2011

ANNUAL REPORT

PODRAVSKA BANKA

ANNUAL REPORT 2011

REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD

On behalf of Podravska Banka Supervisory board and myself, personally, I have the pleasure of giving you these financial reports for the year 2011.

Globally, we still have the problems in the financial markets, closely related to Euro Zone troubles. It slowed down the recovery of economies in many EU member states; in some countries it could lead to deepening the recession. The economic crisis has left a deep scar on Croatia's economy; in 2011 it stagnated, unemployment increased further and overall investments decreased.

Despite hard and challenging circumstances, Podravska Banka made solid business results, and made a profit before tax of HRK 15.6 million.

During last year, our commercial activities were strengthened in the entire commercial network, mostly for small and medium-size businesses; plus, we continued with cost optimisation; and finally, we intensified our collection of overdue receivables. Also, we invested a great deal of effort in improving and upgrading information technology resources and initiated a change of the Bank's core IT system.

In 2011, Podravska Banka continued the reasonable approach to risk management, market diversification and increasing the quality of services, thus further strengthening its position in the Croatian banking market.

In the years to come, the most important strategic goals of Podravska Banka shall be keeping and developing its market position, improving internal efficiency and maximising customer satisfaction.

The Supervisory Board oversaw the operations of Podravska Banka in 2011, in line with statutory regulations, providing business policy guidelines and actively contributing to its realisation.

Members of the Management board regularly attended the meetings of the Supervisory board, reporting on issues within their domain, providing information needed so that the Supervisory board has all the valid data for decision-making and/or resolutions. The Supervisory board was able to request and receive any information from the Management, especially information and data that were, or could be, relevant or have a significant impact on the Bank's operations or positions.

Complying with provisions of the Audit Act, the Supervisory board formed its Audit Panel, comprised of all members of the Supervisory board. In its function, the Audit Panel monitored compliance with the internal control system that functions on three independent levels within the Bank:

- internal auditing, business compliance and risk control, all three aiming to ensure an efficient system of internal control that guarantees immediate, timely discovery of all or any risk, that the Bank could be exposed to, and to provide competent monitoring.

In addition to its obligations, in 2011 the Supervisory board conducted an oversight of the Bank's operations, including perusal and a thorough examination of the Bank's documentation and established that:

- the Bank operated in compliance with laws and regulations, in line with recommendations given by the central bank HNB after its partial inspection, with guidelines set in the Bank's internal enactment and, finally, following the resolutions from the Shareholders' General Meeting.

As per its legal obligations, the Supervisory board examined the Bank's Annual reports, the report on the state of the Bank's affairs, and the Management's proposal on distribution of profit made in 2011. The Supervisory board did not have any objections to the submitted reports and established the following:

- the Bank's 2011 Annual reports, comprised of a Profit & Loss Account, Balance Sheet, Cash Flow Report and Notes to the financial reports, were all made in accordance with the actual situation in the business books; the reports fairly represent the accurate finances and assets of the Bank, which were also verified our external auditor, Deloitte d.o.o. Zagreb, who audited our financial reports for the year 2011.

Therefore, the Bank's 2011 Annual reports were approved and adopted by the Management and Supervisory boards.

The Supervisory board approved the Management board report on the state of the Bank's affairs, and gave its consent that the Bank's profit made in 2011, in the amount of HRK 12,465,830.64 (for the year ended on 31 December 2011) be allocated to the Bank's Reserves. The Supervisory board proposes to the General Meeting to adopt and pass this resolution.

The Management and employees, with their professionalism and dedicated work, succeeded in almost all planned activities for the year ended, thus justifying our trust and faith in them.

On behalf of the Podravska Banka Supervisory board I give my thanks and appreciation to all the Bank's customers, clients and shareholders for their confidence in us and to all employees and management of the Bank for the good results accomplished.

I am also grateful to my fellow colleagues in the Supervisory board for their active support and great contribution to the Bank.

Miljan Todorovic
Chairman of the Supervisory Board

MANAGEMENT REPORT ON THE BANK'S RESULTS

The Management Board of Podravska Banka is proud to present the Bank's business results for 2011.

The revival of the largest European economies (with the exception of Germany) from the first half of 2011, was quickly exhausted. Thus a decline in real activity was recorded at the end of the year, which resulted in economic growth of only 1.4% for the whole of 2011. Unfavourable trends were determined by both internal and external factors – in addition to the repeated escalation of the public debt crisis in some of the Eurozone member countries. The decrease in world trade also had a negative impact on economic activity.

In 2011, the Croatian economy stagnated with a further growth in unemployment and a decline in investments. A significant decline in imports in the past year resulted in the balance of payment of the current account, as well as the rise in the budget deficit. The implementation of structural reforms, fiscal consolidation and the continuation of privatisation are of strategic importance for Croatia in the forthcoming period to ensure the basis for sustainable growth and development.

The Croatian banking system remained stable thanks to sensible risk management, good capitalisation and an active monetary policy. At the end of 2011, the internal capital adequacy ratio was a high 19.15%. Total banks' assets increased by 4.2%, mainly as a result of the increase in placements. Retail placements were up by 0.9%, corporate sector placements by 9.8%, while the highest growth was still recorded by the increase in lending to the government, 14.1%. The share of deposits in total banks' liabilities is growing, and accounts for 52.87%. When compared with 2010, total deposits are up by 2.2%, where retail deposits are up by 4.8%, while corporate and government deposits decreased.

In 2011, average deposit rates declined faster than lending rates, which resulted in an interest margin increase when compared with the previous year. The growth of non-performing loans and provisioning charges, when compared with the previous year, did not have a significant impact on the profitability of the banking sector in 2011.

Within this economic environment, Podravska banka remained stable and achieved satisfactory operating results in 2011.

In the 2011 fiscal year, Podravska banka strived to strengthen its commercial activities in the whole territory of Croatia, with activities mainly oriented to the entrepreneur sector. In addition to the above, the Bank strengthened its own structure with several important staff reinforcements; it carried out the activities necessary for the planning of improvements in the IT service area, constantly undertook measures to optimise costs, and increased lending activities, including their monitoring.

At the end of 2011, the Bank ranked 10th in terms of the size of its assets, out of a total of 32 banks in Croatia.

The bank's total assets were up by 4.1%, and amounted to HRK 2.9 billion at the end of 2011.

When compared with the previous year, total deposits were up by 2% and amounted to HRK 2.15 billion. In the structure of total deposits, retail deposits accounted for

74.9% and corporate deposits accounted for 25.1%, while retail deposits fell by 1.7% and corporate deposits were up by 15.1%.

In the area of lending operations in 2011, the Bank enhanced lending to business entities, which resulted in a 34.1% growth in corporate placements, when compared with the previous year, and their share increased from 62.8% in 2010 to 70.3% at the end of 2011. Retail credits were down by 4.3%, when compared with the previous year, as a consequence of the relatively high indebtedness of the retail sector and reduced borrowing appetite.

Unlike previous years, when the Bank almost exclusively had surplus liquidity, last year it appeared equally on the supply and on the demand side on the money market. With the view to ensure stable liquidity and to minimise market risks, in the course of 2011, the Bank partially restructured its financial asset portfolio formed in 2010.

The Bank is well capitalised with regard to the risks it is exposed to. At the end of 2011, the internal capital adequacy ratio was 16.61%.

Revenue from the Bank's core business amounts to HRK 146.4 million and in the structure of operating revenue, net income from interest has a share of 74.8%; net income from fees and commissions is 17.4%, while net income from foreign currency trading and other income is 7.8%.

When compared with the previous year, profit from core business increased by 23.3% and amounted to HRK 36.8 million, while EBIT was HRK 15.6 million.

In accordance with statutory regulations, the Bank has to set up a system of measuring and monitoring the risks it is exposed to in its operations. The most important risks that impact the Bank's operations include credit risk, liquidity risk, market risk and operational risk.

The Bank defines risk management through a system of internal by-laws, organisation and control mechanisms which include risk concentration, validation and assessment and the system of limits and risk assumption by individual business areas.

The risk management framework is set up in accordance with quantitative and qualitative regulatory requirements. The Bank is trying to achieve risk management efficiency by constantly improving the processes, methodologies, models, controls and the system.

In 2011, the Bank signed a Letter of Intent launching the project of integration and installation of the new system for the support to the Bank's overall operation. The integration of the new system is planned in stages, including technological support upgrading in all business segments as well as supporting the new service distribution channels for clients.

In 2011, the Bank also invested in the purchase of new business premises in Zagreb - at the Green Gold business centre, where organisational segments of the Bank were moved to, which had previously been located in the rented premises at Nova Galerija.

During the previous year, the Bank did not acquire own shares, so that on 31 December 2011 the Bank had a total of 9,023 own treasury shares, which accounted for 1.38% of the share in the Bank's equity.

The process of liquidation of the investment fund managed by the dependent company Poba Ico Invest d.o.o. began in 2011. At the beginning of 2012, after the complete liquidation of the fund, the Bank became the sole owner of the company, and based on the amended Articles of Association, registered the company to carry out factoring activities under the name of Poba faktor d.o.o.

The year before us will also be challenging and difficult, both for the banking sector and the overall economy. Market conditions will continue to be relatively difficult, and the recovery of the Croatian economy will be gradual and slow.

In such circumstances, reduced retail credit demand is expected with a simultaneous increase in corporate credit demand. In this regard, the Bank will try to avoid highly concentrated placements and will place short-term, self-liquidating loans and adequate collateral coverage.

In the fiscal year 2012, the Treasury Division's contribution will be of key importance, primarily to ensure the necessary liquidity for the safe functioning of the Bank. In addition to the segment that refers to investments and to currency trading, as well as to trading in securities, the Treasury will also play an important role in the financing of commercial activities, all with the aim of increasing the volume of intermediation and reducing the Bank's financial costs.

The Bank will further strive to meet the needs of its clients, and will accordingly develop products and services with the aim of maintaining long-term relationships with the clients.

The Bank's activities will be directed at using its internal resources, optimisation of costs, adjustment to market trends, improvement of business processes and employment of specialised staff who can meet the demands and developments of the Bank and the financial markets.

2012 will be marked by constant and significant efforts in all activities necessary for the integration of the new IT system. The project implementation is ongoing, which foresees the full integration of the new IT system within the shortest possible timeframes. The above activities, which will be challenging, both with respect to costs and the human resource engagement, will involve every structure of the Bank throughout 2012.

All of the above activities, despite the uncertainty and the anticipated difficulties, are directed at the strengthening of the market activity and the increase in the share of Podravska banka in the Croatian financial market.

In conclusion, I take this opportunity to thank all our clients and business partners for their trust and cooperation, which oblige us to continue improving the quality of our services.

I would also like to thank the shareholders, members of the Supervisory Board, on their exceptional cooperation and support, and all of the Bank's employees for their effort and commitment.

Julio Kuruc
Chairman of the Management Board

DESCRIPTION OF BUSINESS OPERATIONS

OVERVIEW OF THE CROATIAN ECONOMY IN 2011

Expectations of positive changes in 2011 were based on the reversal of the negative trends and the creation of preconditions for overcoming the crisis, which marked the Croatian economy in 2010. The expectations were based on the predicted global economic recovery and on the implementation of the Economic Recovery Programme of the Croatian government.

However, the expected improvements were not seen during the whole of the previous year in the important external and internal circumstances for the Croatian economy. A brief recovery in the largest European economies was quickly exhausted due to the escalation of the debt crisis in a number of significant Eurozone countries.

The absence of the expected changes within the domestic framework was primarily conditioned by reasons of internal policy. In anticipation of parliamentary elections, the government focused its activities on concluding the EU accession negotiations, and implemented the set reform measures with a delay and in a moderate manner.

As a result, the Croatian economy remained at a low level from the end of 2010. The gross domestic product (GDP) grew only slightly in the first and the second quarter of 2011. The economic revival occurred in the third quarter thanks to the successful tourist season, while the growth of the economic activity slowed down again in the last quarter. For this reason, the GDP grew 0.2% in 2011.

Conditions for investment in the country did not improve in the previous period. At the same time, the availability of foreign sources of financing was significantly reduced, which resulted in the reduction of financing in fixed capital.

This was reflected on the continuation of the decline in the construction activity, which was further reduced by about 9%, when compared with 2010. The industrial production in 2011 also recorded a decline of 1.2%, although the labour productivity recorded moderate growth, as a result of the decrease in the number of the employed.

The lack of new investments and the loss of existing jobs in the private sector were reflected in the rise in unemployment at the end of 2011.

The most significant loss of jobs was recorded in construction and industry, while the number of the employed increased only in the public sector.

Personal consumption increased only slightly, but it was still about 9% lower than in the pre-crisis year of 2008. Nominal gross salaries realised an annual growth of 1.5%, while net salaries increased by 1.9% due to the still present effect of the changes in the income taxation system. Real net salaries in 2011 were nevertheless down by 0.5% when compared with the previous year.

The absence of the demand for investments and the stagnation in personal consumption resulted in a strong reduction in merchandise imports. At the same time, total exports of goods and services were reduced, which resulted in the increase of the coverage of imports by exports from 58.8% to 60.3%.

In the course of the previous year, banking sector assets increased by 4.2% primarily due to the growth of the total approved loans by 5.9%. In that regard, retail loans rose by 0.9%, corporate lending by 9.8%, and lending to government by 14.1%.

Total deposits rose by 2.2% nominally over the previous year, where retail deposits increased by 4.8%, whereas corporate deposits decreased by 2.6%, and government deposits decreased by 5.2%.

During 2011, interest margins slightly increased when compared with those realised in the previous year, which is the consequence of a higher reduction in the average deposit rate than the reduction in lending rates. The credit portfolio quality continued to deteriorate in 2011 as a consequence of a decrease in the volume of economic activities, which led to problems in company operations and lower household incomes. At the end of 2011, the share of credits classified under category B and C was 12.42%. Despite this, the profitability of the banking sector decreased only moderately.

The banking sector is still highly capitalised with an internal capital adequacy ratio of 19.15% at year end.

In 2011, the Croatian National Bank (CNB) tried to maintain high liquidity in the banking system, without at the same time jeopardising foreign exchange rate stability. At the beginning of the year, the CNB freed up additional liquidity by reducing the rate of the minimum required foreign currency claims from 20% to 17%.

In June 2011, the discount rate was reduced from 9% to 7%. The increased liquidity did not result in the expected increase in corporate lending, instead, the fast growth of lending to government continued. At the beginning of the third quarter, excessive HRK liquidity as well as increased uncertainty in the region offset depreciation pressures so that, in July and September, the CNB intervened in the foreign exchange market by selling foreign currency to the banks in the amount of EUR 419 million. With the same aim, the CNB raised the mandatory reserve rate up to 14% with the effect of HRK 3.1 billion.

In 2011, the following macroeconomic indicators were recorded:

	VALUE
GROSS DOMESTIC PRODUCT, GROWTH RATE, % OF YEAR OVER YEAR CHANGE	0,2
INDUSTRIAL PRODUCTION, GROWTH RATE, % OF YEAR OVER YEAR CHANGE	-1,2
CONSUMER PRICES, % OF YEAR OVER YEAR CHANGE	2,3
PRODUCER PRICES, % OF YEAR OVER YEAR CHANGE	6,4
TRADE BALANCE, EUR BILLION	-5,8
EXPORTS OF GOODS, EUR BILLION	8,8
IMPORTS OF GOODS, EUR BILLION	14,6
FOREIGN DEBT OF THE REPUBLIC OF CROATIA, EUR BILLION	45,7
AVERAGE NET SALARY IN HRK	5.441
UNEMPLOYMENT RATE, %	17,9
NO. OF UNEMPLOYED PERSONS, CROATIAN EMPLOYMENT SERVICE	315.438
HRK/USD EXCHANGE RATE, AVERAGE	5,34
HRK/EUR EXCHANGE RATE, AVERAGE	7,43

Source: Central Bureau of Statistics, Croatian National Bank, Ministry of Finance

PRODUCTS AND SERVICES

Focused on the requirements and needs of its clients, the Bank continuously modifies and complements a broad range of its products and services for retail customers and business entities.

In 2011, a new type of cash loan was introduced, which provides the Bank's clients with faster and more favourable credit conditions.

Credits from the existing offer, intended for retail customers and entrepreneurs, have been tailored for the target user groups. In that regard, with the offered conditions, the Bank has tried to meet the expectations of the existing clients and attract new clients, while simultaneously ensuring the minimisation of risk and increasing the security of placements.

The new service related to the current account debit card – MaestroCash – has attracted much interest among retail customers. This service enables the withdrawal of cash at Bank's ATMs with interest free repayment in instalments.

The Bank is also active in the area of bank insurance and it has developed a number of synergy products with its strategic business partner – Generali Insurance. The products are sold through the Bank's business network.

Special current account packages for students have been included in the offer, containing a set of products and services related to the current account, intended for students for simpler everyday financial transactions.

The Bank has supported business entities with diversified forms of financing, where special emphasis has been on short-term products from the factoring group – transactions with bills of exchange, foreign and domestic factoring, as well as the financing of receivables. The Bank has enabled long-term investments predominantly through the participation in programmes supported by the local and regional government, the Croatian ministries and institutions such as the Croatian Bank for Reconstruction and Development (HBOR) and the Croatian SME Agency (HAMAG). The activity in the economy has resulted in an increase in total placements by more than 34% in 2011, over the previous year.

In that regard, the target group among business entities includes clients that have or will have a need to use more sophisticated products, i.e. primarily through Treasury services – framework agreements for the Money market, FX trading with foreign currency quotation at the most favourable market conditions and direct communication with the dealer, Forwards etc., all with the view to increase revenues through cross-selling with clients.

The Bank's website has been redesigned to make it more informative and user-friendly.

DEPOSITS

In 2011, total deposits were up by 2.0% over the previous year, and amounted to HRK 2.15 billion, whereas retail deposits fell by 1.7%. In the structure of total deposits, retail deposits account for 74.9%, while in 2010 retail deposits accounted for 77.7%.

Deposits of legal entities were up by 15.1%, and amounted to HRK 540.5 million at the end of 2011. In this regard, at sight deposits recorded a 39.3% growth, while time deposits fell by 6.3%. The share of deposits of legal entities in total deposits increased from 22.3% in 2010 to 25.1% in 2011.

Total deposits (IN THOUSANDS OF HRK)

	31/12/2011	31/12/2010	CHANGES 2011/10
RETAIL	1,610,051	1,637,942	-1.7%
TOTAL DEPOSITS	**2,150,584**	**2,107,741**	**2.0%**

Time deposits (IN THOUSANDS OF HRK)

	31/12/2011	31/12/2010	CHANGES 2011/10
RETAIL	1,277,737	1,282,176	- 0.3%
TOTAL TIME DEPOSITS	**1,511,457**	**1,531,733**	**- 1.3%**

LENDING OPERATIONS

In 2011, the Bank intensified its focus on lending to enterprises, so that loans to this sector grew by 34.1%. In the structure of total placements their share increased from 62.8% in 2010 to 70.3% at the end of 2011. In this regard, the Bank tried to concentrate predominantly on clients with positive business prospects for whom it performs a complete banking and financial service, aiming at profiling the Bank as a long-term stable and reliable partner.

For the purpose of protection from credit risk, the Bank is trying to place as few highly concentrated placements and as many short-term self-liquidating placements as possible with an adequate reduction in maturity and the strengthening of collateral coverage.

In accordance with this commitment, the Bank prefers and considerably strengthens the share of factorings in total loans to enterprises. In addition to bill of exchange operations and factoring, the focus is also on other short-term placements which are based on specific commercial operations, such as the financing of receivables or short-term loans based on signed commercial agreements, etc.

In 2011, retail loans, the Bank's traditionally strategic focus, were down by 4.3%, and their share in total loans decreased from 37.2% in 2010 to 29.7% at the end of 2011. Such trends are the consequence of a reduction in household income and a reduced borrowing appetite in the conditions of the economic crisis and rising unemployment.

Loans (IN THOUSANDS OF HRK)

	31/12/2011	31/12/2010	CHANGES 2011/10
TOTAL GROSS LOANS	2,059,673	1,718,976	19.8%
TOTAL RESERVES ON LOANS	166,052	147,098	12.9%
TOTAL NET LOANS	**1,893,621**	**1,571,878**	**20.5%**

TREASURY OPERATIONS

Money market

The escalation of the debt crisis, as a consequence, generated scepticism among the interbank money market participants. Such a high level of scepticism led to the decrease in the bank-to-bank lending of excess liquidity. It is indicative that banks hit a new record on 26 December 2011 by depositing EUR 412 billion with the ECB, when compared with the previous maximum of EUR 384 billion from July 2010.

Considering the situation in the Eurozone and the announced return to recession, it can be expected that the ECB will keep the interest rates low or even lower them further in the forthcoming period.

The repeated lowering of the credit ratings of the Eurozone countries as well as of the leading banks in the Member States leads to the conclusion that the trust in the interbank market is not going to recover any time soon, thus, in that respect, 2012 could be like 2011.

In the domestic market, the first half of the year was marked by the continuation of the decline in interest rates on HRK time deposits. Although cash flows were liberalised, no outflow of savings to the countries of the region in search of a higher interest rate occurred. In March, the CNB made about EUR 850 million available to the banking system by reducing the rate of minimum required foreign currency claims from 20% to 17%. Due to the increase in the mandatory reserve rate on HRK from 13% to 14% at the beginning of July, interest rates on all timeframes suddenly began to rise. It triggered the withdrawal of HRK 3.1 billion from the system, which resulted in the rise of interest rates on time deposits in HRK on all timeframes, so that the interest rate for the period of one year reached almost 6.00%.

In the previous year, the Bank actively appeared on the interbank market both on the supply and on the demand side, and in this way adapted and optimised its liquidity management according to the market conditions.

Financial instruments market with fixed yield

In 2011, we witnessed the biggest global crisis in the history of the capital market and the systemic debt crisis, which shook the European Union and its common currency, the Euro, to its foundations. Since 2011 was marked by the fall of yields on the safest bonds and the growth of yields and the differences in the yield for riskier bonds, thus the bonds of issuers with a lower rating and the bonds of those issuers hit by the debt crisis, recorded a fall in the price. The prices of bonds with the highest credit rating rose, such as the German sovereign bonds.

