



**Maran Audit Services Ltd.**  
**Josipa Jovića 51**  
**21000 Split**  
**OIB:67202619578**

## **IMEX BANKA d.d. - SPLIT**

### **AUDIT REPORT AS AT 31 DECEMBER 2011**

Split, February 2012

## **CONTENTS:**

**Independent Auditor's Opinion on Financial Statements as at 31 December 2011**

**Financial Statements (Reclassified)**

- **Profit and Loss Account for 2011**
- **Balance Sheet as at 31 December 2011**
- **Equity Change Statement as at 31 December 2011**
- **Cash Flow Statement for 2011**

**Notes to the Financial Statements**

## **Management Board Responsibility Statement**

Based on the Croatian Act on Accounting (Official Journal *Narodne novine* No. 109/07), the Management Board is obligated to prepare the financial statements of the Bank for each business year in compliance with the International Financial Reporting Standards („IFRS“) published by the Board for International Accounting Standards, in such a way as to provide a fair and true presentation of the financial position of the Bank, its operating results and cash flow, in compliance with the applicable accounting standards.

The Management Board is responsible for selection of appropriate accounting policies and their consistent application; adoption of reasonable and cautious assessments and evaluations; and preparation of financial statements based on going concern principle, unless it is inappropriate to assume that the Bank will continue as a going concern.

The Management Board is responsible for keeping of appropriate accounting records, which will accurately reflect at any moment the financial position of the Bank, and their compliance with the Croatian Act on Accounting (Official Journal *Narodne novine* 109/07). The Management Board is also responsible for keeping of corporate assets and undertaking reasonable measures for the prevention and disclosure of any frauds or other illegal proceedings.

These financial statements have been approved for issue as at 15 February 2012 and signed on behalf of the Management Board.

Imex banka d.d.  
Tolstojeva 6  
21000 Split

Management Board Member:

Ružica Šarić, Dipl.Oec.

Management Board President:

Branko Buljan, Dipl.Oec.

## **AUDITOR'S REPORT**

### **To Shareholders of IMEX BANKA d.d., Split**

We have audited the enclosed Financial Statements of Imex banka d.d., Split, Tolstojeva 6, OIB: 99326633206 (hereinafter: Bank) including the Balance Sheet as at 31 December 2011, Profit and Loss Statement, Equity Change Statement and Cash Flow Statement for the year ended on that date, as well as Summary of Significant Accounting Policies and Notes with the Financial Statements, presented on pages 5 to 39.

### **Management Board responsibilities**

The Management Board is responsible for the preparation and objective presentation of these Financial Statements in compliance with the International Financial Reporting Standards. Responsibilities of the Management Board include: determination, introduction and maintenance of internal controls applicable for the preparation and objective presentation of financial statements free of any misstatements caused by fraud or error; selection and application of appropriate accounting policies and determination of reasonable accounting evaluations appropriate in given circumstances.

### **Auditor's responsibilities**

It is our responsibility to express our opinion on the Financial Statements based on our audit. We have conducted our audit in compliance with the International Audit Standards. These Standards require auditor's compliance with ethical rules, as well as planning and conducting of an audit in such a way as to ascertain with a reasonable certainty that the financial statements are free of substantial misstatements.

The audit includes procedures for obtaining of audit evidence on sums and disclosures presented in the financial statements. Selection of procedures depends on the auditor's judgment, including an assessment of risk of substantial misstatements in the financial statements caused by fraud or error. In assessment of such risks, the auditor considers the internal controls a significant factor for the objective presentation of financial statements prepared by the Bank and determines the appropriate further audit procedures. An audit also includes evaluation of applied accounting principles and significant judgments by the Management Board, as well as evaluation of the entire presentation of the financial statements.

We believe that our audit forms sufficient and reasonable basis for the expression of our opinion.

### **Basis for the Opinion**

We have conducted our audit in compliance with the International Audit Standards. These Standards require the planning and conducting of an audit in such a way as to ascertain with a reasonable certainty that the financial statements are free of substantial misstatements. An audit includes verification, on test basis, of information supporting the amounts and all notes to the financial statements. An audit also includes evaluation of applied accounting principles and significant judgments by the

Management Board, as well as evaluation of the entire presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, the Financial Statement present really and fairly, in all significant aspects, the financial position of the Bank on 31<sup>st</sup> of December 2011, its operating results and cash flows for the year that ended on that day, in compliance with the legal requirements for bank accounting in Croatia.

### **Other legal and regulatory obligations**

Based on Decision on form and contents of annual financial statements of banks (Official Journal *Narodne novine* no. 62/08, hereinafter: "Decision"), the Management Board has prepared forms presented on pages 40 to 59, including Balance Sheet as at 31 December 2011, Profit and Loss Statement, Equity Change Statement and Cash Flow Statement for the year ended on that date, as well as notes on adjustments with the fundamental financial statements. Preparation of such forms and information on adjustments are responsibilities of the Management Board and they are not an integral part of these Financial Statements, but instead they are set out by the Decision. Financial information in the forms are accurately derived from the fundamental Financial Statements of the Bank prepared in compliance with legal requirements for bank accounting in Croatia, presented on pages 5 to 39.

### **MARAN Audit Services Ltd.**

**Josipa Jovića 51**

**21000 Split**

**OIB: 67202619578**

Split, 21 February 2012

Licensed Auditors:

Ivan Jelović, Dipl.Oec.

Ivanka Duvnjak, Dipl.Oec.

Director:

Ivan Jelović, Dipl.Oec.

## Financial Statements (Reclassified)

### *Profit and Loss Statement for 2011*

		<b>HRK '000</b>	
	<b>Notes</b>	<b>2010</b>	<b>2011</b>
		<u>          </u>	<u>          </u>
Interest income	3a	125,350	153,725
Interest expenses	3c	(66,620)	(76,779)
<b>Net interest income</b>		<b><u>58,730</u></b>	<b><u>76,946</u></b>
Fees and commissions	3b	6,582	6,097
Currency gains/losses and profit/loss from trade in securities and currency (net)	4,4a	3,510	4,093
Other income	5	559	335
<b>Total income</b>		<b><u>69,381</u></b>	<b><u>87,471</u></b>
Operating expenses	6	(36,297)	(39,387)
Value adjustment and provisions	8a,8b	(22,831)	(22,756)
<b>Profit before taxation</b>		<b><u>10,253</u></b>	<b><u>25,328</u></b>
Corporate income tax		2,201	5,182
<b>Profit after taxation</b>		<b><u>8,052</u></b>	<b><u>20,146</u></b>
<b>Profit available for allocation</b>		8,052	20,146
<b>Earning per share in HRK</b>	9	13.39	21.63

The accounting policies and notes on pages 10 to 39 shall form an integral part of these Financial Statements.

*Balance Sheet as at 31 December 2011*

HRK '000

	Notes	<u>2010</u>	<u>2011</u>
<b>Assets</b>			
Cash and assets with other banks	10	167,144	259,994
Assets with the Croatian National Bank	11	116,314	162,307
Deposits with other banks	12	186,658	79,829
Treasury and cashier notes		0	0
Loans to customers	13	1,043,408	1,275,749
Accrued interests and other assets	14	20,861	25,464
Investments and securities	15	7,487	66,626
Tangible and intangible assets with advances for buildings	16a,16b	46,762	44,199
Foreclosed assets	16c	0	6,206
Special provisions for identified losses on group basis for placements	22a	(12 585)	(15,468)
<b>Total assets:</b>		<b><u>1,576,049</u></b>	<b><u>1,904,906</u></b>
<b>Equity and liabilities</b>			
Other deposits	17		
- on demand		102,888	113,039
- saving and fixed term deposits		1,200,430	1,436,014
Other borrowed funds	18	85,072	86,423
Hybrid instruments	19	41,000	84,416
Accrued interests and other liabilities	20,21	36,960	44,134
Provisions for contingent liabilities on group and individual level	22 a	779	829
Provisions for litigation	22 b	40	25
<b>Total liabilities:</b>		<b><u>1,467,169</u></b>	<b><u>1,764,880</u></b>
Share capital		60,127	93,127
Capital gain		13,175	13,175
Treasury shares		0	0
Reserves and retained profit		27,526	13,578
Current year profit		8,052	20,146
<b>Total equity:</b>		<b><u>108,880</u></b>	<b><u>140,026</u></b>
<b>Total equity and reserves:</b>		<b><u>1,576,049</u></b>	<b><u>1,904,906</u></b>
<b>Contingent and assumed liabilities</b>			
- guarantees		62,160	66,410
- letters of credit		5,640	2,815
- credit facilities and financing liabilities		16,886	22,190
<b>Total:</b>		<b><u>84,686</u></b>	<b><u>91,415</u></b>
- other out-of-balance items (derivatives)		0	0
<b>Total:</b>	23	<b><u>84,686</u></b>	<b><u>91,415</u></b>

