HRVATSKA POŠTANSKA BANKA d.d.

Financial Statements
and Independent Auditor's Report
For the Year Ended 31 December 2011

Zagreb, April 2012

CONTENTS

Introduction

The Annual Report comprises the summary of financial information, description of operations and the audited financial statements, including Independent auditors' report for the year ended 31 December 2011, in Croatian and English.

Legal form

The Annual Report comprises the annual financial statements prepared in accordance with accounting regulations applicable to banks in the Republic of Croatia and audited in accordance with International Standards on Auditing.

The Annual Report is prepared in compliance with the Accounting Law and the Companies Act, which prescribe reporting of the Management Board to the shareholders at the General Assembly. According to the Accounting Law the statutory financial statements are statement of financial position, income statement with statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the financial statements, and the Companies Act, paragraph 250.a and 250.b, prescribes submission of the Annual Report showing the position of the Bank and other members of the HPB Group and consolidated Annual Report of the Group.

Abbreviations

In the annual financial statements, Hrvatska poštanska banka d.d. is referred to as “the Bank” or “HPB”, Hrvatska poštanska banka Group is referred to as “HPB Group” or “the Group” , the Croatian National Bank as “the CNB”, the Republic of Croatia as “RH” and the Croatian Bank for Construction and Development as “HBOR”.

Exchange rates

The following CNB exchange rates were used for translation of foreign currencies into Croatian kuna:

31 December 2011	1 EUR = 7.530420 HRK	1 USD = 5.819940 HRK
31 December 2010	1 EUR = 7.385173 HRK	1 USD = 5.568252 HRK

Summary of operation and key financial indicators

in HRK million

Group	2011	2010	2009	2008	2007
Key indicators					
Net profit/ (loss) for the year	86	52	(447)	4.5	129
Total assets	16,692	14,978	14,108	14,710	14,561
Loans and advances to customers	9,709	8,946	7,869	8,129	7,288
Deposits	12,988	11,381	10,701	11,116	10,714
Equity	1.243	1.182	637	911	956
Other indicators					
Return on share capital	9.10%	5.40%	-68.29%	0.77%	22.05%
Return on assets	0.51%	0.35%	-3.17%	0.03%	0.89%
Operating expenses[1]/operating income ratio	71.03%	71.62%	85.45%	75.99%	64.17%
Regulatory capital	1,514	1,681	1,037	1,197	1,181
Capital adequacy	14.28%	16.99%	10.32%	11.53%	12.19%

Bank	2011	2010	2009	2008	2007
Key indicators					
Net profit/ (loss) for the year	88	51	(449)	9	121
Total assets	16,452	14,787	13,981	14,637	14,536
Loans and advances to customers	9,622	8,873	7,823	8,097	7,286
Deposits	12,766	11,208	10,585	11,044	10,691
Equity	1,255	1,190	647	924	964
Other indicators					
Return on share capital	9.08%	5.26%	-68.59%	1.49%	20.68%
Return on assets	0.53%	0.34%	-3.21%	0.06%	0.83%
Operating expenses[1]/operating income ratio	70.15%	71.00%	85.37%	75.69%	63.65%
Regulatory capital	1,492	1,654	1,012	1,156	1,135
Capital adequacy	14.23%	16.82%	10.13%	11.19%	11.73%
Return on capital [2]	8.00%	5.99%	-59.07%	0.94%	13.33%
Return on capital – Croatian banking sector	7.85%	6.81%	6.64%	10.29%	11.03%

[1] *general and administrative expenses and depreciation*

[2] *return on average capital ratio is net profit after tax and average capital ratio, calculated according to the methodology prescribed by the Croatian National Bank*

President of the Supervisory Board's Statement of Condition

Esteemed shareholders, business partners, clients, it is my pleasure to present to you financial reports of the HPB Group for the year ended December 31, 2011.

I was appointed Head of the Supervisory Board in March 2011, and during my first year in this function I have witnessed improvement of HPB Group's results and strengthening of it's market position despite negative impacts of economic stagnation during the last year. In such conditions extreme adaptability is necessary, especially if one takes into account continuous legislative changes. Therefore, exceptional business results accomplished in 2011 indicate that the Management's strategy is correct as well as sustainable.

Improvement of results, as mentioned before, is primarily reflected through growth of Bank's after-tax profit by 73 percent to HRK 87.9 million. Meanwhile, consolidated after-tax profit amounts to HRK 85.8 million, representing an increase of 64.2 percent. Earnings per share also increased, from HRK 82.30 as at 2010 year-end to HRK 100.15 at the end of 2011, despite higher number of shares outstanding due to capital hike at the end of 2010.

Bank's assets increased by 11.3 percent, which represents second highest yearly growth among ten largest banks in Croatia. In line with that, Bank's market share increased by 0.3 percentages points and equals 4.0 percent as per 2011 year-end. Bank has continued to provide support to Croatian economy during 2011, which resulted in an increase of loans to companies by 12.6 percent. On the liabilities side of the balance sheet, deposits from customers have increased by 15.2 percent. Total retail deposits increased by 13.1 percent, wherein term deposits' increase equals 20.6 percent. It should be emphasized that HPB played one of the crucial roles during liquidation of Credo bank and payment of secured savings to customers, which occurred at the end of 2011. This was a huge test for the Bank, as well as for the banking sector.

I would like to congratulate Management Board and other employees of HPB on realized results in 2011. I would also like to thank my colleagues in the Supervisory Board on their cooperation and useful advice. Above all, I express my sincere gratitude to clients who chose HPB Group as their business partner.

Damir Kaufman
President of the Supervisory Board

Damir Kaufman

President of the Management Board’s Statement of the Bank’s Condition

Dear clients, shareholders and business partners,

on behalf of Management Board, I present you the results of Hrvatska poštanska banka and HPB Group for 2011.

For Croatian economy, as well as for the banking sector, 2011 was a very demanding year. In such conditions, the Bank has managed to accomplish best results in last couple of years, and increased its market share. This affirms the strategy of the Management Board, which I am honored to preside over since the end of 2009.

