# CONSOLIDATED AND UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2010

HRVATSKO KREDITNO OSIGURANJE D.D.

# I. INTRODUCTION

Hrvatsko kreditno osiguranje d.d. (“Company”) started to operate in 2010 and its non-life business includes credit insurance as a specific insurance product intended for a specific insurance market niche - insurance of current receivables from the sale of goods and services from commercial and political risks. It is the first insurance company specialised for the insurance of this type of receivables in Croatia.

The Company started to operate in a very demanding economic environment, where, globally, credit insurance faces many new challenges, limited options on private insurance market, increasingly demanding customers and progressively risky markets. Being a small insurance firm, it has recognised the new circumstances as an opportunity for developing its long-term business, which, on the one hand, is based on the support and experience of the Company's owners and, on the other hand, its young and established staff, drawing its advantage from a comprehensive offer, flexibility to meet customer requirements, close contacts with policyholders, market knowledge and, first of all, its willingness to acquire new knowledge in line with the growing risk requirements in the globalised world.

Risks are our daily work and challenge. Managing the collectability risk, providing quality support to policyholders in managing their receivables requires from us multidisciplinary knowledge and skills. For this reason, Hrvatsko kreditno osiguranje established in October 2010 a separate entity, Poslovni info servis d.o.o., with a primary task to provide creditworthiness analysis of corporate entities. Thus, Hrvatsko kreditno osiguranje established its operations as a group already in the first year of its existence. The Managing Board and staff of the Company are confident that the quality of the service will reflect itself positively through improving payment behaviour, as well as liquidity and understanding of this relatively scarcely represented type of insurance in the Republic of Croatia, in addition to meeting the shareholders' expectations through successful performance over a long term.

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 2010, 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.

The Company's principal activities include insurance of short-term foreign and domestic trade receivables of business entities for goods delivered and services rendered as part of credit insurance business. The insurance covers commercial and political risks with maturities of up to 180 days, and exceptionally up to one year.

The Company started to enter into foreign trade accounts receivable insurance contracts on 1 July 2010, following the conclusion of a contract on reinsurance of risks underwritten by the Company.

In July 2010, the Company adopted a decision on establishing Poslovni info servis d.o.o., a limited liability company, (hereinafter: "PIS") for credit risk assessment and providing credit reports, in accordance with a prior consent of the Supervisory Board. 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. PIS will start to operate in 2011.

By establishing PIS, the Company has started to operate as a group and prepare its consolidated financial information (hereinafter: "the Group" or "the consolidated accounts").

At 31 December 2010, the Group has a total of 9 employees, of which 7 were employed by the Company and 2 by PIS.

## GOVERNANCE

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

The bodies in charge of the Company governance and management comprise the following:

the Managing Board
the Supervisory Board
the General Assembly

**The Managing Board of Hrvatsko kreditno osiguranje d.d.**

Edvard Ribarić

Anton Ludwig Steffko

**The Managing Director of Poslovni info servis d.o.o**.

Ivana Paić- Mikulek

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

During 2010, the members of the Company's Supervisory Board were as follows:

Anton Kovačev, President (until 31 March 2010)

Branimir Berković, President (since 31 March 2010)

Helmut Hans Altenburger, Deputy President

Ružica Adamović, Member (until 29 October 2010)

Ante Artuković, Member (since 2 11 2010)

The Managing Board monitors regularly the operations of its subsidiary Poslovni info servis d.o.o. to ensure that it operates in accordance with the business goals of the Group.

## 2010 Performance Results

Hrvatsko kreditno osiguranje d.d. started to operate i.e. enter into its first insurance agreements in the second half of 2010, more precisely, on 1 July 2010. At the end 2010, insurance contracts were concluded with 26 policyholders, covering trade receivable risk involving customers from 42 foreign countries. The structure of credit insurance exposure by country reflects predominantly the structure of Croatian exports. Thus, the countries accounting for major shares within the total limit approved were as follows: Italy (19.53%), Serbia (14.09%), Germany (12.76%), Slovenia (9.34%) and Bosnia and Herzegovina (7.42%). The five countries represented a total of 63.14 percent of the total exposure of HRK 671,693.5 thousand at 31 December 2010. In 2010, 775 credit limits were approved in total, 4 limits were excluded. Thus, the number of insured credit limits at 31 December 2010 was 771.

The total premium written of the Company during 2010 amounts to HRK 1,551 thousand, of which HRK 1,173 thousand represent outward reinsurance premium. Gross unreserved premium reserve amounted to HRK 820 thousand, and the net premiums earned to HRK 69 thousand. No claims were paid during 2010 under insured deals.

Considering the start-up of operations in the second half of 2010, the Company incurred minimum after-tax losses of HRK 679 thousand, whereas the after-tax loss at the Group level amounted to HRK 730 thousand, as expected and planned by the Company.

**Business goals and plans for the future**

The 2011 business objectives of the Company are linked primarily with strengthening the Company's presence on the market, positioning on the Croatian market as an insurer specialised in insurance of short-term receivables from political and commercial risks, presenting the role of account receivable insurance to businessmen, attracting new insurance customers and starting the operations of providing credit reports through Poslovni Info Servis, as well as further improvement of services in line with the market requirements and development.

In providing the insurance services, the Company pays special attention to professional standards and expertise as well as to direct customer access to, and availability and promptness of the service.

**Activities in the area of research and development**

The Company had not activities in the area of research and development during the year 2010.

**Information on purchase of own shares**

From establishing until the end of 2010 the Company did not purchase its own shares.

**Information on subsidiaries**

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 local branches.

**Risk management**

The report on risk management is presented within the Notes to the financial statements, item 36, pages 36-48.

**Statement of compliance with the Code of Corporate Governance**

The operations of Hrvatsko kreditno osiguranje d.d. are managed by two members of the Managing Board, who make their decisions in accordance with the Rules of Procedure of the Managing Board, generally in regular Managing Board meetings. Decisions are usually made using the four-eye principle, supported by an appropriate authorisation system.

The Company has not adopted the Code of Corporate Governance in its operations.

Edvard Ribarić
President of the Managing Board

Anton Steffko
Member of the Managing Board

Hrvatsko kreditno
osiguranje d.d.
Zagreb

## 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 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 Management Board:

| | |
|---|---|
| Edvard Ribarić | Anton Steffko |
| President of the Managing Board | Member of the Managing Board |

Hrvatsko kreditno
osiguranje d.d.
Zagreb

Hrvatsko kreditno osiguranje d.d.

Bednjanska 14
10000 Zagreb
Republic of Croatia

Date

28 April 2011

Deloitte.

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10 000 Zagreb
Croatia
TAX ID: 11686457780

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

**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 50, which comprise the statement of financial position as of 31 December 2010, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period 18 January to 31 December 2010, 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.

*Opinion*

In our opinion, the financial statements, presented on pages 9 to 50, give a true and fair view of the financial position of the Company as of 31 December 2010, and of its financial performance and its cash flows for the period 18 January 2010 to 31 December 2010, 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 51 to 56, and comprise the statement of financial position at 31 December 2010 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 50, prepared in accordance with International Financial Reporting Standards.

Branislav Vrtačnik, Certified Auditor and Member of the Board

Deloitte d.o.o.