## *Equity Change Statement*

HRK '000

	Share capital with capital gain	Treasury shares	Reserves	Current year profit and retained profit	Total equity
<b>As at 1 January 2010</b>	73,301	0	17,440	10,087	<b>100,828</b>
Allocation of profits from 2009				(3,851)	(3,851)
Transfer into general banking risk reserves					
Sale of treasury shares					
Retained profit				3,851	3,851
Profits for 2010				8,052	8,052
<b>As at 31 December 2010</b>	73,301	0	17,440	18,139	<b>108,880</b>
<b>As at 1 January 2011</b>	73,301	0	17,440	18,139	<b>108,880</b>
Capital stock increase	*33,000				33,000
Reserves for general banking risks			(11,779)		(11,779)
Sale of treasury shares					
Retained profit				(10,221)	(10,221)
Profits for 2011				20,146	20,146
<b>As at 31 December 2011</b>	106,301	0	5,661	28,064	<b>140,026</b>

\*Capital stock value with capital gain increased in 2011 by HRK 33,000 compared to 2010, as follows:

- by new payments by the stockholders for the issued stocks at the sum of HRK 11,000 thousand,
- by conversion of retained profit into equity at the sum of HRK 10,221 thousand and
- by conversion of reserves into equity at the sum of HRK 11,779 thousand.

In compliance with the Croatian laws, the Bank is bound to allocate 5% of the profits after taxation into legal reserves, until the total amount of such reserves reaches 5% of share capital.



*Cash Flow Statement for the Year Ending on 31 December 2011 (Indirect method)*

	<b>HRK '000</b>	
	<b>2010</b>	<b>2011</b>
<b>Net cash flow from operating activities</b>		
Profit before taxation	8,052	25,328
Increase on accrued interests and other assets	(5,484)	(4,603)
Depreciation	3,786	3,750
Increase / reduction on other liabilities	3,811	7,174
Income / expenses from value adjustment and provisions	22,831	22,756
<b>Net cash flow from trading activities</b>	<b>32,996</b>	<b>54,405</b>
<b>Changes in assets and liabilities</b>		
Net increase (reduction) on bank deposits	0	0
Net increase (reduction) on other deposits	221,396	245,735
Net increase of assets with the Croatian National Bank	(13,439)	(45,993)
(Reduction) / increase of borrowed funds	8,673	1,351
Increase of placements to banks exceeding 90 days	(29,210)	106,829
Net reduction (increase) on loans to customers	(216,820)	(235,584)
Corporate income tax	(2,201)	(5,182)
Hybrid instruments	0	43,416
Other	(20,691)	(19,358)
<b>Net cash inflow from operating activities</b>	<b>(52,292)</b>	<b>91,214</b>
<b>Investment activities</b>		
Purchase of securities and participations	8,392	(59,139)
Purchase of intangible and tangible assets and alike	(2,571)	(9,826)
Sale and write-off of tangible assets	0	399
Advances for tangible assets	0	8,325
<b>Net cash outflow from investment activities</b>	<b>5,821</b>	<b>(60,241)</b>
<b>Financing</b>		
Payments out of profit to shareholders	0	0
<b>Net cash (outflow) from financing</b>	<b>0</b>	<b>0</b>
<b>Increase/reduction of cash and cash equivalents</b>	<b>(13,475)</b>	<b>85,378</b>

<b>Cash and cash equivalents changes through the year</b>		
Balance as at 1 January	188,091	174,616
Net cash inflow – outflow	(13,475)	85,378
Balance as at 31 December	<b>174,616</b>	<b>259,994</b>
Changes in accounting policies and calculation methods	<b>0</b>	<b>0</b>
Balance as at 31 December	<b>174,616</b>	<b>259,994</b>
<b>Contents of cash and cash equivalents</b>		
Cash and cash equivalents with other banks	167,144	259,994
Placements and deposits with other banks on 90-day term	0	0
Marketable securities with maturity up to 90 days	7,472	0
<b>T o t a l:</b>	<b>174,616</b>	<b>259,994</b>

**Founders and shareholders with appertaining shares as at 31 December 2011:**

	<b>2010</b>	<b>2011</b>
1. Branko Buljan, Split	77.98%	77.98%
2. Ivka Mijić, Split	22.02%	22.02%

## 1.3. Notes to the Financial Statements

### *1. Registration of the Company*

Imex banka d.d. Split (“Bank”) was established in the Republic of Croatia and registered into the Register of Companies of the Commercial Court of Split under the number MBS-060001876, with the registered capital stock of HRK 93,126,900.00. The nominal value of a share is HRK 100.00. The Bank’s corporate seat is in Split, Tolstojeva 6.

The Bank has the following registered scope of activities:

- Transactions with foreign exchange in Croatia (foreign exchange transactions);
- Financial agency services;
- Receipt of all types of deposits;
- Granting all types of loans, opening of documentary letters of credit, issue of sureties and bank guarantees and receipt of other financial liabilities;
- Transactions with bills of exchange, cheques and deposit certificates on its own behalf or on behalf of its customers;
- Lending, sale and purchase of financial derivatives (forwards, options, etc.) on its own behalf and on behalf of its customers;
- Transactions with securities on its own behalf or on behalf of third parties;
- Issue and management of securities (including cards, travellers’ cheques and bank orders)
- Financial leasing and factoring transactions;
- Information on customers’ solvency at their request;
- Credit transactions abroad and payment transactions abroad;
- Payment transactions in Croatia;
- Providing other financial services as set out by the Croatian National Bank;
- Insurance agent services, in compliance with the laws governing insurance, in the part governing the insurance agent services for banks

Supervisory Board:

1. Dario Medak, President
2. Dubravka Ostojić, Deputy President
3. Slavka Petrov, Member

Procurator:

1. Ivka Mijić

Management Board:

1. Branko Buljan, President
2. Ružica Šarić, Member

## ***2. Summary of significant accounting policies***

Below are presented the general accounting policies adopted for the preparation of the financial statements;

### *(1) Compliance Statement*

The financial statements of Imex banka d.d. Split have been prepared in compliance with the International Financial Reporting Standards („IFRS“) published in the Official Journal of the Republic of Croatia (“*Narodne novine*”) and specific legal requirements for the accounting of banks in the Republic of Croatia.

Banking operations in Croatia have been governed by the Act on Credit Institutions, according to which financial reporting requirements are set out by the Croatian National Bank („CNB“).

Accounting regulations of the Croatian National Bank are based on the International Financial Reporting Standards.

The financial statements of the Bank have been prepared in compliance with the legal requirements of the financial reporting framework applicable in the Republic of Croatia to large entrepreneurs and the entrepreneurs whose stocks or debt securities are listed or about to be listed at the organized market of securities, which is until the date of acceptance of Croatia into the membership in the European Union based on the International Financial Reporting Standards, their amendments and related interpretations, and the International Accounting Standards, their amendments and related interpretations, as set out by the Board for Financial Reporting Standards, and as published in *Narodne novine*.

### *(2) Functional and reporting currency*

The financial statements of the Bank have been presented in Croatian currency (Kuna) as functional currency. The sums are rounded to the closest thousand (unless specified otherwise).