Unconsolidated financial results of the Bank

After realized after-tax profit in amount of HRK 50.8 million during 2010, the Bank's profit increased by 73.0 percent during 2011 due to significant growth of operating revenue, thereby amounting to HRK 87.9 million. Beside profit growth, Bank's assets have increased also – by 11.3 percent compared to 2010 year-end, and amount to HRK 16.5 billion as per December 31 2011. This increase was mainly driven by growth of interest bearing assets, i.e. loans and investment in securities.

Loan portfolio growth during 2011 was enabled by robust expansion of the Bank's deposit base. Accordingly, deposits from customers increased by 15.2 percent. As a further proof of trust and client loyalty, retail deposits exceeded last year's growth, wherein term deposit especially excelled – increasing by 20.6 percent or HRK 900.3 million.

Ascendant trends are also evident in net interest income, which is higher by 24.1 percent compared to last year, wherein gross interest income growth equaled 5.3 percent, due to growth of average loan principal during 2011. Interest expenses have simultaneously decreased by 11.8 percent.

Income from fees and commissions that the Bank charges to its clients has decreased during 2011, whilst fee and commission expense increased due to higher fees for payment transactions. This resulted in a decrease of net fee and commission income by 9.0 percent compared to last year, which is in line with movements on extremely competitive Croatian banking market. Bank's growth and improvements in automatisation of business processes, as well as higher deposit insurance expense corresponding with their growth, are the factors which contributed to a 7.3 percent increase of general and administrative expenses. Nevertheless, C/I indicator of cost efficiency, improved for the second year in a row, and equals 70.1 percent as per 2011 year-end. Considering that expenses relating to previous years influence the calculation by 2 percentage points, efficiency indicator would equal 68.1 percent if these expenses were eliminated from calculation.

Operating profit before impairments amounts to HRK 212.9 million, representing a 9.6 percent increase compared to 2010. The Bank recognized provisions for impairment losses amounting to HRK 130.5 million.

Consolidated financial results of HPB Group

HPB Group consists of the parent company – Hrvatska poštanska banka, HPB Stambena štedionica – mortgage loans and savings society, HPB Invest – investment fund management company, and HPB Nekretine – company specialized in real estate business. HPB Invest and HPB Nekretnine accomplished positive financial results, amounting to HRK 0.5 million and HRK 0.4 million, respectively. On the other side, HPB Stambena štedionica generated a net loss in amount of HRK 2.4 million, as a consequence of decline in value of securities that comprise its portfolio, in line with negative movements on the capital market. Meanwhile, owing to higher earnings of the parent company, consolidated after-tax profit of the Group amounts to HRK 85.8 million, representing an increase by 64.4 percent compared to last year.

Assets of other Group's members also increased during 2011. Group's assets thereby amounted to HRK 16.7 billion as per December 31 2011, representing a yearly increase by 11.4 percent. Within the assets' structure, net loans to customers increased by 8.5 percent and investment in securities by 19.6 percent. On the other hand, Group has continued to lower its indebtness via borrowings during 2011, which have correspondingly decreased by 4.2 percent, compensated by growth of deposits from customers in amount of HRK 1.7 billion or 15.5 percent.

Business processes and environment during 2011

To be the most accessible, highly efficient and inventive bank on the Croatian market is our vision. In order to improve quality of our services, investments were made during 2011 in our branch network, technical infrastructure and sales staff. Higher costs were therefore justified by assets and earnings growth. Furthermore, investment in infrastructure of the Bank will generate income in the future, so it is to be expected that the level of C/I indicator of profitability will continue to decrease. But, any further improvements of efficiency and profitability will depend on accessibility of new capital, especially if one takes into account that the Bank is still under-capitalized compared to average of Croatian banking sector.

Branch network of the Bank was expanded during 2011 to cover four new cities. The bank has therefore strengthened its position in continental Croatia by opening outlets in Bjelovar, Koprivnica and Karlovac. A detached office was also opened in Imotski. The Bank continued to expand its distributive and sales channels by increasing the number of ATM's by 15.2 percent, whilst EFT-POS terminals increased by 7.4 percent.

I sincerely thank my colleagues in the Bank, who have endeavored to contribute to good business results in an extremely difficult year. I believe that this positive momentum will continue during the following year, which will not be any less demanding. I would also like to thank our clients and shareholders on their support and trust.

mr. Čedo Maletić
President of the Management Board

Macroeconomic movements in Croatia during 2011

Despite the expected positive movements, during 2011 the Croatian economy stagnated which can been seen through GDP, whose growth according to preliminary date is minor, and amounts to 0.2 percent. The retail sales growth rate, with fluctuations during the year, for the first eleven months of 2011 shows an increase of 1.1 percent compared to last year. Positive effects were also attributable to favorable tourism trends of where the number of overnight stays increased by 7.0 percent. However, these favorable indicators were not accompanied with the same level of average consumption. On the other hand industrial production decreased by 1.2 percent driven by reduced production of energy, intermediary and durable consumer products, while at the same time production of capital and non-durable consumer products increased. Negative impact was supplemented by a reduction of construction activity (9.1 percent decrease on annual level) third year in a row.

The growth of unemployment rate was also evident in 2011, but at a slower pace than in 2010, therefore average unemployment rate according to preliminary data was 17.9 percent. In December the unemployment rate equaled 18.7 percent. The average nominal net salary in 2011 amounted to HRK 5,441 and is 1.8 percent higher than last year, but real net salary decreased 0.5 percent due to higher inflation compared to 2010. In addition, nominal gross salary increased by 1.5 percent, but decreased by equal 0.8 percent in real terms.

Average inflation rate in 2011 was 2.3 percent (2010, 1.1.percent) mainly as an effect of the increased food prices which were driven by food price increase on the world market, and despite of weaker domestic demand and a negative trends in the labor market. It is also important to mention that in 2011 for the first time there had been an average annual fall in prices of services.

Average HRK/EUR exchange rate during 2011 equaled 7.434, representing a 2.03 percent increase compared to last year when it amounted to 7.286. Croatian National Bank has intervened several times during the year on the foreign currency market in order to stabilize the kuna exchange rate.