On 31 December 2011, the market value of the debt securities portfolio of Podravska banka amounted to HRK 197 million. The currency structure of the portfolio is the following: debt securities denominated in the euro amount to 64%, in HRK 27%, in Swiss francs 8%, while in dollars they amount to 3%. According to the geographic exposure, the largest part of the portfolio refers to the issuers from Croatia, 35%, followed by the issuers from Hungary with 12% and Montenegro with 7%. In terms of credit rating, debt securities with a high investment rating account for 46% of the portfolio, securities with a lower rating account for 32%, and securities without the credit rating account for 22%. The total modified duration was 3.126 on 31 December 2011, while the total average portfolio yield at the beginning of investment was 6.30%.

Foreign exchange market

The main characteristic of the EUR/HRK exchange rate movement throughout 2011 included strong depreciation pressures on the kuna, as well as weaker seasonal influences on the exchange rate movement when compared with the year earlier. At the end of 2010, the average middle rate of the CNB on the EUR/HRK currency pair was 7.385. In the first quarter of 2011, or until the beginning of March, depreciation pressures on the kuna prevailed on the market, with a rise of the exchange rate up to the level of 7.420. The seasonal influence of the start of the tourist season with the increased inflow of the euro to the market had effect on stronger appreciation pressures on the domestic currency until the beginning of July. After a brief lowering of the exchange rate, from the beginning of July until the end of the year, stronger depreciatory pressures on the kuna were present with a constant rise in the EUR/HRK exchange rate. The end of July was also marked by the foreign exchange intervention by the CNB, which tried to limit a stronger pressure on the rise of the exchange rate by the sale of foreign currency on the market.

The USD/HRK mostly followed the EUR/USD currency pair movement in the foreign exchange market, showing the strengthening of the dollar when the euro weakened in the foreign exchange market abroad. Last year was marked by the current debt crisis of the Eurozone countries, which had impact on the pressure on the European currency. Positive or negative news from the Eurozone area, economic indicators as well as political decisions of leaders directed at solving the crisis, mostly dictated the movements on the EUR/USD currency pair, as well as on the USD/HRK currency pair.

Last year was marked by the exceptional strengthening of the Swiss franc as a safe alternative to the euro at the peak of the debt crisis in the Eurozone and in uncertain economic times. The CHF/HRK exchange rate mostly followed the EUR/CHF currency pair movement, recording record levels in the past year.

In 2011, the Bank generated profit from the purchase of foreign currency in the amount of HRK 9.17 million, while generated profit for 2010 totalled HRK 11.53 million. At the same time in 2011 the negative effects of revalorisation were HRK 104 thousand, when compared to 2010 when they were HRK 715 thousand.

Brokerage operations

2011 was a very difficult year for the capital market.

The very beginning of 2011 was promising for the domestic market and the regular turnover at the Zagreb Stock Exchange in January harked back to the golden 2007, primarily thanks to the INA d.d. share. The optimistic start of the year was quickly annulled by the constant decrease in the realised turnover and market capitalisation, which resulted in the eventual decrease in total turnover of as much as 19.8%, with the fall of the CROBEX index of 17.6%, when compared with 2010.

The difficult situation on the domestic capital market is also illustrated by the fact that at the beginning of the year there were 33 investment companies, including banks, present at the Zagreb Stock Exchange, and 29 of them survived to the end of the year.

In 2011, the Bank realised a total turnover at the Zagreb Stock Exchange of HRK 75.4 million, and was ranked the 22nd among 33 investment companies. The Bank was ranked 7th according to the bond turnover at the Zagreb Stock Exchange. In the Montenegrin market, the actual turnover was EUR 1.7 million.

Actual revenue from brokerage fees in 2011 was HRK 508 thousand, or up by 1% over the previous year.

Custody over financial instruments

Despite the negative trends in the capital markets, the value of assets in custody accounts at 31 December 2011 was a high HRK 323.9 million, which is an increase of 219.8%, when compared with 2010. Out of this amount, HRK 288.42 million includes the assets in the Croatian market, while assets in the market of Montenegro amount to HRK 35.50 million. Actual revenue from custody fees in 2011 was HRK 566 thousand.

In 2011, the Bank not only managed to keep its existing clients, but it expanded its client base and the value of assets in custody, despite the unfavourable market trends. The individual approach to each client, prompt execution of orders and good coordination with the brokerage department as well as with other organisational units of the Bank resulted in the satisfaction and trust of our clients.

PAYMENTS

The slowdown of the overall economic environment in the Republic of Croatia, the rise of unemployment and the decline in the purchasing power have confirmed that security, accessibility, promptness and costs of the carrying out of the Bank's payment transactions is what matters most to the clients in providing payment transaction services.

In providing payment transaction services, the Bank has ensured its clients a stable daily liquidity, competitive tariffs for services, and a professional, technical and technological support in the service provision. This has resulted in the opening of new transaction accounts at the Bank and in increasing the volume of the executed transactions, in particular those carried out via the Internet. In 2011, the transactions totalling HRK 35.7 billion were carried out in the domestic payments, up by 7% from the previous year. The number of opened transaction accounts of legal entities increased by 8% from the previous year.

An important characteristic of the Bank's clients that carried out payment transactions in 2011 includes the growth of e-payments, i.e. in legal entities' foreign remittance of 74%, and the 14% growth in the number of payment orders in the domestic payments. Especially worth mentioning is that the actual domestic payments recorded a growth of 22% (in the segment of the payment service from accounts 37%), while foreign exchange payments generated a 5% growth, when compared with the previous year.

The Bank has been recognised as a reliable partner, and at the end of the fiscal year it initiated the processes on further technical and technological improvement of service provision for the carrying out of payment transactions.

RETAIL NETWORK AND DISTRIBUTION CHANNELS

At the end of 2011, the Bank's retail network consisted of a total of 30 branches.

In addition to its extensive retail network, the Bank is accessible to its clients through other distribution channels – ATMs, day-and-night vaults and EFTPOS terminals, as well as through the POBAklik Internet banking service.

All ATMs are equipped with a chip technology protecting the users against misuse and skimming.

The Bank has 730 EFTPOS terminals installed, and the number of transactions effected through the Bank's EFTPOS terminals continued to grow in 2011.

The number of Internet banking users (POBAklik service) and POBAsms service users increased by 8%, and the number of orders effected through POBAklik Internet banking increased by 14% in 2011 over the previous year. The users of the Bank's services can access business information through the Information Centre, which records a steadily increasing number of calls.

Particular attention is paid to retail network management and the design and equipment of branch offices, with the view to offering the best quality service to clients.

Podravska banka will continue to make efforts to be as close as possible to its clients – whether through the branch offices, the Internet, ATMs or the telephone.

ORGANISATION AND STAFF

Podravska banka had 314 employees on 31 December 2011, which is an increase of 2.2% from 31 December 2010. Of the total number of employees, 68% are women and 60% of the total number of employees works directly with clients (front office). The average age of the Bank's employees is 41.

Certain organisational changes were conditioned by the Bank's business development aimed at increasing the efficiency and the optimal utilisation of the Bank's technical and human resources.

Ongoing training and professional development of employees are the Bank's primary objectives. In 2011, almost two thirds of the employees attended in-house and external training courses in different areas relevant for the Bank's operations.

At the same time, the Bank employed young skilled professionals, who will contribute new qualities to the Bank's development.

Since human capital represents the main competitive advantage, Podravska banka attaches special importance to motivating and rewarding its employees, and to developing their competences. At the end of 2011, the new Collective Agreement was signed.

CAPITAL

The Bank's capital without profit earned totalled HRK 355.3 million in 2011. In relation to the previous year, capital decreased by 1.56%, primarily on the basis of the increase in fair value provision of financial instruments available for sale. In this regard, it is important to mention that the profit made in 2010 was entirely allocated to the Bank's reserves.

On 31 December 2011, the nominal value of the share capital amounted to HRK 267.5 million. The share capital consists of 668,749 ordinary registered shares, each at a nominal value of HRK 400.00.

In 2011, 16 Bank's shareholders, foreign nationals, who jointly owned 79.76% of the Bank's shares, announced their joint action and filed for an IPO for the acquisition of the remaining Bank's shares. After the IPO was conducted, the group of shareholders acting jointly holds 85.47% of the Bank's shares.

At the end of 2011, the Bank's own capital amounted to HRK 401.9 million, and the Bank's capital adequacy ratio was 16.61%.

The growth of own capital when compared with 2010, including the increase in the internal capital adequacy ratio, resulted in the acquisition of additional capital by the issuance of hybrid bonds in the total nominal amount of EUR 10.0 million with the seven-year maturity period.

PROFIT AND LOSS ACCOUNT

In 2011, the Bank made a pre-tax profit of HRK 15.64 million, and a net profit of HRK 12.47 million.

In 2011, Bank's core business revenue was HRK 146.39 million, or up by 5.1% over the previous year.

Net interest income was up by 25% over 2010, as a result of the intensified credit activity and the lower average deposit rate.

In the structure of operating revenue, net interest income accounted for 74.8%, net income from fees and commissions 17.4%, and net income from purchase of foreign currency and other income 7.8%.

Core business costs, including amortisation, amounted to HRK 130.7 million and were up by 6.0%. The increase in costs is the consequence of the increase in costs of impairment and provisioning by HRK 7.4 million, while administrative costs and amortisation rose only by HRK 154 thousand, when compared with the previous year.

The credit risk assessment and the allocation of reserves for problem loans and contingent liabilities are based on the conservative policy principle and the application of current regulations. On this basis, the Bank allocated HRK 21.1 million for impairment and provisioning in 2011.

USE OF PROFIT

The Management Board proposes to the Supervisory Board to make a joint proposal at the General Meeting to allocate total profits made in 2011 to the Bank's reserves.

CORPORATE MANAGEMENT AND ORGANISATION

Statement on adherence to the Code of corporate management

In line with the regulations set forth by the Zagreb Stock Exchange, the Management and Supervisory boards of Podravska Banka D.D. hereby give the following Statement: Podravska Banka D.D. adheres to the Code of corporate management, jointly drafted by HANFA (Croatian financial services supervisory agency) and Zagreb Stock Exchange.

2011 Annual questionnaire is an integral part of this Statement, providing all answers to questions and required explanations.

Data on internal control and risk management, as well as data on the Bank's shareholders, are listed in the Notes to financial statements.

The rules on appointment and dismissal of Management board members are listed in the Bank's Articles of Association. The number of Management board members is established by the supervisory board, hence the 3 members of Management board. The Supervisory board establishes a list of potential candidates for the post in the Management board (chairman and board members); nominees must comply to legal requirements, regulating banks and with other relevant regulations.

After prior consent is requested and received by the central bank HNB, the Supervisory board appoints the Management Board Chairman and board members for the term of 5 (five) years, with the possibility of reappointment. The Supervisory board can revoke its appointment decision either for the Management Board Chairman and/or board members if there is an important reason or legal obstacle in effective regulation.

Management board membership and its authorities are regulated by the Bank's Statutes; a special resolution decides on the nature and scope of the board members' authority. The Bank's Management is not authorised to buy own stocks on an organised market, or issue new stocks. Members and their activities, for both Management and Supervisory boards, are listed in the enclosed Annual Questionnaire.

Rules on changes/amendments of the Bank's Articles of Association are provided in/by the Articles of Association. A resolution on the changes/amendments is passed by the General Meeting in line with the laws and the Articles of Association, with minimum votes of three-quarters of the Bank's share capital, represented at the General Meeting voting ballot-session.

Changes/amendments of the Statutes are proposed by the Supervisory board, the Management board and/or the Bank's shareholders.

The Bank has established high standards of corporate management to protect the interests of all its shareholders, customers and clients, employees and others with interest in the Bank's business.

CORPORATE GOVERNANCE CODE - ANNUAL QUESTIONNAIRE

All questions contained in this questionnaire relate to the period of one year to which annual financial statements also relate.

1. **Does the company have a website?** (if not, why?)

   ☑ YES ☐ NO

   If so, what is its address? www.poba.hr

2. **Are the annual, semi-annual and quarterly reports available to the share-holders?**

   At the Company's headquarters and business address (if not, why?)

   ☑ YES ☐ NO

   On the Company's web pages on the Internet (if not, why?)

   ☑ YES ☐ NO

   In the English language (if not, why?)

   ☑ YES ☐ NO

3. **Has the company prepared the calendar of important events?** (if not, why?)

   If so, has the calendar of important events been published on the Company's website? (if not, why?)

   ☐ YES ☑ NO

   The Bank announces major events on its website.

   Is the calendar of important events properly and timely updated? (if not, why?)

4. **Is the company in a cross-shareholding relationship with another company or other companies?**

   ☐ YES ☑ NO

   If so, which companies are those? Is the data on cross-shareholding publicly announced and how? (if not, why?)

5. **Does the company publish in its annual report data on financial instruments issued by the company and owned by members of the Supervisory or Management Board or the management of the company?** (if not, why?)

   ☑ YES ☐ NO

6. **Does the company publish on its website data on financial instruments issued by the company and owned by members of the Supervisory or Management Board or the management of the company, and is this data regularly updated (within 24 hours)?** (if not, why?)

   ☐ YES ☑ NO

Any changes are published through the Zagreb Stock Exchange in accordance with the prescribed content and within the prescribed deadline.

7. **Does the company determine and publicly announce risk factors?** (if not, why?)

☑ YES ☐ NO

8. **Has the company established mechanisms to ensure:**

   That persons who control or come into contact with privileged information understand the nature and importance of such information and restrictions related to it? (if not, why?)

   ☑ YES ☐ NO

   The supervision over the flow of privileged information and any misuse thereof (if not, why?)

   ☑ YES ☐ NO

9. **Does each share of the company have one voting right?**

☑ YES ☐ NO

   If not, have all relevant disclosures pertaining to non-voting shares been publicly and timely released? (if not, why?)

   How have these explanations been released?

10. **Have the lists of all candidates for membership on the Supervisory or Management Board being elected at the Shareholders' Meeting or being appointed, including their CVs, been published on the Company's website?** (if not, why?)

☐ YES ☑ NO

In 2010, the Bank had no election of the members to the Supervisory Board.

11. **Does the Company treat all shareholders equally and under the same conditions?** (if not, why?)

☑ YES ☐ NO

12. **Has the Company issued new shares?**

☐ YES ☑ NO

   If so, has participation in the increase of the Company's share capital been made possible to all shareholders in proportion to their shares in the earlier share capital of the Company, in the form of transferable financial instruments containing pre-emption right, in order to protect interests of the shareholders who at the time of issue cannot subscribe and buy new shares? (if not, why?)

   Was the intention to issue new shares published at least 10 days prior to the day set as the date for defining the status in the register of shares,

which will be relevant for determining which shareholders are entitled to pre-emption right while acquiring newly issued shares? (if not, why?)

13. **Has the company acquired or released any own shares (treasury shares)?**

☐ YES ☑ NO

If so, has the acquisition or release been performed:

In an open market? (if not, why?)

In a manner not favouring any shareholder or investor or group of shareholders or investors? (if not, why?)

14. **Has the issuance of powers of attorney for voting at the Shareholder's Meeting been simplified to the greatest possible extent not involving any strict formal requirements?** (if not, why?)

☑ YES ☐ NO

15. **Has the company ensured that the shareholders of the Company who, for whatever reason, are not able to vote at the Shareholders' Meeting in person, have proxies who are obliged to vote in accordance with instructions received from shareholders, with no extra costs for those shareholders?** (if not, why?)

☑ YES ☐ NO

16. **Has the management or the Management Board of the Company, when convening the Shareholders' Meeting, set the date according to which the status in the register of shares will be established, which will be relevant for exercising voting rights at the Company's Shareholders' Meeting, by setting the date prior to the day of holding the Shareholders' Meeting and may not be more than 6 days prior to the day of holding the Shareholders' Meeting?** (if not, why?)

☑ YES ☐ NO

17. **Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid?** (if not, why?)

☐ YES ☑ NO

There has been no dividend payment.

18. **Is the date of dividend payment or advance payment set to be not later than 30 days after the date of decision making?** (if not, why?)

Please refer to the response to question 17.

19. **Has the decision on dividend payment or advance dividend payment defining the above-mentioned dates been published and submitted to the Stock Exchange not later than within two days after its adoption?**

Please refer to the response to question 17.

20. Have any shareholders been favoured while receiving their dividends or advance dividends? (if so, why?)

Please refer to the response to question 17.

21. Has the agenda of the Shareholders' Meeting, as well as all relevant data and documentation with explanations relating to the agenda, been published on the Company's website and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (if not, why?)

☑ YES ☐ NO

22. Is the agenda of the Shareholders' Meeting and all relevant data and documentation published on the Company's website in English as well? (if not, why?)

☐ YES ☑ NO

The Company has not taken such an initiative, but is ready to comply with it, if necessary

23. Have the conditions been defined for participating at the General Meeting and the exercise of voting rights (irrespective of whether this is permitted by law or the Articles of Association), such as, for example, registration for participation in advance, certification of powers of attorney, and similar? (if so, why?)

☑ YES ☐ NO

Participation and exercise of the voting right at the General Meeting are to be registered within the deadline determined by the Articles of Association, in order to have technical requirements ready in time (large number of shareholders requires comprehensive technical preparations for the Annual Meeting).

24. Does the report to be submitted by the Supervisory or Management Board to the General Meeting include, apart from the content of the report defined by law, an evaluation of the overall business performance of the Company, of the activities of the management of the company, and a special comment on its cooperation with the management? (if not, why?)

☑ YES ☐ NO

25. Are the shareholders given the opportunity to participate and to vote at the General Meeting of the Company using modern communication technology? (if not, why?)

☐ YES ☑ NO

There was no need for such participation and voting.

26. Has the management of the Company published the decisions of the General Meeting, as well as the data on legal actions, if any, challenging those decisions? (if not, why?)

☑ YES ☐ NO

27. **Has the Supervisory or the Management Board adopted a decision on the master plan of its activities, including the list of its regular meetings and the data to be regularly and timely made available to Supervisory Board members?** (if not, why?)

☐ YES ☑ NO

The Supervisory Board meets upon need.

28. **Has the Supervisory or the Management Board passed its internal rules of procedure?** (if not, why?)

☑ YES ☐ NO

29. **Please provide the names of the Supervisory Board or the Management Board members.**
Miljan Todorovic - Chairman of the Supervisory Board,
Sigilfredo Montinari - Deputy Chairman,
Filippo Disertori - Member,
Dolly Predovic - Member,
Maurizio Dallocchio - Member,
Dario Montinari - Member,
Djuro Predovic - Member.

30. **Please specify for each Supervisory Board or Management Board member in what other companies he/she is a member of the Supervisory or Management Board or management. Also, provide information on whether some of those companies are considered as the Company's competition.**

31. **Is the Supervisory Board composed of mostly independent members, i.e. non-executive directors of the Company's Management Board?** (if not, why?)

☐ YES ☑ NO

The majority of Supervisory Board members are shareholders of the Company.

32. **Which members of the Supervisory Board and which non-executive directors of the Management Board are independent?**
Filippo Disertori and Maurizio Dallocchio

33. **Is there a long-term succession plan in the Company?** (if not, why?)

☑ YES ☐ NO

34. **Is the reward or the remuneration received by the Supervisory or Management Board members entirely or partly determined based on their contribution to the Company's business performance?** (if not, why?)

☑ YES ☐ NO

35. **Is the remuneration to the Supervisory or Management Board members:** (if so, in which way?)

Determined by a decision of the General Meeting,

☑ YES ☐ NO

Stipulated in the Articles of Association of the Company,

☐ YES ☑ NO

Determined in some other way?

☐ YES ☑ NO

36. **Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the Company, including the structure of such remuneration, been made public?** (if not, why?) (if so, where?)

☑ YES ☐ NO

In the audited annual report.

37. **Does every member of the Supervisory or Management Board inform the Company of any changes relating to their acquisition or disposal of shares of the Company, or to the possibility to exercise voting rights arising from the Company's shares, not later than on the next business day after such a change occurs?** (if not, why?)

☑ YES ☐ NO

38. **Please specify any transactions involving both members of the Supervisory or Management Board or persons related to them, and the Company or persons related to it.** Regular banking transactions.

39. **Have all transactions involving members of the Supervisory or Management Board or persons related to them and the Company or persons related to it been:**

concluded on the market basis (especially with regard to terms, interests, guarantees, and similar) (if not, why and which transactions were they?)

☑ YES ☐ NO

clearly stated in the Company's reports? (if not, why and which transactions were they?)

☑ YES ☐ NO

confirmed by an independent assessment of experts independent as regards the participants in the relevant transaction? (if not, why and which transactions were they?)

☑ YES ☐ NO

40. **Are there any contracts or agreements between members of the Supervisory or Management Board and the Company?**

☐ YES ☑ NO

If so, did they obtain prior approval of the Supervisory or Management Board? (if not, why?)

Have the essential elements of all such contracts or agreements been included in the annual report? (if not, why?)

41. **Have the Supervisory or Management Board established an appointment committee?** (if not, why?)

☐ YES ☑ NO

If so, has the committee evaluated the structure, size, membership and quality of work of the Supervisory Board and the management, and prepared appropriate recommendations for the Supervisory Board? (if not, why?)

Has the committee evaluated the knowledge, skills and experience of each member of the Supervisory Board and informed the Supervisory Board thereof? (if not, why?)

Has the committee analysed problems related to the planning of work continuity of the Supervisory Board and the management? (if not, why?)

Has the committee analysed the policy of the management on the employment of senior management? (if not, why?)

42. **Have the Supervisory or Management Board established the remuneration committee?**

☐ YES ☑ NO

Have the majority of the committee members been selected from the group of independent members of the Supervisory Board? (if not, why?)

Has the committee proposed to the Supervisory Board the remuneration policy for the management, which shall include all types of remuneration, especially its fixed part, variable part dependent on business results, pension scheme and severance pay? (if not, why?)

In the case of variable part of remuneration dependent on business results, did the proposal of the committee include recommendations for determining impartial criteria for assessing efficiency? (if not, why?)

Has the committee proposed to the Supervisory Board the amount of remuneration for each member of the management, in compliance with the company's remuneration policy and evaluation of business performance of each member of the management? (if not, why?)