Zagreb, Croatia

28 April 2011

**Statement of Comprehensive Income**
**For the period 18 January to 31 December 2010**
(All amounts are expressed in thousands of kunas)

| | Notes | The Company **Period 18.1-31.12.2010** | The Group **Period 18.1-31.12.2010** |
|---|---|---|---|
| **Premiums earned** | | | |
| Gross premium written | 5 | 1,551 | 1,551 |
| Gross outward reinsurance premium | 5 | (1,173) | (1,173) |
| **Net premium written** | | **378** | **378** |
| Changes in the gross unearned premium reserve | 5 | (820) | (820) |
| Changes in the gross unearned premium reserve, reinsurer's share | 5 | 511 | 511 |
| **Net premium earned** | | **69** | **69** |
| Fee and commission income | 6 | 549 | 549 |
| Net investment income | 7 | 589 | 590 |
| Other operating income | 8 | 11 | 7 |
| **Net income** | | **1,218** | **1,215** |
| Claims incurred | 9 | - | - |
| Claims incurred, reinsurer's share | 9 | - | - |
| Change in the claims provision | 9 | (458) | (458) |
| Change in the claims provision, reinsurer's share | 9 | 314 | 314 |
| **Net claims incurred** | 9 | ***(144)*** | ***(144)*** |
| Marketing costs | 10 | (66) | (66) |
| Administrative expenses | 11 | (1,527) | (1,566) |
| Other operating expenses | 12 | (327) | (348) |
| Net exchange differences other than those on financial instruments | 13 | (2) | (2) |
| **Profit/(loss) before taxation** | | **(848)** | **(911)** |
| Tax income | 14 | 169 | 181 |
| **Loss for the current period** | | **(679)** | **(730)** |
| ***Other comprehensive income*** | | | |
| Gains on revaluation of financial assets available for sale | | - | 1 |
| **Total comprehensive loss after tax** | | **(679)** | **(729)** |
| **Loss attributable to:** | | | |
| **Equity holders of the Company** | | (679) | (730) |
| **Non-controlling interests** | | - | - |
| **Earnings per share** | | | |
| From continuing operations: | | | |
| Earnings per share (in HRK ) | 38 | (18.89) | (20.31) |

**Statement of Financial Position**
**At 31 December 2010**
(All amounts are expressed in thousands of kunas)

| | Notes | The Company 2010 | The Group 2010 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property and equipment | 15 | 64 | 64 |
| Intangible assets | 16 | 362 | 362 |
| Investments in subsidiaries | 17 | 2,000 | - |
| Investments held to maturity | 18 | 1,055 | 1,055 |
| Deferred tax assets | 14 | 169 | 181 |
| | | **3,650** | **1,662** |
| **Current assets** | | | |
| Available-for-sale investments | 19 | - | 1,051 |
| Investments at fair value through profit or loss | 20 | - | 501 |
| Deposits with banks | 21 | 33,539 | 33,890 |
| Receivables from insurance operations | 22 | 630 | 630 |
| Other receivables | 23 | 481 | 482 |
| Deferred income | 24 | 7 | 3 |
| Cash and cash equivalents | 25 | 646 | 717 |
| | | **35,303** | **37,274** |
| **Total assets** | | **38,953** | **38,936** |
| | | | |
| **Equity and liabilities** | | | |
| Equity | | | |
| Share capital | 26 | 37,500 | 37,500 |
| Reserves on revaluation of available-for-sale investments | 27 | - | 1 |
| Retained earnings | | (679) | (730) |
| | | **36,821** | **36,771** |
| **Technical reserves** | | | |
| Gross technical reserves | 28 | 1,279 | 1,279 |
| Technical reserves, reinsurer's share | 28 | (826) | (826) |
| | | **453** | **453** |
| **Current liabilities** | | | |
| Liabilities from insurance operations | 29 | 970 | 970 |
| Other liabilities | 30 | 555 | 588 |
| Deferred tax liabilities | 14 | - | - |
| Accrued expenses | 31 | 154 | 154 |
| | | **1,679** | **1,712** |
| **Total equity and liabilities** | | **38,953** | **38,936** |

**Statement of Changes in Shareholders' Equity**
**For the period 18 January to 31 December 2010**
(All amounts are expressed in thousands of kunas)

**The Company**

| | Share capital | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|
| Share capital paid in | 37,500 | - | - | (679) |
| Loss for the current period | - | - | (679) | 0 |
| **Balance at 31 December 2010** | **37,500** | **-** | **(679)** | **36,821** |

**The Group**

| | Share capital | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|
| Share capital paid in | 37,500 | - | - | 37,500 |
| Change in fair value of financial assets | - | 1 | - | 1 |
| Loss for the current period | - | - | (730) | (730) |
| **Balance at 31 December 2010** | **37,500** | **1** | **(730)** | **36,771** |

**Statement of Cash Flows**
**For the period 18 January to 31 December 2010**
(All amounts are expressed in thousands of kunas)

| | The Company **Period 18.1-31.12.2010** | The Group **Period 18.1-31.12.2010** |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Cash flows before working capital changes** | | |
| Profit before tax | **(848)** | **(911)** |
| *Adjusted by:* | | |
| Depreciation | 2 | 2 |
| Amortisation | 47 | 47 |
| Interest income | (575) | (575) |
| | *(1,374)* | *(1,437)* |
| Increase in available-for-sale investments | - | (1,051) |
| Increase of investments at fair value through profit or loss | - | (501) |
| Increase in given deposits, loans and receivables | (33,539) | (33,890) |
| Increase in technical provisions | 453 | 453 |
| Increase in premiums receivable | (630) | (630) |
| Increase in other receivables | 94 | 94 |
| Increase in prepaid expenses and accrued income | (7) | (3) |
| Increase in other liabilities | 1,525 | 1,558 |
| Increase in accrued expenses and deferred income | 154 | 154 |
| **Increase in working capital** | **(31,950)** | **(33,816)** |
| Income taxes paid | - | - |
| **CASH OUTFLOWS FROM OPERATING ACTIVITIES** | **(33,324)** | **(35,253)** |
| Prepayments for purchases of tangible assets | (66) | (66) |
| Prepayments for purchases of intangible assets | (409) | (409) |
| Payments made for held-to-maturity investments | (1,055) | (1,055) |
| Payments made for equity investments | (2,000) | - |
| **CASH OUTFLOWS FROM INVESTING ACTIVITIES** | **(3,530)** | **(1,530)** |
| Share capital contributed in cash | 37,500 | 37,500 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | **37,500** | **37,500** |
| **Net increase in cash and cash equivalents** | **646** | **717** |
| **Cash and cash equivalents at beginning of period** | **-** | **-** |
| **Cash and cash equivalents at end of period** | **646** | **717** |

## 1. KEY DATA ABOUT THE COMPANY AND THE GROUP

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 2010, 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.

The Company's principal activities include insurance of short-term foreign and domestic trade receivables of business entities for goods delivered and services rendered as part of credit insurance business. The insurance covers commercial and political risks with maturities of up to 180 days, and exceptionally up to one year.

The Company started to enter into foreign trade accounts receivable insurance contracts on 1 July 2010, following the conclusion of a contract on reinsurance of risks underwritten by the Company.

In July 2010, the Company adopted a decision on establishing Poslovni info servis, a limited liability company, (hereinafter: "PIS") for credit risk assessment and providing credit reports, in accordance with a prior consent of the Supervisory Board. 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. PIS will start to operate in 2011.

By establishing PIS, the Company has started to operate as a group and prepare its consolidated financial information (hereinafter: "the Group" or "the consolidated accounts").

At 31 December 2010, the Group has a total of 9 employees, of which 7 were employed by the Company and 2 by PIS.

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 local branches.

## 2. STATEMENT OF COMPLIANCE

The financial statements are prepared in accordance with the International Financial Reporting Standards (″IFRS″) and their Interpretations.

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

The consolidated financial statements at 31 December 2010 comprise the Company and its subsidiary Poslovni info servis d.o.o.

Subsidiary undertakings are entities controlled by the Company. Control is achieved where the Company has the power to govern, directly or indirectly, the financial and operating policies of the investee to achieve benefits from its activities. 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.

### 2.1. Standards adopted during 2010

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:

- IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009),
- IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 1 "First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IFRS 2 "Share-based Payment" - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 18 "Transfers of Assets from Customers" (effective for transfer of assets from customers received on or after 1 July 2009)

The Management Board has assessed the impact of these standards and has concluded that these changes do not have impact on the Group's financial statements.

### 2.2. Standards and interpretations in issue not yet adopted

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013),
- 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 IFRS 7 “Financial Instruments: Disclosures”- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- 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: Presentation” – 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 (most amendments are to be applied for annual periods beginning on or after 1 January 2011),
- 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 Group has elected not to adopt the above stated standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of standards 7 and 9 will have significant impact on financial statements mostly in respect of financial instruments classification, while acceptation of other standards, revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

## 2.3 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 Group 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 premium is calculated using two methods, depending on the type of the insurance contract concerned. The policy records based on the contracts signed with policyholders underlying the unearned premium reserve include data about the premium calculation method based.

### Claims

No claims have been recorded as of the date of calculation. As a result, the claims provision amounts to nil. Once a claim is reported, the Company will determine the claims provision as the sum of all provisions for each reported claim. The provision for claims incurred but not reported (IBNR) has been determined using the expected loss ratio. The expected loss ratio is determined on a gross basis, excluding reinsurer's shares. As the price list applied by the Company includes an overhead charge of 40% of the gross insurance premium, the expected loss ratio has been determined to be 60 %, As no historical data are available, the 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.