Negative movement on global markets determined Croatia's international trade and reflected on the demand for Croatian products. However, due to total demand decrease the value of imported goods also decreased. Total goods exports in HRK grew 1.0 percent in 2011 due to higher exports of machinery and equipment, metal, scrap metal and petroleum products, mostly because of the increase in prices of metals and petroleum products on the world market. At the same time total goods exports of electronic products, gas, boats and electric equipment decreased. On the other hand total import decreased by 1.4 percent mostly because of lower value of imported computer and electronic products, other transport equipment, electrical equipment and chemical products. The value of imported energy (petroleum products, crude petroleum, natural gas and electricity) also increased because of the price growth. These trends have led to a reduction in trade deficit and increased coverage of imports by exports to 60.3 percent from 58.8 percent in 2010.

According to the latest available data Croatian gross foreign debt amounted to EUR 46.5 billion at the end of December 2011, and is at the same level as at the end of 2010. Thus banks' debt increased by EUR 0.6 billion, and the central government indebtness increased by EUR 0.4 billion. At the same time direct investment decreased (EUR 0.7 billion) and foreign liabilities of other domestic sectors decreased by EUR 0.3 billion.

Financial market in 2011 was determinate by the high liquidity level with low interest rates on interbanking market. Due to depth crisis on international financial markets, foreign financial sources were less available so the trend of decreasing active and passive commercial banks interest rates stopped. This trend was partially turned over which is noticeable in interest rates increase on short term loans and deposits. During 2011 interest margin is slightly lower (0.1 p.p.) than the last year.

At the December 2011 banking sector aggregate balance sheet grew up to HRK 408.8 billion representing an increase of HRK 17.7 billion or 4.5 percent compared to 2010. Although the Central bank decreased the minimal level of foreign assets coverage in first quarter from 20 percent to 17 percent and the action released funds to initiate economic growth, the recovery has not happened. Of total banking sector assets, loans grew by 6.1 percent, which is slightly lower than the growth during 2010 when annual growth rate was 8.2 percent. The corporate loans growth was 9.8 percent (if exchange rate effects is excluded the growth was 9.1 percent) due to short term working capital financing demand and gradual foreign deleveraging, while the retail placements grew only 0.9 percent. However if exchange rate effects is excluded retail loans decreased by 1.1 percent compared to 2010. Loans to government increased by 15.5 percent or HRK 7.8 billion.

Total deposits in 2011 increased 4.9 percent where HRK deposits significantly increased (17.5 percent) while the foreign currency deposits decreased by 3.8 percent (exchange rate effects excluded). The greatest decrease in foreign currency deposits occurred in the corporate sector due to repayment of foreign liabilities. Foreign currency deposits of non-banking financial institutions also decreased. This decrease was partially alleviated by growth in foreign currency retail deposits.

Banks' total profit after tax in December 2011 according to preliminary data amounts to HRK 3.7 billion, representing an increase of 7.7 percent or HRK 266.3 million compared to last year.

Description of the Group's operation

Hrvatska poštanska banka d.d.

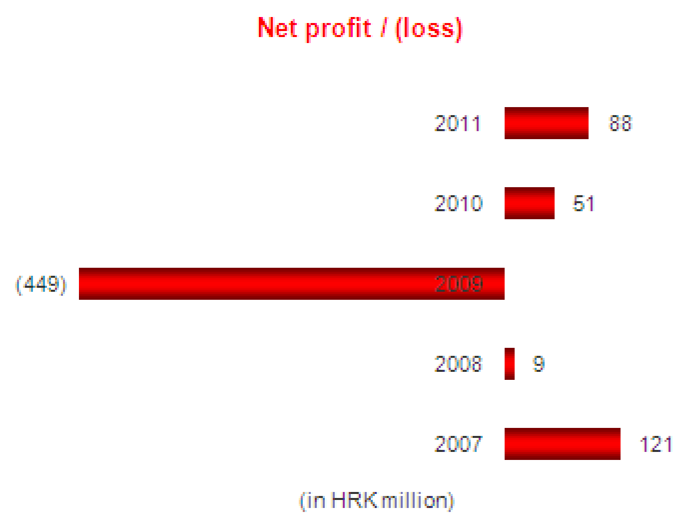
Hrvatska poštanska banka d.d., Zagreb, was founded and registered as a joint stock company in accordance with applicable regulations of the Republic of Croatia, and is authorized to perform banking activities in the Republic of Croatia. The Bank's Management Board is in Jurišićeva 4, in Zagreb. At 31 December 2011, the Bank operated through eight branches, thirty seven outlets and twelve detached tellers.

The Bank's main activity is operation in all kinds of deposit and loan activities for corporate and retail customers in domestic and foreign currency, performance of domestic and foreign payment transaction activities, issue of guarantees, sureties and other forms of guarantees, trade in foreign currency and securities and other banking activities.

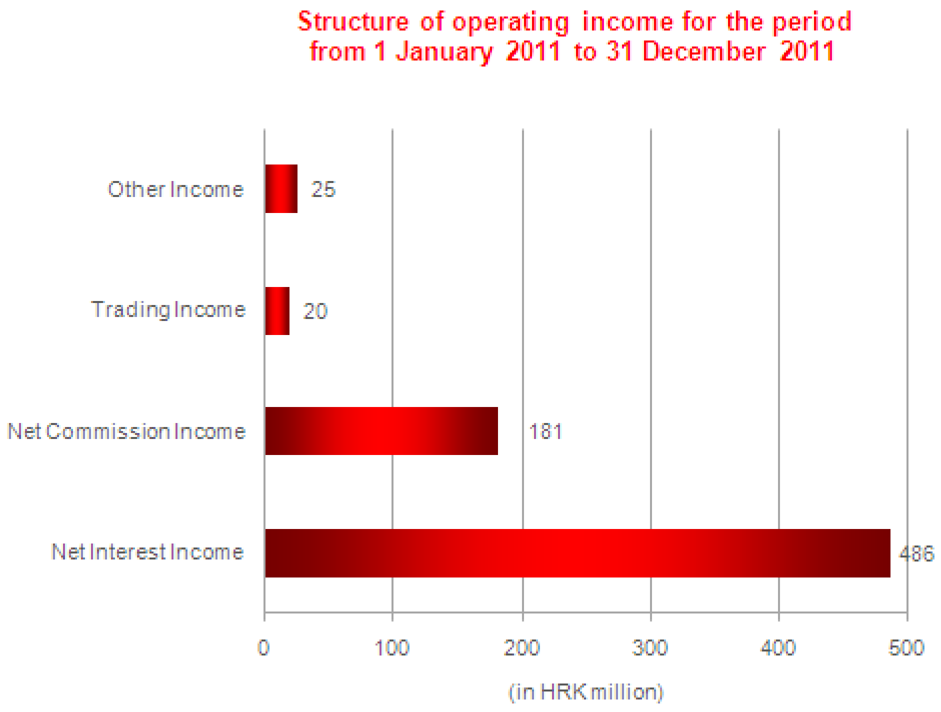
As a domestic bank, HPB is in the group of leading banks in the Republic of Croatia, which, with its assets in the amount of HRK 16.5 billion is ranked seventh among 32 banks altogether.