Has the committee proposed to the Supervisory Board the appropriate form and content of contracts with the members of the management? (if not, why?)

Has the committee monitored the amount and structure of remuneration to senior management and made general recommendations to the management thereon? (if not, why?)

As regards the part of the remuneration to the management representing stimulus, in the case where it consists of stock options or other arrangements based on share acquisition, has the committee ana-

lysed the general policy on such type of remuneration and proposed to the Supervisory Board appropriate solutions, as well as analysed information published thereon in the annual report, prior to the publication?

43. **Have the Supervisory or Management Board established the audit committee?** (if not, why?)

☑ YES ☐ NO

Have the majority of the committee members been selected from the group of independent members of the Supervisory Board? (if not, why?)

☐ YES ☑ NO

It corresponds to the composition of the Supervisory Board.

Has the committee monitored the integrity of the financial information of the Company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (if not, why?)

☑ YES ☐ NO

Has the committee assessed the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (if not, why?)

☑ YES ☐ NO

Has the committee worked at ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (if not, why?)

☑ YES ☐ NO

If there is no internal audit system in the Company, has the committee considered the need to establish it? (if not, why?)

☐ YES ☑ NO

The Bank established its internal audit.

Has the committee made recommendations to the Supervisory Board on the selection, appointment, reappointment and replacement of the external auditor, and on terms and conditions of his/her employment? (if not, why?)

☑ YES ☐ NO

Has the committee monitored the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (if not, why?)

☑ YES ☐ NO

Has the committee monitored the nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (if not, why?)

☑ YES ☐ NO

Has the committee prepared rules defining which services may not be provided to the Company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (if not, why?)

☐ YES ☑ NO

Has the committee analysed the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (if not, why?)

☑ YES ☐ NO

Has the committee examined the circumstances related to the dismissal of the external auditor, and made adequate recommendations to the Supervisory Board (in a case of such dismissal)? (if not, why?)

☐ YES ☑ NO

There have been no such circumstances.

Does the committee maintain open and unlimited communication with the management and the Supervisory Board? (if not, why?)

☑ YES ☐ NO

Who is the committee accountable to for its work?

To the Supervisory Board.

Does the committee maintain open and unlimited communication with the internal and external auditor? (if not, why?)

☑ YES ☐ NO

Does the management submit to the audit committee:

> **timely and periodic presentations of financial statements and related documents prior to their publication** (if not, why?);
>
> ☑ YES ☐ NO

data on changes in accounting principles and criteria (if not, why?);

☑ YES ☐ NO

accounting procedures accepted for the majority of operations (if not, why?);

☑ YES ☐ NO

data on all major differences between the book and real value by items (if not, why?);

☐ YES ☑ NO, there have been no differences.

all correspondence with the internal audit department or independent auditors (if not, why?).

☑ YES ☐ NO

Has the management informed the audit committee of the methods used for booking significant and unusual transactions and business events in cases when booking of such events may be done in different ways? (if not, why?)

☑ YES ☐ NO

Has the audit committee discussed with the independent auditor issues related to:

changes or retention of accounting principles and criteria, (if not, why?)

☑ YES ☐ NO

application of regulations, (if not, why?)

☑ YES ☐ NO

important assessments and conclusions in the preparation of financial statements, (if not, why?)

☑ YES ☐ NO

methods of risk assessment and results, (if not, why?)

☑ YES ☐ NO

high risk areas of business operations, (if not, why?)

☑ YES ☐ NO

observed major deficiencies and significant shortcomings in the internal audit system, (if not, why?)

☑ YES ☐ NO

effects of external factors (economic, legal and industrial) on financial statements and audit procedures (if not, why?)

☑ YES ☐ NO

Has the audit committee ensured the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (if not, why?)

☑ YES ☐ NO

44. **Has the documentation relevant for the work of the Supervisory Board or the Management Board been submitted on time to all members?** (if not, why?)

☑ YES ☐ NO

45. **Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results, along with information on votes of each individual member?** (if not, why?)

☑ YES ☐ NO

46. **Have the Supervisory or the Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?**

☑ YES ☐ NO

47. **Please provide the names of the members of the Management Board or executive directors.**

Julio Kuruc, Davorka Jakir and Marijan Marušić.

48. **Have rules been established for the work of the management or executive directors, covering the following issues:** (if not, why?)

Scope of activities and objectives,

☑ YES ☐ NO

Rules of procedure,

☑ YES ☐ NO

Rules of solving conflicts of interest,

☑ YES ☐ NO

Management secretariat,

☑ YES ☐ NO

Manner of convening meetings, adopting decisions, agenda, taking minutes and delivering documents,

☑ YES ☐ NO

Cooperation with the Supervisory Board.

☑ YES ☐ NO

49. **Has the Company published a statement on the remuneration policy for the management, Management Board and Supervisory Board as part of the annual report?** (if not, why?)

☐ YES ☑ NO

Although there is no formal statement on the remuneration policy of the Management Board and the Supervisory Board, the Bank publishes aggregate data on information with related parties as well as on the amount of the calculated and the amount of the remuneration the Bank's management is entitled to as part of the annual report prepared in compliance with the IFRS, which is published on the Bank's website.

50. **In the case where remuneration policy has been defined, does it include the following parts:**

significant changes in comparison with the remuneration policy in the past year, (if not, why?)
Please refer to the response to question 49.

explanation of the relative share and of the importance of fixed and variable components of remuneration, (if not, why?)
Please refer to the response to question 49.

sufficient information on performance criteria, the fulfilment of which the right to acquire shares, stock options, or other form of variable part of remuneration is based on, (if not, why?)
Please refer to the response to question 49.

sufficient information on the connection between the amount of remuneration and performance, (if not, why?)
Please refer to the response to question 49.

basic indicators and reasons for payments of annual bonuses or benefits which are not cash, (if not, why?)
Please refer to the response to question 49.

abbreviated overview of contracts with management members, which shall include data on contract duration, notice periods and especially severance pays. Every type of remuneration for members of the management, the Management Board and the Supervisory Board which consists of stock options or other rights to acquire shares, or if remuneration is based on the price of Company shares, shall be approved by the General Meeting of the Company prior to becoming effective. This approval relates to remuneration principles and not to the approval of remuneration for individual members of

the management, the Management Board or the Supervisory Board. (if not, why?)
Please refer to the response to question 49.

51. **Is the statement on the remuneration policy for the management or executive directors permanently available on the Company's website?** (if not, **why?)**

☐ YES ☑ NO

Please refer to the response to question 49.

52. **Has detailed data on all earnings and remunerations received by each member of the management or executive directors from the Company been published in the annual report of the company?** (if not, why?)

Please refer to the response to question 49.

53. **Have all forms of remunerations to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, been made public, broken down by items and persons, in the annual report of the company?** (if not, why?)
Please refer to the response to question 49.

54. **Does the statement on remunerations to the members of the management or Management Board include the following data on each member who exercised that function in the year which the statement relates to:**

total amount of the salary payment, irrespective of whether it has already been paid or not, (if not, why?)
Please refer to the response to question 49.

remunerations or benefits received from associated companies, (if not, why?)
Please refer to the response to question 49.

remunerations in the form of participation in profit or bonuses and the reasons for its payment, (if not, why?)
Please refer to the response to question 49.

any other additional rewards paid to the members of the management for activities they performed for the Company outside the usual scope of duties of a management member, (if not, why?)
Please refer to the response to question 49.

compensation that was or should be paid to a former member of the management due to cessation of exercise of his/her duties during the year which the statement relates to, (if not, why?)
Please refer to the response to question 49.

total estimated value of non-cash benefits considered as remuneration, but not listed in the items above, (if not, why?)
Please refer to the response to question 49.

as regards the remuneration in shares or stock options or other forms of remuneration based on acquisition of shares:

the number of options or shares approved by the Company in the year which the statement relates to and terms and conditions for their disposal (if not, why?)
Please refer to the response to question 49.

the number of options exercised in the year which the statement relates to, and for each of them, the number of shares and the price it was exercised at, or the value of shares distributed to the members of the management at the year-end, (if not, why?)
Please refer to the response to question 49.

the number of options not exercised at the end of the year, the price they can be exercised at, the exercise date and the main conditions relating to the exercise, (if not, why?)
Please refer to the response to question 49.

each change related to the change in conditions of exercise of the existing options which occurred in the Company in the year which the statement relates to, (if not, why?)
Please refer to the response to question 49.

each loan (including the debt balance and the interest rate), advance payment or a guarantee paid to members of the management by the Company and its associated companies included in consolidated financial statements. (if not, why?)
Please refer to the response to question 49.

55. **Has every member of the management or executive director informed the Supervisory Board or Management Board of the Company of any changes relating to their acquisition or disposal of shares of the Company or to the possibility to exercise voting rights arising from the Company's shares not later than on the next business day after such a change occurs, whereas the company has the obligation to publish such a change within the shortest possible time?** (if not, why?)

☐ YES ☑ NO

During 2011 there were no changes of ownership over Bank's shares by the members of the Management Board.

56. **Please provide information on all transactions involving both members of the management or executive directors and persons related to them, and the Company or persons related to it.**
Regular banking transactions carried out under commercial conditions.

57. **Have all transactions involving members of the management or executive directors and persons related to them and the Company and persons related to it been:**

Concluded based on the market basis (especially with regard to terms, interests, guarantees, and similar)? (if not, why and which transactions were they?)

☑ YES ☐ NO

Clearly presented in reports of the Company? (if not, why and which transactions were they?)

☑ YES ☐ NO

Confirmed by an independent estimate of experts independent as regards the participants in the relevant transaction? (if not, why and which transactions were they?)

☑ YES ☐ NO

58. **Do any members of the management or executive directors own a significant holding in the companies which might be considered as the Company's competition?** (if so, which members, where do they own holdings and what is the size of those holdings?)

☐ YES ☑ NO

59. **Are any members of the management or executive directors also members of the Supervisory Boards of other companies?** (if so, provide the names of those members of the management, names of the companies in which they are members of the Supervisory Board, and functions they exercise in those Supervisory Board)

☑ YES ☐ NO

Davorka Jakir - Supervisory Board member, Hotel Panonija d.o.o., Sisak

60. **Does the Company have an external auditor?** (if not, why?)

☑ YES ☐ NO

61. **Is the external auditor of the Company:**

related to the Company in terms of ownership or interests (if so, state in which way)

☐ YES ☑ NO

Providing to the Company, him/herself or through related persons, other services? (if so, provide information on those services and on how much it costs the Company)

☐ YES ☑ NO

62. **Have the independent auditors directly informed the audit committee of the following issues:**

discussion on the main accounting policy,

☑ YES ☐ NO

major deficiencies and significant shortcomings in the internal audit system,

☑ YES ☐ NO

alternative accounting procedures,

☑ YES ☐ NO

disagreement with the management,

☑ YES ☐ NO

risk assessment, and

☑ YES ☐ NO

analysis, if any, of fraud and/or abuse.

☑ DA ☐ NE

If not, why? Such cases have not been recorded

63. **Has the Company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided?** (if not, why)

☐ YES ☑ NO

The charge for the audit has been established with the contract

64. **Does the Company have internal auditors and an internal audit system established?** (if not, why?)

☑ YES ☐ NO

65. **Do investors have the possibility to request in writing and receive on time all relevant records from the management of the Company or from the person in the Company responsible for investor relations** (if not, why?)

☑ YES ☐ NO

66. **How many meetings did the management of the Company hold with investors?**

There have been no meetings with investors, except the General Meeting held.

67. **Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the Company or outside it shortcomings in the application of rules or ethical norms within the Company?** (if so, why?)

☐ YES ☑ NO

68. **Do all members of the management, and the Supervisory Board or the Management Board agree that the answers provided in this questionnaire are, to the best of their knowledge, truthful in their entirety?** (If not, please provide names of the members of the management and the Supervisory Board who do not agree with the answers, list the answers they do not agree with and explain why.)

☑ YES ☐ NO

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Law (Official Gazette No. 109/07), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with applicable laws and regulatory requirements that provide a true and fair view of the financial position, performance, changes in equity and cash flows of Podravska banka d.d. for that period.

The Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements 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 presume that the Bank will continue in business.

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

These financial statements were authorised for issue by the Management Board on 17 April 2012 and were signed on its behalf by the Management Board:

Julio Kuruc	Marijan Marušić	Davorka Jakir
President of the Board	Member of the Board	Member of the Board

Koprivnica, 17 April 2012

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INDEPENDENT AUDITOR'S REPORT

To the Owners of Podravska banka d.d.:

We have audited the financial statements of Podravska banka d.d ("the Bank") which comprise the statement of financial position as at 31 December 2011, and the related income statement, statement of comprehensive income, statements of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with legal requirements applicable to the accounting for banks in the Republic of Croatia. 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 independent 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 Bank'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 Bank'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 on pages 4 to 68, present fairly, in all material respects, the financial position of the Bank as at 31 December 2011, and the results of its operations and its cash flows for the year then ended in accordance with the legal requirements applicable to the accounting for banks in the Republic of Croatia.

Emphasis of the Matter

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix I to these financial statements on pages 69 to 78, which comprise the balance sheet as of 31 December 2011, and the statements of income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 4 to 68, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Bank.

Deloitte d.o.o.
Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia
17 April 2012

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

(IN THOUSANDS OF HRK)

	NOTES	2011	2010
INTEREST AND SIMILAR INCOME	3	179,863	167,098
INTEREST AND SIMILAR EXPENSE	3	(70,378)	(79,698)
NET INTEREST INCOME		**109,485**	**87,400**
FEE AND COMMISSION INCOME	4	36,745	38,528
FEE AND COMMISSION EXPENSE	4	(11,248)	(11,807)
NET FEE AND COMMISSION INCOME		**25,497**	**26,721**
OTHER OPERATING INCOME, NET	5	11,407	25,169
OPERATING INCOME		**146,389**	**139,290**
IMPAIRMENT LOSSES AND PROVISIONS	6	(21,122)	(13,748)
ADMINISTRATIVE EXPENSES	7	(99,531)	(96,651)
DEPRECIATION AND AMORTISATION	8	(10,100)	(12,826)
PROFIT BEFORE TAXATION		**15,636**	**16,065**
INCOME TAX EXPENSE	9	(3,170)	(3,091)
NET PROFIT FOR THE YEAR		**12,466**	**12,974**
EARNINGS PER SHARE	**10**	**HRK 18.64**	**HRK 19.40**

The accompanying accounting policies and notes on pages 51 to 106 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

(IN THOUSANDS OF HRK)

	NOTES	2011	2010
NET PROFIT FOR THE YEAR		**12,466**	**12,974**
OTHER COMPREHENSIVE INCOME			
NET DECREASE OF FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL ASSETS		(23,275)	(3,371)
DEFERRED TAX RECOGNISED IN EQUITY		4,655	674
OTHER COMPREHENSIVE INCOME		**(18,620)**	**(2,697)**
TOTAL COMPREHENSIVE INCOME AFTER TAX		**(6,154)**	**10,277**

The accompanying accounting policies and notes on pages 51 to 106 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

(IN THOUSANDS OF HRK)

	NOTES	31 DECEMBER 2011	31 DECEMBER 2010
ASSETS			
CASH AND AMOUNTS DUE FROM BANKS	11	188,604	221,847
BALANCES WITH THE CROATIAN NATIONAL BANK	12	210,350	189,963
PLACEMENTS WITH OTHER BANKS	13	176,228	242,885
LOANS AND ADVANCES TO CUSTOMERS	14	1,893,621	1,571,878
FINANCIAL ASSETS AVAILABLE FOR SALE	15	293,958	401,906
FINANCIAL ASSETS HELD TO MATURITY	16	27,756	56,308
INVESTMENTS IN SUBSIDIARIES	19	3,570	3,570
INTANGIBLE ASSETS	17	20,696	20,791
PROPERTY AND EQUIPMENT	18	72,799	67,317
DEFERRED TAX ASSETS	9	9,700	5,171
OTHER ASSETS	20	14,468	15,463
TOTAL ASSETS		**2,911,750**	**2,797,099**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
AMOUNTS DUE TO OTHER BANKS	21	151,106	154,565
AMOUNTS DUE TO CUSTOMERS	22	2,150,584	2,107,741
OTHER BORROWED FUNDS	23	134,476	135,876
OTHER LIABILITIES	24	26,192	22,123
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	4,457	2,900
ISSUED HYBRID INSTRUMENTS	26	77,195	-
TOTAL LIABILITIES		**2,544,010**	**2,423,205**
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(11,082)	(11,082)
OTHER RESERVES	28	95,841	101,487
PROFIT FOR THE YEAR		12,466	12,974
TOTAL SHAREHOLDERS' EQUITY		**367,740**	**373,894**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,911,750**	**2,797,099**

The accompanying accounting policies and notes on pages 51 to 106 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

(IN THOUSANDS OF HRK)

	NOTES	2011	2010
PROFIT BEFORE TAXATION		**15,636**	**16,065**
ADJUSTMENTS TO RECONCILE PROFIT BEFORE TAXATION TO NET CASH FROM OPERATIONS			
DEPRECIATION AND AMORTISATION		10,100	12,826
NET (GAINS) / LOSSES ON SALE OF NON-CURRENT TANGIBLE ASSETS		(860)	15
INCREASE IN PROVISIONS FOR LOANS AND ADVANCES AND OTHER PROVISIONS		21,122	13,748
DIVIDEND INCOME		(1,280)	(1,491)
INCREASE OF ASSETS HELD TO MATURITY		(1,911)	(1,241)
PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS		**42,807**	**39,922**
CHANGES IN OPERATING ASSETS			
NET (INCREASE) / DECREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		(20,387)	6,129
NET INCREASE IN LOANS AND ADVANCES TO CUSTOMERS		(340,885)	(280,551)
NET(DECREASE / (INCREASE) IN PLACEMENTS WITH BANKS		398	(20,000)
NET INCREASE IN OTHER ASSETS		(2,471)	(2,691)
INCREASE / (DECREASE) IN OTHER LIABILITIES		4,069	(8,748)
(DECREASE) / INCREASE IN AMOUNTS DUE TO OTHER BANKS		(3,459)	18,339
INCREASE IN DEPOSITS		42,843	64,670
NET CASH INFLOW FROM OPERATING ACTIVITIES		**(277,085)**	**(182,930)**
PURCHASES OF PROPERTY AND EQUIPMENT		(15,648)	(5,163)
CASH RECEIPTS FROM DISPOSAL OF PROPERTY AND EQUIPMENT		1,021	-
NET DECREASE / (INCREASE) IN FINANCIAL ASSETS AVAILABLE FOR SALE		84,673	(268,915)
CASH RECEIPTS FROM DIVIDEND		1,280	1,491
DECREASE IN INVESTMENTS HELD TO MATURITY		30,463	70,485
INVESTMENT IN SUBSIDIARY		-	(2,040)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**101,789**	**(204,142)**
BORROWED FUNDS		(1,400)	(46,801)
ISSUED HYBRID INSTRUMENTS		77,195	-
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**75,795**	**(46,801)**
NET (DECREASE) / INCREASE IN CASH		**(99,501)**	**(433,873)**
CASH AT BEGINNING OF PERIOD	**11**	**444,732**	**878,605**
CASH AT END OF PERIOD	**11**	**345,231**	**444,732**

The accompanying accounting policies and notes on pages 51 to 106 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(IN THOUSANDS OF HRK)

	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	PROFIT FOR THE YEAR	TOTAL
BALANCE AT 1 JANUARY 2010	**267,500**	**3,015**	**(11,082)**	**4,802**	**87,258**	**12,124**	**363,617**
ALLOCATION OF 2009 PROFIT	-	-	-	-	12,124	(12,124)	-
PURCHASE OF TREASURY SHARES	-	-	-	-	-	-	-
OTHER COMPREHENSIVE INCOME	-	-	-	-	(2,697)	-	(2,697)
PROFIT FOR THE YEAR	-	-	-	-	-	12,974	12,974
BALANCE AT 31 DECEMBER 2010	**267,500**	**3,015**	**(11,082)**	**4,802**	**96,685**	**12,974**	**373,894**
ALLOCATION OF 2010 PROFIT	-	-	-	-	12,974	(12,974)	-
PURCHASE OF TREASURY SHARES	-	-	-	-	-	-	-
OTHER COMPREHENSIVE INCOME	-	-	-	-	(18,620)	-	(18,620)
PROFIT FOR THE YEAR	-	-	-	-	-	12,466	12,466
BALANCE AT 31 DECEMBER 2011	**267,500**	**3,015**	**(11,082)**	**4,802**	**91,039**	**12,466**	**367,740**

The accompanying accounting policies and notes on pages 51 to 106 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. GENERAL

History and incorporation

Podravska banka d.d., Koprivnica (the ''Bank") is incorporated in the Republic of Croatia and was registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3.