## 2.4. Basis of presentation

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

Financial statements for the period ended 31 December 2010 have been prepared on the historical cost basis with the exception of financial assets and liabilities which have been prepared under fair value in accordance with IAS 39 "Financial instruments: Recognition and Measurement".

The accounting policies are applied consistently from period to period, unless stated otherwise. The principal accounting policies are set out below.

## 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 balance sheet 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.

All receivables past due beyond 180 days are subject to a review, based on experience and a review of each account receivable, to determine whether they are likely to be collected within the following 180 days, and a list of receivables to be impaired against the statement of comprehensive income for the period is prepared.

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 during the year 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. Monetary 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 used for the retranslation of the items at 31 December 2010 was the middle exchange rate of the Croatian National Bank for 1 euro (EUR), 1 US dollar (USD) and 1 Swiss franc (CHF) were HRK 7.385173, HRK 5.568252 and HRK 5.929961, respectively.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4. Intangible assets

Intangible assets are carried at cost. 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 depreciation rate in % |
|---|---|---|
| Application software | 3 | 33.3 |

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.

### 3.4. Tangible assets - Property, plant and equipment

Tangible assets - property, plant and equipment - are carried at cost. Depreciation of tangible assets in 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.

Depreciation rates have been determined based on the estimated useful life of the assets, 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 and furniture | 8 | 12.5 |
| Vehicles | 3 | 33.3 |
| IT equipment | 3 | 33.3 |
| Other investments not specified above | 5 | 20 |

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 to the statement of comprehensive income for the period.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4. Financial assets

Financial assets are classified into four main categories as follows:

- Financial asset at fair value through profit or loss, which are held for trading
- Loans and receivables originated by the Group
- Held-to-maturity financial assets
- Financial assets available for sale

Financial assets are measured initially at cost, which includes transaction costs. Cost represents the fair value of the consideration given for a financial asset or received for a financial liability.

The fair value of financial assets is based on most recent prices obtained directly from a regulated capital market. The fair value of financial assets with no active market and whose market prices are not available is estimated using the discounted cash-flow method.

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 they are permanently impaired. A financial asset is derecognised when the Company 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 statement of comprehensive income as realised gains/losses, along with the corresponding receivables.

Treasury bills are classified as held-to-maturity financial instruments and are carried at amortised cost.

On acquisition, debt securities may be classified into either held to maturity or available for sale category, depending on the terms specific to the debt security. Debt securities may be classified as loans and receivables originated by the Company if they have been acquired on the issue directly from the issuer.

Held-to-maturity debt securities are carried at amortised cost less impairment losses. Amortised cost is calculated using the effective interest method.

Equity securities are classified as either trading financial assets, financial assets not actively traded or available-for-sale financial assets.

For equity securities quoted in an active market, fair value is determined on the basis of the closing price.

Equities not quoted in an active market are measured using the equity method by discounting future cash flows or at cost less impairment losses.

Investments in subsidiaries are measured at fair value of assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange, increased by costs directly attributable to the acquisition.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the date of statement of financial position. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4. Financial assets (continued)

Trade receivables, loans, and other receivables that have 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 when the recognition of interest would be immaterial.

### 3.5. 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 180 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.

### 3.6. Revenue

Revenue is recognised in the statement of comprehensive income in the period in which it is realised.

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.

Premium earned includes gross premium written, less outward reinsurance premium and changes in the unearned premium reserve. Outward reinsurance premium under credit insurance business is accounted for in the same accounting period as the premium arising from direct insurance operations.

Unearned premium reserve is established for those insurance contracts that provide insurance coverage beyond the end of an accounting period, since the insurance year does not correspond with the accounting year. Unearned premium reserve contains a portion of gross premium written expected to be earned in subsequent accounting periods and is determined using the 365-day method (*pro rata temporis*).

Premium written, net of reinsurer's share, is the gross premium written, less the agreed reinsurer's share, determined in accordance with the underlying reinsurance contracts.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.7. 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, net of reinsurer's share, plus and/or less changes in the claims provision (net of reinsurer's share) compared to the prior period.

Provisions for outstanding claims are based on an assessment of a reported claim using statistical methods and are determined for all estimated settlement costs of all claims outstanding as of the reporting date, reported or not, together with the corresponding claim settlement costs. They are presented net of reasonably estimated refunds under recourse if applicable.

*Other expenses*

Other expenses include acquisition costs and administrative expenses. Acquisition costs comprise all costs directly incurred in concluding an insurance contract, such as agent costs, commissions and marketing expenses. Commission expense is recognised in the period in which it is incurred. Administrative expenses comprise staff costs, depreciation and amortisation, as well as other administrative expenses in connection with the processing and issue of insurance policies. Acquisition costs represent expenses for the period and are not deferred.

(All amounts are expressed in thousands of kunas)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.8. Taxation

Income tax expense comprises current and deferred taxes.

*Current tax liability*

The current tax liability is based on taxable profit for the period. The Group's current tax liability is calculated using tax rates that are in force.

*Deferred tax*

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are determined 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 rates (and tax laws) that have been enacted or substantively enacted by the reporting 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. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to 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 2010 the Company was underwriting only the credit/accounts receivable insurance risks. Therefore, no data about operating segments are disclosed.

## 5. NET PREMIUM WRITTEN

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

| | Gross premium written | Gross outward reinsurance premium | Changes in the gross unearned premium reserve | Changes in the gross unearned premium reserve, reinsurer's share | Premium impairment allowance originated and reversed | Net premium earned |
|---|---|---|---|---|---|---|
| Credit insurance | 1,551 | (1,173) | (820) | 511 | - | 69 |
| | **1,551** | **(1,173)** | **(820)** | **511** | **-** | **69** |

(All amounts are expressed in thousands of kunas)

## 6. FEE AND COMMISSION INCOME

| | The Company 2010 | The Group 2010 |
|---|---|---|
| Reinsurance commission income | 192 | 192 |
| Risk underwriting fee income | 357 | 357 |
| | **549** | **549** |

## 7. NET INVESTMENT INCOME

| | The Company 2010 | The Group 2010 |
|---|---|---|
| *Financial income* | | |
| Interest income | 575 | 575 |
| Foreign exchange gains on financial instruments | 19 | 20 |
| | **594** | **594** |
| *Financial expenses* | | |
| Foreign exchange losses on financial instruments | (5) | (5) |
| | **(5)** | **(5)** |
| **Net investment income** | **589** | **590** |

| | 2010 | 2010 |
|---|---|---|
| *Interest income* | | |
| Interest income on debt securities | 13 | 13 |
| Interest income on deposits with banks | 559 | 559 |
| Other (balances on accounts, penalties) | 3 | 3 |
| | **575** | **575** |

## 8. OTHER OPERATING INCOME

| | The Company 2010 | The Group 2010 |
|---|---|---|
| Sublease income | 4 | - |
| Other operating income | 7 | 7 |
| | **11** | **7** |

## 9. NET CLAIMS INCURRED

| | Gross liquidated claims | Reinsurer's share | Change in the gross claims provision | Change in the gross claims provision, reinsurer's share | Claims incurred, net of reinsurer's share |
|---|---|---|---|---|---|
| Credit insurance | - | - | (458) | 314 | (144) |
| | **-** | **-** | **(458)** | **314** | **(144)** |

(All amounts are expressed in thousands of kunas)

## 10. MARKETING COSTS

| | The Company **2010** | The Group **2010** |
|---|---|---|
| Marketing costs | (66) | (66) |
| | **(66)** | **(66)** |

## 11. ADMINISTRATIVE EXPENSES

| | The Company **2010** | The Group **2010** |
|---|---|---|
| Payroll taxes and contributions | (856) | (881) |
| Other administrative expenses | (671) | (685) |
| | **(1,527)** | **(1,566)** |

*Salaries, payroll taxes and contributions*

| | **2010** | **2010** |
|---|---|---|
| Net salaries | (415) | (430) |
| Taxes and contributions out of salaries | (315) | (322) |
| Contributions on salaries | (126) | (129) |
| | **(856)** | **(881)** |

*Other administrative expenses*

| | **2010** | **2010** |
|---|---|---|
| Material costs | (13) | (13) |
| Energy | (14) | (14) |
| Other staff-related costs (exclusive of gross and net salary costs) | (36) | (41) |
| Entertainment | (2) | (2) |
| Bank and payment operation charges | (5) | (5) |
| Rental costs | (53) | (53) |
| Lease payments for vehicles | (50) | (50) |
| Non-material costs | (9) | (9) |
| Postage | (1) | (1) |
| Telecommunications | (2) | (2) |
| Advisory and consultancy costs | (78) | (78) |
| Audit costs | (89) | (89) |
| Other (service) costs | (319) | (328) |
| | **(671)** | **(685)** |