The official exchange rate as at 31 December 2011 was HRK 7.530420/EUR 1 (in 2010: HRK 7.385173) and HRK 5.819940/USD 1 (in 2010: HRK 5.568252)

### *(3) Foreign currency*

Assets and liabilities expressed in foreign currencies are converted into the Croatian currency Kuna according to the mean exchange rate applicable on the last day of an accounting period. Income and expenses expressed in foreign currencies are converted into Kuna according to the official exchange rate applicable on the transaction date. Gains and losses arising from the conversion of foreign currency items of the Balance Sheet to the mean exchange rate and from purchase and sale of foreign currency have been included into the Profit and Loss Account for the relevant year.

#### *(4) Interest income and expenses*

Interest income and expenses are recognized in the Profit and Loss Statement upon occurrence for all interest-bearing financial instruments, including those measured at amortised cost, at fair value through Profit and Loss Statement, and those available for sale, by application of effective interest rate method. Interest income and expenses are presented in the Profit and Loss Statement as income from interest and similar income or expenses from interest and similar expenses. Interest income and expenses also include fees related to granted loans and receivables from clients or loans received from other banks.

#### *(5) Income and expenses from fees and commissions*

Income and expenses from fees and commissions are formed of fees and commissions for services in domestic and international payment transactions, issue of guarantees and letters of credit etc. and are recognized in the Profit and Loss Statement upon provision of a service.

#### *(6) Conversion of foreign currency*

Events not expressed in Croatian currency are at start booked by conversion according to the applicable rate on the transaction date. Assets and liabilities expressed in foreign currencies are reconverted on the balance sheet date by application of the exchange rate applicable on that date. Gains and losses resulting from the conversion are presented in the Profit and Loss Statement for the period in which they were incurred.

Non-monetary items in foreign currencies expressed at fair value are converted by application of the foreign exchange rate applicable on the date of assessment of fair value. Non-monetary items in foreign currency expressed at historical cost are reconverted on the balance sheet date. Gains and losses resulting from the conversion are presented in the Profit and Loss Statement for the period.

#### *(7) Financial instruments*

Financial assets are classified into portfolios depending on the Bank's intention at the moment of acquisition of financial assets and in compliance with the investment strategy. Financial assets and financial liabilities are classified into portfolio presented at fair value through the Profit and Loss Statement, held until maturity, and granted loans and receivables. All financial assets and all financial liabilities are recognized, or their recognition stops, on the settlement date, where purchase of financial asset or financial liability is defined with the agreed delivery date.

At the initial recognition of a financial asset or a financial liability, measurement is conducted at purchase cost plus transaction costs directly attributable to acquisition or issue of a financial asset or a financial liability.

*-Financial assets and financial liabilities at fair value through Profit and Loss Statement*

Financial instruments are classified into this category if they are acquired or created mostly for sale or repurchase in a short period of time, for short-term profit.

*-Investments held until maturity*

Investments held until maturity are non-derivative financial assets with fixed or fixable payments and fixed maturity date, in respect of which the Bank has a positive intention and capacity of holding until maturity. The category includes certain securities.

*-Loans and receivables*

Loans and receivables include non-derivative financial assets with fixed or fixable payments and not listed on active market. Loans and receivables occur when the Bank has approved funds to its clients without intention to trade in such receivables and they include loans and receivables from banks, loans and receivables from clients, etc.

*(8) Impairment of financial assets*

The Bank is obligated to check as at each Balance Sheet date whether there are any objective indicators of impairment of financial assets. Where there are any indications of impairment of financial assets, its substitute value is evaluated.

Substitute value of extended loans and receivables created by the Bank and assets held until maturity is calculated as current value of expected future cash flows, discounted at originally agreed effective interest rate of an instrument.

*(9) Recognition and derecognition*

Regular purchase and sale of financial instruments at fair value through Profit and Loss Statement and investments held until maturity are recognized on settlement date or on date when the financial instrument is delivered to or transferred from the Bank. Loans and receivables as well as other financial liabilities are recognized at the moment when the financial assets are delivered to borrowers or when the liability is received from the lenders.

*(10) Initial and subsequent measurement*

After the initial recognition, the Bank evaluates the financial instruments at fair value through Profit and Loss Account at their fair value, without reduction for costs of sale. Loans and receivables and investments held until maturity and other financial liabilities are evaluated at amortised cost at application of effective interest rate method.

*(11) Fair value measurement principles*

Fair value of listed securities is based on applicable final sales prices. If the market for financial assets is not active or if fair value cannot be reliably determined based on market price for other reasons, the Bank shall determine fair value by use of evaluation techniques. They include the use of prices realised in recent deals among informed and willing parties, reference to other essentially similar instruments, analysis of discounted cash flows and price option models, with maximum use of market information and as low reliance on specific features of the subject as possible.

*(12) Tangible and intangible assets*

Tangible and intangible assets are presented in the Balance Sheet at investment cost minus accumulated depreciation.

Investment cost means purchase price as well as all costs directly related to bringing the assets into the operational condition for the intended use. Costs of current maintenance and repairs, replacement and small-scope investment maintenance are recognized as expenses at occurrence. Assets of individual purchase cost lower than HRK 3,500 are written off in full value when placed in use. Costs of significant investment maintenance and replacement are capitalized. Gains and losses based on write-off or sale of fixed tangible assets are presented in the Profit and Loss Account in the period in which they occurred. Depreciation of tangible and intangible assets is calculated at straight line method by application of prescribed rates by which the acquisition cost is to be written off in the course of their estimated lifecycle.

Average annual depreciation rates for 2010 and 2011 were:

	<u>2010</u>	<u>2011</u>
Buildings	2.50%	2.50%
Computers and software	10.00 %-25.00 %	10.00%-25.00%
Furniture and equipment	20.00 %-25.00 %	20.00 %-25.00 %
Vehicles	20.00%	20.00%
Other	10.00%	10.00%

On each Balance Sheet date, the Bank tests the accounting value of tangible and intangible assets and determines whether there are reasons to change the value. Investments in progress are not depreciated all until they are placed in use.

*(13) Provisions*

The Bank recognizes provisions when it has a current liability based on past events, when it is possible that outflow of resources will be required for the settlement of the liability. The Management shall set out the amount of provisions based on the best possible evaluation of the expenses which will be incurred by the settlement of the liability.

*(14) Liabilities undertaken in out-of-balance records*

Within its regular activities, the Bank has been making arrangements by which it has been undertaking contingent liabilities recorded in out-of-balance records, which primarily refer to guarantees, letters of credit, etc. These contingent liabilities are presented in the Balance Sheet of the Bank once they are payable.

Management Board of the Bank keeps the provisions for contingent losses based on undertaken and contingent liabilities at the level which they believe is adequate to neutralize probable future losses. Amount of provisions depends on the value of a specific item, experience with the specified type of loss in the preceding periods, transaction risk and other relevant factors.

*(15) Corporate income tax*

Corporate income tax is based on taxable profits for the year and consists of current and deferred tax. Corporate income tax is expressed in Profit and Loss Statement with the exception of corporate income tax related to items recognized directly in equity and reserves, when corporate income tax is recognized in equity and reserves. Current tax is the expected tax liability calculated on taxable profits for the year, by the use of tax rates applicable or essentially valid on the Balance Sheet date and all adjustments of tax liability from former periods.

*(16) Share capital and provisions*

Share capital is the non-allocated capital of the Bank. Dividend based on Assembly decision is payable to founders – shareholders of the Bank after allocation of 5% of profits into legal provisions. Allocation into legal provisions has been performed in full amount in compliance with the Act on Companies.



*(17) Regulatory environment*

The Bank is subject to the Croatian National Bank regulations, setting out the limits and other restrictions related to the minimum level of capital adequacy, classification of loans and out-of-balance liabilities, and provisions for credit and currency risk, liquidity risk and currency position. At the end of the year, the Bank significantly fulfilled all regulatory requirements.

*(18) Litigation*

In compliance with the Decision on obligation to reserve the provisions for litigation against the Bank, the latter shall keep record of litigation, classify each case into the risk group based on evaluation of outflow of funds, and make a reservation. The Bank classifies the risk of litigation taking into account the legal grounds of the claim, opinion of external lawyers, case law considering the type of litigation, opinion by relevant internal departments as well as opinions of other relevant experts, and its own experience in similar litigation cases.