Principal activity

As at 31 December 2011, the Bank was operating a total of 30 branches throughout the Republic of Croatia. The Bank's main areas of operation include:

1. Accepting deposits or other refundable funds from the public and approving loans out of those funds on its own account;
2. Accepting deposits or other refundable funds;
3. Approving loans and credits, including consumer credits and loans as well as mortgage credit and loans if allowed by a separate law, and financing of commercial businesses, including export trade financing on the basis of redemption at discount and without recourse of long-term receivables not yet due secured by financial instruments (forfeiting);
4. Purchase of receivables with or without recourse (factoring);
5. Financial lease;
6. Issuing guarantees or other sureties;
7. Trading, on its own account or on the account of customers, in:
   - money market instruments
   - transferable securities
   - foreign currencies, including exchange operations
   - financial futures and options
   - foreign-exchange and interest-rate instruments
8. Payment operation services, as follows:
   1) depositing of cash on payment accounts, as well as all operations required for managing payment accounts;
   2) raising cash from payment accounts, as well as all operations required for managing payment accounts;
   3) payment operation services, including transfers of cash into payment accounts with the user payment operation service providers or another payment operation service provider:
      - direct charging of accounts, including one-off direct payments from the accounts;
      - executing payment transactions using credit cards or similar instruments;
      - credit fund transfers, including standing orders;
   4) payment transaction services using cash covered by credit lines provided to payment operation service users:
      - direct charging of accounts, including one-off direct payments from the accounts;
      - executing payment transactions using credit cards or similar instruments;
      - credit fund transfers, including standing orders;
   5) issuance and/or acceptance of payment instruments;
   6) money orders;
9. Loan related services, such as data collection, preparation of analyses and providing credit reports on legal entities and self-employed individuals;
10. Providing and managing other payment security instruments, unless these services are deemed payment operation services in accordance with a separate law;
11. Providing safe-deposit box services;

12. Intermediation on money markets;
13. Offering advisory services to legal entities covering capital structuring, business strategy and similar as well as providing services related to business acquisitions and acquisitions of shares in other companies;
14. Issuing electronic money;
15. Providing investment and ancillary services and activities in accordance with a separate capital market law, such as:
    - receiving and transmitting orders in relation to one or more financial instruments;
    - executing orders on behalf of customers;
    - own-account trading;
    - portfolio management;
    - investment consulting;
    - underwriting of financial instruments and/or placing of financial instruments without a firm commitment basis;
    - safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management;
    - granting credits or loans to an investor to allow him/her/it to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
    - advice on capital structure, industrial strategy and related matters, and advice and services relating to mergers and acquisitions of equity shares in companies;
    - foreign exchange services where these are connected to the provision of investment services;
    - investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments;
    - services related to underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;
    - investment services and activities as well as ancillary services mentioned in this Article related to the underlying assets of the derivatives referred to in Article 3, paragraph 1, point 2, sub-point (d), indents 2, 3, 4 and 7, of this Act where these investment services and activities are connected to the provision of investment or ancillary services.
16. Performing activities in connection with the sale of insurance policies in accordance with the applicable insurance regulations.

The operations of the Bank are overseen by the Supervisory Board. The members of the Supervisory Board of Podravska banka d.d., Koprivnica during 2011 were as follows:
Miljan Todorovic, President
Sigilfredo Montinari, Deputy President
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member
Maurizio Dallocchio, Member
Filippo Disertori, Member

The operations of the Bank are managed by the Management Board. The members of the Management Board during 2011 were as follows:
Julio Kuruc, President
Marijan Marušić, Member
Davorka Jakir, Member

The structure of the Bank's shareholders as at 31 December 2011 and 2010 is provided in Note 27. The Bank's shares are included on the Public Joint Stock Company Listing on the Zagreb Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Bank's principal accounting policies is set out below.

Basis of accounting

The Bank maintains its accounting records in Croatian kuna (HRK) and in accordance with the Croatian law and the accounting principles and practices observed by financial enterprises in Croatia.

Statement of compliance

The financial statements have been prepared in accordance with the legal requirements applicable to accounting for banks in Croatia. In the Republic of Croatia, banking operations are carried out in accordance with the Credit Institutions Act, under which the financial reporting requirements for banks are specified by the Croatian National Bank ("the CNB"). These financial statements have been prepared in accordance with the CNB accounting requirements.

The CNB accounting requirements are based on International Financial Reporting Standards ("IFRS"). The key differences between the CNB accounting requirements and those provided in International Financial Reporting Standards include estimations of impairment losses on a portfolio basis for both balance sheet and off-balance sheet items not identified as individually impaired. The CNB requires from banks to recognise impairment losses on a portfolio basis in the range from 0.85% to 1.20% of qualifying items. As at 31 December 2011, the afore mentioned allowances amounted to HRK 24,290 thousand (2010: HRK 26,190 thousand) and expense of provisions for portfolio impairment losses in the income statement for the year ended 31 December 2011 amounted to HRK 1,900 thousand (2010: expense in the amount of HRK 2,800 thousand).

According to IAS 39, future cash flows for groups of financial assets subject to a collective evaluation of impairment should be estimated on the basis of historical loss data about assets with similar credit risk characteristics and should not be limited from any aspect. The Bank is in the process of collecting data about past experience in unidentified losses in various portfolios, considering the appropriate economic conditions to adjust that data, to establish the basis for estimating the level of unidentified losses existing at the reporting date in accordance with the IFRS requirements.

The Management Board considers that unidentified impairment losses as determined on this basis would not exceed the losses determined in accordance with the CNB accounting requirements.

Basis of preparation

The Bank's financial statements are prepared in thousands of Croatian kuna (HRK) and all values have been rounded to the nearest thousand, unless stated otherwise.

The financial statements for the year ended 31 December 2011 have been prepared under historical cost convention, except for financial assets and liabilities carried at fair value through profit or loss in accordance with IAS 39 "Financial instruments: Recognition and Measurement". The accounting policies have been consistently applied, unless stated otherwise.

The financial statements of the Bank have been prepared under the going-concern assumption.

In the preparation of the financial statements, the directors are required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The accounting policies applied are consistent with those from prior years.

The Bank also expects that, in the ordinary course of updating its accounting regulations, the CNB will take into account the following Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, which were in issue as of the date on which these financial statements were authorised for issue, but which are applicable to entities reporting under IFRS in periods commencing after 31 December 2011, and which may have an impact on the Bank.

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

- Amendments to IFRS 1 "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 32 "Financial Instruments: 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 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- Amendments to IFRIC 14 "IAS 19 - The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies.

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),
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2013)
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 “Financial Instruments: Disclosures”- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IFRS 7 “Financial Instruments: Disclosures”- Offsetting of Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 1 “Presentation of financial statements” - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).
- Amendments to IAS 19 “Employee Benefits” - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 32 “Financial instruments: Presentation” - Offsetting of Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after 1 January 2013).

The Management has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Management anticipates that the adoption of standards 7 and 9 will have a significant impact on the financial statements mostly in respect of financial instruments classification, while acceptance of other standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application

Reporting currency

At 31 December 2011, the effective exchange rate of the Croatian Kuna for 1 Euro was HRK 7.530420 and for 1 American dollar (USD) HRK 5.819940 (31 December 2010: EUR 1 = HRK 7.385173; USD 1 = HRK 5.568252).

Interest and similar income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount. Loan origination fees for loans which are probable of being drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees receivable are recognised when earned. Dividend income is recognised after being declared.

Fee and commission income

Fees and commission income comprises mainly of fees receivable from enterprises for loans and guarantees granted and other services provided by the Bank, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions.

Fees and commissions are recognised when the related service is rendered. Loan origination fees for loans which are likely of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan.

Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realised gains on securities classified as assets available for sale, foreign exchange revaluation, gains from disposal of fixed assets, dividends earned and other income.

Foreign currencies

Income and expenditure arising from transactions in foreign currencies are translated to HRK at the official rates of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated to HRK at the mid market exchange rate of the CNB on the last day of the accounting period. Gains and losses resulting from the foreign currency translation are included in the income statement.

The Bank has receivables and liabilities originating in HRK, which are linked to foreign currencies with a one-way currency clause. Due to this clause the Bank has an option to revalue the asset by the higher of: foreign exchange rate valid as of the date of repayments of the receivables by the debtors, or foreign exchange rate valid as of the date of origination of the financial instrument. The counterparty has this option if the liability is linked to this clause. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option cannot be calculated as the forward rates for HRK for periods over 9 months are generally not available. As such the Bank revalues its receivables and liabilities linked to this clause by the agreed reference rate valid at the reporting date or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

Staff costs

Provisions for bonuses are recognised when the Bank has a constructive obligation arising from a contract or past practice. A provision is made for accrued vacation days by reference to the unused vacation days at the reporting date.

Personnel social contributions

According to local legislation the Bank is obliged to pay contributions to the Pension Funds and the State Health Fund. This obligation relates to full-time employees and provides for paying contributions in the amount of certain percentages determined on the basis of the gross salary as follows:

	2011	2010
CONTRIBUTIONS FOR PENSION FUND	20%	20%
CONTRIBUTIONS FOR STATE HEALTH FUND	15%	15%
CONTRIBUTIONS FOR THE STATE EMPLOYMENT BUREAU	1,7%	1,7%
INJURIES AT WORK	0,5%	0,5%

The Bank is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds.

The contributions on behalf of employees and on behalf of employer are charged to expenses in the period to which they relate (see Note 7).

In the course of normal operations, the Bank makes regular payments of contributions on behalf of its employees who are members of mandatory pension funds as provided by law. The mandatory pension contributions are included in the payroll costs when they are accrued. The Bank has no additional retirement benefit plan and, therefore, has no further obligations in respect of employee retirement benefits. In addition, the Bank has no obligation to provide any post-employment benefits to its employees.

Taxation

The corporate income tax payable is provided on taxable profits for the year at the current rate. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the expected tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets.

The Bank is subject to a tax rate of 20 percent in accordance with the Income Tax Law.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days of remaining maturity, including cash and current accounts with other banks.

Financial instruments

The Bank's financial assets and financial liabilities recorded on the statement of financial position include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term loans, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies.

The Bank recognises financial assets and liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy.

Financial assets and liabilities are classified as "Financial assets at fair value through profit or loss", "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.

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

Regular way transactions with financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value on the underlying asset or liability are recognised starting from trade date.

The Bank recognises financial assets and financial liabilities initially at their fair value plus, except for financial assets at fair value through profit and loss, transaction costs directly attributable to the acquisition or delivery of a financial asset or a financial liability.

Financial assets at fair value through profit or loss

Financial instruments included in this portfolio are instruments held for trading, acquired to generate profits from short-term fluctuations in prices or brokerage fees, or are securities included in a portfolio with a pattern of short-term profit taking.

Such instruments are initially recognised at cost and subsequently measured at fair value, which is based on the quoted bid prices in an active market.

All related realised and unrealised gains and losses are included in the income statement under "Net trading gains". Interest earned whilst holding the instruments is reported under "Interest and similar income".

Held to maturity assets

Financial instruments included in this portfolio are non-derivative financial assets with fixed or determinable payments and fixed maturity, where Management has both the intent and the ability to hold to maturity. All held-to-maturity financial instruments are carried at amortised cost, less any provision for impairment. Interest earned from held-to-maturity financial instruments is reported as interest income and recognised based on effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Bank recognises allowances through the income statement.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the Bank may not recover substantially all of its initial investment, due to credit deterioration, which shall be classified as available for sale. This portfolio comprises loans provided to customers.

Loans and receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

Impairment of financial assets

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Loan loss allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include: delinquency in contractual payments of principal or interest, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions, initiation of bankruptcy proceedings and deterioration of the borrower's competitive position.

If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

When a loan is uncollectible, it is written-off against the related provision for loan impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has substantially transferred all risks and rewards of ownership. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

For available-for-sale assets, gains and losses arising from changes in fair value are recognised directly in equity under the caption "Reserves and retained profits", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Interest earned whilst holding available-for-sale securities is accrued on a monthly basis using the effective interest rate method and reported as Interest income in the income statement.

Foreign exchange differences related to available-for-sale equity instruments held in foreign currency are reported together with fair value gains and losses in equity until the financial asset is sold. Foreign exchange differences related to available-for-sale debt instruments held in foreign currency are reported in the income statement.

Dividends on securities available for sale are recorded as declared and included as a receivable in the statement of financial position line other assets and in other operating income in the income statement. Upon payment of the dividend, the receivable is offset against the collected cash.

Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. The real estate is stated at the lower of cost of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement. Real estate used as collateral for loans given to customers can be sold only in case it is subject to enforcement procedure.

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements and the counterparty is included in due to banks or customers as appropriate. Securities purchased under agreements to resell (reverse repo) are recorded as due from banks and loans and advances to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation less any provision for impairment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the period in which the costs are incurred.

Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, property and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment. Property and equipment is depreciated on a straight-line basis over the useful life of the assets as follows:

	2011	2010
BUILDINGS	40	40
FURNITURE	5	5
COMPUTERS	4	4
MOTOR VEHICLES	5	5
EQUIPMENT AND OTHER ASSETS	2 - 10	2 - 10

Land is not depreciated. The asset's residual values useful lives and methods are reviewed, and adjusted if appropriate, at least at every financial year end. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed at each reporting period.

Intangible assets are amortised over the periods of 4 years (software). Amortisation period and amortisation method are reviewed at least at every year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Impairment of non-financial assets

Property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property and equipment and intangibles carried at cost and treated as a revaluation decrease for assets that are carried at their revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset. The recoverable amount is the higher of an asset's net selling price and its value in use.

Provisions for contingent liabilities

Provisions are recognised when the Bank has a present legal or contractual obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Managed funds

The Bank manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Bank's statement of financial position (the details are set out in note 29).

Dividend policy

The Bank has a policy to pay dividends to its shareholders based on the audited annual results.

Significant accounting judgements and estimates

Judgements
In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Held to maturity investments
The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep this investments to maturity other than for the specific circumstances (such as selling an insignificant amount close to maturity) it will be required to reclassify the entire class as available for sale and measure it at fair value instead of amortised cost.

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

Allowances for impairment of loans and receivables
The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little historical data available relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Provisions for court cases
Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are maintained at the level that the Bank's management considers sufficient for absorption of incurred losses. Management determines the sufficiency of provisions on the basis of insight into specific items, current legal circumstances, as well as other relevant factors.

Income tax
The Bank's profit is subject to corporate income tax in Croatia. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. These calculations that support the tax return may be subject to review and approval by the local tax authorities.

3. INTEREST AND SIMILAR INCOME AND EXPENSE

(IN THOUSANDS OF HRK)

	2011	2010
INTEREST INCOME		
CITIZENS	56,220	61,615
COMPANIES	99,741	69,266
SECURITIES	18,197	28,107
BANKS	2,605	5,268
PUBLIC AND OTHER SECTORS	3,100	2,842
	179,863	**167,098**
INTEREST EXPENSE		
CITIZENS	(50,272)	(63,176)
COMPANIES	(12,572)	(11,583)
BANKS	(4,155)	(3,341)
PUBLIC AND OTHER SECTORS	(3,379)	(1,598)
	(70,378)	**(79,698)**
NET INTEREST INCOME	**109,485**	**87,400**

Interest income also includes deferred fees on loans in total amount of HRK 13,307 thousand (2010: HRK 10,211 thousand), which are recognised applying the effective interest rate methodology.

(IN THOUSANDS OF HRK)

	2011	2010
INTEREST INCOME RECOGNISED ON:		
SUBSTANDARD LOANS	2,895	3,088
NON PERFORMING LOANS	1,045	868
	3,940	**3,956**

4. FEE AND COMMISSION INCOME AND EXPENSE

(IN THOUSANDS OF HRK)

	2011	2010
FEE AND COMMISSION INCOME		
PAYMENT TRANSACTION FEES AND COMMISSIONS	13,684	13,127
FEES AND COMMISSIONS ON CREDIT CARD SERVICES	13,060	13,948
FEES AND COMMISSIONS FROM LENDING OPERATIONS	4,438	6,108
FEES AND COMMISSIONS ON SECURITIES TRADING	1,102	953
OTHER FEES AND COMMISSION INCOME	4,461	4,392
	36,745	**38,528**
FEE AND COMMISSION EXPENSE		
PAYMENT TRANSACTION CHARGES	(2,868)	(3,504)
CASH OPERATION FEES AND COMMISSIONS	(5,280)	(5,020)
INTERBANK SERVICE FEES	(537)	(720)
OTHER FEE AND COMMISSION EXPENSE	(2,563)	(2,563)
	(11,248)	**(11,807)**
NET FEE AND COMMISSION INCOME	**25,497**	**26,721**

Other fee and commission income consist mainly of fees collected on the Bank's counters from customers for the payments made and amounted to HRK 1,975 thousand (2010: HRK 2,107 thousand).

5. OTHER OPERATING INCOME, NET

(IN THOUSANDS OF HRK)

	2011	2010
FOREIGN EXCHANGE TRADING GAIN	9,169	11,529
NET GAINS ON DEALINGS IN AVAILABLE-FOR-SALE SECURITIES	(3,660)	10,155
FOREIGN EXCHANGE REVALUATION	724	811
DIVIDEND INCOME	1,280	1,491
INCOME ON SUBSEQUENT COLLECTION OF LOANS PREVIOUSLY WRITTEN OFF	13	58
NET LOSSES ON DISPOSAL OF PROPERTY AND EQUIPMENT	860	(15)
NET LOSSES ON SALE OF REPOSSESSED ASSETS	(85)	(695)
REFUND OF COURT COSTS	**1,628**	**114**
LEASE INCOME	**641**	**950**
OTHER INCOME	837	771
	11,407	**25,169**

6. IMPAIRMENT LOSSES AND PROVISIONS

(IN THOUSANDS OF HRK)

	2011	2010
PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS (NOTE 14D)	(19,446)	(13,459)
OTHER ASSETS (NOTE 20)	(423)	(46)
COLLECTION OF SUSPENDED INTEREST RECEIVABLES	304	526
PROVISIONS FOR GUARANTEES AND COMMITMENTS (NOTE 25)	(1,557)	(769)
	(21,122)	**(13,748)**

7. ADMINISTRATIVE EXPENSES

(IN THOUSANDS OF HRK)

	2011	2010
STAFF COSTS	51,039	48,435
MATERIALS AND SERVICES	30,808	30,003
RENTALS	11,182	11,303
DEPOSIT INSURANCE PREMIUM	4,364	4,408
TAXES AND CONTRIBUTIONS	1,147	1,276
OTHER EXPENSES	991	1,226
	99,531	**96,651**

Other operating expenses include: cost of advertising, sponsorships, donations and other costs.

Overview of staff costs

(IN THOUSANDS OF HRK)

	2011	2010
NET SALARIES	27,457	25,631
PENSION INSURANCE COSTS	7,483	7,202
HEALTH INSURANCE COSTS	6,257	5,970
OTHER COMPULSORY CONTRIBUTIONS	918	876
TAXES AND SURTAXES	6,770	6,969
PROVISIONS FOR EMPLOYEE BENEFITS	750	181
OTHER STAFF COSTS	1,404	1,606
	51,039	**48,435**

At 31 December 2011, the number of staff employed by the Bank was 314 (2010: 307).

8. DEPRECIATION AND AMORTISATION

(IN THOUSANDS OF HRK)

	2011	2010
DEPRECIATION OF PROPERTY AND EQUIPMENT	8,311	10,558
DEPRECIATION OF LEASEHOLD IMPROVEMENTS	1,034	1,432
AMORTISATION	755	836
	10,100	**12,826**

9. INCOME TAX EXPENSE

Income tax is determined by applying the rate of 20 percent to taxable profits (2010: 20 percent).

Tax returns remain not final and are subject to supervisory inspection for at least a three-year period. Management states that the Bank has made adequate provisions for tax obligations in the presented financial statements.

Tax expense comprises the following:

(IN THOUSANDS OF HRK)

	2011	2010
CURRENT TAX EXPENSE	3,043	3,201
DEFERRED TAX EXPENSE/ (INCOME)	127	(110)
INCOME TAX EXPENSE	**3,170**	**3,091**

The reconciliation between accounting profit and taxable profit is set out below:

(in thousands of HRK)	2011	2010
PROFIT BEFORE TAXATION	15,636	16,065
STATUTORY TAX RATE	20%	20%
INCOME TAX CALCULATED AT 20%	**3,127**	**3,213**
TEMPORARY DIFFERENCES		
UNREALISED LOSSES ON FINANCIAL ASSETS	(1,016)	(614)
DEFERRED LOAN ORIGINATION FEES	383	1,162
NET TEMPORARY DIFFERENCES	**(633)**	**548**
PERMANENT DIFFERENCES		
TAX EFFECT OF NON-TAXABLE INCOME:	**(1,280)**	**(1,491)**
DIVIDENDS RECEIVED	(1,280)	(1,491)
TAX EFFECT OF EXPENSES NOT RECOGNISED FOR TAX PURPOSES	**1,492**	**880**
ENTERTAINMENT AND PERSONAL TRANSPORTATION	511	398
DEPRECIATION ABOVE PRESCRIBED AMOUNTS	377	289
WRITE-OFFS	590	173
OTHER	14	20
NET PERMANENT DIFFERENCES	**212**	**(611)**
TAXABLE PROFIT	15,215	16,002
TAX BASE	15,215	16,002
TAX RATE	20%	20%
TAX LIABILITY	3,043	3,201
CURRENT TAX EXPENSE	**3,043**	**3,201**
EFFECTIVE TAX RATE	**19.46%**	**19.92%**

Movements in deferred tax assets are as follows:

(in thousands of HRK)

2011

	OPENING BALANCE	CHARGED TO INCOME STATEMENT	CHARGED TO EQUITY	CLOSING BALANCE
LOSSES ON FINANCIAL ASSETS	813	(203)	-	610
LOSSES ON OTHER INVESTMENTS	43	-	-	43
DEFERRED LOAN ORIGINATION FEES	1,987	77	-	2,064
FINANCIAL ASSETS AVAILABLE FOR SALE	2,328	-	4,655	6,983
	5,171	**(126)**	**4,655**	**9,700**

(IN THOUSANDS OF HRK)

	2010			
	OPENING BALANCE	CHARGED TO INCOME STATEMENT	CHARGED TO EQUITY	CLOSING BALANCE
LOSSES ON FINANCIAL ASSETS	936	(123)	-	813
LOSSES ON OTHER INVESTMENTS	43	-	-	43
DEFERRED LOAN ORIGINATION FEES	1,754	233	-	1,987
DEFERRED OTHER FEES	-	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	1,654	-	674	2,328
	4,387	**110**	**674**	**5,171**

10. EARNINGS PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders after deducting preference dividends.

(IN THOUSANDS OF HRK)

	2011	2010
PROFIT FOR THE YEAR (IN HRK'000)	12,466	12,974
WEIGHTED AVERAGE NUMBER OF SHARES	668,749	668,749
EARNINGS PER SHARE (IN HRK) - BASIC AND DILUTED	**18.64**	**19.40**

11. CASH AND AMOUNTS DUE FROM BANKS

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
CASH IN HAND	35,927	34,785
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	83,804	108,841
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	52,095	54,418
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	4,772	11,771
OTHER ITEMS	12,006	12,032
	188,604	**221,847**

Cash and cash equivalents included in the cash flow statement:

(in thousands of HRK)

	31 December 2011	31 December 2010
Cash in hand	35,927	34,785
Current account with the Croatian National Bank	83,804	108,841
Current accounts and demand deposits with foreign banks	52,095	54,418
Current accounts and demand deposits with domestic banks	4,772	11,771
Other items	12,006	12,032
Cash equivalents - deposits with other banks (Note 13)	156,627	222,885
	345,231	**444,732**

12. BALANCES WITH THE CROATIAN NATIONAL BANK

(in thousands of HRK)

	31 December 2011	31 December 2010
Obligatory and marginal reserve	210,350	189,963

Obligatory reserve represents the amount of liquid assets required to be deposited with the Croatian National Bank. At the end of each month the obligatory reserve is calculated on certain balances of attracted funds for the previous month. The obligatory reserve is calculated as 14 percent of HRK denominated and of foreign currency denominated balances (in 2010: 13 percent). From that amount the banks should maintain at least 70 percent for the kuna obligatory reserve and 60 percent for the obligatory reserve in foreign currency with the Croatian National Bank. The percentage of the obligatory reserve funds denominated in Croatian kuna includes a portion of the foreign currency denominated funds maintained in kuna.