(All amounts are expressed in thousands of kunas)

## 12. OTHER OPERATING EXPENSES

| | The Company **2010** | The Group **2010** |
|---|---|---|
| Vacation and bonus accruals | (99) | (100) |
| Depreciation and amortisation | (49) | (49) |
| Credit report costs | (122) | (122) |
| Other - start-up costs | (57) | (77) |
| | **(327)** | **(348)** |

## 13. NET EXCHANGE DIFFERENCES WHICH DO NOT ARISE FROM FINANCIAL INSTRUMENTS

| | The Company **2010** | The Group **2010** |
|---|---|---|
| Exchange differences on foreign-currency denominated liabilities | (2) | (2) |
| | **(2)** | **(2)** |

## 14. 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:

| | The Company **2010** | The Group **2010** |
|---|---|---|
| **Income tax expense recognised in the income statement** | | |
| *Current tax* | | |
| **Profit before tax** | (848) | (911) |
| Income tax at the rate of 20% | (170) | (182) |
| Tax non-deductible expenses at the rate of 20% | 1 | 1 |
| **Income tax expense recognised in the income statement** | **169** | **181** |
| | | |
| **Income tax recognised in comprehensive income** | | |
| Income tax expense | - | - |
| *Deferred tax* | | |
| Revaluation of financial assets available for sale (at 20%) | - | - |
| | **-** | **-** |

Deferred tax assets in the amount of 169 thousand kuna and 181 thousand kuna at 31 December 2010 in unconsolidated and consolidated financial statements refer, in the complete amount, to tax losses which can be utilized in the period of five years since the year in which the loss was realized. The Management estimates that they will utilize tax losses realized in 2010 for decrease of tax liability in the next five years.

(All amounts are expressed in thousands of kunas)

## 15. PROPERTY AND EQUIPMENT

| The Company | Computers and other telecom equipment | Furniture and equipment | Total |
|---|---|---|---|
| Cost | | | |
| **Balance at 01 January 2010** | - | - | - |
| Additions | 5 | 61 | 66 |
| **Balance at 31 December 2010** | **5** | **61** | **66** |
| Accumulated depreciation | | | |
| **Balance at 01 January 2010** | - | - | - |
| Charge for the year | (1) | (1) | (2) |
| **Balance at 31 December 2010** | **(1)** | **(1)** | **(2)** |
| **Balance at 31 December 2010** | **4** | **60** | **64** |
| **Balance at 31 December 2009** | **-** | **-** | **-** |

| The Group | Computers and other telecom equipment | Furniture and equipment | Total |
|---|---|---|---|
| Cost | | | |
| **Balance at 01 January 2010** | - | - | - |
| Additions | 5 | 61 | 66 |
| **Balance at 31 December 2010** | **5** | **61** | **66** |
| Accumulated amortisation | | | |
| **Balance at 01 January 2010** | - | - | - |
| Charge for the year | (1) | (1) | (2) |
| **Balance at 31 December 2010** | **(1)** | **(1)** | **(2)** |
| **Balance at 31 December 2010** | **4** | **60** | **64** |
| **Balance at 31 December 2009** | **-** | **-** | **-** |

In 2010, the Group had neither investment properties nor any freehold land and buildings.

(All amounts are expressed in thousands of kunas)

## 16. INTANGIBLE ASSETS

| | The Company | The Group |
|---|---|---|
| Cost | | |
| **Balance at 1 January 2010** | - | - |
| Additions | 409 | 409 |
| **Balance at 31 December 2010** | **409** | **409** |
| Accumulated amortisation | | |
| **Balance at 1 January 2010** | - | - |
| Charge for the year | (47) | (47) |
| **Balance at 31 December 2010** | **(47)** | **(47)** |
| **Balance at 31 December 2010** | **362** | **362** |
| **Balance at 31 December 2009** | **-** | **-** |

Intangible assets fully refer to application software which is used for accounting operations and underwriting operations.

## 17. INVESTMENTS IN SUBSIDIARIES

| | The Company **2010** |
|---|---|
| Investment in Poslovni info servis d.o.o. | 2,000 |
| | **2,000** |

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

## 18. INVESTMENTS HELD TO MATURITY

| | The Company **2010** | The Group **2010** |
|---|---|---|
| *Debt securities:* | | |
| Listed debt securities: | | |
| Bonds of the Croatian Ministry of Finance | 1,055 | 1,055 |
| | **1,055** | **1,055** |

Held-to-maturity investments are measured at amortised cost using the effective interest method.

| **Bond ticker** | **Maturity** | **Coupon rate** | **Nominal amount** | **Carrying amount** | **Accrued interest not yet due** |
|---|---|---|---|---|---|
| | | % | EUR 000 | HRK 000 | HRK 000 |
| HRRHMFO142A8 | 10/02/2014 | 5.5 | 140 | 1,055 | 22 |

(All amounts are expressed in thousands of kunas)

## 19. AVAILABLE-FOR-SALE INVESTMENTS

| | The Company **2010** | The Group **2010** |
|---|---|---|
| Investment funds | **-** | **1,051** |
| **TOTAL** | **-** | **1,051** |

## 20. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | The Company **2010** | The Group **2010** |
|---|---|---|
| Investment funds | **-** | **501** |
| **TOTAL** | **-** | **501** |

## 21. DEPOSITS WITH BANKS

| | The Company **2010** | The Group **2010** |
|---|---|---|
| HRK deposits with banks | 33,539 | 33,639 |
| Foreign-currency deposits with banks | - | 251 |
| | **33,539** | **33,890** |

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 | - |
| | | | | **351** | **-** |

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 |
| | | | | **33,539** | **381** |

(All amounts are expressed in thousands of kunas)

## 22. RECEIVABLES FROM INSURANCE OPERATIONS

| | The Company **2010** |
|---|---|
| ***Premiums receivable*** | |
| *Gross amount* | |
| Premiums receivable | 459 |
| Premiums receivable | **459** |

During 2010, Hrvatsko kreditno osiguranje d.d. established no impairment allowance on its premiums receivable.

| | |
|---|---|
| ***Other amounts due from insurance operations*** | |
| Reinsurer's commission receivable | 171 |
| Other amounts due from insurance operations | **171** |
| **Total receivables from insurance operations** | **630** |

Set out below is a maturity analysis of premiums receivable by maturity groupings at 31 December 2010:

| | **Up to 30 days** | **31-60 days** | **61-90 days** | **91-180 days** | **181-365 days** | **Over 365 days** | **TOTAL** |
|---|---|---|---|---|---|---|---|
| Premiums receivable | 298 | 123 | 38 | - | - | - | 459 |

## 23. OTHER RECEIVABLES

| | The Company **2010** | The Group **2010** |
|---|---|---|
| Other receivables: | | |
| Accrued interest on deposits | 381 | 381 |
| Accrued interest on held-to-maturity investments | 22 | 22 |
| Fees receivable for credit risk assessments | 76 | 76 |
| Accrued interest on sight deposits on current accounts | 1 | 2 |
| Receivables from related company | 1 | 1 |
| | **481** | **482** |

## 24. DEFERRED INCOME

| | The Company **2010** | The Group **2010** |
|---|---|---|
| Deferred rental income | 5 | - |
| Other prepaid expenses | 2 | 3 |
| | **7** | **3** |

(All amounts are expressed in thousands of kunas)

## 25. CASH WITH BANKS AND IN HAND

| | The Company **2010** | The Group **2010** |
|---|---|---|
| Balances with banks | 646 | 717 |
| | **646** | **717** |

## 26. SHARE CAPITAL

At 31 December 2010, 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 2010 by the number of shares and their equity shares is as follows:

*Hrvatsko kreditno osiguranje d.d.and the Group*

| | | | **2010** |
|---|---|---|---|
| **Ownership structure:** | **Number of shares** | **Equity share %** | **Amount paid in** |
| Hrvatska banka za obnovu i razvitak | 19,125 | 51 | 19,125 |
| OeKB Südosteuropa Holding Ges.m.b.H. | 18,375 | 49 | 18,375 |
| **Total** | **37,500** | **100** | **37,500** |

Pursuant to the Decision of 31 March 2010, adopted in the General Meeting of Shareholders, the share capital was increased by an additional cash contribution of HRK 7,500,000.00 from HRK 30,000,000.00 to HRK 37,500,000.00.