The Bank is 100% owner of HPB Stambena štedionica d.d., HPB Invest d.o.o., the investment fund management company, and HPB Nekretnine d.o.o., the company for real estate and construction, which together form the HPB Group.

In 2011, the Bank realized profit after tax in the amount to HRK 87.9 million. Profit before provisions amounted to HRK 212.9 million, and provisions for losses on loans and other assets amounted to HRK 132.3 million.

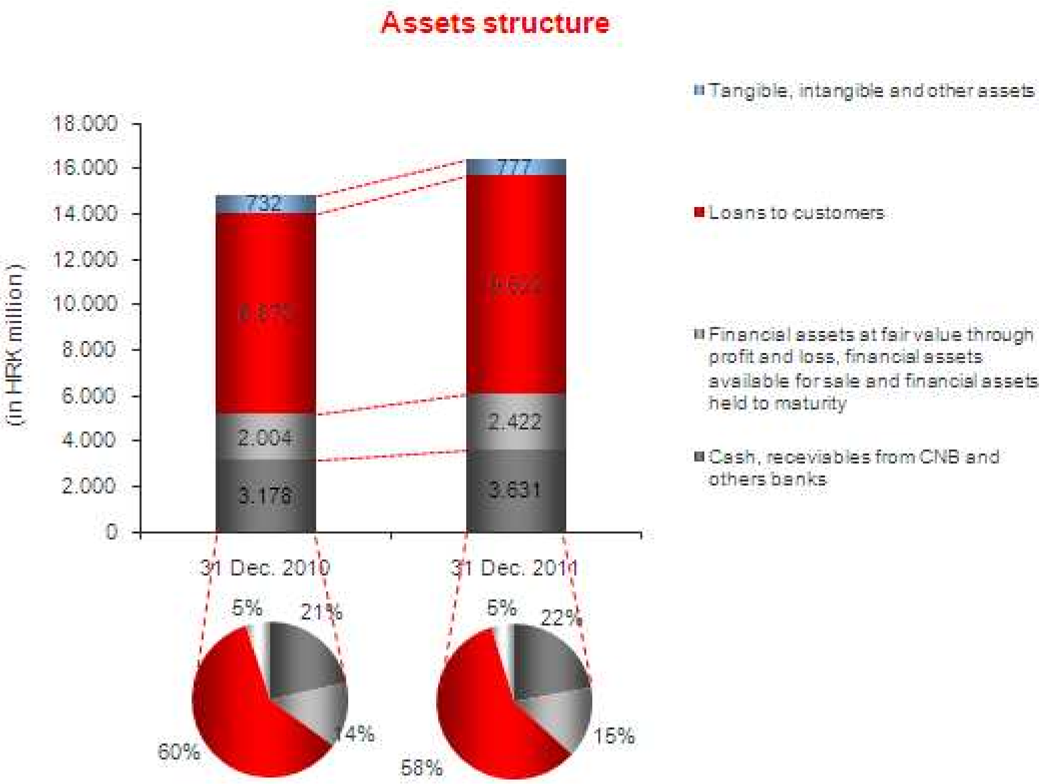


Total operating income increased by 6.2% compared to 2010. The most significant part of operating income is net interest income, representing 68.3% (HRK 486.0 million) of total income.



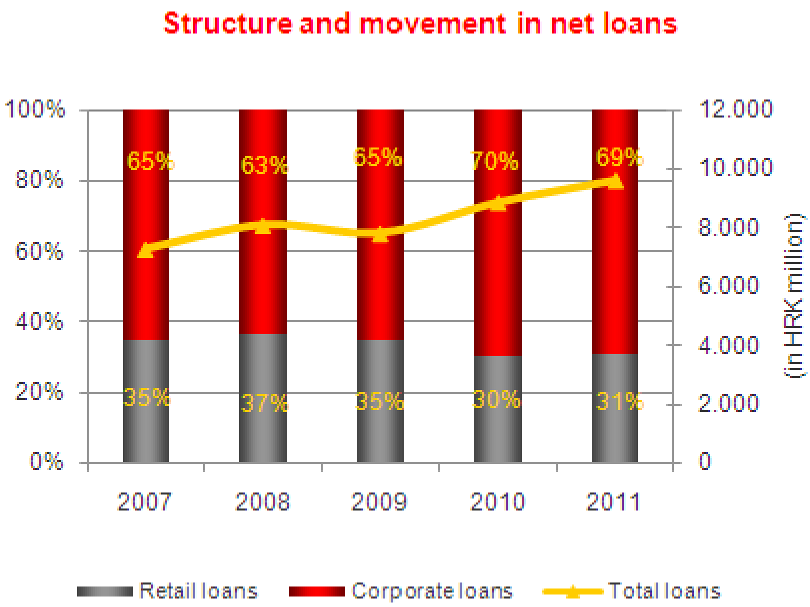
At 2011 year-end, the Bank's assets amounted to HRK 16,452 million, representing a HRK 1,664.6 million or 11.3% increase compared to 2010. The most significant part within assets structure are loans and advances to customers (58.0%), placements with and loans to other banks and the CNB obligatory reserve (22.0%), and financial assets at fair value through profit or loss (8.0%).