*(19) Cash and cash equivalents*

Cash and cash equivalents include cash in hand, cash with the Croatian National Bank, placements with other banks with original maturity term up to three months and instruments in the process of collection.

*(20) Events after Balance Sheet date*

Events after the Balance Sheet date providing additional information on the Bank's position on that date (events leading to adjustments) are recognized in the Financial Statements.

The events not leading to adjustments are noted in the Notes to the Financial Statements if they are of material significance.

According to the Management Board opinion, for the period from 1 January until 21 February 2012 there were no events or transactions in the Bank operations ending with 31 December 2011 which would have any significant effect on the Financial Statements on that date or for the period ending on that date or which are of such significance for the Bank's operations to require notification in the Notes to the Financial Statements.

### 3. Interest income and expenses and non-interest income and expenses

	HRK '000	
	<u>2010</u>	<u>2011</u>
a) Interest income by sectors		
- corporate and public sector, and non-for-profit institutions	102,467	133,640
- banks and financial institutions	1,631	131
- population	19,041	15,846
- debt securities, shares and other capital investments	2,345	3,679
Net currency gains based on interest income	(134)	429
<b>Total:</b>	<b><u>125,350</u></b>	<b><u>153,725</u></b>
b) Non-interest income - types		
- commissions for transactions with international clients	1,967	1,567
- fee for other banking services	3,528	3,377
- from population commissions	1,087	1,151
- net currency gains/losses based on fees	2	2
<b>Total:</b>	<b><u>6,582</u></b>	<b><u>6,097</u></b>
c) Interests expenses by sectors and saving deposit insurance premiums		
- corporations and public sector institutions, foreign persons	8,653	8,087
- banks and non-banking financial institutions	13,202	12,735
- population	39,219	47,391
- saving deposit insurance premiums	2,094	3,183
- debt securities (hybrid instruments) and alike	3,196	4,946
- non-profit organisations' funds and alike	470	44
- net currency losses	(214)	393
<b>Total:</b>	<b><u>66,620</u></b>	<b><u>76,779</u></b>
d) Non-interest expenses – types		
- commissions for foreign banks services	2,323	2,317
- fees or services of domestic corporations non-residents	87	120
<b>Total:</b>	<b><u>2,410</u></b>	<b><u>2,437</u></b>

#### 4. Currency gains/losses and gains/losses from trade in foreign currency

	HRK '000	
	2010	2011
Currency gains/losses arising from:		
- purchase of foreign currency	2,502	2,411
- Balance Sheet item conversion to agreed exchange rate	11,333	17,733
- Balance Sheet item conversion to mean exchange rate	(10,494)	(16,535)
<b>Total:</b>	<b>3,341</b>	<b>3,609</b>

#### 4.a) Profit/Loss from reduction of securities to fair value

	HRK '000	
	2010	2011
- Profit/loss from trade in securities	169	484
<b>Total:</b>	<b>169</b>	<b>484</b>

#### 5. Other income

	HRK '000	
	2010	2011
Group of other income:		
- income from dun letters based on loans to legal entities, population, and small trades; income from the closing of inactive bank accounts and similar income	191	55
- income from dividends	170	114
- refund of court expenses	22	27
- income from sale of fixed assets	0	5
- income from leases	176	91
- other	0	43
<b>Total:</b>	<b>559</b>	<b>335</b>

The sum presented under item "Other" for 2011 of HRK 43 thousand refers to income from preceding years.

## 6. Operating expenses

	HRK '000	
	2010	2011
Personnel expenses (Note 7)	16,324	17,611
Depreciation	3,786	3,750
Fees and commissions (Note 3 d)	2,410	2,437
Administration and marketing expenses	3,697	4,861
Supplies and services	9,474	9,077
Other	606	1,651
<b>Total:</b>	<b>36,297</b>	<b>39,387</b>

## 7. Personnel expenses

	HRK '000	
	2010	2011
Net salaries	8,638	9,756
Pension insurance expenses	2,601	2,805
Social and health insurance expenses	2,237	2,193
Taxes and local surtaxes	1,767	1,705
Other personnel expenses (severance payment, transport)	1,081	1,152
<b>Total:</b>	<b>16,324</b>	<b>17,611</b>

Number of employees as at 31 December	126	127
---------------------------------------	-----	-----

## 8. a) Costs of provisions and income from cancelled provisions in 2010:

	HRK '000		
	Expenses	Income	Difference
Loans – identified losses	24,458	8,718	15,740
Interests and fees and other placements – identified losses	5,290	534	4,756
Placements – identified losses on group basis	2,021	0	2,021
Out-of-balance items – identified losses on group basis	200	208	(8)

Out-of-balance items – identified losses based on contingent liabilities on individual basis	67	107	(40)
Net currency differences based on adjusted value of placements and income from collection of written off placements	775	413	362
<b>Total:</b>	<b>32,811</b>	<b>9,980</b>	<b>22,831</b>

**8. b) Costs of provisions and income from terminated provisions in 2011:**

	<b>HRK '000</b>		
	<b>Expenses</b>	<b>Income</b>	<b>Difference</b>
Loans – identified losses	18,440	8,713	9,727
Interests and fees and other placements – identified losses	11,041	1,578	9,463
Placements – identified losses on group basis	2,883	0	2,883
Out-of-balance items – identified losses on group basis	223	138	85
Out-of-balance items – identified losses based on contingent liabilities on individual basis	64	100	(36)
Net currency differences based on adjusted value of placements and income from collection of written off placements	634	0	634
<b>Total:</b>	<b>33,285</b>	<b>10,529</b>	<b>22,756</b>

**8.c) Provisions and impairment of bad and dubious receivables (placements) and contingent liabilities**

Provisions with regard to risk level of placements and contingent liabilities are related to the following:

		<b>HRK '000</b>	
	<b>Notes</b>	<b>2010</b>	<b>2011</b>
Loans – specific purpose	13d	32,929	43,146
Interests and other assets	13d	6,656	13,937
Provisions for identified losses on group basis for placements	22	12,585	15,468
Provisions for identified losses on group basis for contingent liabilities	22	743	829
Provisions for non-identified losses on individual basis for contingent liabilities	22	36	0
<b>Total:</b>		<b>52,950</b>	<b>73,380</b>

## 9. Earning per share

The Bank presents the earning per share on its ordinary shares. Earning per share is calculated by division of the appertaining net profits to ordinary shareholders of the Bank with weighted average number of ordinary shares at the end of the period.

## 10. Cash assets

	HRK '000			
	2010		2011	
	HRK	Currency	HRK	Currency
Cash in hand and cheques in the process of collection	9,258	8,199	11,231	14,038
On demand deposits:				
- with foreign banks		3,040		99,288
- with domestic banks		346		15,487
Giro account with Croatian National Bank	146,301		119,950	
<b>Total:</b>	<b>155,559</b>	<b>11,585</b>	<b>131,181</b>	<b>128,813</b>
<b>Grand total (HRK + currency):</b>	<b>167,144</b>		<b>259,994</b>	

## 11. Assets with the Croatian National Bank

	HRK '000	
	2010	2011
Compulsory reserve with CNB in HRK	98,134	137,869
Compulsory reserves in foreign currencies	18,180	24,438
Marginal reserve requirements	0	0
<b>Total:</b>	<b>116,314</b>	<b>162,307</b>

The Bank is obligated to keep a compulsory reserve with the Croatian National Bank equal to 13% (applicable until 31 August 2011) and 14% respectively (applicable as from 1 September 2011) out of Kuna and foreign currency basis formed based on the Croatian National Bank Decision on compulsory reserve. These assets are not available for the financing of daily banking operations and are subject to 0.75% p.a. interests in 2011 (until 31 March 2011) on annual basis or in compliance with a decision by the Croatian National Bank.

## 12. Deposits with other banks

	<b>HRK '000</b>	
	<b>2010</b>	<b>2011</b>
a) Survey by types		
Fixed term foreign currency deposits	183,773	77,444
Foreign currency "nostro" covered L/C	2,885	2,385
<b>Total:</b>	<b>186,658</b>	<b>79,829</b>
b) Survey by countries		
Croatia	621	633
OECD members and others	186,037	79,196
<b>Total:</b>	<b>186,658</b>	<b>79,829</b>

In 2011, the Bank had fixed-term currency deposits with the agreed maturity term of 1-3 months of HRK 76,811 thousand and fixed-term currency deposits of HRK 633 thousand with the agreed maturity term exceeding 3 months, and foreign currency "nostro" covered letters of credit of HRK 2,385 thousand.