(All amounts are expressed in thousands of kunas)

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

| | The Company **2010** | The Group **2010** |
|---|---|---|
| **Opening balance** | **-** | **-** |
| Increase in the fair value | - | 1 |
| Decrease in the fair value | - | - |
| Deferred tax liability arising from increase in the fair value | - | - |
| **Closing balance** | **-** | **1** |

## 28. TECHNICAL RESERVES

| | The Company/ The Group **2010** |
|---|---|
| *Premium reserves* | 309 |
| Gross unearned premium | 820 |
| Reinsurer's share | (511) |
| *Claims reserves* | 126 |
| Gross claims reserves | 441 |
| Reinsurer's share | (315) |
| *Equalisation reserves* | 18 |
| *Other reserves* | - |
| **Total technical reserves, net of reinsurer's share** | 453 |
| **Total technical reserves, gross** | 1,279 |
| *Technical reserves, reinsurer's share* | (826) |
| Investments backing technical reserves | 1,055 |

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

## 29. LIABILITIES FROM INSURANCE OPERATIONS

| | The Company/ The Group **2010** |
|---|---|
| Liabilities to a foreign reinsuer | 644 |
| Liabilities to a domestic reinsurer | 326 |
| | **970** |

(All amounts are expressed in thousands of kunas)

## 30. OTHER LIABILITIES

| | The Company 2010 | The Group 2010 |
|---|---|---|
| Trade accounts payable | 168 | 173 |
| Provisions for obligations | 63 | 63 |
| Vacation and bonus accruals | 99 | 100 |
| Net salaries and benefits payable | 85 | 101 |
| Payroll taxes and contributions | 88 | 99 |
| Other | 52 | 52 |
| | **555** | **588** |

## 31. ACCRUED EXPENSES AND DEFERRED INCOME

| | The Company 2010 | The Group 2010 |
|---|---|---|
| Accrued expenses | 154 | 154 |
| | **154** | **154** |

## 32. OPERATING LEASES

| The Company as lessee | The Company 2010 | The Group 2010 |
|---|---|---|
| Minimum lease payments under operating leases recognised in the income statement for the year | 50 | 50 |
| Rentals paid for business premises charged to the income statement for the year | 53 | 53 |

At the reporting 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.

(All amounts are expressed in thousands of kunas)

## 33. CAPITAL ADEQUACY

Pursuant to the Insurance Act, The capital adequacy ratio at 31 December 2010 under Articles 98 and 99 of the Insurance Act was determined as follows:

| | **2010** |
|---|---|
| Solvency margin (Art. 99 of the Act) | 140 |
| **Solvency margin (Art. 98 and 99 of the Act)** | **140** |
| | |
| Minimum share capital (Art. 19 of the Act) | 22,500 |
| 1/3 of the solvency limit (Art. 98 and 99 of the Act) | 47 |
| **Regulatory capital (RC)** | **36,458** |
| **Equity** | **34,458** |

The capital adequacy requirement has been met.

RC >= 1/3 of the solvency margin
RC >= min SC
Capital >= solvency margin

## 34. 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) | 36,458 |
| Technical provisions (Note 29) | 453 |

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

| | |
|---|---|
| Share capital of the Company (Note 26) | 37,500 |
| | |
| Losses brought forward and loss for the year | (679) |
| Intangible assets | (363) |
| **Tier I capital** | **36,458** |
| **Tier II capital** | **-** |
| **Regulatory capital** | **36,458** |

(All amounts are expressed in thousands of kunas)

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

| | Investment limit - technical provisions, in % | Amount | Actual in - % |
|---|---|---|---|
| | | 2010 | - |
| | | | - |
| Bonds and other debt securities | 100.00% | 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 | - | - | - |
| **Investments under Article 115.1 of the Act** | **100.00%** | **1,055** | **100%** |
| **Investments under Article 115.2 of the Act** | **15.00%** | **-** | **-** |
| **Investments backing technical provisions** | **-** | **1,055** | **-** |

## 36. 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.

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, 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.

Most significant risks that the Company manages are detailed below.

### 36.1 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 government bonds. As regards deposits, the Company applies stringent credit-rating criteria to credit institutions with which it intends to make deposits. At 31 December 2010, the Company invested a part of its assets into securities of the Republic of Croatia, and the major part of its assets (87 percent at the Group level) were held in short-term deposits with credit institutions in the Republic of Croatia.

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 2010, the Company concluded reinsurance contracts with two reinsurers, comprising quota-share reinsurance contracts and a facultative reinsurance contract.

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

(All amounts are expressed in thousands of kunas)

### 36.1 CREDIT RISK (CONTINUED)

*Credit risk exposure*

| | The Company 2010 | | The Group 2010 | |
|---|---|---|---|---|
| **Assets** | *Total exposure in HRK'000* | *% of the total assets at the reporting date* | *Total exposure in HRK'000* | *% of the total assets at the reporting date* |
| Investments in subsidiaries | 2,000 | 5.1% | - | - |
| Investments held to maturity | 1,055 | 2.7% | 1,055 | 2.7% |
| Available-for-sale investments | - | - | 1,051 | 2.7% |
| Investments at fair value through profit or loss | - | - | 501 | 1.3% |
| Deposits with banks | 33,539 | 86.1% | 33,890 | 87.0% |
| Receivables from insurance operations | 459 | 1.2% | 459 | 1.2% |
| Other receivables | 481 | 1.2% | 482 | 1.2% |
| Deferred income | 7 | - | 3 | - |
| Deferred tax assets | 169 | 0.4% | 181 | 0.5% |
| Cash and cash equivalents | 646 | 1.7% | 717 | 1.8% |
| **Total** | **38,356** | **98.5%** | **38,338** | **98.5%** |

*Concentration by geographical segment*

| | The Company 2010 | | | | The Group 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| **Assets** | Republic of Croatia | EU member states | Other countries | Total | Republic of Croatia | EU member states | Other countries | Total |
| Investments in subsidiaries | 2,000 | - | - | 2,000 | - | - | - | - |
| Investments held to maturity | 1,055 | - | - | 1,055 | 1,055 | - | - | 1,055 |
| Available-for-sale investments | - | - | - | - | 1,051 | - | - | 1,051 |
| Investments at fair value through profit or loss | - | - | - | - | 501 | - | - | 501 |
| Loans and receivables | - | - | - | - | - | - | - | - |
| Deposits with banks | 33,539 | - | - | 33,539 | 33,890 | - | - | 33,890 |
| Receivables from insurance operations | 459 | - | - | 459 | 459 | - | - | 459 |
| Other receivables | 481 | - | - | 481 | 482 | - | - | 482 |
| Deferred income | 7 | - | - | 7 | 3 | - | - | 3 |
| Deferred tax assets | 169 | - | - | 169 | 181 | - | - | 181 |
| Cash and cash equivalents | 646 | - | - | 646 | 717 | - | - | 717 |
| **Total** | **38,356** | - | - | **38,356** | **38,338** | - | - | **38,338** |

## 36.2 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. In addition, the Company has to secure sufficient funding for investments in assets backing its provisions, in accordance with the Insurance Act.

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.

(All amounts are expressed in thousands of kunas)