Assets structure

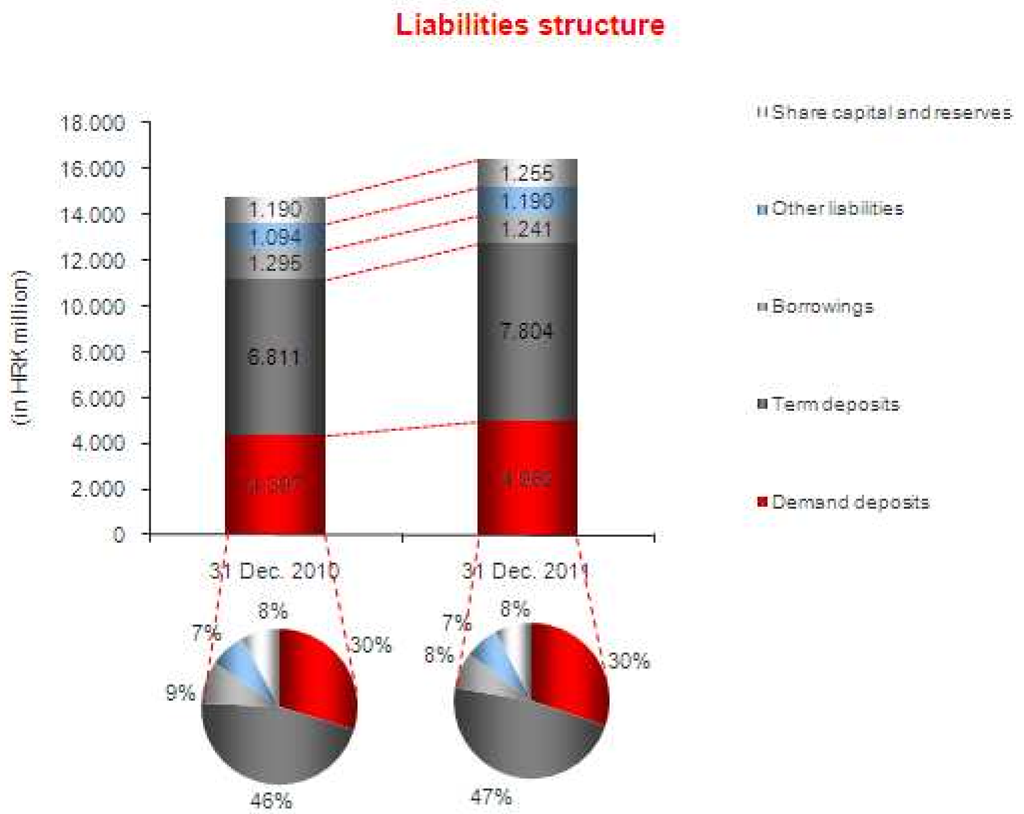


At 31 December 2011, total loans amounted to HRK 9,622 million, representing a 8.4% increase compared to 2010. The loan portfolio structure is comprised of corporate loans which represent 69.0%, and retail loans representing 31.0 %.

Structure and movement in net loans

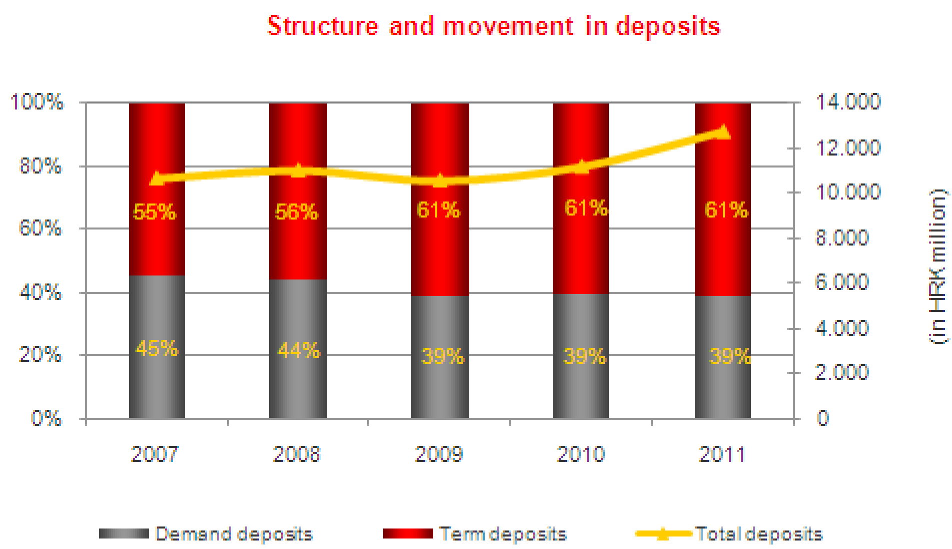


The most significant parts of liabilities are term deposits (47.0%), and demand deposits (30.0%).



In 2011 deposits from customers increased by 15.2% compared to 2010 and growth of total deposits (including deposits from banks) is 13.9%.

The structure of deposits is dominated by term deposits (61.1%), compared to demand deposits (38.9%). Term deposits increased by 14.6%, and their share within the structure of total deposits increased by 0.3 percentage points (from 60.8% to 61.1%). Demand deposits in 2011 recorded an increase of 12.8%.



Retail operation

HPB performs retail operation through its own operational network which comprises 8 branches, 37 outlets, 12 detached tellers and through more than 1,100 post offices throughout the territory of the Republic of Croatia.

Aimed at better acquaintance to customers with its products and services, in 2011, the Bank opened three new outlets in Bjelovar, Karlovac and Koprivnica and detached teller in Imotski.

Alongside its operational network expansion, HPB continued to develop and improve direct banking distribution channels and installed 46 new ATMs and 129 EFTPOS terminals. At the end of 2011, the Bank had its own network of 302 ATMs and 1,879 EFTPOS terminals.

In 2011 the Bank continued with introduction of new credit and savings products, and customized them to meet the requirements of customers, enhanced Internet banking and expanded range of credit card products.

Within overall structure of deposits, retail deposits constitute 58.4% of total deposits. In the past year they have increased by 13.1 % and at 31 December 2011 amounted to HRK 7.46 billion. Therein, demand deposits were 2.14 billion and term deposits were 5.32 billion which is an increase of 20.3 percent. The high growth of term deposits was driven by the expansion of business network, and attractive interest rates on term savings during 2011.

Gross retail loan portfolio amounted to HRK 3.3 billion at 31 December 2011. In total gross loans and structure, retail loans make up 31.5 percent.

In the total retail loans structure, the main part relates to commercial loans, then overdrafts. The share of housing loans increased by 49.0 percent (HRK 173.7 million) during 2011.

Among other activities within retail operation we point out the continuation of the improvement of business cooperation with Croatian Post and Financial Agency, and increased range of cooperation with other state institutions.