In 2010, the Bank had fixed-term currency deposits of HRK 133,672 thousand with the agreed maturity term up to one month, deposits with the agreed maturity term of 1-3 months of HRK 49,480 thousand, and fixed-term currency deposits of HRK 621 thousand with the agreed maturity term exceeding 3 months, and foreign currency "nostro" covered letters of credit of HRK 2,385 thousand.

## 13. Extended loans and their impairment

	<b>HRK '000</b>			
	<b>2010</b>	<b>%</b>	<b>2011</b>	<b>%</b>
a) Analysis by clients				
Population	158,007	14.68	146,447	11.11
Corporate clients	911,827	84.72	1,163,192	88.20
Other clients	6,503	0.60	9,256	0.69
<b>Total gross loans:</b>	<b>1,076,337</b>	<b>100.00</b>	<b>1,318,895</b>	<b>100.00</b>
Loan impairment:	(32,929)		(43,146)	
<b>Total net loans:</b>	<b>1,043,408</b>		<b>1,275,749</b>	
b) Analysis by industry or intended use				
For working assets	477,440	44.36%	618,154	46.87%
For investments	52,387	4.87%	38,413	2.92%

Cash non-specified-purpose loans without pledge	93,766	8.71%	85,637	6.50%
Cash non-specified-purpose loans with pledge	13,579	1.26%	17,342	1.32%
Civil engineering	23,866	2.22%	53,598	4.07%
Agriculture	6,785	0.63%	18,409	1.40%
Tourism	16,680	1.55%	17,052	1.30%
Shares in syndicated loans	6,500	0.60%	6,370	0.49%
Housing loans	10,351	0.96%	11,560	0.88%
Transaction account overdrafts	6,281	0.58%	43,871	3.33%
Other	368,702	34.26%	408,489	30.92%
<b>Total gross loans:</b>	<b>1,076,337</b>	<b>100.00</b>	<b>1,318,895</b>	<b>100.00</b>
Loan impairment	(32,929)	3.06	(43,146)	3.28
<b>Total net loans:</b>	<b>1,043,408</b>	<b>96.94</b>	<b>1,275,749</b>	<b>96.72</b>
<b>c) Analysis by loan types</b>				
Short-term loans	681,111		670,504	
Long-term loans	395,226		648,391	
<b>Total gross loans:</b>	<b>1,076,337</b>		<b>1,318,895</b>	
Loan impairment	(32,929)		(43,146)	
<b>Total net loans:</b>	<b>1,043,408</b>		<b>1,275,749</b>	
<b>d) Provisions and impairment of bad and dubious receivables</b>				
Initial balance	20,451		39,585	
New impairment	19,249		17,919	
Collections and write-offs	(115)		(21)	
<b>As at 31 December (exclusive of receivables based on contingent liabilities)</b>	<b>39,585</b>		<b>57,483</b>	
<b>e) Provisions for receivables based on contingent liabilities</b>				
	36		1	
<b>As at 31 December</b>	<b>39,621</b>		<b>57,484</b>	



**f) Loans with delay in collection**

Loans extended to clients with delay in payment of their matured liabilities, i.e. total due outstanding receivables exceeding 90 days, as at 31 December 2011 amounted to HRK 230,309 thousand (as at 31 December 2010: HRK 183,851 thousand).

**g) Interest flexibility**

In 2011, the Bank extended loans to corporate clients and small traders, and the interest rate ranged on average from 8% to 11% on annual level for short-term loans, and from 7% to 9.5% for long-term loans.

Interests on loans to population with currency clause, exceeding one year, amounted to 9.85%. Interests on overdraft on current accounts amounted up to 11.95%.

All placements have variable interest rate.

Interest on fixed-term Kuna deposits of corporate clients and small traders was charged up to 5.5%, and that on fixed-term currency deposits was charged at 4.5%.

Interest payables on fixed-term Kuna savings of population without currency clause for a 1 year term amounted to 5.25%, and for fixed-term currency deposits, the interest was set according to the deposit term, amount, special interests and alike, up to 4.5%.

**h) Excluded interest income**

Excluded interest income on extended loans of “B” and “C” group in 2011 amounts to HRK 15,691 thousand (in 2010: 13,075 thousand).

**14. Accrued interests and other assets**

	<b>‘000 HRK</b>	
	<b>2010</b>	<b>2011</b>
Accrued matured interests	11,977	21,980
Non-matured interests	6,562	7,385
Fees and commissions (matured and non-matured)	384	1,203
Other assets	1,938	2,242
<b>Total:</b>	<b>20,861</b>	<b>32,810</b>
Provisions and impairment by accrued interests and other assets	(3,271)	(7,346)
<b>Total:</b>	<b>17,590</b>	<b>25,464</b>

## 15. Investments and securities

	‘000 HRK	
	<u>2010</u>	<u>2011</u>
Securities and financial instruments held until maturity and financial instruments available for sale	10,899	74,043
Discount and value adjustment	(3,412)	(7,417)
<b>Total</b>	<b><u>7,487</u></b>	<b><u>66,626</u></b>

In addition to the bills of exchange in its possession as well as stocks of the Croatian Telecom and Atlantic Group, in July, August and September 2011 the Bank purchased the government bonds of the Republic of Croatia, in total nominal value of € 8,288,300.00 marked RHMFO-227E, due for payment on 22 July 2022. The interest rate is 6.5%.

## 16.a) Tangible and intangible assets

2010	Land and buildings	Computers and software	Furniture and equipment	Motor vehicles	Other	Invest. in progress	TOTAL
<b>Acquisition cost in HRK ‘000</b>							
As at 1 January 2010	37,642	14,767	5,626	4,916	3,168	0	66,119
Direct increases	326	920	890	142	293	0	2,571
Reductions, transfers from investments in progress, corrections	0	(341)	0	0	0	0	(341)
<b>As at 31 December 2010</b>	<b>37,968</b>	<b>15,346</b>	<b>6,516</b>	<b>5,058</b>	<b>3,461</b>	<b>0</b>	<b>68,349</b>
<b>Value adjustment in HRK ‘000</b>							
As at 1 January 2010	8,245	10,272	3,742	2,867	1,341	0	26,467
Depreciation for 2010	799	981	1,149	669	188	0	3,786
Sale, write-off and other	0	(341)	0	0	0	0	(341)
<b>As at 31 December 2010</b>	<b>9,044</b>	<b>10,912</b>	<b>4,891</b>	<b>3,536</b>	<b>1,529</b>	<b>0</b>	<b>29,912</b>
<b>Non-written-off value as at 31 December 2010</b>	<b>28,924</b>	<b>4,434</b>	<b>1,625</b>	<b>1,522</b>	<b>1,932</b>	<b>0</b>	<b>38,437</b>

2011	Land and buildings	Computers and software	Furniture and equipment	Motor vehicles	Other	Invest. in progress	TOTAL
<b>Acquisition cost in HRK '000</b>							
As at 1 January 2011	37,968	15,346	6,516	5,058	3,461	0	68,349
Direct increases	8,514	720	448	0	144	0	9,826
Reductions, transfers from investments in progress, corrections	(303)	0	(24)	(500)	0	0	(827)
<b>As at 31 December 2011</b>	<b>46,179</b>	<b>16,066</b>	<b>6,940</b>	<b>4,558</b>	<b>3,605</b>	<b>0</b>	<b>77,348</b>
<b>Value adjustment in HRK '000</b>							
As at 1 January 2011	9,044	10,912	4,891	3,536	1,529	0	29,912
Depreciation for 2011	800	730	1,433	576	211	0	3,750
Sale, write-off and other	0	0	(22)	(490)	0	0	(512)
<b>As at 31 December 2011</b>	<b>9,844</b>	<b>11,642</b>	<b>6,302</b>	<b>3,622</b>	<b>1,740</b>	<b>0</b>	<b>33,150</b>
<b>Non-written-off value as at 31 December 2011</b>	<b>36,335</b>	<b>4,424</b>	<b>638</b>	<b>936</b>	<b>1,865</b>	<b>0</b>	<b>44,198</b>

#### 16. b) Advances for tangible assets

Advances for tangible assets as at 31 December 2010 amounted to HRK 8,325 thousand (land and building in Zadar) and in 2011, the foregoing sum was transferred into tangible assets.