Balances with the Croatian National Bank are not bearing any interest. The banks are required to maintain 75 percent of the foreign currency obligatory reserve in HRK.

13. PLACEMENTS WITH OTHER BANKS

(in thousands of HRK)

	31 December 2011	31 December 2010
Term deposits	156,627	222,885
Loans to HBOR	19,601	20,000
Loans to other banks	600	600
	176,828	**243,485**
Impairment allowance	(600)	(600)
	176,228	**242,885**

Term deposits are short-term deposits with local and foreign banks bearing an interest rate of 0.10 to 4.25 percent (in 2010: 0.20 to 1.70 percent). Of the total term deposits with other banks, deposits with foreign banks amount to HRK 79,156 thousand (2010: HRK 18,463 thousand).

Pursuant to the Club Loan Agreement between HBOR and banks acting as mandated lead arrangers and lenders, as well as PBZ as Agent, the Bank approved loans for a total amount of HRK 20,000 thousand. The interest rate on the utilised Tranche A facility in the amount of HRK 9,737 thousand was 3.00 percent, on the utilised Tranche A+ facility in the amount of HRK 8,329 thousand it was 2.50 percent, whereas the interest rate on the undrawn portion of HRK 1,535 thousand was 0.75 percent (2010: 3.00 % on the utilised portion in the amount of HRK 7,810 thousand and 0.75 % on the unutilised portion in the amount of HRK 12,890 thousand).

Movements in impairment allowance

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
AT 1 JANUARY	**600**	**600**
WRITE OFF	-	-
AT 31 DECEMBER	**600**	**600**

The impairment allowance presented above relates to domestic banks in bankruptcy.

Geographical analysis

The analysis includes term deposits and current accounts with foreign banks:

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
AUSTRALIA	3,069	1,260
AUSTRIA	900	1,522
BELGIUM	41,977	549
MONTE NEGRO	16,177	586
DENMARK	32	182
ITALY	24,011	909
CANADA	770	1,352
NETHERLANDS	1,334	375
GERMANY	12,033	27,435
UNITED STATES OF AMERICA	24,808	2,964
SLOVENIA	600	1,004
SPAIN	310	19,506
SWEDEN	370	555
SWITZERLAND	4,860	14,682
	131,251	**72,881**

14. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis by type of customer

(in thousands of HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
CITIZENS		
- HRK DENOMINATED	598,723	635,141
- FOREIGN CURRENCY DENOMINATED	12,281	3,560
	611,004	**638,701**
COMPANIES		
- HRK DENOMINATED	1,260,783	854,336
- FOREIGN CURRENCY DENOMINATED	187,886	225,939
	1,448,669	**1,080,275**
	2,059,673	**1,718,976**
IMPAIRMENT ALLOWANCE	(166,052)	(147,098)
	1,893,621	**1,571,878**

b) Analysis by sector

(in thousands of HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
CITIZENS	611,004	638,701
WHOLESALE AND RETAIL TRADE	614,336	343,157
PROCESSING INDUSTRY	253,967	194,733
REAL ESTATE ACTIVITIES	52,373	16,000
TRANSPORT, STORAGE AND COMMUNICATION	45,479	70,971
AGRICULTURE AND FORESTRY	106,204	80,242
CONSTRUCTION	96,204	125,523
FOOD AND BEVERAGE INDUSTRY	178,747	144,977
ENERGY (ELECTRICITY, GAS, WATER)	2,400	1,352
HOTELS AND RESTAURANTS	17,847	21,510
OTHER	81,112	81,810
	2,059,673	**1,718,976**
IMPAIRMENT ALLOWANCE	(166,052)	(147,098)
	1,893,621	**1,571,878**

c) Changes in principal of substandard and bad loans

(IN THOUSANDS OF HRK)

	2011		2010	
	SUBSTANDARD LOANS	BAD LOANS	SUBSTANDARD LOANS	BAD LOANS
AS OF 1 JANUARY	**109,617**	**94,145**	**104,690**	**79,981**
TRANSFER FROM PERFORMING LOANS	36,173	6,720	46,152	1,804
TRANSFER FROM BAD LOANS	5,397	(5,397)	85	(85)
TRANSFER FROM SUBSTANDARD LOANS	(18,665)	18,665	(15,577)	15,577
TRANSFER TO PERFORMING LOANS	(2,252)	(104)	(3,589)	(63)
AMOUNTS COLLECTED	(24,952)	(1,613)	(22,041)	(1,429)
AMOUNTS WRITTEN OFF	-	(492)	-	(3)
OTHER CHANGES	-	-	(103)	(1,637)
AS OF 31 DECEMBER	**105,318**	**111,924**	**109,617**	**94,145**

On 31 December 2011, the gross principal amount of non-performing loans was HRK 111,924 thousand (2010: HRK 94,145 thousand). During 2011, HRK 1,613 thousand of non-performing loans was collected (2010: HRK 1,429 thousand). Also, during 2011 the amount of HRK 3,188 thousand of loans to companies and sole traders were renegotiated (in 2010: HRK 2,060 thousand).

d) Provisions for losses

(IN THOUSANDS OF HRK)

	2011	2010
BALANCE AT 1 JANUARY	**147,098**	**133,642**
NEW PROVISIONS MADE	41,186	23,482
AMOUNTS COLLECTED	(20,675)	(10,113)
FOREIGN EXCHANGE DIFFERENCES	(1,369)	(1,705)
WRITE OFFS	(492)	(3)
INCREASE OF PROVISIONS FOR INTEREST RECEIVABLES	304	1,795
BALANCE AT 31 DECEMBER	**166,052**	**147,098**

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to avoid undue concentration in a single industry. Where required, the Bank obtains acceptable collateral to reduce the level of credit risk.

15. FINANCIAL ASSETS AVAILABLE FOR SALE

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
TREASURY BILLS OF THE REPUBLIC OF CROATIA	495	-
COMMERCIAL BILLS	9,538	1,410
BONDS	190,715	333,997
UNITS IN INVESTMENT FUNDS	43,626	4,557
EQUITY SECURITIES	50,810	63,168
	295,184	**403,132**
PERMANENT IMPAIRMENT ALLOWANCE	(1,226)	(1,226)
	293,958	**401,906**

Investments in debt securities are shown as follows:

a) Treasury bills of the Republic of Croatia

(IN THOUSANDS OF HRK)

	2011	2010
BALANCE AT 1 JANUARY	**-**	**19,621**
PURCHASE	989	-
COLLECTION	(494)	(19,621)
BALANCE AT 31 DECEMBER	**495**	**-**

b) Commercial bills

(IN THOUSANDS OF HRK)

	2011	2010
BALANCE AT 1 JANUARY	**1,410**	**-**
PURCHASE	9,222	1,410
COLLECTION	(1,094)	-
BALANCE AT 31 DECEMBER	**9,538**	**1,410**

c) Bonds

(IN THOUSANDS OF HRK)

	2011	2010
BALANCE AT 1 JANUARY	**333,997**	**84,518**
PURCHASE	179,748	650,737
SALE / COLLECTION	(317,958)	(400,500)
REALISED GAIN	(2,155)	9,793
CHANGES IN FAIR VALUE	(2,917)	(10,551)
BALANCE AT 31 DECEMBER	**190,715**	**333,997**

The table below presents the debt portfolio structure:

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
BONDS OF DOMESTIC ISSUERS		
- MINISTRY OF FINANCE OF THE REPUBLIC OF CROATIA	23,255	30,483
- LOCAL GOVERNMENT	-	4,566
- FINANCIAL INSTITUTIONS	-	1,829
- NON FINANCIAL INSTITUTIONS	38,878	71,736
	62,133	**108,614**
BONDS OF FOREIGN ISSUERS		
- FOREIGN GOVERNMENTS	52,202	76,368
- FINANCIAL INSTITUTIONS	69,087	114,811
- NON FINANCIAL INSTITUTIONS	7,293	34,204
	128,582	**225,383**
	190,715	**333,997**

Investments in equity securities are shown as follows:

d) Units in investment funds

Units in investment funds include investments in Poba Ico Equity - an open investment fund with public offer.

(IN THOUSANDS OF HRK)

	2011	2010
BALANCE AT 1 JANUARY	**4,557**	**4,738**
PURCHASE	47,619	-
REALISED LOSS	(1,505)	-
CHANGES IN THE FAIR VALUE	(7,045)	(181)
BALANCE AT 31 DECEMBER	**43,626**	**4,557**

The investment in Poba Ico Equity, an open-end investment fund with a public offering in liquidation, was realised in 2011 in accordance with the Decision on the Liquidation of the Fund.

e) Equity securities

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
QUOTED SECURITIES	48,292	60,487
UNQUOTED SECURITIES	2,518	2,681
	50,810	**63,168**
IMPAIRMENT ALLOWANCE	(1,226)	(1,226)
TOTAL	**49,584**	**61,942**

Changes in equities during the year:

(IN THOUSANDS OF HRK)

	2011	2010
BALANCE AT 1 JANUARY	**61,942**	**27,485**
PURCHASES	955	29,946
SALE	-	(3,212)
REALISED GAINS	-	362
MOVEMENT IN THE FAIR VALUE	(13,313)	7,361
EXCHANGE DIFFERENCES ON FAIR VALUE REVALUATION	-	-
BALANCE AT 31 DECEMBER	**49,584**	**61,942**

The table below discloses details of the equity investment portfolio:

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
EQUITY INVESTMENTS OF DOMESTIC ISSUERS		
- FINANCIAL INSTITUTIONS	5,857	6,731
- NON FINANCIAL INSTITUTIONS	13,873	16,650
	19,730	**23,381**
EQUITY INVESTMENTS OF FOREIGN ISSUERS		
- FINANCIAL INSTITUTIONS	27,618	35,350
- NON FINANCIAL INSTITUTIONS	3,462	4,437
	31,080	**39,787**
	50,810	**63,168**
IMPAIRMENT ALLOWANCE	(1,226)	(1,226)
	49,584	**61,942**

e) Revaluation reserve for financial assets available for sale

(IN THOUSANDS OF HRK)

TYPE OF SECURITY	31 DECEMBER 2011	31 DECEMBER 2010
DEBT SECURITY	(11,417)	(8,500)
INVESTMENT IN INVESTMENT FUNDS	(7,972)	(927)
EQUITY SECURITY	(15,527)	(2,214)
CALCULATED DEFERRED TAX	6,983	2,328
TOTAL REVALUATION RESERVE	**(27,933)**	**(9,313)**

Movements in the revaluation reserve

(in thousands of HRK)

	2011	2010
BALANCE AT 1 JANUARY	**(9,313)**	**(6,616)**
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	(2,917)	(10,551)
CHANGE IN FAIR VALUE OF INVESTMENT IN INVESTMENT FUNDS	(7,045)	(181)
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	(13,313)	7,361
DEFERRED TAX RECOGNISED IN EQUITY	4,655	674
BALANCE AT 31 DECEMBER	**(27,933)**	**(9,313)**

16. FINANCIAL ASSETS HELD TO MATURITY

(in thousands of HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
BONDS OF THE REPUBLIC OF CROATIA	27,756	56,308

Movements in held-to-maturity assets

(in thousands of HRK)

	2011	2010
BALANCE AT 1 JANUARY	**56,308**	**55,279**
PURCHASE	1,911	1,241
COLLECTION	(30,463)	(212)
BALANCE AT 31 DECEMBER	**27,756**	**56,308**

17. INTANGIBLE ASSETS

(IN THOUSANDS OF HRK)

	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
COST OR VALUATION				
BALANCE AT 1 JANUARY 2010	**9,283**	**16,867**	**605**	**26,755**
ADDITIONS	-	-	2,894	2,894
DISPOSALS AND RETIREMENTS	(17)	-	-	(17)
TRANSFER FROM ASSETS UNDER DEVELOPMENT	2,058	-	(2,058)	-
BALANCE AT 31 DECEMBER 2010	**11,324**	**16,867**	**1,441**	**29,632**
ADDITIONS	-	-	660	660
DISPOSALS AND RETIREMENTS	-	-	-	-
TRANSFER FROM ASSETS UNDER DEVELOPMENT	69	-	(69)	-
BALANCE AT 31 DECEMBER 2011	**11,393**	**16,867**	**2,032**	**30,292**
ACCUMULATED AMORTISATION				
BALANCE AT 1 JANUARY 2010	**8,022**	**-**	**-**	**8,022**
CHARGE FOR THE YEAR	836	-	-	836
DISPOSALS AND RETIREMENTS	(17)	-	-	(17)
BALANCE AT 31 DECEMBER 2010	**8,841**	**-**	**-**	**8,841**
CHARGE FOR THE YEAR	755	-	-	755
DISPOSALS AND RETIREMENTS	-	-	-	-
BALANCE AT 31 DECEMBER 2011	**9,596**	**-**	**-**	**9,596**
NET BOOK VALUE				
AT 31 DECEMBER 2011	**1,797**	**16,867**	**2,032**	**20,696**
AT 31 DECEMBER 2010	**2,483**	**16,867**	**1,441**	**20,791**

Goodwill has been allocated to the cash generating units acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined on the basis of profitability calculation. For the purposes of calculation, cash flow forecasts have been developed on the basis of financial projection over a time horizon of five years.

The budgeted gross margin has been determined on the basis of past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment.

18. PROPERTY AND EQUIPMENT

(IN THOUSANDS OF HRK)

COST OR VALUATION	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
BALANCE AT 1 JANUARY 2010	**90,574**	**47,732**	**6,284**	**37,535**	**13,220**	**38**	**195,383**
ADDITIONS	-	-	-	-	-	2,379	**2,379**
TRANSFER FROM ASSETS UNDER CONSTRUCTION	488	128	-	1,801	-	(2,417)	**-**
DISPOSALS AND RETIREMENTS	-	(975)	(136)	(1,591)	(754)	-	**(3,456)**
BALANCE AT 31 DECEMBER 2010	**91,062**	**46,885**	**6,148**	**37,745**	**12,466**	**-**	**194,306**
ADDITIONS	-	-	-	-	-	14,988	**14,988**
TRANSFER FROM ASSETS UNDER CONSTRUCTION	-	1,298	1,504	669	642	(4,113)	**-**
DISPOSALS AND RETIREMENTS	-	(113)	(2,971)	(414)	(1,109)	-	**(4,607)**
BALANCE AT 31 DECEMBER 2011	**91,062**	**48,070**	**4,681**	**38,000**	**11,999**	**10,875**	**204,687**
VALUE ADJUSTMENT							
BALANCE AT 1 JANUARY 2010	**38,482**	**38,444**	**3,424**	**29,095**	**8,885**	**-**	**118,330**
CHARGE FOR THE YEAR	1,674	3,937	1,043	3,904	1,432	-	**11,990**
DISPOSALS AND RETIREMENTS	-	(961)	(89)	(1,591)	(690)	-	**(3,331)**
BALANCE AT 31 DECEMBER 2010	**40,156**	**41,420**	**4,378**	**31,408**	**9,627**	**-**	**126,989**
CHARGE FOR THE YEAR	1,681	2,892	1,013	2,725	1,034	-	**9,345**
DISPOSALS AND RETIREMENTS	-	(113)	(2,811)	(413)	(1,109)	-	**(4,446)**
BALANCE AT 31 DECEMBER 2010	**41,837**	**44,199**	**2,580**	**33,720**	**9,552**	**-**	**131,888**
NET BOOK VALUE							
AT 31 DECEMBER 2011	**49,225**	**3,871**	**2,101**	**4,280**	**2,447**	**10,875**	**72,799**
AT 31 DECEMBER 2010	**50,906**	**5,465**	**1,770**	**6,337**	**2,839**	**-**	**67,317**

The Bank has no tangible assets pledged as collateral for deposits from corporate customers (2010: assets pledged as collateral in the amount of HRK 9,209 thousand for deposits from corporate customers amounted to HRK 35,212 thousand).

19. INVESTMENTS IN SUBSIDIARIES

(IN THOUSANDS OF HRK)

	2011	2010
BALANCE 1 JANUARY	**3,570**	**1,530**
INVESTMENT	-	2,040
BALANCE 31 DECEMBER	**3,570**	**3,570**

In 2007 the Bank acquired an ownership interest of 51 percent in Poba ICO d.o.o. The investment presented for the year 2010 represents contributions to the capital reserves of the Company, while the ownership interest remained the same. The subsidiary has not been consolidated in these financial statements because the subsidiary's net assets are not material for the financial statements of the Bank.

The following key data was reported by POBA ICO d.o.o. at 31 December:

(IN THOUSANDS OF HRK)

	2011	2010
TOTAL ASSETS	559	1,211
TOTAL NET ASSETS	(947)	260
NET LOSS FOR YEAR	(1,208)	(1,599)

20. OTHER ASSETS

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
ACCRUED FEES AND COMMISSIONS	5,037	4,021
FORECLOSED ASSETS	6,692	8,605
INCOME TAX REFUND	115	226
PREPAID EXPENSES	2,210	2,164
OTHER ADVANCES MADE	84	4
OTHER ASSETS	2,173	1,895
	16,311	**16,915**
IMPAIRMENT ALLOWANCE	(1,843)	(1,452)
	14,468	**15,463**

Foreclosed property and equipment are assets not used by the Bank and amounted to HRK 6,692 thousand at 31 December 2011 (2010: HRK 8,605 thousand). They are carried by the Bank at cost.

Movements in impairment allowance for potential losses on other assets were as follows:

(IN THOUSANDS OF HRK)

	2011	2010
BALANCE AT 1 JANUARY	**1,452**	**1,409**
ADDITIONS	641	1,464
AMOUNTS COLLECTED	(210)	(1,413)
AMOUNTS WRITTEN OFF	(32)	(3)
EXCHANGE DIFFERENCES	(8)	(5)
BALANCE AT 31 DECEMBER	**1,843**	**1,452**

21. AMOUNTS DUE TO OTHER BANKS

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
FOREIGN CURRENCY DEMAND DEPOSITS	21,722	46,620
DOMESTIC CURRENCY DEMAND DEPOSITS	6	14
FOREIGN BANK TERM DEPOSITS IN FOREIGN CURRENCY	98,876	36,928
DOMESTIC CURRENCY TERM DEPOSITS IN HRK	30,502	71,003
	151,106	**154,565**

Demand deposit funds represent funds received from Banche Popolari Milano for the payment of pension benefits to all the beneficiary of Italian pensions in the Republic of Croatia, with interest rate agreed at 30 percent of one-month EURIBOR. The interest rate on received term deposits foreign banks range from 1.00% to 3.00% (2010: 2.0%). The interest rate on received term deposits domestic banks are from 0.80% to 1.50% (2010: 0.90% to 2.50%.).

22. AMOUNTS DUE TO CUSTOMERS

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
CITIZENS		
DEMAND DEPOSITS		
- HRK DENOMINATED	187,654	201,033
- FOREIGN CURRENCY DENOMINATED	144,660	154,733
TERM DEPOSITS		
- HRK DENOMINATED	338,157	347,782
- FOREIGN CURRENCY DENOMINATED	939,580	934,394
TOTAL CITIZENS	**1,610,051**	**1,637,942**

LEGAL ENTITIES		
DEMAND DEPOSITS		
- HRK DENOMINATED	244,246	191,060
- FOREIGN CURRENCY DENOMINATED	62,567	29,182
TERM DEPOSITS		
- HRK DENOMINATED	161,207	185,340
- FOREIGN CURRENCY DENOMINATED	72,513	64,217
TOTAL LEGAL ENTITIES	**540,533**	**469,799**
TOTAL DEPOSITS FROM CUSTOMERS	**2,150,584**	**2,107,741**

23. OTHER BORROWED FUNDS

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
REPO LOANS FROM DOMESTIC BANKS, HRK DENOMINATED	38,807	20,000
SHORT-TERM MONEY MARKET BORROWINGS FROM DOMESTIC BANKS	-	25,001
CBRD LOANS	95,669	90,875
	134,476	**135,876**

Repo loans from domestic banks and other legal entities represent a loan facility for which the Bank has pledged its securities with the obligation to repurchase those securities at a certain future date. The repo loan received in 2011 bears interest at the agreed rate of 1.25 percent and 2.00 percent (2010: 1.10 percent). The pledged securities are RHMF-O-172A and RHMF15CA, with a market value of HRK 42,388 thousand (2010: RHMF-O-172A, with a market value of HRK 20,130 thousand).

Short-term money market borrowings were raised from domestic banks for current liquidity purposes. The interest rates on those borrowings in 2010 were from 0.90% to 2.50%.

Loans received from the Croatian Bank for Reconstruction and Development (CBRD) relate to loans approved by the CBRD through the Bank in accordance with the CBRD's programs for subsidising small and medium-sized entrepreneurs, tourism and agriculture, which bear interest at rates from 0% to 5% (2010: 0% - 5%).