Corporate operations

At the end of 2011 the total gross loans to companies amounted to HRK 7.25 billion, representing an increase of HRK 0.5 billion or 8.1 pct. compared to 2010. Within the loan structure, short-term loans make up 49.1 pct. and 50.9 pct. relates to long-term loans. Long-term loans were financed by funds from HBOR and own long-term resources. As per 31 December 2011 total deposits of legal entities (excluding deposits of banks) amounted to HRK 5.25 billion, whereat demand deposits increased 29.1 pct. compared to previous year.

Despite the economic crisis during 2011 the Bank showed willingness to compete with the leading banks in Croatia. The focus of corporate operations was on maintaining a high level of quality service and competitive price to retain existing customers and acquire new ones.

The center of activity in dealing with legal entities during 2011 was on programs for financing production through collaboration with HBOR, HAMAG (Croatian Agency for Small Enterprises), Ministry of the Economy, Ministry of Agriculture and local government entities.

Investment banking

During 2011, the Investment Banking Division continued with its operations as an agent in buying and selling of securities on domestic as well as on world financial markets.

2011 under the influence of gradual growth of the developed countries' economies, witnessed certain optimism and occasional indication of growth, but also a large number of fluctuations and uncertainly on capital markets throughout the world. Despite the lower liquidity of shares and negligent interest of investors for investments, as well as increased need for liquid funds of clients, which was manifested through withdrawals of a portion of assets under management, the total value of assets in the Bank's asset management business during 2011 was approximately the same level as in 2010.

In custody business, during 2011 the Bank continued to provide services on domestic, as well on international financial markets.

As per 31 December 2011 total asset under Bank's custody amounted to HRK 3.16 billion, including funds of HPB Group while total asset of investment and pension funds, where Bank acts as a depositary bank, amounted to HRK 2.81 billion.

Treasury operation

The Bank's and Treasury operations on the money market during 2011 was severely challenging considering high liquidity of the system during first half of the year, and with stronger measures of the monetary policies which influenced the markets in the last quarter.

During the first six months in 2011 the interest rates on the domestic money market were on historically low level, and since March the CNB annulled the payment of the fee on obligatory reserve funds. In such conditions Treasury Division distributed liquidity surplus through increased share buying of open-end investment funds, repurchase agreements placements and investments in debt securities.

Since September continuous pressure was on EUR exchange rate growth in relation to HRK, so CNB increased obligatory reserve rate to 14 percent which lead to system's liquidity decrease and interest rate growth on money market. Throughout the entire period the Bank retained its position as one of the leading banks on domestic money market, and at the same time successfully maintained prescribed coefficient and liquidity ratios.

During 2011 the Bank increased volume of participation in several syndicated loans and bond issues by leading Croatian companies and Ministry of Finance. Additionally, the Bank's portfolio of debt securities has increased.

Through Treasury sales department and Foreign currency trading department, the Bank has increased activity in contracting spot or forward foreign currency transactions with corporate clients. Trading in foreign currency market was marked by the growth of EUR/HRK exchange rate that effected CNB's actions in further growth prevention and further narrowed FX of spreads. In such challenging circumstances the Bank managed to realize higher net gain from foreign currency trading compared to 2010.

The Bank continued successful cooperation with FINA collection center for foreign currencies, and through it's own branch network and network of currency exchange offices, continues to be one of the most important participants in cash trading on Croatian market.

Internal controls system and internal audit

Internal controls are a constituent part of the managing process of the management and all employees of the Bank and represent a reasonable guarantee that business goals will be achieved in a scheduled manner within a given time frame, by applying current regulations.

Additionally, the goal of internal controls and control procedures is to ensure the precision and reliability of the Bank's financial data, and are divided to administrative-accounting controls, detection controls and correction controls.

Supervision of elements of internal control, which are established by internal acts and procedural documents, is carried out by accountable persons of business areas and by functions of internal audit.

Principles of the internal control system are reflected through:

- clear lines of responsibility;
- separation of duties and activities;
- specific control procedures; and
- internal audit function.

Internal audit

The internal audit is organized as an independent function, which is based on professional principles of internal auditing, alongside associated laws and regulations.

The audit is performed in accordance with general internal audit standards and regulatory requirements, in four following steps:

- planning;
- research;
- reporting; and
- results monitoring.

Planning is conducted through documented risk assessment, and the Yearly Operational Program is adopted by the Management Board with prior consent of the Audit Committee and the Supervisory Board.

Report on audit results is submitted to the subject of internal audit, amenable member of the Bank's Management Board, and Audit Committee.

Internal audit office also drafts Reports on operations which are submitted to the Management Board, Audit Committee and Supervisory Board.

Development plan

Although the significant recuperation of economic activities in 2012 can not be expected, the Bank will invest special efforts to accomplish growth in all business segments. To make that possible, new products or improvement of existing products will be continuously introduced. The Bank will also increase collaboration with HBOR in order to diversify structure of funds, and also to offer its corporate clients different models of project financing, with emphasis on export projects.

The Bank will continue to conduct the client's needs in the retail segment. In accordance with that, in 2012 the plan is to open four new outlets, and as well to strengthen the network of ATMs.

In 2012 the plan is to finish project of management reporting, which will help the Bank's Management Board to achieve better business process efficiency, but also higher level of profitability and return for shareholders. Furthermore, the plan is to introduce the internet share trading application for individual clients, which will strengthen Bank's position in this segment too.

The Bank's employees will contribute to strengthening Hrvatska poštanska banka brand recognition, to achieve HPB's vision to become the most accessible, efficient and inventive bank in Croatian market.

Risks exposure

The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk, currency risk, operational risk and interest rate risk in the Bank's non-trading book.

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties. The Bank's primary exposure to credit risk arises from loans to and advances to customers. The amount of credit exposure in this regard, and in respect of held-to-maturity debt securities recognized at amortized cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance-sheet items, through commitments arising from unused facilities and guarantees issued.

The main categories of liquidity risk to which the Group is exposed are structural liquidity risk and liquidity risk of financial instruments (financial assets held for trading, financial assets available for sale).

The exposure to market risk occurs in respect of balance sheet and off-balance-sheet positions recognized at fair value, including financial assets held for trading, financial assets available for sale and positions denominated in foreign currency (including placements and liabilities linked to foreign currencies via foreign currency clause).