#### 16.c) Foreclosed assets

	<b>'000 HRK</b>	
	<b>2010</b>	<b>2011</b>
Foreclosed assets	0	6,206
<b>Total</b>	<b>0</b>	<b>6,206</b>

On 31 December 2011, the value is expressed at HRK 6,206 thousand, and refers to the foreclosed assets from three debtors, which served as collateral of repayment of the extended loans and the collection was impossible otherwise. In 2011, no foreclosed assets were sold in exchange for uncollected receivables as it was effected in November and December 2011. The value of the assets, according to the Management Board, is expressed at reimbursable value, and is based on the information from the notary public auction record as well as the Commercial Court of Split Decision. The basis was an assessment by a permanent court expert for construction and real estate evaluation.

### 17. Other deposits

	‘000 HRK	
	<u>2010</u>	<u>2011</u>
<b>I. On-demand deposits:</b>		
1. On-demand deposits of corporations and public sector institutions in:		
- HRK	61,478	62,146
- foreign currency	7,747	5,250
2. Limited deposits and non-allocated inflow in		
- HRK	0	0
- foreign currency	0	0
3. Deposits of financial institutions in		
- HRK	13,486	13,392
- foreign currency	0	0
4. On-demand saving, population giro accounts in:		
- HRK	10,766	20,431
- foreign currency	9,411	11,820
<b>Total:</b>	<b><u>102,888</u></b>	<b><u>113,039</u></b>
<b>II. Fixed-term deposits</b>		
1. Deposits of financial institutions		
- HRK and currency clause	93,702	90,710
- foreign currency	48,826	29,545
2. Saving accounts and deposits of population		
- HRK and currency clause	124,414	153,965
- foreign currency	845,666	1,019,454
3. Fixed-term deposits of corporations and public sector institutions		
- HRK and currency clause	63,412	111,915
- foreign currency	24,410	30,425
<b>Total</b>	<b><u>1,200,430</u></b>	<b><u>1,436,014</u></b>
<b>Grand total deposits (I + II)</b>	<b><u>1,303,318</u></b>	<b><u>1,549,053</u></b>

### 18. Other borrowed assets

‘000 HRK

	<u>2010</u>	<u>2011</u>
Short-term loans		
- domestic banks	0	0
- HBOR funds	10,000	0
- foreign banks	0	0
Long-term loans		
- long-term loans from HBOR	75,072	86,423
<b>Total</b>	<b><u>85,072</u></b>	<b><u>86,423</u></b>
<b>Loan currency structure</b>		
- HRK	10,000	19,666
- foreign currency and currency clause	75,072	66,757
<b>Total</b>	<b><u>85,072</u></b>	<b><u>86,423</u></b>

### 19. Hybrid instruments

‘000 HRK

	<u>2010</u>	<u>2011</u>
Hybrid instruments	41,000	84,416
<b>Total</b>	<b><u>41,000</u></b>	<b><u>84,416</u></b>

They are non-insured long-term deposits of customers affecting the increase of the guarantee capital of the Bank at the calculation of capital adequacy, in compliance with CNB regulations. As at 31 December 2011, the balance was HRK 84,416 thousand. The payer has agreed that the deposit is supplemental capital and in case of need they are available for coverage of loss or at bankruptcy or liquidation.

## 20. Other liabilities

	‘000 HRK	
	<u>2010</u>	<u>2011</u>
Liabilities for dividend	0	0
Liabilities for corporate income tax	0	3,566
Liabilities based on card operations	222	406
Liabilities for unperformed payments from collections from abroad	0	0
Liabilities for provisional payments into corporate equity	120	160
Liabilities based on purchase and sale of foreign currency	24	7
Liabilities based on other taxes and contributions	1,493	473
Liabilities to suppliers	1,965	1,487
Liabilities for salaries and fees	789	795
Liabilities for received insurance premiums	23	67
Restricted deposits	518	2,578
Liabilities to population	3,398	2,000
Liabilities from internal relations of organisation units	1,352	291
Liabilities based on fees based on loans to corporations and traders	3,925	6,835
Other liabilities	436	54
<b>Total</b>	<b><u>14,265</u></b>	<b><u>18,719</u></b>

## 21. Accrued interests and fees

	‘000 HRK	
	<u>2010</u>	<u>2011</u>
Accrued matured interests and fees	754	836
Accrued non-matured interests and fees	21,941	24,579
<b>Total</b>	<b><u>22,695</u></b>	<b><u>25,415</u></b>

## 22.a) Impairment and provisions for identified losses based on placements and contingent liabilities

### Special provisions for identified losses on group basis

	‘000 HRK	
	<u>2010</u>	<u>2011</u>
As at 1 January	10,564	12,585
New provisions	2,021	2,883
Reduction and cross-entry	0	0
<b>As at 31 December</b>	<b><u>12,585</u></b>	<b><u>15,468</u></b>

*Provisions for contingent liabilities on group and individual basis*

‘000 HRK

	<u>2010</u>	<u>2011</u>
As at 1 January	839	779
New provisions	56	289
Reduction and cross-entry	(116)	(239)
<b>As at 31 December</b>	<b><u>779</u></b>	<b><u>829</u></b>

*22.b) Provisions for litigation*

‘000 HRK

	<u>2010</u>	<u>2011</u>
As at 1 January	0	40
New provisions	40	0
Reduction and cross-entry	0	(15)
<b>As at 31 December</b>	<b><u>40</u></b>	<b><u>25</u></b>

*23. Contingent and assumed liabilities*

‘000 HRK

	<u>2010</u>	<u>2011</u>
Guarantees: HRK and foreign currency	62,160	66,410
Foreign letters of credit and “Ioro” documentary letters of credit	5,640	2,815
Other (unused credit facilities and other)	16,886	22,190
<b>Total:</b>	<b><u>84,686</u></b>	<b><u>91,415</u></b>
Value adjustment:	0	0
<b>a) As at 31 December:</b>	<b><u>84,686</u></b>	<b><u>91,415</u></b>
<b>b) Other out-of-balance items:</b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>Total (a + b):</b>	<b><u>84,686</u></b>	<b><u>91,415</u></b>

*24. Cash and cash equivalent*

‘000 HRK

	<u>2010</u>	<u>2011</u>
Cash and accounts with banks	167,144	259,994
Securities	10,899	74,043
Discount for securities	(3,427)	(7,417)
Placements to banks	186,658	79,829
<b>Total</b>	<b><u>361,274</u></b>	<b><u>406,449</u></b>

## ***25. Transactions with affiliates and persons in special relations with the Bank***

Affiliates are two or more individuals or corporate entities and their narrow family members which, unless proved otherwise, represent a single risk for the Bank, because:

- 1) one of them has direct or indirect control of other(s),
- 2) they are mutually related in such a way that there is a great probability that worsening or improvement of economic or financial status of one person may lead to worsening or improvement of economic or financial status of one or several persons, as among them there is or there may be transfer of loss, profit or creditworthiness, or

In that regard, affiliates are deemed to include:

- 1) narrow family members (spouses, children and adopted children, persons under custody)
- 2) members of management board or supervisory board and narrow family members of such persons; or
- 3) persons employed based on employment contract under specific conditions made with the company in which they are employed as well as their narrow family members.

Persons in special relation with the Bank are:

- 1) Bank stockholders holding 5 or more voting stocks;
- 2) members of management board or supervisory board and procurators of the Bank;
- 3) persons holding employment contracts with the Bank under special conditions;
- 4) legal entities in which the Bank participates (holding 20 or more per cent share in equity or votes);
- 5) persons related to the persons from 1) to 4) in the above defined manner.

Total Bank exposure to a person in special relation with the Bank and its related persons may not exceed 10% guarantee capital.