24. OTHER LIABILITIES

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
DEFERRED FEES AND COMMISSIONS	769	868
ACCRUED PREMIUMS FOR INSURING TERM DEPOSITS PAYABLE	1,089	1,085
DIVIDENDS PAYABLE	131	145
AMOUNTS DUE TO EMPLOYEES	3,907	3,706
PROVISIONS FOR SEVERANCE PAY	3,189	2,439
AMOUNTS DUE TO SUPPLIERS	3,199	3,147
PENDING DISBURSEMENTS UNDER LOAN COMMITMENTS	6,426	5,388
ACCRUALS IN RESPECT OF RECEIVED FUNDS	950	595
CURRENT INCOME TAX LIABILITY	267	253
ITEMS IN COURSE OF PAYMENT	3,914	2,894
OTHER HRK DENOMINATED LIABILITIES	1,556	1,594
OTHER FOREIGN CURRENCY DENOMINATED LIABILITIES	795	9
	26,192	**22,123**

25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

a) Analysis

(IN THOUSANDS OF HRK)

	2011	2010
PROVISIONS FOR OTHER CONTINGENT LIABILITIES	4,207	2,650
PROVISIONS FOR LEGAL CASES	250	250
	4,457	**2,900**

b) Movements in provisions

(IN THOUSANDS OF HRK)

	2011	2010
MOVEMENTS IN PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES		
BALANCE AT 1 JANUARY	**2,900**	**2,131**
INCREASE DURING THE YEAR	2,084	1,116
DECREASE DURING THE YEAR	(527)	(347)
BALANCE AT 31 DECEMBER	**4,457**	**2,900**

26. HYBRID INSTRUMENTS ISSUED

On 22 August 2011 the Bank subscribed hybrid instruments by issuing bonds with the ticker PDBA-O-188A, ISIN: HRPDBAO188A5. These are non-material registered bonds equivalent to EUR 10 million, denominated in 1 euro. The interest rate is fixed and amounts to 7.0 percent per annum, payable on a semi-annual basis. The principal is due on a one-off basis in 2018.

27. SHARE CAPITAL

Share capital consists of ordinary shares. The total number of ordinary shares in issue at the end of 2011 was 668,749 (2010: 668,749 shares), with a nominal value of HRK 400.00 per share.

At 31 December 2011, the Bank held 9,203 treasury shares, which it carries at cost (2010: 9,203 treasury shares).

Movements in shares

	NUMBER OF SHARES ISSUED	TREASURY SHARES	TOTAL NUMBER OF SHARES
31 DECEMBER 2009	**668,749**	**(9,203)**	**659,546**
PURCHASE OF TREASURY SHARES	-	-	-
SALE OF TREASURY SHARES	-	-	-
ALLOCATION OF 2008 PROFIT	-	-	-
31 DECEMBER 2010	**668,749**	**(9,203)**	**659,546**
PURCHASE OF TREASURY SHARES	-	-	-
SALE OF TREASURY SHARES	-	-	-
ALLOCATION OF 2010 PROFIT	-	-	-
31 DECEMBER 2011	**668,749**	**(9,203)**	**659,546**

The key shareholders of the Bank at 31 December were as follows:

	2011		2010	
	NUMBER OF SHARES	ORDINARY SHARES IN %	NUMBER OF SHARES	ORDINARY SHARES IN %
LORENZO GORGONI	66,002	9.87	66,002	9.87
ANTONIA GORGONI	65,336	9.77	65,336	9.77
ASSICURAZIONI GENERALI S.P.A.	63,791	9.54	63,791	9.54
CERERE S.P.A. TRIESTE	63,735	9.53	63,735	9.53
MILJAN TODOROVIC	55,731	8.33	55,731	8.33
ZAGREBAČKA BANKA D.D. COLLECTIVE ACCOUNT	39,863	5.96	-	-
SIGILFREDO MONTINARI	38,529	5.76	38,529	5.76
DARIO MONTINARI	38,526	5.76	38,526	5.76
ANDREA MONTINARI	38,515	5.76	38,515	5.76
PIERO MONTINARI	-	-	38,515	5.76
GIOVANNI SEMERARO	27,494	4.11	27,494	4.11
LIACI LUIGI	-	-	26,346	3.94
OTHER SHAREHOLDERS (INDIVIDUALLY BELOW 3%)	171,227	25.6	146,229	21.87
	668,749	**100.00**	**668,749**	**100.00**

28. OTHER RESERVES

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
LEGAL RESERVES	97,038	84,064
RESERVES FOR TREASURY SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
UNDISTRIBUTABLE RESERVES	**118,972**	**105,998**
CAPITAL GAINS ON TRADING IN TREASURY SHARES	4,802	4,802
FAIR VALUE RESERVE	(27,933)	(9,313)
DISTRIBUTABLE RESERVES	**(23,131)**	**(4,511)**
	95,841	**101,487**

In accordance with the Croatian Companies Act, banks are required to allocate part of the net profit to a non-distributable legal reserve until the reserve funds reach 5 percent of the share capital or more if specified by the bank's statute. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for the year 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Bank's exposure has been increasing at a rate below 15 percent annually. Other reserves are distributable only with the approval by the General Shareholders' Assembly.

Both the distributable and non-distributable reserves of the Bank have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

29. FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES AND, CUSTODY SERVICES

The Bank manages significant funds for and on behalf of third parties, entities and individuals. Those assets are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to third parties and no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services by fees chargeable to the funds.

Assets and liabilities on loans managed for and on behalf of third parties can be presented as follows:

(IN THOUSANDS OF HRK)

	31 DECEMBER 2011	31 DECEMBER 2010
ASSETS		
LOANS TO INDIVIDUALS	22,168	26,165
LOANS TO CORPORATE ENTITIES	28,486	28,720
CASH	1,818	1,630
TOTAL ASSETS:	**52,472**	**56,515**
LIABILITIES		
PUBLIC SECTOR	36,898	37,579
CORPORATE ENTITIES	4,382	3,714
FINANCIAL INSTITUTIONS	11,192	15,222
TOTAL LIABILITIES:	**52,472**	**56,515**

The Bank provides custody services for securities. The market value of equities taken under custody was HRK 323,924 thousand at 31 December 2011 (2010: HRK 101,299 thousand).

During 2011, the total Bank's fee income in respect of funds managed for and on behalf of third parties amounted to HRK 1,386 thousand (2010: HRK 2,343 thousand).

30. CONTINGENT LIABILITIES AND COMMITMENTS

Legal actions

At 31 December 2011 and 2010 there were several legal actions outstanding against the Bank. Based on the management's estimate, 250 thousand kuna is provided for the potential losses in legal actions (2010: HRK 250 thousand kuna).

Commitments to extend credit, guarantees and other financial instruments

Total outstanding amounts under guarantees, letters of credit and undrawn loans at the year end were as follows:

(in thousands of HRK)

	31 December 2011	31 December 2010
Commitments - undrawn overdraft facilities on transaction accounts	184,848	125,330
Commitments - undrawn loans	101,390	58,579
Letters of intent	-	500
Guarantees	80,426	52,089
Foreign currency letters of credit	23,182	29,544
	389,846	**266,042**

The primary purpose of commitments and contingencies is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Future minimum lease payments under operating leases are as follows:

(in thousands of HRK)

	31 December 2011	31 December 2010
Up to 1 year	7,954	7,985
From 2 to 5 years	17,072	19,765
Over 5 years	3,610	6,252
Total	**28,636**	**34,002**

Upon the expiry of the lease term, the lease agreements are renewable at the market price.

31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such transactions are made in the ordinary course of business at market terms and conditions, and market interest rates. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Parties related to the Bank include the Bank's Management Board, its officers with the general power of attorney, members of the Supervisory Board and their related persons. Related party transactions at the year end were as follows:

	KEY MANAGEMENT AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
(IN THOUSANDS OF HRK)	2011	2010	2011	2010
LOANS				
OPENING BALANCE	2,656	3,309	-	-
INCREASES/(DECREASES) DURING THE YEAR	183	(653)	9,078	-
CLOSING BALANCE	**2,839**	**2,656**	**9,078**	**-**
INTEREST INCOME	181	155	151	-
DEPOSITS RECEIVED				
OPENING BALANCE	9,575	8,996	1,246	136
INCREASES/(DECREASES) DURING THE YEAR	(3,989)	579	(958)	1,110
CLOSING BALANCE	**5,586**	**9,575**	**288**	**1,246**
INTEREST EXPENSE	239	160	2	42

Key management remuneration

(IN THOUSANDS OF HRK)

	2011	2010
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	8,182	7,035

The Management Board consists of three members.

(IN THOUSANDS OF HRK)

	ASSETS		LIABILITIES	
	2011	2010	2011	2010
POBA ICO INVEST D.O.O.	4,977	8,927	524	1,117

INCOME		EXPENSE	
2011	2010	2011	2010
70	124	24	19

32. FINANCIAL RISK MANAGEMENT POLICIES

This section provides details of the Bank's exposure to risk and describes the methods used by the management to control the risk.

The Bank's operations expose it to various types of financial risks. These operations include analysing, assessing, accepting and managing a certain level of risk, or a combination of risks. Assuming risk is a fundamental feature of financial operations, with risks being inherent to the business. The Bank's aim is to achieve an appropriate balance between the risk and return, whilst minimising potential negative effects on its financial performance.

The Bank's risk policies have been designed to identify and analyse those risks in order to define appropriate limits and controls, and to monitor those risks and limit compliance by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect any changes in its markets, products and best practices. The most important types of financial risks to which the Bank is exposed are the credit risk, liquidity risk, market risk and operational risk. The market risk includes the currency risk, interest rate risk and equities and securities price risk.

An integrated system of risk management is being established at Bank level by introducing a set of policies and procedures, determining the risk level limits acceptable to the Bank. The limits are applied to all types of risks. The methodology and models for managing the operational risk have been developed.

Credit risk

The Bank takes on exposure to credit risk, which may be defined as the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. Major changes in the economy or the status of an industry in which the Bank's portfolio is concentrated, may lead to losses not provided for at the reporting date. Therefore, the Board manages its exposure to credit risk with a high level of prudence. The exposure to credit risk arises primarily in respect of loans and advances, debt and other securities. Credit risk is also present in off-balance sheet financial arrangements, such as commitments to extend credit and guarantees issued. Credit risk management and control have been centralised within the Risk Management Division.

The Bank manages credit risk in accordance with its policies, procedures and other internal guidelines. The Bank has defined its Credit policy as a set of measures for allocating loan funds to loan applicants with the aim of sound and prudent credit risk management, by ensuring unbiased lending principles and goals and setting them as a general rule and reliable guidance in making every decision to lend. The credit policy defines the focus of considerations to be made in performing credit operations. If a proposal to extend a loan departs from the credit policy, the final decision is made by the Bank's management.

The structure of loans over a certain period is defined by the credit policy. Loans are structured by type of customer, or groups of customers, type or group of products, by sector and industry. The policy sets limits for individual placements in accordance with the guidelines of the Croatian National Bank. Given that loans are approved using the four eye principle, it is very unlikely that a loan authorised by overriding the procedures might remain undetected.

The credit policy defines and sets out policies and procedures for extending loans to individuals and legal entities. Credit risk is reviewed on an on going basis and reported on regularly to promptly identify any indication of impairment in the loan portfolio. The Bank has been continually applying prudent methods and models used in the process of the credit risk assessment.

Loans are classified into the following three main groupings, in accordance with the regulations of the Croatian National Bank:

- Performing loans - A Risk Group - subject to a collective assessment;
- Substandard loans - B Risk Group - subject to individual assessment;
- Non-performing loans (bad debt) - C Risk Group - subject to individual assessment.

All three levels contain sub-categories, which are mandatory for the substandard loans.

Loans are classified into the groupings by criteria specified in the applicable Decision of the Croatian National Bank and the Bank's internal decision. In assessing each individual customer, the Bank considers the credit rating of the borrower, the past debt service history and the collaterals obtained for loans, guarantees and other placements.

The Bank reviews the risk assessment of its loans and advances on a quarterly basis. Based on the risk assessment and the risk groupings as defined by the Decision on the Internal Loan Classification System, the required level of provision is determined for every individual debtor impaired or type of placement. The final decision on the required level of provisions for identified potential losses is made by the Bank's management.

Liquidity risk

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

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including different types of deposits, borrowings, subordinated liabilities including deposits, borrowings and share capital. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as a part of its liquidity risk management.

The Bank adjusts its business activities related to liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, by matching liabilities and assets, monitoring compliance with the externally and internally set limits, preferred liquidity ratios and contingency planning procedure. The Treasury manages liquidity reserves daily, ensuring also the accomplishment of all customers' needs.

Concentration indicators indicate the concentration in the deposit portfolio (top 20 individual and corporate depositors in the total deposits) which is regularly reported to the Bank's Management Board on a monthly level.

In addition to the regulatory requirements set out above, the Bank has the obligation to monitor the structural indicators of the liquidity and concentration levels, which have been set in the internal regulations of the Bank.

The structural liquidity level indicators present the correlations between certain items of assets and liabilities such as: the ratio of total loans to total deposits received; the ratio of total loans to total assets; the ratio of liquid assets to total deposits received; the ratio of total loans to total liabilities.

Market risk

The majority of available for sale instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. Market risks represent potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Bank Changes in market rates imply all changes in interest rates, exchange rates, prices of financial instruments, indices or other market factors that affect the value of financial instruments. The instruments are recognised at fair value, and all changes in market conditions directly affect revaluation reserves. The Bank manages its use of trading instruments in response to changing market conditions.

The limits are defined in accordance with the Bank's requirements and strategy, and the senior management risk policy indications. The exposure to market risk is formally managed within the risk limits approved by the Management Board and revised annually at the least.

Key liquidity data about the liquidity positions in the local and foreign currency is provided to the Banks' Board and senior management on a daily basis, with a focus on the most significant fluctuations in interest and foreign exchange rates. The Treasury Division provides the Management Board with weekly reports on currency risk exposure. Also, the Risk Management Division provides the Management Board with monthly reports on the total currency risk exposure.

In managing its market risks, the Bank resorts to various strategies. Value-at-risk (VaR) methodology is applied to the Bank's open foreign currency position to estimate the maximum potential losses on the basis of certain assumptions regarding various changes in market conditions. The methodology defines the maximum loss that the Bank may suffer with a limited level of reliability 99 percent, based on 260 days. However, this approach does not preclude any losses outside the defined limits in case of major changes in market terms and conditions.

Currency Risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The foreign exchange risk exposure is monitored on the overall balance sheet level in terms of foreign exchange open position as prescribed by the regulatory provisions and additionally through the internal limits on a daily basis.

The currency position of the Bank is monitored daily through the report on the open foreign currency positions in accordance with the CNB requirements. For the purposes of analysing the currency risk exposure, the Market, Operational and other risks management Division prepares regular management reports.

The Bank has the obligation to adjust its foreign currency position in line with the currency risk to ensure that the foreign exchange open position does not exceed 30 percent of the Bank's regulatory capital, as determined by the CNB.

Interest rate risk

The interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period generate interest rate risk.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that the interest-earning assets and interest-bearing liabilities mature or change rates at different times or in differing amounts. In case of the floating rate, the assets and liabilities of the Bank are also exposed to the basis risk which is the difference in re-pricing characteristics of the various floating rate indices.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using re-pricing gap analysis in the sensitivity to changes in interest rates, the net interest income and economic value of equity. Risk management activities are aimed at optimising the net interest income and economic value of equity, when the market interest rate levels are consistent with the Bank's business strategies.

Interest rate risk is reported through an interest rate gap report, by which the Management Board approves internally set limits for individual time horizons. The Bank's Management Board and Asset and Liability Committee control and manage the interest rate risk by involving all organisational units that operatively apply the prescribed interest rates.

Equity and debt security price risk

Equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments and other instruments that derive their value from these investments. The primary exposure to equity price risk arises from the available-for-sale equity shares accounted for at fair value.

Derivative financial instruments

The Bank enters into derivative financial instruments primarily to satisfy the needs and requirements of the customers. Derivative financial instruments used by the Bank include a one-way foreign currency clause.

Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk.

Operational risk management falls within the area of competence of the Market, Operational and Other Risk Management Division ("the Division"). The objectives of the Division are to collect data, prepare reports and analyses of the current and potential operational risk events at the Bank and the underlying root causes, as well as to provide information that will allow operational risk at the Bank to be managed efficiently.

Operational risk events are aggregated in a single database using a web application.

According to the Basel II guidelines and EU Directives, there are three operational risk assessment methods, which are as follows:

- Basic Indicator Approach (BIA);
- Standardised Approach (SA); and
- Advanced Measurement Approach (AMA).

The Bank has opted to adopt the Basic Indicator Approach (BIA).

For the purpose of actively managing operational risk and ensuring independent control and analysis of the risk, the Division monitors the operational risk exposure with reference to the defined internal by-laws and standards, collects operational risk data (risk events, key risk indicators, sensitivity analyses), proposes measures to reduce and/or avoid operational risk, monitors and reports about the Bank's operational risk profile, participates in the implementation of new products and significant changes, organises operational risk training and provides regular operational risk exposure reports to the Bank's Managing Board, Operational Risk Board and senior management.

The purpose and main principles of taking-on and managing operational risk as well as the Bank's operational risk appetite are defined in the Operational Risk Management Policy and other internal by-laws of the Bank.

For the purpose of protection against operational risk, the Bank has developed a risk map and implemented an operational risk monitoring system. Given the nature of operational risk, the controls are performed comparing the losses with the determined risk assessment. The risk assessment is defined using an internal methodology or by reference to operational risk losses. Key risk indicators are monitored on an ongoing basis.

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Loans and advances to customers and assets held to maturity are measured at amortised cost less impairment.

The following methods and assumptions have been made in estimating the fair value of financial instruments:

- Loans and advances to customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected future cash flows are estimated considering credit risk and any indication of impairment. Since the Bank has a limited portfolio of loans and advances with fixed rate and longer term maturity, the fair values of loans and advances are not significantly different from their carrying amounts.
- The fair value of securities is based on market prices, with the exception of unquoted equity investments whose fair value is based on the latest available financial statements of the issuer.
- The fair value of certain investments carried at amortised cost less impairment for which no quoted market price is available is, where possible, estimated using mark to model techniques and, as a result, their estimated fair values appeared not to be materially different from their carrying value. However, the afore-mentioned techniques did not include market liquidity factor on similar instruments.
- For demand deposits and deposits with no defined maturities, fair value is determined to be the amount payable on demand at the reporting date.
- Most of the Bank's long-term borrowings are at variable rates which are linked to the market and changed regularly. As such, the management believes that the book value of the long-term borrowings approximates their fair value.

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); and
- 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).

(IN THOUSANDS OF HRK)

2011	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
AVAILABLE-FOR-SALE FINANCIAL ASSETS				
EQUITY SECURITIES	65,872	-	27,338	93,210
DEBT SECURITIES	191,210	-	9,538	200,748
TOTAL	**257,082**	**-**	**36,876**	**293,958**

The fair value level 3 includes investments in shares of companies HROK d.o.o., Središnje klirinško depozitarno društvo, Tržište novca d.d., S.W.I.F.T Belgium, Centralna depozitarna agencija ad Podgorica i Atlasmont banka a.d Podgorica which are carried at cost. Commercial bills of Institut građevinarstva Hrvatske d.d., Petrokemija d.d. i Žito d.o.o are carried at amortised cost since they are not actively traded on organised markets.

(IN THOUSANDS OF HRK)

2010	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
AVAILABLE-FOR-SALE FINANCIAL ASSETS				
EQUITY SECURITIES	30,671	-	35,828	66,499
DEBT SECURITIES	309,055	-	26,352	335,407
TOTAL	**339,726**	**-**	**62,180**	**401,906**

The fair value level 3 includes investments in shares of companies HROK d.o.o., Središnje klirinško depozitarno društvo, Spin Valis d.d. ,Tržište novca d.d., S.W.I.F.T Belgium, Centralna depozitarna agencija ad Podgorica i Atlasmont banka a.d Podgorica which are carried at cost. Commercial bills of Institut građevinarstva Žito d.o.o are carried at amortised cost since they are not actively traded on organised markets.

34. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2011 and 2010 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

(IN THOUSANDS OF HRK)

AT 31 DECEMBER 2011	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON - INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	188,604	188,604
BALANCES WITH THE CROATIAN NATIONAL BANK	-	102,525	79,428	28,397	-	210,350
PLACEMENTS WITH OTHER BANKS	156,527	-	-	19,600	101	176,228
LOANS AND ADVANCES TO CUSTOMERS	1,558,029	173,367	64,297	81,901	16,027	1,893,621
FINANCIAL ASSETS AVAILABLE FOR SALE	1,504	6,659	17,147	170,831	97,817	293,958
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	27,691	65	27,756
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	3,570	3,570
INTANGIBLE ASSETS	-	-	-	-	20,696	20,696
PROPERTY AND EQUIPMENT	-	-	-	-	72,799	72,799
DEFERRED TAX ASSETS	-	-	-	-	9,700	9,700
OTHER ASSETS	-	-	-	-	14,468	14,468
TOTAL ASSETS	**1,716,060**	**282,551**	**160,872**	**328,420**	**423,847**	**2,911,750**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	126,026	24,990	-	-	90	151,106
AMOUNTS DUE TO CUSTOMERS	1,436,194	181,221	432,903	72,664	27,602	2,150,584
OTHER BORROWED FUNDS	41,990	18,041	16,639	57,160	646	134,476
OTHER LIABILITIES	-	-	-	-	26,192	26,192
PROVISIONS FOR CONTINENT LIABILITIES AND CHARGES	-	-	-	-	4,457	4,457
ISSUED HYBRID INSTRUMENTS	-	-	-	75,304	1,891	77,195
TOTAL LIABILITIES	**1,604,210**	**224,252**	**449,542**	**205,128**	**60,878**	**2,544,010**
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	95,841	95,841
PROFIT FOR THE YEAR	-	-	-	-	12,466	12,466
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**367,740**	**367,740**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,604,210**	**224,252**	**449,542**	**205,128**	**428,618**	**2,911,750**
NET INTEREST GAP	**111,850**	**58,299**	**(288,670)**	**123,292**	**(4,771)**	**-**

(IN THOUSANDS OF HRK)

AT 31 DECEMBER 2010	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON - INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	221,847	221,847
BALANCES WITH THE CROATIAN NATIONAL BANK	-	93,950	70,899	25,009	105	189,963
PLACEMENTS WITH OTHER BANKS	238,040	4,810	-	-	35	242,885
LOANS AND ADVANCES TO CUSTOMERS	1,298,367	102,699	62,261	94,260	14,291	1,571,878
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	-	1,800	31,372	295,703	73,031	401,906
FINANCIAL ASSETS HELD TO MATURITY	-	-	27,839	27,953	516	56,308
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	3,570	3,570
INTANGIBLE ASSETS	-	-	-	-	20,791	20,791
PROPERTY AND EQUIPMENT	-	-	-	-	67,317	67,317
DEFERRED TAX ASSETS	-	-	-	-	5,171	5,171
OTHER ASSETS	-	-	-	-	15,463	15,463
TOTAL ASSETS	**1,536,407**	**203,259**	**192,371**	**442,925**	**422,137**	**2,797,099**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	154,560	-	-	-	5	154,565
AMOUNTS DUE TO CUSTOMERS	1,238,765	275,521	527,846	33,812	31,797	2,107,741
OTHER BORROWED FUNDS	45,656	8,954	19,473	61,651	142	135,876
OTHER LIABILITIES	-	-	-	-	22,123	22,123
PROVISIONS FOR CONTINENT LIABILITIES AND CHARGES	-	-	-	-	2,900	2,900
TOTAL LIABILITIES	**1,438,981**	**284,475**	**547,319**	**95,463**	**56,968**	**2,423,205**
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	101,487	101,487
PROFIT FOR THE YEAR	-	-	-	-	12,974	12,974
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**373,894**	**373,894**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,438,981**	**284,475**	**547,319**	**95,463**	**430,862**	**2,797,099**
NET INTEREST GAP	**97,427**	**(81,216)**	**(354,948)**	**347,462**	**(8,725)**	**-**

During 2011, the weighted average effective interest rate on loans and advances to customers was 9.27 percent (2010: 9.03 percent).