Operational risk is attributable to all of business activities, processes, products and systems of the Bank. Operational risk is a risk of an event which, as a consequence, exposes the Bank to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk.

Exposure to interest rate risk in the Bank's non-trading book arises as a consequence of mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps) and various natures of interest rates (referent interest rates), by which the Bank contracts placements and funds.

Detailed description of risk management of the Group and the Bank is outlined in note 2, within financial reports.

HPB Invest d.o.o.

HPB Invest d.o.o. (in further text referred as Company) is a company for investment funds management, which was founded on July 22 2005 and is 100% owned by Hrvatska poštanska banka. The Company started with operations on October 5 2005, and Shareholder's capital amounts to HRK 13.5 million.

As per December 31 2011, the Company manages eight open-end investment funds with public offer, and in December 2011 new fund HPB Euronovčani was established.

Total assets under management of Company's open-end investment funds with public offer amounts to HRK 308.0 million, representing a decrease of 21.87 percent compared to last year.

Structure of assets under management is as follows:

Fund	**Assets under management HRK '000**	**Yield from the beginning of the year %**
HPB Dionički fond	18,661	(5.33%)
HPB Dynamic fond	13,367	(12.01%)
HPB Global fond	76,224	(7.94%)
HPB Novčani fond	156,521	2.46%
HPB Obveznički fond	19,777	0.43%
HPB Titan fond	5,698	(13.11%)
HPB WAV	11,646	(10.37%)
HPB Euronovčani	6,263	-

As per December 31 2010, total balance sheet of the Company amounted to HRK 21.0 million, and the Company achieved after tax profit amounting to HRK 0.5 million.

Development plan

The goal of the Company is investment fund management and growth of assets under management with growth of market share. Precondition for the above is achievement of competitive yield and increased sale activities through Bank's distribution cannels. The company will continue to be devoted to professional asset management as well as to providing high quality services to its clients in order to ensure the preservation of sustainable growth of financial assets. With continuous investment in development policy of the Company, which involves continuous professional, personnel, organizational and technological advancements, with more and more demanding legal and regulatory adjustment of operations, HPB Invest will provide a long lasting and attractive range of funds and investment products, that can, with professional management and adequate yields, meet the needs of investors, depending on their investment objectives, investment horizon and risk appetite.

Risks

The most significant types of financial risks which affect the Company are: credit risk, liquidity risk, market risk and operating risk. Market risk includes exchange rate risk, interest rate change risk and price risk. The Company is not exposed to liquidity risk, and according to assessment of the Company, no risk exists that it will not be able to settle its short term obligations. Most of the Company's assets are interest bearing, whilst most of the financial liabilities do not bear interest. Interest rate risk is linked with placements to banks exposure. At the reporting date, the Company has debt securities whose fair value changes are recorded in profit or loss account, and all the changes in market conditions will directly impact on gains less losses from financial instruments at fair value through profit or loss. The Company manages operational risks.

HPB Stambena štedionica d.d.

HPB- Stambena štedionica („the Company“) is a credit institution which collects deposits from citizens and approves housing loans with state subsidies. 2011 was the fifth year of Company’s operations.

As the fifth largest on the savings-banks market, at the end of 2011 the Company has almost 64,620 registered savings contracts, with a value of EUR 314 million.

During 2011, the Company closed 16,122 new housing savings contracts a 41 increase percent compared to the last year. Furthermore, approved housing loans increased by 15 percent.

In 2011, the parent company, Hrvatska poštanska banka, was the primary housing savings sales channel, brokering 9,850 or 61 percent new savings contracts, while 36 percent or 5,726 of new contracts were brokered through Croatian Post's offices. Authorized agents brokered 3.0 percent or 546 new contracts.

Operating loss amounting to HRK 2.8 million was achieved in 2011, and the total loss amounting to HRK 2.4 million. The loss is an effect of decrease of Domestic government bonds which the Company owns amounting to HRK 3.9 million. By the end of 2011, total assets of the Company amounted to HRK 284 million, which is a 21.0 percent increase in relation to last year.

Development plan

The Company continues to endeavor positive contribution to the Group's results. Major shift in collaboration with Croatian Post, improvement of coordination in achieving mutual goals with the Bank, and development of IT support are the main leverage of the Company's business development.

Risks

Risk management system in HPB Stambena štedionica is accomplished through internal risk management acts, through organizational structure with clearly defined responsibilities and authorizations for risk management process, and effective internal control system. HPB Stambena štedionica expresses its risk tolerance by defining targeted risk profile, while taking into account all demands for suitability (adequacy) of available regulatory capital.

The most significant types of risks which affect HPB Stambena štedionica are: interest rate risk, liquidity risk, market risks, credit risk and operational risk.

HPB Stambena štedionica evaluates interest rate risk from the perspective of economic value, e.g. possible decrease in the value of the non-trading book due to interest rate changes. From December 31 2011 a simplified calculation of economic value of the non-trading book is used, as prescribed by CNB-s *Decision on the management of interest rate risk in the non-trading book*, that takes into account adjusted inbound data, i.e. adjusted model which can be applied by housing banks from October 20 2011.

Liquidity risk management is comprised of assessment and measuring liquidity risk exposure, setting liquidity risk limits, reporting, monitoring and controlling those limits. Liquidity risk management is realized through operative management of daily and short-term liquidity, as well as through structural liquidity management.

For assessment and measuring of exposure to market risks an internal model of Hrvatska poštanska banka d.d. is used. This model is based on risk value method, which measures maximal potential loss that HPB Stambena štedionica could bear in a specific period of time with statistical reliability.

Credit risk management is based on evaluation of loan capacity of the debtor. Quality and value of the collateral obtained are also assessed, as well as historical regularity of debt repayment.

Quality of the loan portfolio is monitored by Risk control function, which reports at minimum semi-annually to HPB Stambena štedionica's Management about the quality of the loan portfolio regarding risk group qualification and impairments made. Reports about the loan portfolio also comprise overview of quality by loan type, by large exposures, by loan type concentration and geographical concentration.

In order to determine and estimate operational risk exposure, HPB Stambena štedionica collects and analyses internal data about certain events caused by operational risk. Self-assessment of risk and related indicators are planned to be implemented.

