	253
<b>E.</b>	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>39,779</b>	<b>42,401</b>

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

**For the year ended 31 December 2011**

(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

<b>Format defined by the Croatian Financial Services Supervisory Agency</b>		<b>1</b>	<b>2</b>	<b>3</b>		<b>Format from the audited financial statements</b>
Intangible assets	240	-	-	-	240	Intangible assets
Tangible assets	53	-	-	-	53	Property and equipment
Investments in subsidiaries, associates and joint ventures	2,000	-	-	-	2,000	Investments in subsidiaries
Held-to-maturity investments	1,069	-	-	-	1,069	Held-to-maturity investments
Available-for-sale investments	983	-	-	-	983	Available-for-sale investments
Investments at fair value through profit or loss	392	-	-	-	392	Investments at fair value through profit or loss
Deposits, loans and receivables	31,316	-	-	-	31,316	Deposits with banks
Technical provisions, reinsurers' share	3,237	(3,237)	-	-		
Deferred and current tax assets	393	-	-	-	393	Deferred tax assets
Receivables from direct insurance operations	564	-	-	854	1,418	Receivables from insurance operations
Receivables from co-insurance and reinsurance operations	853	-	-	(853)	-	
Other receivables	25	-	975	-	1,000	Other receivables
Cash with banks and in hand	300	-	-	-	300	Cash and cash equivalents
Prepaid expenses and accrued income	976	-	(976)	-	-	
<b>Total assets</b>	<b>42,401</b>	<b>(3,237)</b>	<b>-</b>	<b>-</b>	<b>39,164</b>	<b>Total assets</b>

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 2011**

(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)

<b>Format defined by the Croatian Financial Services Supervisory Agency</b>		<b>1</b>	<b>2</b>		<b>Format from the audited financial statements</b>
Subscribed capital	37,500	-	-	37,500	Share capital
Revaluation reserve	(25)	-	-	(25)	Reserves on revaluation of available-for-sale investments
Retained earnings / Accumulated losses	(679)	-	-	(679)	Accumulated losses
Profit or loss for the period	(989)	-	-	(989)	Loss for the period
Technical provisions	4,774	(3,237)	-	1,537	Technical provisions
Receivables from co-insurance and reinsurance operations	1,349	-	-	1,349	Liabilities from insurance operations
Other liabilities	218	-	253	471	Other liabilities
Accrued expenses and deferred income	253	-	(253)	-	
<b>Total equity and liabilities</b>	<b>42,401</b>	<b>(3,237)</b>	<b>-</b>	<b>39,164</b>	<b>Total equity and liabilities</b>

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 2011

(All amounts are expressed in thousands of kunas)

### 3. Statement of Changes in Equity For the period 01/01/2011-31/12/2011

#	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				
<b>I</b>	<b>At 1 January of the prior year</b>	-	-	-	-	-	-	-	-	-
<b>II</b>	<b>Comprehensive income or loss for the prior year</b>	-	-	-	-	(679)	(679)	(679)	-	(679)
1	Profit or loss for the period	-	-	-	-	(679)	(679)	(679)	-	(679)
<b>III</b>	<b>Transactions with owners (prior period)</b>	37,500	-	-	-	-	37,500	37,500	-	37,500
1	Increase/Decrease in subscribed capital	37,500	-	-	-	-	37,500	37,500	-	37,500
<b>IV</b>	<b>Closing balance for the prior year</b>	37,500	-	-	-	(679)	36,821	36,821	-	36,821
<b>V</b>	<b>At 1 January of the current year</b>	37,500	-	-	-	(679)	36,821	36,821	-	36,821
<b>VI</b>	<b>At 1 January of the current year (restated)</b>	37,500	-	-	-	(679)	36,821	36,821	-	36,821
<b>VII</b>	<b>Comprehensive income or loss for the year</b>	-	(25)	-	-	(989)	(1,014)	(1,014)	-	(1,014)
1	Profit or loss for the period	-	-	-	-	(989)	(989)	(989)	-	(989)
2	<b>Other comprehensive income or loss for the current year</b>	-	(25)	-	-	-	(25)	(25)	-	(25)
2.1	Unrealised gains or losses on financial assets available for sale	-	(25)	-	-	-	(25)	(25)	-	(25)
<b>VIII</b>	<b>Transactions with owners (current period)</b>	-	-	-	(679)	679	-	-	-	-
3	Other transactions with the owners	-	-	-	(679)	679	-	-	-	-
<b>IX</b>	<b>Closing balance for the current year</b>	37,500	(25)	-	(679)	(989)	35,807	35,807	-	35,807