During 2011, the weighted average effective interest rate on deposits from customers was 3.08 percent (2010: 3.36 percent).

The Table below presents the sensitivity of the Bank's variable rate assets and liabilities to the fluctuations in interest rates assuming the maximum recorded increase or decrease in the interest rates during 2010. Changes in interest rates have a direct impact on net interest income. In case of an interest rate decrease at the same percentage, there would be an interest expense of the same amount.

(in thousands of HRK)

	Assumed increase of the interest rate	Impact on 2011 profit and loss	Impact on 2010 profit and loss
Assets	5%	6,953	5,531
Liabilities	5%	(1,834)	(2,734)
Impact on net interest income		**5,119**	**2,797**

35. CURRENCY RISK

The Bank manages its exposure to currency risk through a variety of measures, including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies.

(IN THOUSANDS)

AT 31 DECEMBER 2011	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	25,864	28,762	14,164	68,790	119,814	188,604
BALANCES WITH THE CROATIAN NATIONAL BANK	21,914	5,244	-	27,158	183,192	210,350
PLACEMENTS WITH OTHER BANKS	144,588	5,038	-	149,626	26,602	176,228
LOANS AND ADVANCES TO CUSTOMERS	1,059,876	9,943	283	1,070,102	823,519	1,893,621
FINANCIAL ASSETS AVAILABLE FOR SALE	190,741	6,193	12,483	209,417	84,541	293,958
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	27,756	27,756
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	3,570	3,570
INTANGIBLE ASSETS	-	-	-	-	20,696	20,696
PROPERTY AND EQUIPMENT	-	-	-	-	72,799	72,799
DEFERRED TAX ASSETS	-	-	-	-	9,700	9,700
OTHER ASSETS	93	-	-	93	14,375	14,468
TOTAL ASSETS	**1,443,076**	**55,180**	**26,930**	**1,525,186**	**1,386,564**	**2,911,750**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	103,085	17,512	-	120,597	30,509	151,106
AMOUNTS DUE TO CUSTOMERS	1,210,891	39,311	23,084	1,273,286	877,298	2,150,584
OTHER BORROWED FUNDS	52,716	-	-	52,716	81,760	134,476
OTHER LIABILITIES	1,405	804	18	2,227	23,965	26,192
PROVISIONS FOR CONTINENT LIABILITIES AND CHARGES	-	-	-	-	4,457	4,457
ISSUED HYBRID INSTRUMENTS	77,195	-	-	77,195	-	77,195
TOTAL LIABILITIES	**1,445,292**	**57,627**	**23,102**	**1,526,021**	**1,017,989**	**2,544,010**
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	95,841	95,841
PROFIT FOR THE YEAR	-	-	-	-	12,466	12,466
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**367,740**	**367,740**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,445,292**	**57,627**	**23,102**	**1,526,021**	**1,385,729**	**2,911,750**
NET FX GAP	**(2,216)**	**(2,447)**	**3,828**	**(835)**	**835**	**-**

(IN THOUSANDS)

AT 31 DECEMBER 2010	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	47,825	4,404	25,103	77,331	144,516	221,847
BALANCES WITH THE CROATIAN NATIONAL BANK	19,763	4,672	-	24,434	165,529	189,963
PLACEMENTS WITH OTHER BANKS	67,804	12,061	-	79,866	163,019	242,885
LOANS AND ADVANCES TO CUSTOMERS	985,379	11,225	853	997,457	574,421	1,571,878
FINANCIAL ASSETS AVAILABLE FOR SALE	282,826	-	-	282,826	119,080	401,906
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	56,308	56,308
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	3,570	3,570
INTANGIBLE ASSETS	-	-	-	-	20,791	20,791
PROPERTY AND EQUIPMENT	-	-	-	-	67,317	67,317
DEFERRED TAX ASSETS	-	-	-	-	5,171	5,171
OTHER ASSETS	127	1	-	128	15,335	15,463
TOTAL ASSETS	**1,403,724**	**32,363**	**25,956**	**1,462,043**	**1,335,056**	**2,797,099**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	83,548	-	-	83,548	71,017	154,565
AMOUNTS DUE TO CUSTOMERS	1,207,077	29,038	16,304	1,252,419	855,322	2,107,741
OTHER BORROWED FUNDS	73,419	-	-	73,419	62,457	135,876
OTHER LIABILITIES	2,452	16	16	2,484	19,639	22,123
PROVISIONS FOR CONTINENT LIABILITIES AND CHARGES	-	-	-	-	2,900	2,900
TOTAL LIABILITIES	**1,366,497**	**29,054**	**16,320**	**1,411,871**	**1,011,334**	**2,423,204**
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	101,487	101,487
PROFIT FOR THE YEAR	-	-	-	-	12,974	12,974
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**373,894**	**373,894**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,366,497**	**29,054**	**16,320**	**1,411,871**	**1,385,228**	**2,797,099**
NET FX GAP	**37,228**	**3,309**	**9,636**	**50,172**	**(50,172)**	**-**

The Table below presents the sensitivity of the Bank's net assets and profit and loss to an increase in the CNB's middle exchange rate. By applying the same assumed percentage to a decrease of the CNB middle exchange rate, the impact on the profit or loss, on the net principle, by individual currency would be the same and opposite, that is, the aggregate impact on all currencies would result as an expense for the year 2011 and as an income for the year 2010. The results of fluctuations in exchange rates are reported in the income statement as foreign exchange gains or losses.

(in thousands of HRK)

CURRENCY ON 31 DECEMBER 2011	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	INFLUENCE ON PROFIT AND LOSS	INFLUENCE ON PROFIT AND LOSS	INFLUENCE ON PROFIT AND LOSS
		BANK ASSETS	**BANK LIABILITIES**	**NET**
ASSETS	2.00%	30,504	-	-
LIABILITIES	2.00%	-	30,520	-
NET ASSETS / (LIABILITIES)				**(16)**

(in thousands of HRK)

CURRENCY ON 31 DECEMBER 2010	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	INFLUENCE ON PROFIT AND LOSS	INFLUENCE ON PROFIT AND LOSS	INFLUENCE ON PROFIT AND LOSS
		BANK ASSETS	**BANK LIABILITIES**	**NET**
ASSETS	2.50%	36,551	-	-
LIABILITIES	2.50%	-	35,297	-
NET ASSETS / (LIABILITIES)		**-**	**-**	**1,254**

36. LIQUIDITY RISK

(IN THOUSANDS OF HRK)

AT 31 DECEMBER 2011	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	188,604	-	-	-	-	188,604
BALANCES WITH THE CROATIAN NATIONAL BANK	-	102,525	79,428	23,846	4,551	210,350
PLACEMENTS WITH OTHER BANKS	156,628	-	-	19,600	-	176,228
LOANS AND ADVANCES TO CUSTOMERS	257,952	347,735	563,856	329,388	394,690	1,893,621
FINANCIAL ASSETS AVAILABLE FOR SALE	95,611	8,161	19,355	53,626	117,205	293,958
FINANCIAL ASSETS HELD TO MATURITY	-	-	65	-	27,691	27,756
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	3,570	3,570
INTANGIBLE ASSETS	-	-	-	-	20,696	20,696
PROPERTY AND EQUIPMENT	-	-	-	-	72,799	72,799
DEFERRED TAX ASSETS	-	-	9,700	-	-	9,700
OTHER ASSETS	4,970	67	9,431	-	-	14,468
TOTAL ASSETS	**703,765**	**458,488**	**681,835**	**426,460**	**641,202**	**2,911,750**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	126,116	24,990	-	-	-	151,106
AMOUNTS DUE TO CUSTOMERS	871,099	298,559	806,827	154,168	19,931	2,150,584
OTHER BORROWED FUNDS	42,636	18,041	16,639	27,225	29,935	134,476
OTHER LIABILITIES	22,512	492	112	-	3,076	26,192
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	2,391	246	1,560	251	9	4,457
ISSUED HYBRID INSTRUMENTS	-	1,891	-	-	75,304	77,195
TOTAL LIABILITIES	**1,064,754**	**344,219**	**825,138**	**181,644**	**128,255**	**2,544,010**
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	95,841	95,841
PROFIT FOR THE YEAR	-	-	-	-	12,466	12,466
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**367,740**	**367,740**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,064,754**	**344,219**	**825,138**	**181,644**	**495,995**	**2,911,750**
NET LIQUIDITY GAP	**(360,989)**	**114,269**	**(143,303)**	**244,816**	**145,207**	**-**

(IN THOUSANDS OF HRK)

AT 31 DECEMBER 2010	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	221,847	-	-	-	-	221,847
BALANCES WITH THE CROATIAN NATIONAL BANK	105	93,950	70,898	19,787	5,223	189,963
PLACEMENTS WITH OTHER BANKS	238,075	4,810	-	-	-	242,885
LOANS AND ADVANCES TO CUSTOMERS	295,337	245,697	337,097	343,710	350,037	1,571,878
FINANCIAL ASSETS AVAILABLE FOR SALE	278,664	-	5,976	117,266	-	401,906
FINANCIAL ASSETS HELD TO MATURITY	-	-	28,355	-	27,953	56,308
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	3,570	3,570
INTANGIBLE ASSETS	-	-	-	-	20,791	20,791
PROPERTY AND EQUIPMENT	-	-	-	-	67,317	67,317
DEFERRED TAX ASSETS	-	-	5,171	-	-	5,171
OTHER ASSETS	-	-	11,315	-	4,148	15,463
TOTAL ASSETS	**1,034,028**	**344,457**	**458,812**	**480,763**	**479,039**	**2,797,099**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	154,565	-	-	-	-	154,565
AMOUNTS DUE TO CUSTOMERS	815,094	333,854	794,341	135,014	29,438	2,107,741
OTHER BORROWED FUNDS	45,799	8,954	19,473	28,507	33,143	135,876
OTHER LIABILITIES	6,589	734	3,303	8,807	2,690	22,123
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	1,746	165	757	220	12	2,900
TOTAL LIABILITIES	**1,023,793**	**343,707**	**817,874**	**172,548**	**65,283**	**2,423,205**
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	101,487	101,487
PROFIT FOR THE YEAR	-	-	-	-	12,974	12,974
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**373,894**	**373,894**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,023,793**	**343,707**	**817,874**	**172,548**	**439,177**	**2,797,099**
NET LIQUIDITY GAP	**10,235**	**750**	**(359,062)**	**308,215**	**39,862**	

37. CREDIT RISK

a) Overall exposure to credit risk - on-balance sheet and off-balance sheet

(IN THOUSANDS OF HRK)

AS AT 31 DECEMBER 2011	GROSS PLACEMENTS	PROVISIONS ON INDIVIDUAL BASIS	PROVISIONS ON GENERAL BASIS	NET PLACEMENTS
A. BALANCE SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	210,350			210,350
PLACEMENTS WITH OTHER BANKS	176,828	(600)	-	176,228
ASSETS AVAILABLE FOR SALE	295,184	(1,226)	-	293,958
ASSETS HELD TO MATURITY	27,756		-	27,756
LOANS AND ADVANCES TO CUSTOMERS				
- PERFORMING	1,842,431	-	(20,540)	1,821,891
- SUBSTANDARD	105,318	(33,588)	-	71,730
- NON-PERFORMING (BAD)	111,924	(111,924)	-	-
OVERALL BALANCE SHEET EXPOSURE	**2,769,791**	**(147,338)**	**(20,540)**	**2,601,913**
B. OFF-BALANCE SHEET EXPOSURE				
CUSTOMERS				
- PERFORMING	389,203	-	(3,750)	385,453
- SUBSTANDARD	269	(83)	-	186
- NON-PERFORMING (BAD)	374	(374)	-	-
OVERALL OFF-BALANCE SHEET EXPOSURE	**389,846**	**(457)**	**(3,750)**	**385,639**
OVERALL EXPOSURE (A+B)	**3,159,637**	**(147,795)**	**(24,290)**	**2,987,552**

(IN THOUSANDS OF HRK)

AS AT 31 DECEMBER 2010	GROSS PLACEMENTS	PROVISIONS ON INDIVIDUAL BASIS	PROVISIONS ON GENERAL BASIS	NET PLACEMENTS
A. BALANCE SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	189,963	-	-	189,963
PLACEMENTS WITH OTHER BANKS	243,485	(600)	-	242,885
ASSETS AVAILABLE FOR SALE	401,906	-	-	401,906
ASSETS HELD TO MATURITY	56,308	-	-	56,308
LOANS AND ADVANCES TO CUSTOMERS				
- PERFORMING	1,515,213	-	(23,920)	1,491,293
- SUBSTANDARD	109,617	(29,032)	-	80,585
- NON-PERFORMING (BAD)	94,146	(94,146)	-	-
OVERALL BALANCE SHEET EXPOSURE	**2,610,638**	**(123,778)**	**(23,920)**	**2,462,940**
B. OFF-BALANCE SHEET EXPOSURE				
CUSTOMERS				
- PERFORMING	265,464	-	(2,270)	263,194
- SUBSTANDARD	305	(107)	-	198
- NON-PERFORMING (BAD)	273	(273)	-	-
OVERALL OFF-BALANCE SHEET EXPOSURE	**266,042**	**(380)**	**(2,270)**	**263,392**
OVERALL EXPOSURE (A+B)	**2,876,680**	**(124,158)**	**(26,190)**	**2,726,332**

b) Past due claims

Past due claims consist of balances due but not impaired for both the principle due and not yet due. They are arranged according to age, based on the individual placement including uncollected and not yet due interest and other income related to the principle. Other past due claims consist of interest not yet due and uncollected, and amounts written off or still in the process of collection. The total individual placement is classified by reference to the oldest past due claim, regardless of whether the principle or the interest is due.

(IN THOUSANDS OF HRK)

AS AT 31 DECEMBER 2011	PAST DUE UP TO 30 DAYS	PAST DUE BETWEEN 31 AND 90 DAYS	PAST DUE BETWEEN 91 AND 180 DAYS	PAST DUE BETWEEN 181 AND 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE OVER 3 YEARS
PLACEMENTS WITH OTHER BANKS	183	-	-	-	-	-	600
LOANS AND ADVANCES TO							
- CITIZENS	23,574	41,872	9,802	13,286	8,994	9,005	45,039
- COMPANIES	21,765	60,324	7,620	6,006	15,218	17,838	76,413
- PUBLIC AND OTHER SECTORS	68	7,089	195	14	2	1	509
OTHER PAST DUE CLAIMS	1,718	509	109	42	-	158	14,667
TOTAL PAST DUE CLAIMS	**47,308**	**109,794**	**17,726**	**19,348**	**24,214**	**27,002**	**137,228**

(IN THOUSANDS OF HRK)

AS AT 31 DECEMBER 2010	PAST DUE UP TO 30 DAYS	PAST DUE BETWEEN 31 AND 90 DAYS	PAST DUE BETWEEN 91 AND 180 DAYS	PAST DUE BETWEEN 181 AND 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE OVER 3 YEARS
PLACEMENTS WITH OTHER BANKS	-	-	-	-	-	-	600
LOANS AND ADVANCES TO							
- CITIZENS	41,127	23,845	8,716	9,086	15,493	12,685	39,102
- COMPANIES	36,150	4,447	6,712	8,590	39,792	13,928	66,560
- PUBLIC AND OTHER SECTORS	11,098	-	-	-	1	9	1,837
OTHER PAST DUE CLAIMS	3,519	923	547	1,320	3,346	2,059	52,130
TOTAL PAST DUE CLAIMS	**91,894**	**29,215**	**15,975**	**18,996**	**58,632**	**28,681**	**160,229**

c) Placements covered by collaterals

(in thousands of HRK)

As at 31 December 2011	Deposit	Housing mortgages	Business mortgages	Other collaterals	No collateral
A. Balance sheet exposure					
Balances with the Croatian National Bank	-	-	-	-	210,350
Placements with other banks	-	-	-	-	176,228
Loans and advances to customers	54,649	159,560	191,179	18,864	1,469,368
Assets available for sale	-	-	-	-	293,958
Assets held to maturity	-	-	-	-	27,756
Overall balance sheet exposure	**54,649**	**159,560**	**191,179**	**18,864**	**2,177,660**
B. Off-balance sheet exposure					
Customers	3,077	3,470	5,312	420	377,567
Overall off-balance sheet exposure	**3,077**	**3,470**	**5,312**	**420**	**377,567**
Overall exposure (A+B)	**57,726**	**163,031**	**196,491**	**19,284**	**2,555,227**
Fair value of collaterals		**203,789**	**294,737**		

(in thousands of HRK)

As at 31 December 2010	Deposit	Housing mortgages	Business mortgages	Other collaterals	No collateral
A. Balance sheet exposure					
Balances with the Croatian National Bank	-	-	-	-	189,963
Placements with other banks	-	-	-	-	242,885
Loans and advances to customers	54,167	163,302	168,753	300,022	885,634
Assets available for sale	-	-	-	-	401,906
Assets held to maturity	-	-	-	-	56,308
Overall balance sheet exposure	**54,167**	**163,302**	**168,753**	**300,022**	**1,776,696**
B. Off-balance sheet exposure					
Customers	4,123	2,883	2,185	-	254,201
Overall off-balance sheet exposure	**4,123**	**2,883**	**2,185**	**-**	**254,201**
Overall exposure (A+B)	**58,290**	**166,185**	**170,938**	**300,022**	**2,030,897**
Fair value of collaterals		**221,580**	**341,876**		

d) Provision ratio in performing and non-performing loans

	2011		2010	
	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)
PERFORMING LOANS	89.5	1.1	88.1	1.6
SUBSTANDARD LOANS	5.1	31.9	6.4	26.5
NON-PERFORMING LOANS	5.4	100.0	5.5	100.0
TOTAL	**100.0**		**100.0**	

38. PRICE RISK

Equity and debt instrument price risk represents the sensitivity of the available-for-sale assets to fluctuations in market prices, with effects on the income statement and the revaluation reserve within the Bank's equity.

(IN THOUSANDS OF HRK)

	ASSUMED PRICE CHANGE	INFLUENCE OF PRICE INCREASE ON REVALUATION RESERVES
AT 31 DECEMBER 2011	**3%**	**8,819**
AT 31 DECEMBER 2010	**3%**	**12,057**

39. CONCENTRATIONS OF ASSETS AND LIABILITIES

There is a significant concentration of the Bank's assets towards the Republic of Croatia, which is analysed as follows:

(IN THOUSANDS OF HRK)

	2011	2010
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	83,804	108,841
OTHER CASH RESERVE FUNDS	10,000	10,000
MANDATORY RESERVE WITH THE CROATIAN NATIONAL BANK	210,350	189,963
TREASURY BILLS OF THE REPUBLIC OF CROATIA	495	-
BONDS OF THE REPUBLIC OF CROATIA	51,010	86,791
OTHER ASSETS	1,862	1,874
DEPOSITS RECEIVED	(556)	(546)
CURRENT TAX LIABILITY	(3,043)	(3,200)
	353,922	**393,723**

At 31 December 2011, the Bank's indirect exposure to the Republic of Croatia in respect of debt securities issued by local and municipal authorities, loans and other exposures were as follows:

(IN THOUSANDS OF HRK)

	2011	2010
STATE AGENCY FOR DEPOSIT INSURANCE AND REHABILITATION OF BANKS	(1,089)	(1,085)
MUNICIPAL BONDS OF THE CITY OF KOPRIVNICA	-	4,566
HBOR LOANS GUARANTEED BY THE STATE	19,601	20,000
LOANS AND ADVANCES TO CUSTOMERS GUARANTEED BY THE STATE	10,595	14,794
DEPOSITS RECEIVED	(71,406)	(41,347)
LOANS FROM THE CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT	(95,669)	(90,876)
	(136,879)	**(92,863)**

40. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 17 April 2012 and were signed on its behalf by:

Julio Kuruc	Marijan Marušić	Davorka Jakir
President of the Board	Member of the Board	Member of the Board

ABOUT THE BANK

BANK'S MANAGEMENT AND ORGANISATIONAL STRUCTURE

The Bank's operations are supervised by the Supervisory Board and managed by the Management Board.