A transaction increasing the exposure of the Bank to affiliates requires the consent from all members of the Supervisory Board of the Bank.

At the end of year, total Bank exposure to affiliates was HRK 1,147 thousand or 0.56% guarantee capital (2010: HRK 13,551 thousand or 9.04% guarantee capital) which represents approximately 0.09% total loans to customers (2010: 1.30%).



## **26. Guarantee capital and capital adequacy**

The Bank shall ensure at all times the equity amount adequate to the services provided by the Bank and risks which the Bank is or might be exposed in the provision of such services. For safe and stable operations and the performance of its obligations to its creditors, the Bank shall maintain the appropriate guarantee capital consisting of basic and supplemental capital as well as other forms of capital as set out by the Croatian National Bank. Internal capital is that capital estimated adequate by the Bank in relation to the type and level of risk which it is or might be exposed to in its operations. Guarantee capital adequacy rate as at 31 December 2011 amounted to 14.62%.

## **27. Risk from interest rate changes and term structure**

Interest risk is sensitivity of the Bank's financial status to interest rate trends. Mismatch or gaps in the amounts of assets, liabilities and out-of-balance instruments becoming due or changing the fee (interest rate) in a specific period generate the interest risk. The Bank may reduce such risk by adjusting the possibility of changing of interest rates on assets and liabilities.

The Bank makes effort to reach balance between reducing the risk from earnings and adverse changes in interest rates by increasing net income from interests through accurate anticipation of interest rate trends and amounts.

Tables below present the balance sensitivity to interest risk as at 31 December 2010 and 31 December 2011 based on the known dates when interest rates of assets and liabilities with fixed and variable rate may be changed, and the assumed dates of fee (interest rate) change.

### ***Interest rate and term structure as at 31 December 2010***

	<b>Up to 1</b>	<b>1 – 3</b>	<b>3</b>	<b>Exceeding</b>	<b>Insensitive</b>	<b>TOTAL</b>
	<b>month</b>	<b>months</b>	<b>months</b>	<b>1 year</b>	<b>to interest</b>	
			<b>to 1 year</b>			
<b>Assets:</b>						
Cash (cash at hand, cheques, current & giro account)	167,144	-	-	-	-	167,144
Funds with CNB	116,314	-	-	-	-	116,314
Deposits with other banks	186,658	-	-	-	-	186,658

Loans and advances to customers	1,043,408	-	-	-	-	1,043,408
Accrued interests and other assets	-	-	-	-	20,861	20,861
Long-term investments and securities	-	-	-	-	7,487	7,487
Fixed assets	-	-	-	-	46,762	46,762
Provisions for identified losses on group basis for "A" placements	-	-	-	-	(12,585)	(12,585)
<b>T o t a l:</b>	<b>1,513,524</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>62,525</b>	<b>1,576,049</b>
<b>Liabilities</b>						
Issued hybrid instruments	-	-	-	41,000	-	41,000
On-demand deposits	102,888	-	-	-	-	102,888
Liabilities based on fixed term deposits	957,274	36,851	175,197	31,108	-	1,200,430
Other borrowed assets	10,000	0	0	75,072	-	85,072
Accrued interests and fees	-	-	-	-	22,695	22,695
Other liabilities	-	-	-	-	14,265	14,265
Provisions for contingent liabilities	-	-	-	-	779	779
Provisions for litigation	-	-	-	-	40	40
<b>T o t a l:</b>	<b>1,070,162</b>	<b>36,851</b>	<b>175,197</b>	<b>147,180</b>	<b>37,779</b>	<b>1,467,169</b>
<b>Gap in sensitivity to interest rate changes</b>	<b>443,362</b>	<b>(36,851)</b>	<b>(175,197)</b>	<b>(147,180)</b>	<b>24,746</b>	<b>108,880</b>

*Interest rate and term structure as at 31 December 2011*

	<u>Up to 1</u> <u>month</u>	<u>1 – 3</u> <u>months</u>	<u>3</u> <u>months</u> <u>to 1 year</u>	<u>Exceeding</u> <u>1 year</u>	<u>Insensitive</u> <u>to interest</u>	<u>TOTAL</u>
<b>Assets:</b>						
Cash (cash at hand, cheques, current & giro account)	259,994	-	-	-	-	259,994
Funds with CNB	162,307	-	-	-	-	162,307
Deposits with other banks	79,829	-	-	-	-	79,829
Loans and advances to customers	1,275,749	-	-	-	-	1,275,749
Accrued interests and other assets	-	-	-	-	25,464	25,464
Long-term investments and securities	-	-	-	-	66,626	66,626
Fixed assets	-	-	-	-	44,199	44,199
Foreclosed assets	-	-	-	-	6,206	6,206
Provisions for identified losses on group basis for “A” placements	-	-	-	-	(15,468)	(15,468)
<b>T o t a l:</b>	<b><u>1,777,879</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>127,027</u></b>	<b><u>1,904,906</u></b>
<b>Liabilities:</b>						
Issued hybrid instruments	-	-	-	84,416	-	84,416
On-demand deposits	113,039	-	-	-	-	113,039
Liabilities based on fixed term deposits	986,156	58,300	316,340	75,218	-	1,436,014
Other borrowed assets	-	-	-	86,423	-	86,423
Accrued interests and fees	-	-	-	-	25,415	25,415
Other liabilities	-	-	-	-	18,719	18,719
Provisions for contingent liabilities	-	-	-	-	829	829

Provisions for litigation	-	-	-	-	25	25
<b>Total:</b>	<b>1,099,195</b>	<b>58,300</b>	<b>316,340</b>	<b>246,057</b>	<b>44,988</b>	<b>1,764,880</b>
Gap in sensitivity to interest rate changes	<b>678,684</b>	<b>(58,300)</b>	<b>(316,340)</b>	<b>(246,057)</b>	<b>82,039</b>	<b>140,026</b>

## 28. Currency risk

The Bank is exposed to exchange rate change risk through transactions in foreign currency. Exposure to currency risk is based on loan, deposit, investment and trade activities. It is monitored on daily basis based on legal and internal limits by specific currencies and in total amount for assets and liabilities denominated in foreign currency or related to currency clause.

The Bank directs its operations attempting to minimize the mismatch between assets and liabilities denominated in a foreign currency.

The Bank manages the currency risk by determination of limits for exposures in currency and by monitoring exposures in relation to limits.

Capital requirement for currency risk is calculated by standard method in compliance with the Croatian National Bank Decision on guarantee capital adequacy of the banks.

Amounts of total assets and liabilities as at 31 December 2010 and 31 December 2011 in HRK and currency are analysed in the following tables:

### Currency risk as at 31 December 2010

	<b>EUR and currency clause</b>	<b>USD</b>	<b>Other</b>	<b>Total currency</b>	<b>HRK</b>	<b>Total</b>
<b>Assets</b>						
Cash assets	9,802	1,495	288	11,585	155,559	167,144
Assets with CNB	-	18,180	-	18,180	98,134	116,314
Deposits to other banks	186,658	-	-	186,658	-	186,658
Loans to customers	790,323	23,621	100	814,044	229,364	1,043,408
Accrued interests and other	13,917	547	-	14,464	6,397	20,861
Investments and securities	-	-	-	-	7,487	7,487
Tangible and intangible assets	-	-	-	-	46,762	46,762
Provisions for identified losses on group basis for "A" placements	-	-	-	-	(12,585)	(12,585)
<b>Total assets:</b>	<b>1,000,700</b>	<b>43,843</b>	<b>388</b>	<b>1,044,931</b>	<b>531,118</b>	<b>1,576,049</b>

**Liabilities**

Issued hybrid instruments	-	-	-	-	41.000	41.000
Other deposits:						
- on demand	14.729	1.966	463	17.158	85.730	102.888
- fixed term	893.612	41.308	3.964	938.884	261.546	1.200.430
Other borrowed assets	75.072	-	-	75.072	10.000	85.072
Accrued interests and fees	18.324	1.061	23	19.408	3.287	22.695
Other liabilities	4	-	-	4	14.261	14.265
Provisions for contingent liabilities	-	-	-	-	779	779
Provisions for litigation	-	-	-	-	40	40
<b>Total liabilities:</b>	<b><u>1.001.741</u></b>	<b><u>44.335</u></b>	<b><u>4.450</u></b>	<b><u>1.050.526</u></b>	<b><u>416.643</u></b>	<b><u>1.467.169</u></b>
<b>Surplus (deficit)</b>	<b><u>(1.041)</u></b>	<b><u>(492)</u></b>	<b><u>(4.062)</u></b>	<b><u>(5.595)</u></b>	<b><u>114.475</u></b>	<b><u>108.880</u></b>