### 36.2 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 | 3 to 5 years | Over 5 years | Undefined | 2010 Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| **Non-current assets** | | | | | | | | |
| Property and equipment | - | - | - | - | 64 | - | - | 64 |
| Intangible assets | - | - | - | - | 362 | - | - | 362 |
| Investments in subsidiaries | - | - | - | - | - | - | 2,000 | 2,000 |
| Investments held to maturity | - | - | - | - | 1,055 | - | - | 1,055 |
| Deferred tax assets | - | - | - | 169 | | - | - | 169 |
| | **-** | - | - | **169** | **1,481** | - | **2,000** | **3,650** |
| **Current assets** | | | | | | | | |
| 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 |
| Deferred acquisition costs | - | - | - | - | - | - | - | - |
| Other receivables | 78 | 22 | 381 | | | | | 481 |
| Prepaid expenses | - | - | - | - | - | - | - | - |
| Deferred income | 7 | - | - | - | - | - | - | 7 |
| Cash and cash equivalents | 646 | - | - | - | - | - | - | 646 |
| | **1,190** | **193** | **33,920** | - | - | - | - | **35,303** |
| **Total assets** | **1,190** | **193** | **33,920** | **169** | **1,481** | - | **2,000** | **38,953** |
| **Equity and liabilities** | | | | | | | | |
| **Share capital and reserves** | | | | | | | | |
| Share capital | - | - | - | - | - | - | 37,500 | 37,500 |
| Reserves on revaluation of available-for-sale investments | - | - | - | - | - | - | - | - |
| Retained earnings | - | - | - | - | - | - | (679) | (679) |
| | - | - | - | - | - | - | **36,821** | **36,821** |
| **Technical provisions** | | | | | | | | |
| Gross technical provisions | - | - | 945 | 334 | - | - | - | 1,279 |
| Technical provisions, reinsurer's share | | | (610) | (216) | - | - | - | (826) |
| | | | **335** | **118** | - | - | - | **453** |
| **Current liabilities** | | | | | | | | |
| Liabilities from insurance operations | - | 970 | - | - | - | - | - | 970 |
| Other liabilities | 382 | 12 | 161 | - | - | - | - | 555 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - |
| Accrued expenses | 23 | 44 | 87 | - | - | - | - | 154 |
| Deferred income | - | - | - | - | - | - | - | - |
| | **405** | **1,026** | **248** | - | - | - | - | **1,679** |
| **Total equity and liabilities** | **405** | **1,026** | **583** | **118** | - | - | **36,821** | **38,953** |
| **Net maturity position** | 785 | (833) | 33,337 | 51 | 1,481 | - | (34,821) | - |
| **Cumulative net position** | 785 | (48) | 33,289 | 33,340 | 34,821 | 34,821 | - | - |

(All amounts are expressed in thousands of kunas)

## 36.2 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 | 3 to 5 years | Over 5 years | Undefined | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | **2010** |
| **Assets** | | | | | | | | |
| **Non-current assets** | | | | | | | | |
| Property and equipment | - | - | - | - | 64 | - | - | 64 |
| Intangible assets | - | - | - | - | 362 | - | - | 362 |
| Investments in subsidiaries | - | - | - | - | - | - | - | - |
| Investments held to maturity | - | - | - | - | 1,055 | - | - | 1,055 |
| Deferred tax assets | - | - | - | 181 | - | - | - | 181 |
| | - | - | - | **181** | **1,481** | - | - | **1,662** |
| **Current assets** | | | | | | | | |
| Available-for-sale investments | 1,051 | - | - | - | - | - | - | 1,051 |
| Investments at fair value through profit or loss | 501 | - | - | - | - | - | - | 501 |
| Loans and receivables | | | | | | | | |
| Deposits with banks | - | - | 33,890 | - | - | - | - | 33,890 |
| Receivables from insurance operations | 459 | 171 | - | - | - | - | - | 630 |
| Accrued acquisition costs | - | - | - | - | - | - | - | - |
| Other receivables | 79 | 22 | 381 | - | - | - | - | 482 |
| Prepaid expenses | | | | - | - | - | - | - |
| Deferred income | 3 | - | - | - | - | - | - | 3 |
| Cash and cash equivalents | 717 | - | - | - | - | - | - | 717 |
| | **2,810** | **193** | **34,271** | - | - | - | - | **37,274** |
| **Total assets** | **2,810** | **193** | **34,271** | **181** | **1,481** | - | - | **38,936** |
| **Equity and liabilities** | | | | | | | | |
| **Share capital and reserves** | | | | | | | | |
| Share capital | - | - | - | - | - | - | 37,500 | 37,500 |
| Reserves on revaluation of available-for-sale investments | - | - | - | - | - | - | 1 | 1 |
| Other reserves | - | - | - | - | - | - | - | - |
| Retained earnings | - | - | - | - | - | - | (730) | (730) |
| | - | - | - | - | - | - | **36,771** | **36,771** |
| **Technical provisions** | | | | | | | | |
| Gross technical provisions | - | - | 945 | 334 | - | - | - | 1,279 |
| Technical provisions, reinsurer's share | - | - | (610) | (216) | - | - | - | (826) |
| | - | - | **335** | **118** | - | - | - | **453** |
| **Current liabilities** | | | | | | | | |
| Liabilities from insurance operations | - | 970 | - | - | - | - | - | 970 |
| Other liabilities | 413 | 12 | 163 | - | - | - | - | 588 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - |
| Accrued expenses | 23 | 44 | 87 | - | - | - | - | 154 |
| Deferred income | - | - | - | - | - | - | - | - |
| | **436** | **1,026** | **250** | - | - | - | - | **1,712** |
| **Total equity and liabilities** | **436** | **1,026** | **585** | **118** | - | - | **36,771** | **38,936** |
| **Net maturity position** | 2,374 | (833) | 33,686 | 63 | 1,481 | - | (36,771) | - |
| **Cumulative net position** | 2,374 | 1,541 | 35,227 | 35,290 | 36,771 | 36,771 | - | - |

### 36.3 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 is mostly exposed to euro. If the exchange rate against euro would increase 10 percent, the nominal amount of gross technical provisions in HRK would increase by HRK 102,589.35 and the reinsurer's share in the technical provisions would be higher by HRK 66,262.62.

The currency analysis of the financial assets and liabilities within the scope of IAS 39 at 31 December 2010 is set out below:

(All amounts are expressed in thousands of kunas)

### 36.3 FOREIGN EXCHANGE RISK MANAGEMENT (CONTINUED)

*FOREIGN CURRENCY RISK MANAGEMENT*

| | The Company 2010 | | | | The Group 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | **EUR** | **HRK** | **Other** | **Total** | **EUR** | **HRK** | **Other** | **Total** |
| **Assets** | | | | | | | | |
| **Non-current assets** | | | | | | | | |
| Property and equipment | - | 64 | - | 64 | - | 64 | - | 64 |
| Intangible assets | - | 362 | - | 362 | - | 362 | - | 362 |
| Investments in subsidiaries | - | 2,000 | - | 2,000 | - | - | - | - |
| Investments held to maturity | 1,055 | - | - | 1,055 | 1,055 | - | - | 1,055 |
| Deferred tax assets | - | 169 | - | 169 | - | 181 | - | 181 |
| | **1,055** | **2,595** | - | **3,650** | **1,055** | **607** | - | **1,662** |
| **Current assets** | | | | | | | | |
| Available-for-sale investments | - | - | - | - | 200 | 851 | - | 1,051 |
| Investments at fair value through profit or loss | - | - | - | - | 401 | 100 | - | 501 |
| Loans and receivables | | | | | | | | |
| Deposits with banks | - | 33,539 | - | 33,539 | 251 | 33,639 | - | 33,890 |
| Receivables from insurance operations | - | 630 | - | 630 | - | 630 | - | 630 |
| Other receivables | - | 481 | - | 481 | - | 482 | - | 482 |
| Deferred income | - | 7 | - | 7 | - | 3 | - | 3 |
| Cash and cash equivalents | - | 646 | - | 646 | - | 717 | - | 717 |
| | - | **35,303** | - | **35,303** | **852** | **36,422** | - | **37,274** |
| **Total assets** | **1,055** | **37,898** | - | **38,953** | **1,907** | **37,029** | - | **38,936** |
| **Equity and liabilities** | | | | | | | | |
| **Share capital and reserves** | | | | | | | | |
| 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) |
| | - | **36,821** | | **36,821** | - | **36,771** | - | **36,771** |
| 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) |
| | **363** | **89** | **1** | **453** | **363** | **89** | **1** | **453** |
| Liabilities from insurance operations | - | 970 | - | 970 | - | 970 | - | 970 |
| Other liabilities | - | 555 | - | 555 | - | 588 | - | 588 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - |
| Accrued expenses | - | 154 | - | 154 | - | 154 | - | 154 |
| Deferred income | - | - | - | - | - | - | - | - |
| | - | **1,679** | - | **1,679** | - | **1,712** | - | **1,712** |
| Total equity and liabilities | **363** | **38,589** | **1** | **38,953** | **363** | **38,572** | **1** | **38,936** |
| **Net currency exposure** | **692** | **(691)** | **(1)** | - | **1,544** | **(1,543)** | **(1)** | - |

(All amounts are expressed in thousands of kunas)

## 36.3 FOREIGN EXCHANGE RISK MANAGEMENT (CONTINUED)

**Currency analysis of technical provisions**

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

## 36.4 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 loan commitments as of 31 December 2010.

All the Company's interest-bearing assets at 31 December 2010 were at fixed rates.

Given that the Company's assets are at fixed rates and that no interest-bearing liabilities existed at 31 December 2010, the Company is not exposed to interest rate risk and, consequently, does not make any disclosures in connection with its interest rate sensitivity.