Supervisory Board

Miljan Todorovic, Chairman
Sigilfredo Montinari, Deputy Chairman
Maurizio Dallocchio, Member
Filippo Disertori, Member
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member

Bank's Management Board

Julio Kuruc, Chairman of the Management Board
Davorka Jakir, Member of the Management Board
Marijan Marušić, Member of the Management Board

Chief Executive Officer

Moreno Marson

Units

Operations and Organisation Unit - Marko Žigmund
Risk Management Unit - Renata Vinković
Administration and HR Management Unit - Božana Kovačević
Accounting and Reporting Unit - Vesna Laloš
Support Unit - Dragica Hrkalović
Internal Audit Unit - Krunoslav Vnučec
Compliance Monitoring Unit - Božica Širić
Risk Control Unit - Biserka Seretin
Head of Information System Security - Damir Vukelić

Departments

Treasury Department - Goran Varat
Commercial Banking Department - Daniel Unger
Retail Banking Department - Sanda Fuček Šanjić
Payments and Back-Office Department - Snježana Pobi

Legend

Commercial center

Branches

RETAIL CENTRES

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APPENDIX 1
SUPPLEMENTARY REPORTS FOR THE CROATIAN NATIONAL BANK

Pursuant to the Croatian Accounting Act (Official Gazette No. 109/07), the Croatian National Bank has promulgated the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 62/08). Set out below are the statutory financial statements of the Bank presented in accordance with the Decision:

INCOME STATEMENT

(IN THOUSANDS OF HRK)

		2011 UNAUDITED	2010 UNAUDITED
1.	INTEREST INCOME	179,738	167,110
2.	(INTEREST EXPENSES)	(75,126)	(84,317)
3.	**NET INTEREST INCOME**	**104,612**	**82,793**
4.	COMMISSION AND FEE INCOME	36,749	38,529
5.	(COMMISSION AND FEE EXPENSES)	(11,244)	(11,806)
6.	**NET COMMISSION AND FEE INCOME**	**25,505**	**26,723**
7.	GAIN/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
8.	GAIN/(LOSS) FROM TRADING ACTIVITIES	9,169	11,529
9.	GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-
10.	GAIN/(LOSS) FROM FINANCIAL ASSETS NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
11.	GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	(3,660)	10,155
12.	GAIN/(LOSS) FROM FINANCIAL ASSETS HELD TO MATURITY	-	-
13.	GAIN/(LOSS) FROM HEDGING TRANSACTIONS	-	-
14.	INCOME FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
15.	INCOME FROM OTHER EQUITY INVESTMENTS	1,280	1,491
16.	GAIN/(LOSS) FROM FOREIGN EXCHANGE DIFFERENCES	1,247	1,043
17.	OTHER INCOME	4,251	1,969
18.	OTHER EXPENSES	(5,765)	(5,904)
19.	GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(99,893)	(100,046)
20.	**NET INCOME BEFORE VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES**	**36,746**	**29,753**
21.	EXPENSES FROM VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	(21,110)	(13,688)
22.	**PROFIT/(LOSS) BEFORE TAX**	**15,636**	**16,065**
23.	INCOME TAX	(3,170)	(3,091)
24.	**CURRENT YEAR PROFIT/(LOSS)**	**12,466**	**12,974**
25.	EARNINGS PER SHARE	18.64	19.40

APPENDIX TO THE INCOME STATEMENT

(IN THOUSANDS OF HRK)

	2011	2010
CURRENT YEAR PROFIT/(LOSS)	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

BALANCE SHEET

		(IN THOUSANDS OF HRK)	
		2011 UNAUDITED	2010 UNAUDITED
ASSETS			
1.	CASH AND DEPOSITS WITH THE CNB	340,226	343,726
	1.1. CASH	36,072	35,027
	1.2. DEPOSITS WITH THE CNB	304,154	308,699
2.	DEPOSITS WITH BANKING INSTITUTIONS	213,394	289,039
3.	TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	495	-
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	405,955	417,682
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	94,071	97,319
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	-	-
9.	LOANS TO FINANCIAL INSTITUTIONS	19,600	20,000
10.	LOANS TO OTHER CLIENTS	1,707,494	1,517,672
11.	INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	3,570	3,570
12.	REPOSSESSED ASSETS	6,692	8,605
13.	TANGIBLE AND INTANGIBLE ASSETS (MINUS DEPRECIATION AND AMORTISATION)	93,612	88,194
14.	INTERESTS, FEES AND OTHER ASSETS	36,954	23,216
A.	**TOTAL ASSETS**	**2,922,063**	**2,809,023**
LIABILITIES AND EQUITY			
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS	133,830	135,734
	1.1. SHORT-TERM BORROWINGS	46,000	52,200
	1.2. LONG-TERM BORROWINGS	87,830	83,534
2.	DEPOSITS	2,256,955	2,220,235
	2.1. DEPOSITS ON GIRO-ACCOUNTS AND CURRENT ACCOUNTS	403,541	352,390
	2.2. SAVINGS DEPOSITS	240,156	259,983
	2.3. TERM DEPOSITS	1,613,258	1,607,862
3.	OTHER BORROWINGS	-	-
	3.1. SHORT-TERM BORROWINGS	-	-
	3.2. LONG-TERM BORROWINGS	-	-
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING FINANCIAL LIABILITIES	-	-
5.	ISSUED DEBT SECURITIES	-	-
	5.1. ISSUED SHORT-TERM DEBT SECURITIES	-	-
	5.2. ISSUED LONG-TERM DEBT SECURITIES	-	-
6.	ISSUED SUBORDINATED INSTRUMENTS	-	-
7.	ISSUED SUBORDINATED DEBT	75,304	-
8.	INTERESTS, FEES AND OTHER LIABILITIES	87,516	78,430
B.	**TOTAL LIABILITIES**	**2,553,605**	**2,434,399**
EQUITY			
1.	SHARE CAPITAL	259,433	259,433
2.	CURRENT YEAR GAIN/LOSS	12,466	12,974
3.	RETAINED EARNINGS/(LOSS)	-	-
4.	LEGAL RESERVES	97,039	84,065
5.	STATUTORY AND OTHER CAPITAL RESERVES	34,436	29,793
6.	UNREALISED GAIN /(LOSS) FROM AVAILABLE FOR SALE FAIR VALUE ADJUSTMENT	(34,916)	(11,641)
C.	**TOTAL EQUITY**	**368,458**	**374,624**
D.	**TOTAL LIABILITIES AND EQUITY**	**2,922,063**	**2,809,023**

APPENDIX TO THE BALANCE SHEET

	(IN THOUSANDS OF HRK) 2011	2010
TOTAL EQUITY		
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-
	-	-

CASH FLOW STATEMENT

	(IN THOUSANDS OF HRK) 2011 UNAUDITED	2010 UNAUDITED
OPERATING ACTIVITIES		
1.1. GAIN/(LOSS) BEFORE TAX	15,636	16,065
1.2. VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	21,110	13,688
1.3. DEPRECIATION AND AMORTISATION	10,100	12,826
1.4. NET UNREALISED (GAIN)/LOSS FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
1.5. GAIN/(LOSS) FROM SALE OF TANGIBLE ASSETS	(860)	15
1.6. OTHER (GAINS)/LOSSES	-	-
1. OPERATING CASH FLOW BEFORE CHANGES IN OPERATING ASSETS	**45,986**	**42,594**
2.1. DEPOSITS WITH THE CNB	(20,492)	6,126
2.2. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	(495)	89,894
2.3. DEPOSITS WITH BANKING INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	400	(20,000)
2.4. LOANS TO OTHER CLIENTS	(210,932)	(230,262)
2.5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
2.6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	(11,548)	(297,695)
2.7. SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
2.8. OTHER OPERATING ASSETS	(10,443)	(11,675)
2. NET (INCREASE)/DECREASE IN OPERATING ASSETS	**(253,510)**	**(463,612)**
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
3.1. DEMAND DEPOSITS	51,151	65,333
3.2. SAVINGS AND TERM DEPOSITS	(14,431)	33,648
3.3. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING LIABILITIES	-	-
3.4. OTHER LIABILITIES	12,709	(14,888)
3. NET INCREASE/(DECREASE) IN OPERATING LIABILITIES	**49,429**	**84,093**
4. NET CASH FLOW FROM OPERATING ACTIVITIES BEFORE PROFIT TAX	**(158,095)**	**(336,925)**
5. PROFIT TAX PAID	**(3,158)**	**(3,426)**
6. NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**(161,253)**	**(340,351)**
INVESTING ACTIVITIES		
7.1. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF TANGIBLE AND INTANGIBLE ASSETS	(15,518)	(5,163)
7.2. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	(2,040)
7.3. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	3,248	(36,824)
7.4. DIVIDENDS RECEIVED	(1,280)	(1,491)
7.5. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	1,913	(1,330)
7. NET CASH FLOW FROM INVESTING ACTIVITIES	**(11,637)**	**(46,848)**
FINANCING ACTIVITIES		
8.1. NET INCREASE/(DECREASE) IN BORROWINGS	(1,904)	(46,646)
8.2. NET INCREASE/(DECREASE) IN ISSUED DEBT SECURITIES	-	-
8.3. NET INCREASE/(DECREASE) IN SUBORDINATED DEBT AND HYBRID INSTRUMENTS	75,304	-
8.4. RECEIPTS FROM ISSUED SHARE CAPITAL	-	-
8.5. (DIVIDENDS PAID)	-	-
8.6. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	-	(28)
8. NET CASH FLOW FROM FINANCIAL ACTIVITIES	**73,389**	**(46,674)**
9. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(99,501)**	**(433,873)**
10. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**444,732**	**878,605**
11. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**345,231**	**444,732**

STATEMENT OF CHANGES IN EQUITY

(IN THOUSANDS OF HRK)

		SHARE CAPITAL	TREASURY SHARES	LEGAL, STATUTORY AND OTHER RESERVES	RETAINED EARNINGS/ (LOSS)	CURRENT YEAR PROFIT/ LOSS	UNREALISED GAIN/ LOSSES FROM AVAILABLE FOR SALE FINANCIAL ASSETS FAIR VALUE ADJUSTMENT	MINORITY INTEREST	TOTAL CAPITAL AND RESERVES
		UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
1.	**BALANCE AT 1 JANUARY 2011**	**270,515**	**(11,082)**	**111,529**	**-**	**12,974**	**(9,312)**	**-**	**374,624**
2.	CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	(1)	-	-
3.	**RESTATED CURRENT YEAR BALANCE**	**270,515**	**(11,082)**	**111,529**	**-**	**12,974**	**(9,313)**	**-**	**374,624**
4.	SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5.	FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	(23,275)	-	(23,275)
6.	TAX ON ITEMS RECOGNISED DIRECTLY IN, OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	4,655	-	4,655
7.	OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	-
8.	**NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES**	**-**	**-**	**-**	**-**	**-**	**(18,620)**	**-**	**(18,620)**
9.	CURRENT YEAR GAIN/ (LOSS)	-	-	-	-	12,466	-	-	12,466
10.	**TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR**	**-**	**-**	**-**	**-**	**12,466**	**(18,620)**	**-**	**(6,154)**
11.	INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12.	PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13.	OTHER CHANGES	-	-	(11)	-	-	-	-	(11)
14.	TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15.	DIVIDENDS PAID	-	-	-	-	-	-	-	-
16.	**ALLOCATION OF PROFIT**	**-**	**-**	**12,974**	**(12,974)**	**-**	**-**	**-**	**-**
17.	**BALANCE AT 31 DECEMBER 2011**	**270,515**	**(11,082)**	**124,492**	**-**	**12,466**	**(27,933)**	**-**	**368,458**

(IN THOUSANDS OF HRK)

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/ losses from available for sale financial assets fair value adjustment	Minority interest	Total capital and reserves
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
1. BALANCE AT 1 JANUARY 2010	**270,515**	**(11,082)**	**99,433**	**12,124**	**-**	**(6,616)**	**-**	**364,374**
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
3. RESTATED CURRENT YEAR BALANCE	**270,515**	**(11,082)**	**99,433**	**12,124**	**-**	**(6,616)**	**-**	**364,374**
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5. FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	(3,371)	-	(3,371)
6. TAX ON ITEMS RECOGNISED DIRECTLY IN, OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	674	-	674
7. OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	1	-	1
8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	**-**	**-**	**-**	**-**	**-**	**(2,696)**	**-**	**(2,696)**
9. CURRENT YEAR GAIN/ (LOSS)		-	-	-	12,974	-		12,974
10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR	**-**	**-**	**-**	**-**	**12,974**	**(2,696)**	**-**	**10,278**
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	(28)	-	-	-	-	(28)
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
16. ALLOCATION OF PROFIT		**-**	**12,124**	**(12,124)**	**-**	**-**		**-**
17. BALANCE AT 31 DECEMBER 2010	**270,515**	**(11,082)**	**111,529**	**-**	**12,974**	**(9,312)**	**-**	**374,624**

Since the data in the financial statements prepared in accordance with the Croatian National Bank ("CNB") Decision is classified differently from those in the financial statements prepared according to the statutory accounting requirements for banks in Croatia, set out below are the comparative figures. Comparatives for the income statement ended 31 December 2011 and 2010:

(IN THOUSANDS OF HRK)

	2011 CROATIAN NATIONAL BANK DECISION UNAUDITED	2011 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA	2011 DIFFERENCE	2010 CROATIAN NATIONAL BANK DECISION UNAUDITED	2010 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA	2010 DIFFERENCE
INTEREST AND SIMILAR INCOME	179,738	179,863	(125)	167,110	167,098	12
INTEREST AND SIMILAR EXPENSE	(75,126)	(70,378)	(4,748)	(84,317)	(79,698)	(4,619)
NET INTEREST INCOME	**104,612**	**109,485**	**(4,873)**	**82,793**	**87,400**	**(4,607**
FEE AND COMMISSION INCOME	36,749	36,745	4	38,529	38,528	1
EXPENSE FOR FEES AND COMMISSIONS	(11,244)	(11,248)	4	(11,806)	(11,807)	1
NET FEE AND COMMISSION INCOME	**25,505**	**25,497**	**8**	**26,723**	**26,721**	**2**
NET TRADING GAIN	9,169	9,169	-	11,529	11,529	-
GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-	-	-	-	-
GAIN/(LOSS) FROM ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	-	-
GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	(3,660)	(3,660)	-	10,155	10,155	-
INCOME FROM OTHER INVESTMENTS IN EQUITY SECURITIES	1,280	1,280	-	1,491	1,491	-
NET FOREIGN EXCHANGE DIFFERENCES	1,247	724	523	1,043	811	232
OTHER OPERATING INCOME	4,251	3,894	357	1,969	1,183	786
TOTAL OTHER INCOME	**12,287**	**11,407**	**880**	**26,187**	**25,169**	**1,018**
GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(99,893)	(109,631)	9,738	(100,046)	(109,477)	9,431
IMPAIRMENT ALLOWANCE AND PROVISIONS	(21,110)	(21,122)	12	(13,688)	(13,748)	60
OTHER OPERATING EXPENSES	(5,765)	-	(5,765)	(5,904)		(5,904)
TOTAL OTHER EXPENSES	**(126,768)**	**(130,753)**	**3,985**	**(119,638)**	**(123,225)**	**3,587**
PROFIT BEFORE TAX	**15,636**	**15,636**	**-**	**16,065**	**16,065**	**-**
INCOME TAX EXPENSE	(3,170)	(3,170)	-	(3,091)	(3,091)	-
NET PROFIT FOR THE YEAR	**12,466**	**12,466**	**-**	**12,974**	**12,974**	**-**
EARNINGS PER SHARE (IN HRK)	**18.64**			**19.40**		

The difference for the year ended 31 December 2011 in "Interest and interest similar income" in the amount of HRK 125 thousand (2010: HRK 1,265 thousand) relates to foreign exchange differences based on the interest income. The difference for the year ended 31 December 2011 in "Interest and similar expense" of HRK 4,748 thousand (2010: HRK 4,619 thousand) relates mainly to the savings deposit insurance premium expenses, which were presented within "General and administrative expenses" in the audited income statement per amount HRK 4,364 thousand (2010: HRK 4,408 thousand). Other differences are in respect of the reclassification of other expense items from the audited accounts to interest expense and of exchange differences on interest expense into net foreign exchange gains on translation of monetary assets and liabilities. The differences in the positions included in ”Net foreign exchange differences” relates to foreign exchange differences based on the translation of foreign currency balances to mid or contracted exchange rate. The differences in the positions included in “Total other expenses” result from reclassification of representation and advertising expenses, and other and extraordinary expenses to “General and administrative expenses in audited financial statements.

Comparatives for the balance sheet at 31 December 2011 and 31 December 2010:

(IN THOUSANDS OF HRK)

	2011 CROATIAN NATIONAL BANK UNAUDITED	2011 ACCOUNTING REQUIREMENTS FOR BANKS	2011 DIFFERENCE	2010 CROATIAN NATIONAL BANK UNAUDITED	2010 ACCOUNTING REQUIREMENTS FOR BANKS	2010 DIFFERENCE
ASSETS						
CASH AND DEPOSITS WITH THE CROATIAN NATIONAL BANK	340,226	398,954	(58,728)	343,726	411,810	(68,084)
TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	495	-	495	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	405,955	293,958	111,997	417,682	401,906	15,776
FINANCIAL ASSETS HELD TO MATURITY	94,071	27,756	66,315	97,319	56,308	41,011
PLACEMENTS WITH AND LOANS TO OTHER BANKS	232,994	176,228	56,766	309,039	242,885	66,154
LOANS AND RECEIVABLES	1,707,494	1,893,621	(186,127)	1,517,672	1,571,878	(54,206)
INVESTMENTS IN SUBSIDIARIES	3,570	3,570	-	3,570	3,570	-
REPOSSESSED ASSETS	6,692	-	6,692	8,605		8,605
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	93,612	93,495	117	88,194	88,108	86
DEFERRED TAX ASSETS	9,700	9,700	-	5,171	5,171	-
OTHER ASSETS	27,254	14,468	12,786	18,045	15,463	2,582
TOTAL ASSETS	**2,922,063**	**2,911,750**	**10,313**	**2,809,023**	**2,797,099**	**11,924**
LIABILITIES						
DUE TO OTHER BANKS AND DEPOSITS FROM CUSTOMERS	2,390,785	2,436,166	(45,381)	2,355,969	2,398,182	(42,213)
PROVISIONS FOR LIABILITIES AND CHARGES	4,457	4,457	-	-	2,900	(2,900)
OTHER LIABILITIES	83,059	26,192	56,867	78,430	22,123	56,307
TOTAL LIABILITIES	**2,478,301**	**2,466,815**	**11,486**	**2,434,399**	**2,423,205**	**11,196**
HYBRID INSTRUMENTS	75,304	77,195	(1,891)	-	-	-
SHAREHOLDERS’ EQUITY						
SHARE CAPITAL	267,500	267,500	-	259,433	267,500	(8,067)
SHARE PREMIUM	3,015	3,015	-		3,015	(3,015)
TREASURY SHARES	(11,082)	(11,082)	-		(11,082)	11,082
NET PROFIT FOR THE YEAR	12,466	12,466	-	12,974	12,974	-
UNREALISED GAIN / (LOSS) FROM FAIR VALUE ADJUSTMENT OF AVAILABLE FOR SALE ASSETS	(34,916)	(34,916)	-	(11,641)	(9,313)	(2,328)
RESERVES	131,475	130,757	718	113,858	110,800	3,058
TOTAL EQUITY	**368,458**	**367,740**	**718**	**374,624**	**373,894**	**730**
TOTAL LIABILITIES AND CAPITAL	**2,922,063**	**2,911,750**	**10,313**	**2,809,023**	**2,797,099**	**11,924**

The difference in net of HRK 10,313 thousand (2010: 11,924 thousand) in the balance sheet totals between the balance sheet as per the CNB Decision and the balance sheet according to the statutory accounting requirements for banks in Croatia arises from the different classification of deferred loan origination fees in the amount of HRK 10,313 thousand (2010: HRK 9,929 thousand and deferred tax liabilities in the amount of HRK: 1,995 thousand). In the balance sheet format prescribed by the CNB Decision, deferred fees and taxes are captured within "Interest, fees and other liabilities" under the line item "Total liabilities". The balance of the statutory accounting requirements for banks in the Republic of Croatia in the "total assets" are delimited loan origination fees accounted for as an impairment in the position of "Loans and receivables" and the deferred tax liability is reported netted in the position "Deferred tax assets".

The differences in other positions arise from a different classification of interest receivables and interest payables. In the balance sheet according to the CNB Decision, interest receivables and interest payables are recognised in "Other assets" and "Other liabilities", whereas in the balance sheet according to the statutory accounting requirements for banks in Croatia they are recognised on the balance sheet within the corresponding principal component.

Assets

Cash balances on current accounts with domestic and foreign banks as well as other deposits in the total amount of HRK 58,728 thousand (2010: HRK 67,979 thousand) are presented in the audited accounts within "Cash and amounts due from banks", while according to the CNB Decision, they are reported within "Deposits with banking institutions".

In the audited accounts, placements with customers in respect of discounted bills and factored receivables in the total amount of HRK 183,480 thousand (2010: HRK 63,835 thousand) are presented within "Loans and advances to customers", while under the CNB Decision they are reported by the financial asset portfolio to which they are allocated as follows: HRK 117,100 thousand to financial assets available for sale (2010: HRK 22,308 thousand) and HRK 880 thousand to financial assets held to maturity (2010: HRK 1,789 thousand), while factoring receivables are classified as financial assets held to maturity in the amount of HRK 65,500 thousand (2010: HRK 39,738 thousand).

Repossessed i.e. foreclosed assets are reported under the CNB Decision separately, while in the audited accounts they have been included within "Other assets". Small inventories of HRK 117 thousand (2010: HRK 86 thousand) are presented in the audited accounts within "Other assets", whereas under the CNB Decision they are included in "Property, plant and equipment, and intangible assets".

Deferred tax assets in the amount of HRK 9,700 thousand (2010: HRK 5,171 thousand) are reported separately in the audited accounts, whereas according to the reporting requirements of the CNB they are included within "Other assets".

Liabilities and capital

According to the CNB Decision, "Other liabilities" include provisions for contingent liabilities and legal cases, which have been presented separately in the audited accounts in the amount of HRK 4,457 thousand (2010: HRK 2,900 thousand).

According to the CNB requirements, the position "Statutory and other capital reserves" include reserves in the amount of HRK 718 thousand, formed in respect of flats with tenancy rights not sold (2010: HRK 729 thousand), which are included in the audited accounts within "Other liabilities".

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