For the year ended 31 December 2011

(All amounts are expressed in thousands of kunas)

#### 4. Statement of cash flows - indirect method

Item #	Item description	Company 2010	Company 2011
<b>I</b>	<b>Cash flows from operating activities</b>	<b>(33,324)</b>	<b>(287)</b>
<b>1</b>	<b>Cash flows before working capital changes</b>	<b>(1,374)</b>	<b>(2,110)</b>
1.1	Profit / Loss before tax	(848)	(1,207)
1.2	Adjusted by:	(526)	(902)
1.2.1	<i>Depreciation of property and equipment</i>	2	17
1.2.2	<i>Amortisation</i>	47	137
1.2.3	<i>Impairment losses and gains/losses on remeasurement at fair value</i>	-	(481)
1.2.4	<i>Interest income</i>	(575)	(1,538)
1.2.5	<i>Other adjustments</i>	-	-
<b>2</b>	<b>Increase/decrease in operating assets and liabilities</b>	<b>(31,950)</b>	<b>1,799</b>
2.1	Increase/decrease in available-for-sale investments	-	(1,007)
2.2	Increase/decrease of investments at fair value through profit or loss	-	(375)
2.3	Increase/decrease in given deposits, loans and receivables	(33,539)	2,223
2.4	Increase/decrease of reinsurer's share in technical provisions	(826)	(2,412)
2.5	(Increase)/decrease in tax assets	-	-
2.6	Increase/decrease in receivables	(706)	(736)
2.7	Increase/decrease in other assets	(1)	(5)
2.8	Increase/decrease in prepaid expenses and accrued income	164	973
2.9	Increase/decrease in technical provisions	1,279	3,496
2.10	Increase/decrease in other liabilities	1,364	202
2.11	Increase/decrease in accrued expenses and deferred income	315	(62)
<b>II</b>	<b>Cash flows from investing activities</b>	<b>(3,530)</b>	<b>(35)</b>
1	Payments for purchases of tangible assets	(66)	(6)
2	Payments for purchases of intangible assets	(409)	(15)
3	Increase/decrease of investments in subsidiaries, associates and joint ventures	(2,000)	-
4	Payments made for held-to-maturity investments	(1,055)	(14)
<b>III</b>	<b>Cash flows from financing activities</b>	<b>37,500</b>	<b>-</b>
1	Additional share capital contributed in cash	37,500	-
	<b>NET CASH</b>	<b>646</b>	<b>(346)</b>
<b>IV</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>646</b>	<b>(346)</b>
1	Cash and cash equivalents at beginning of period	-	646
<b>2</b>	<b>Cash and cash equivalents at end of period</b>	<b>646</b>	<b>300</b>

**For the year ended 31 December 2011**

(All amounts are expressed in thousands of kunas)

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**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**

	#	2010	2011
Claims incurred, gross	1	441	3,649
Gross premium written	2	1,551	6,687
Changes in the gross unearned premium reserve	3	820	147
Administrative expenses	4	1,734	3,631
Acquisition costs	5	66	30
<b>Claims ratio</b>	1 (2-3)	<b>60.3%</b>	<b>55.8%</b>
<b>Expense ratio</b>	(4+5)/(2-3)	<b>246.3%</b>	<b>56.0%</b>
<b>Combined ratio</b>	1/(2-3)+(4+5)/(2-3)	<b>306.6%</b>	<b>111.8%</b>

**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.

**For the year ended 31 December 2011**

(All amounts are expressed in thousands of kunas)

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

	<b>2010</b>	<b>2011</b>
<i>Net income from investments in assets backing technical provisions</i>		
Financial income		
Interest income on debt securities	13	89
Net gains on financial assets at fair value through profit or loss	-	17
Foreign exchange gains on financial instruments	19	74
	<b>32</b>	<b>180</b>
Financial expenses		
Foreign exchange losses on financial instruments	(5)	(33)
	<b>(5)</b>	<b>(33)</b>

**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 2011.

**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>	<b>2010</b>	<b>2011</b>
Audit of the annual financial statements	(63)	(74)
Cost of other assurance services	-	-
Tax advisory costs	-	-
Other expenses (seminars and similar)	(1)	-
	<b>(64)</b>	<b>(74)</b>