## 36.5 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. Only held-to-maturity securities were held by the Company at 31 December 2010, it was not exposed to any equity price risk. Also, subsidiary has invested in cash investment funds at 31 December 2010 which are not subject to significant change in prices. Therefore, no disclosures about the Group's sensitivity to equity price risk have been made.

### 36.6 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 2010 insurance of short-term foreign trade accounts receivable arising from the sale of goods and provision of services abroad prevailed.

The underwriting risk is the risk arising from uncertainty and unpredictability of the insurance business. The most significant insurance risk components are the premium risk and the reserve risk. They are associated with the adequacy of premium tariffs and reserves to the insurance liabilities and capital base.

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

The Company manages the insurance risks by setting acquisition limits, clearly defined approval procedures for transactions involving new products or exceeding the set limits, the pricing and structure of its products and managing reinsurance arrangements.

The acquisition strategy is aimed at establishing a balanced portfolio and is based on the principle that policyholders provide coverage for the entire open trade account portfolio. All the insurance contract are generally concluded for an indefinite duration. However, the terms and conditions are subject to modifications at least annually, and the insurer is entitled to deny contract renewal or renew a contract with changed terms and conditions. The most significant insurance risk management segment is the approval of individual insured sums (i.e. limits) within an insurance contract. The limits are monitored on an ongoing basis and reviewed at least annually. During an insurance year, the insurer may terminate or reduce the limit if the risk assessment deteriorates. 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, territorial exposure and industry exposure. Also, policyholders participate in the loss (self-retention) up to minimum15 percent of the individual limit.

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. In addition, the Company enters into facultative reinsurance arrangements on a case-by-case basis.

(All amounts are expressed in thousands of kunas)

## 36.6 INSURANCE RISK MANAGEMENT (CONTINUED)

### 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. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

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 2010, analysed by country. The limits below include self-retention of the insured and the reinsurer's share:

| **Total limit by country** | **Gross amount, in HRK '000** | **Share in the total limit, in %** |
|---|---|---|
| Italy | 131,201 | 19.53 |
| Serbia | 94,641 | 14.09 |
| Germany | 85,683 | 12.76 |
| Slovenia | 62,708 | 9.34 |
| Bosnia and Herzegovina | 49,813 | 7.42 |
| Croatia | 30,000 | 4.47 |
| Czech Republic | 28,646 | 4.26 |
| Belgium | 25,985 | 3.87 |
| Hungary | 20,564 | 3.06 |
| Austria | 19,630 | 2.92 |
| Romania | 19,571 | 2.91 |
| Poland | 16,764 | 2.50 |
| Other countries | 86,488 | 12.87 |
| **Total** | **671,694** | **100.00%** |

(All amounts are expressed in thousands of kunas)

## 36.6 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 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 |
| **Total** | **771** | **671,694** | **100.00%** |

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

### *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, and given that no claims were reported in 2010, 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.

### 36 7 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 Supervision 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 2010, the Company met all the capital adequacy and solvency requirements (Notes 33 and 34). The Company's regulatory capital exceeds its share capital by HRK 13,790 thousand and the required solvency margin by HRK 36,243 thousand.

### 36.8 FINANCIAL INSTRUMENTS

### FAIR VALUE OF 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

(All amounts are expressed in thousands of kunas)

## 36.8. FINANCIAL INSTRUMENTS (CONTINUED)

**Financial instruments**

| Fair value of financial assets | The Company 2010 | | | The Group 2010 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Level 1** | **Level 2** | **Level 3** |
| Investment funds (assets available for sale) | - | - | - | 1,051 | - | - |
| Investment funds (assets at fair value through profit or loss) | - | - | - | 501 | - | - |
| **Total** | **-** | - | - | **1,552** | - | - |

## 37. RELATED-PARTY TRANSACTIONS

Remuneration paid to key management personnel:

| | **2010** |
|---|---|
| *Salary and benefit costs* | |
| Key management personnel | **438** |

| Name of the entity/person | Revenue | Expenses | Exposure | Liabilities |
|---|---|---|---|---|
| Hrvatska banka za obnovu i razvitak | - | 3 | 1 | 24 |
| Poslovni info servis d.o.o. | 4 | - | 4 | - |
| OeKB Sudosteuropa holding Ges.m.b.H. | - | 38 | - | 2 |
| Prisma Kreditversicherungs - AG | 124 | 899 | 106 | 706 |
| **Total** | **128** | **940** | **111** | **732** |

(All amounts are expressed in thousands of kunas)

## 38. 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. The weighted average number of ordinary shares used in determining the basic earnings per shares was 35,944. As there is no impact of any options, convertible bonds or similar effects, the weighted average number of ordinary shares used in determining diluted earnings per share was equal to the one used in determining basic earnings per share i.e. 35,944.

| | | **2010** |
|---|---|---|
| | Company | Group |
| **Profit attributable to ordinary shareholders** | | |
| Profit attributable to the ordinary shareholders of the Company for the purpose of earnings per share | (679) | (730) |
| **Earnings per share** | | |
| Weighted average number of ordinary shares | 35,944 | 35,944 |
| **Loss per share in kuna** | **18.89** | **20.31** |

## 39. CONTINGENT LIABILITIES

At 31 December 2010 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 2010.

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements are signed and authorised for issue on 28 April 2011.

These financial statements were approved by the Management Board on 28 April 2011.

Edvard Ribarić
President of the Managing Board

Anton Steffko
Member of the Managing Board

Hrvatsko kreditno
osiguranje d.d.
Zagreb

(All amounts are expressed in thousands of kunas)

Pursuant to the Croatian Accounting Law (Official Gazette 146/05) HANFA issued the Decision on structure and contents of annual financial statement of the insurance and re-insurance companies (Official Gazette 151/05). Set out in the tables below are the financial statements prepared in accordance with the above mentioned decision:

**Statement of Comprehensive Income (Income Statement)**
**for the period 18/01/2010-31/12/2010**

| Item No | Item description | Company 2010 |
|---|---|---|
| **I** | Premium written (earned) | **69** |
| 1 | Gross premium written | 1,551 |
| 2 | Outward reinsurance premiums (-) | (1,173) |
| 3 | Change in the gross unearned premium reserve (+/-) | (820) |
| 4 | Change in the gross unearned premium reserve, reinsurers' share, (+/-) | 511 |
| **II** | **Investment income** | **594** |
| 1 | Interest income | 575 |
| 2 | Net foreign exchange gains | 19 |
| **III** | **Fee and commission income** | **192** |
| **IV** | **Other income** | **368** |
| **V** | **Claims incurred, net** | **(126)** |
| 1 | Change in the claims provision (+/-) | (126) |
| 1.1 | Gross amount (-) | (440) |
| 1.2 | Reinsurers' share (+) | 314 |
| **VI** | **Change in mathematical reserves and in other technical provisions,** | **(18)** |
| 1 | Change in other technical provisions, net of reinsurers' share (+/-) | (18) |
| 1.1 | Gross amount (-) | (18) |
| **VII** | **Operating expenses, net** | **(1,800)** |
| 1 | Acquisition costs | (66) |
| 1.1 | Other acquisition costs | (66) |
| 2 | Administrative expenses | (1,734) |
| 2.1 | Depreciation | (49) |
| 2.2 | Payroll taxes and contributions | (979) |
| 2.3 | Other administrative expenses | (706) |
| **VII** | **Investment expenses** | **(5)** |
| 1 | Net foreign exchange losses | (5) |
| **IX** | **Other technical expenses, net of reinsurers' share** | **(122)** |
| 1 | Other technical expenses | (122) |
| **X** | **Profit or loss for the period before tax (+/-)** | **(848)** |
| **XI** | **Income tax or tax loss** | **169** |
| 1 | Deferred tax expense (income) | 169 |
| **XII** | **Profit or loss for the period after tax (+/-)** | **(679)** |
| **XIII** | **TOTAL INCOME** | **1,392** |
| **XIV** | **TOTAL EXPENSES** | **(2,071)** |
| **XV** | **Other comprehensive income** | **-** |
| 1 | Gains/losses on revaluation of financial assets available for sale | - |
| 2 | Income tax on other comprehensive income | - |
| **XVI** | **Total comprehensive income** | **(679)** |

(All amounts are expressed in thousands of kunas)