**Currency risk as at 31 December 2011**

	<b>EUR and currency clause</b>	<b>USD</b>	<b>Other</b>	<b>Total currency</b>	<b>HRK</b>	<b>Total</b>
<b>Assets</b>						
Cash assets	122,480	506	4,642	127,628	131,181	258,809
Assets with CNB	-	24,438	-	24,438	137,869	162,307
Deposits to other banks	79,829	-	-	79,829	-	79,829
Loans to customers	898,290	29,205	43	927,538	348,211	1,275,749
Accrued interests and other	17,883	2,244	-	20,127	6,522	26,649
Investments and securities	62,084	-	-	62,084	4,542	66,626
Tangible and intangible assets	-	-	-	-	44,199	44,199
Foreclosed assets	-	-	-	-	6,206	6,206
Provisions for identified losses on group basis for "A" placements	-	-	-	-	(15,468)	(15,468)
<b>Total assets:</b>	<b><u>1,180,566</u></b>	<b><u>56,393</u></b>	<b><u>4,685</u></b>	<b><u>1,241,644</u></b>	<b><u>663,262</u></b>	<b><u>1,904,906</u></b>

<b>Liabilities</b>						
Issued hybrid instruments	51,993	-	-	51,993	32,423	84,416
Other deposits:						
- on demand	12,310	3,968	791	17,069	95,970	113,039
- fixed term	1,032,312	57,965	5,308	1,095,585	340,429	1,436,014
Other borrowed assets	66,757	-	-	66,757	19,666	86,423
Accrued interests and fees	20,154	1,014	26	21,194	4,221	25,415
Other liabilities	51	2,328	-	2,379	16,340	18,719
Provisions for contingent liabilities	-	-	-	-	829	829
Provisions for litigation	-	-	-	-	25	25
<b>Total liabilities:</b>	<b><u>1,183,577</u></b>	<b><u>62,275</u></b>	<b><u>6,125</u></b>	<b><u>1,254,979</u></b>	<b><u>509,903</u></b>	<b><u>1,764,880</u></b>
<b>Surplus (deficit)</b>	<b><u>(3,011)</u></b>	<b><u>(8,882)</u></b>	<b><u>(1,440)</u></b>	<b><u>(13,333)</u></b>	<b><u>153,359</u></b>	<b><u>140,026</u></b>

## **29. Maturity structure and liquidity risk**

Liquidity risk is based on regular financing of the Bank operations and management of positions. It includes the risk of impossibility to finance assets within appropriate terms at appropriate interest rates, as well as risk of impossibility to liquidate assets at reasonable price within appropriate time period. The Bank has access to various sources of finance. Resources are collected through a number of instruments including deposits, loans and equity. The Bank continuously evaluates the liquidity risk through identification and monitoring of changes in financing required for achievement of operating and strategic objectives. Furthermore, the Bank keeps a portfolio of liquid assets as part of its liquidity risk management strategy.

Liquidity risk management is conducted in compliance with legal provisions and regulatory guidelines, as well as internal methods, procedures and limits, and is defined by the Liquidity Risk Management Policy regularly revised by the Risk Management Sector based on changes in the economic environment

Risk Management Sectors reports to Assets and Liabilities Committee on quarterly basis about the Bank exposure to the liquidity risk and reports to the Croatian National Bank on monthly basis based on the Decision on Management of Liquidity Risk.

Total amounts of assets and liabilities as at 31 December 2010 and 31 December 2011 are analysed through the remaining period from the Balance Sheet date in relation to the agreed maturity date and presented in the following tables:

***Maturity structure and liquidity risk as at 31 December 2010:***

	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>3 months – 1 year</b>	<b>1 – 3 years</b>	<b>Exceeding 3 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and amounts with other banks	167,144	-	-	-	-	167,144
Assets with CNB	19,565	27,154	57,759	10,183	1,653	116,314
Deposits to other banks	137,177	49,481	-	-	-	186,658
Loans to customers	88,560	391,417	172,669	228,041	162,721	1,043,408
Accrued interests and other	13,042	2,422	468	921	4,008	20,861
Investments and securities	6,714	773	-	-	-	7,487
Tangible and intangible assets	-	-	-	-	46,762	46,762
Provisions for identified losses on group basis for “A” placements	(1,298)	(4,591)	(2,069)	(2,782)	(1,845)	(12,585)
<b>T o t a l:</b>	<b>430,904</b>	<b>466,656</b>	<b>228,827</b>	<b>236,363</b>	<b>213,299</b>	<b>1,576,049</b>
<b>Liabilities</b>						
Issued hybrid instruments	-	-	-	33,000	8,000	41,000
Other deposits						
- on-demand	102,888	-	-	-	-	102,888
- fixed	123,240	309,813	674,583	81,684	11,110	1,200,430
Other borrowed assets	-	-	-	-	85,072	85,072
Accrued interests	2,863	5,598	10,439	2,878	917	22,695
Other liabilities	14,265	-	-	-	-	14,265
Provisions for contingent liabilities	230	96	305	106	42	779
Provisions for litigation	40	-	-	-	-	40
<b>Total liabilities:</b>	<b>243,526</b>	<b>315,507</b>	<b>685,327</b>	<b>117,668</b>	<b>105,141</b>	<b>1,467,169</b>
<b>Surplus (deficit)</b>	<b>187,378</b>	<b>151,149</b>	<b>(456,500)</b>	<b>118,695</b>	<b>108,158</b>	<b>108,880</b>

***Maturity structure and liquidity risk as at 31 December 2011:***

	<u>Up to 1</u> <u>month</u>	<u>1 – 3</u> <u>months</u>	<u>3</u> <u>months</u> <u>– 1 year</u>	<u>1 – 3</u> <u>years</u>	<u>Exceeding</u> <u>3 years</u>	<u>Total</u>
<b>Assets</b>						
Cash and amounts with other banks	259,994	-	-	-	-	259,994
Assets with CNB	27,281	31,797	75,711	11,770	15,748	162,307
Deposits to other banks	3,019	76,810	-	-	-	79,829
Loans to customers	166,058	390,341	273,289	259,339	186,722	1,275,749
Accrued interests and other	15,727	887	371	2,392	6,087	25,464
Investments and securities	2,671	850	1,021	-	62,084	66,626
Tangible and intangible assets	-	-	-	-	44,199	44,199
Foreclosed assets	-	-	-	-	6,206	6,206
Provisions for identified losses on group basis for “A” placements	(2,364)	(4,582)	(3,225)	(3,118)	(2,179)	(15,468)
<b>T o t a l:</b>	<b>472,386</b>	<b>496,103</b>	<b>347,167</b>	<b>270,383</b>	<b>318,867</b>	<b>1,904,906</b>
<b>Liabilities</b>						
Issued hybrid instruments	-	-	-	32,422	51,994	84,416
Other deposits						
- on-demand	113,039	-	-	-	-	113,039
- fixed	176,047	336,937	802,276	92,296	28,458	1,436,014
Other borrowed assets	-	-	-	-	86,423	86,423
Accrued interests	3,732	6,084	11,698	2,474	1,427	25,415
Other liabilities	18,719	-	-	-	-	18,719
Provisions for contingent liabilities	24	135	495	115	60	829
Provisions for litigation	25	-	-	-	-	25
<b>Total liabilities:</b>	<b>311,586</b>	<b>343,156</b>	<b>814,469</b>	<b>127,307</b>	<b>168,362</b>	<b>1,764,880</b>
<b>Surplus (deficit)</b>	<b>160,800</b>	<b>152,947</b>	<b>(467,302)</b>	<b>143,076</b>	<b>150,505</b>	<b>140,026</b>