**Statement of Financial Position (Balance Sheet)**
**At 31/10/2010**

| Item No | Item description | Company 2010 |
|---|---|---|
| | **ASSETS** | |
| **A** | **INTANGIBLE ASSETS** | **362** |
| 1 | Other intangible assets | 362 |
| **B** | **TANGIBLE ASSETS** | **64** |
| 1 | Equipment | 64 |
| **C** | **Investments** | **36,594** |
| **II** | **Investments in subsidiaries, associates and joint ventures** | **2,000** |
| 1 | Shares in subsidiaries | 2,000 |
| **III** | **Other financial investments** | **34,594** |
| 1 | Held-to-maturity investments | 1,055 |
| *1.1* | *Debt securities and other securities with fixed income* | 1,055 |
| 2 | Available-for-sale investments | - |
| *2.1* | *Units and shares in investment funds* | - |
| 3 | Investments at fair value through profit or loss | - |
| *3.1* | *Units and shares in investment funds* | - |
| 4 | Deposits, loans and receivables | 33,539 |
| *4.1* | *Deposits with credit institutions (banks)* | 33,539 |
| **D** | **REINSURERS SHARE IN TECHNICAL PROVISIONS** | **826** |
| 1 | Unearned premium, reinsurers' share | 512 |
| 2 | Claims provision, reinsurers' share | 314 |
| **E** | **CURRENT AND DEFERRED TAX ASSETS** | **169** |
| 1 | Deferred tax assets | 169 |
| **F** | **RECEIVABLES** | **706** |
| **1** | **Receivables from direct insurance operations** | **459** |
| *1.1* | *From insured persons* | 459 |
| **2** | **Receivables from co-insurance and reinsurance operations** | **171** |
| **3** | **Other receivables** | **76** |
| *3.1* | *Other receivables* | 76 |
| **G** | **OTHER ASSETS** | **647** |
| **1** | **Cash with banks and in hand** | **646** |
| *1.1* | *Balances on the business account* | 646 |
| **2** | **Other** | **1** |
| **H** | **PREPAID EXPENSES AND ACCRUED INCOME** | **411** |
| 1 | Accrued interest and prepaid rentals | 409 |
| 1 | Other prepaid expenses and accrued income | 2 |
| **I** | **TOTAL ASSETS** | **39,779** |

(All amounts are expressed in thousands of kunas)

**Statement of Financial Position (Balance Sheet)**
**At 31/10/2010**

| Item No | Item description | Company 2010 |
|---|---|---|
| | **EQUITY AND LIABILITIES** | |
| **A** | **CAPITAL AND RESERVS** | **36,821** |
| **1** | **Share capital** | **37,500** |
| *1.1* | *Share capital – ordinary shares* | 37,500 |
| **2** | **Revalorization reserves** | **-** |
| *2.1* | *Financial investments* | - |
| **3** | **Loss for the period** | **(679)** |
| *3.1* | *Loss for the current period ( - )* | (679) |
| **B** | **TEHNICAL PROVISIONS** | **1,279** |
| 1 | Unearned premium, gross amount | 820 |
| 2 | Claims provision, gross amount | 441 |
| 3 | Equalisation reserves, gross amount | 18 |
| **C** | **DEFERRED TAX LIABILITY** | **-** |
| **D** | **OTHER LIABILITIES** | **1,364** |
| 1 | Liabilities from reinsurer | 970 |
| 2 | Other liabilities | 394 |
| **E** | **ACCRUED EXPENSES** | **315** |
| 1 | Other accrued expenses | 315 |
| **F** | **TOTAL EQUITY AND LIABILITIES** | **39,779** |

(All amounts are expressed in thousands of kunas)

**STATEMENT OF CHANGES IN EQUITY**
**For the period 18/01/2010- 31/12/2010**

Company

| Item No | Item description | Attributable to the equity holders of the parent | | | | | | Attributable to non-controlling interest | Total capital and reserves |
|---|---|---|---|---|---|---|---|---|---|
| | | Paid-in capital (ordinary and preference shares) | Revaluation reserve | Reserves (legal, statutory, other) | Retained profit or accumulated losses | Profit /loss for the year | **Total capital and reserves** | | |
| **I.** | **At 1 January of the current year** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **II.** | **Comprehensive income or loss for the year** | **-** | **-** | **-** | **-** | **-679** | **-679** | **-** | **-** |
| 1 | Profit or loss for the period | - | - | - | - | -679 | -679 | - | - |
| **2** | **Other comprehensive income or loss for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **III.** | **Transactions with owners (current period)** | **37,500** | | | | | **37,500** | | |
| 1 | Increase/Decrease in subscribed capital | 37,500 | - | - | - | - | 37,500 | - | - |
| **IV.** | **Closing balance in the current year** | **37,500** | **-** | **-** | **-** | **-679** | **36,821** | **-** | **-** |

(All amounts are expressed in thousands of kunas)

**STATEMENT OF CASH FLOWS (INDIRECT METHOD)**

| Item No | Item description | Company |
|---|---|---|
| **I** | **CASH FLOWS FROM OPERATING ACTIVITIES** | **(33,324)** |
| **1** | **Cash flows before working capital changes** | **(1,374)** |
| 1.1 | Profit / (Loss) before tax | (848) |
| **1.2** | **Adjusted by:** | **(526)** |
| *1.2.1* | *Depreciation* | 2 |
| *1.2.2* | *Amortisation* | 47 |
| *1.2.3* | *Impairment losses and gains/losses on remeasurement at fair value* | - |
| *1.2.4* | *Interest income* | (575) |
| **2** | **Increase/decrease in operating assets and liabilities** | **(31,950)** |
| 2.1 | Increase/decrease in available-for-sale investments | - |
| 2.2 | Increase/decrease of investments at fair value through profit or loss | - |
| 2.3 | Increase/decrease in given deposits, loans and receivables | (33,539) |
| 2.4 | Increase/decrease of reinsurer's share in technical provisions | (826) |
| 2.6 | Increase/decrease in receivables | (706) |
| 2.7 | (Increase)/decrease in other assets | (1) |
| 2.8 | Increase/decrease in prepaid expenses and accrued income | 164 |
| 2.9 | Increase/decrease in technical provisions for life insurance with the risk borne by the policyholder | 1,279 |
| 2.10 | Increase/decrease in other liabilities | 1,364 |
| 2.11 | Increase/(decrease) in accrued expenses and deferred income | 315 |
| **II** | **CASH FLOWS FROM INVESTING ACTIVITIES** | **(3,530)** |
| 1 | Payments for purchases of tangible assets | (66) |
| 2 | Payments for purchases of intangible assets | (409) |
| 3 | Increase/decrease of investments in subsidiaries, associates and joint ventures | (2,000) |
| 4 | Payments made for held-to-maturity investments | (1,055) |
| **III** | **CASH FLOWS FROM FINANCING ACTIVITIES** | **37,500** |
| 1 | Cash received from share capital increase | 37,500 |
| | **NET CASH** | **646** |
| **IV** | **EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS** | **-** |
| **V** | **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | **646** |
| 1 | Cash and cash equivalents at beginning of period | - |
| **2** | **Cash and cash equivalents at end of period** | **646** |

**Differences compared to the IFRS financial statements comprise the following:**

In the financial statements for the Agency purposes, investment income includes, in addition to interest income, foreign exchange gains, whereas in the IFRS financial statements investment income is presented in the net amount.

Fee and commission income under the Agency reporting requirements contains only commissions from reinsurers, whereas the 2010 financial statements do not contain any analysis of the source but rather the total fee and commission income. As a result, "Other income" per the Agency requirements has been increased by fees other than those from reinsurers.

Administrative expenses are presented in the financial statements under the Agency requirements through three positions (Other administrative expenses, Depreciation/Amortisation, and Salaries and Payroll taxes and contributions) and, along with other technical expenses, they are disclosed in the 2010 financial statements through three separate notes as follows: administrative expenses, other operating expenses and net exchange differences other than those on financial instruments.

In the financial statements prepared under the Agency requirements, technical provisions are stated gross, whereas in the 2010 financial statements they are presented net of reinsurer's share.

Receivables from direct insurance operations reported in the 2010 financial statements include, in addition to premium receivables, commissions receivable from insurers, which represent two separate reporting items under the Agency reporting requirements.

Other receivables reported in the 2010 financial statements include accrued interest and rentals that are presented separately under the Agency reporting requirements.

Other liabilities presented in the 2010 financial statements include provisions for other liabilities as well as provisions for unused vacation days, which are included in accrued expenses under the Agency requirements.