Exposure of HPB Stambena štedionica to risks has been within regulatory limits throughout the whole year.

HPB Nekretnine d.o.o.

HPB Nekretnine d.o.o. is a company specialized in real estate market which started its business activities in August 2005, and is in a 100% ownership of the Bank. Shareholders' capital amounts to HRK 0.5 million.

The primary business activity of the Company are estimation of the real estate value, advisory services and buying and selling of the real estate.

As of 31 December 2011, the balance sheet of HPB Nekretnine amounted to HRK 12.1 million, while the net profit for the period amounted to HRK 385 thousand.

Development plan

In the upcoming period the focus will be on the active promotion on the market and rise in quality of services rendered. The Company's business and development policy will be built on expected rise in demand for specific services which the Company offers (after stagnation on the real estate market), and therefore the Group will become more recognizable and a synergy effect will be accomplished.

Risks

The most significant types of risk that the Company is exposed to: credit risk, liquidity risk, market risk and operating risk. Market risk includes changes of exchange rates, risk of interest rate gap and price risk. The Company manages its risks according to prescribed policies and procedures of Hrvatska poštanska banka, described in Note 2.

Statement on the application of the Corporate Governance Code

Application of the Corporate Governance Codex

In accordnace with article 272 of Commercial Companies Law and Regulations of the Zagreb Stock Exchange, the Management Board and the Supervisory Board voluntarily implemented the Corporate Management Codex which was established by Hrvatska agencija za nadzor financijskih usluga ("HANFA") and the Zagreb Stock Exchange (Zagrebačka burza d.d. – „ZSE"). Also, the Bank implemented the Corporate *Governance* Commercial Companies Code in which Republic of Croatia has shares or stakes which was established by the Croatian Government („Narodne novine", number 112/2010).

During 2011 the Bank stepped down from the recommendations from stated Codex in sections which are referred to calendar announcement of important occurrences on the Bank's web pages because it had general deadlines, whereat all the important occurrences were publicly announced after accurate date has been determined. Also, the Bank did not publish General Assembly's agenda, relevant information and documents on English language due to over 99 percent of shares are in government property, as well due to the minority shareholders structure. According to the Statute, the Bank sets the condition of the General Assembly registration for participation and verifying authorization for the optimal the General Assembly organization, and determining validation for voting, whereas participating and voting on the General Assembly by using modern communication technology is not possible due to no such requirements were held by shareholders. The Supervisory Board did not determine long term succession plan due to regulation which determine appointment of the Management Board members of credit institutions or jurisdiction of management authorities about appointing officials in legal entity in special government interest. In addition, the Supervisory Board members' fee is not determinate according to the Company's performance, whereas it is regulated by the Croatian Government's decision regarding the Supervisory Board and Management Board's fees. During 2011, the Supervisory Board did not set up an appointment committee because regulation which are determinate by the authority for the appointing in companies in majority state ownership or a reward committee due to the Supervisory Board and Management Board' s receipts are determined by the Croatian Government valid decisions. In 2011, the Supervisory Board did not set out or publish the statement of reward policy for Management Board rewards. Furthermore, most of the auditing committee members are independent members who are not the Supervisory Board members, and the commission's work departs from the recommendations for delivering financial statements and related documents to the auditing committee before public announcement, due to submitting the same to the Supervisory Board. A detailed explanation regarding the stated Codex application is in the annual questionnaire which is publicly announced and delivered to the Zagreb Stock Exchange together with annual financial statements, and is also available on the Bank's web page.

Together with the Codex recommendations, and in accordance with regulation of credit institutions considerable efforts were made aiming at constructing adequate corporate management in the Bank with awareness of its structure and organization, as well as strategy and business goals, the distribution of authority and responsibility with particular emphasis on efficient procedures for determination, measurement and monitoring of risks in the Bank's operations, as well as establishing corresponding internal control mechanisms.

A description of basic characteristics of internal supervision in the Company and risk management in respect of financial reporting is provided in the description of the Bank's operations in Note 2.

Significant shareholders and limitations on share rights

The Republic of Croatia is an indirect shareholder within the Bank's ownership structure with share amounting to 51.46 percent, and with Croatian Privatization Fund ("HFP") and Croatian Post ("HP"), the Republic of Croatia holds an indirect share amounting to over 99% of total share capital and with its voting rights at the General Assembly entirely controls the Bank. Besides the above, there are no shareholders in the Bank's ownership structure with special controlling rights. According to the Bank's Statute, voting rights are not limited in any way, nor are there any other limitations in respect of the realization of voting rights.

Rules for the appointment and removal of Management Board members, bringing amendments to the Statute and certain Management Board authorizations

In accordance with the Bank's Statute, the Management Board consists of a minimum of two and maximum of five members, and decisions regarding the number of members are brought by the Supervisory Board. By the decision of the Supervisory Board since November 3 2011 the Management Board has four members. Members of the Management Board and the President of the Management Board are appointed by the Supervisory Board for a period of up to five years, and can be reappointed with no restriction. Only individuals who meet the criteria prescribed in the Credit Institutions Act and who have the prior approval of the Croatian National Bank can be appointed as Management Board members. The Supervisory Board can bring a decision to remove the President of the Management Board and Members of the Board when there are valid grounds for such a decision, and the President and Members of the Management Board can resign by submitting their resignation in writing.

The Statute can only be amended with a General Assembly decision. A decision is considered brought if voted for by members representing at least three quarters of share capital represented at the General Assembly. A proposed Decision on amendments to the Statue are presented by the Management Board to the Supervisory Board who is authorized to accept the proposal and submit it to the General assembly for consideration.

The Bank's Management Board is authorized, with the prior written approval of the Supervisory Board, during the period of up to five years from December 30 2010, to bring one or more decisions to increase the Bank's share capital with a cash payment, by issuing new shares where the total amount of such share capital increase must not exceed HRK 450,000,000.00. The Bank's Management Board is authorized, with the prior written approval of the Supervisory Board, in respect of shares issued based on the abovementioned authority, to exclude priority in the subscription of new shares. In respect of the rights from the shares issued based on the above-mentioned authority, and of the terms and conditions for the issue of such shares, decisions are made by the Management Board with the prior written approval of the Supervisory Board. It is the obligation of the Supervisory Board to grant all approvals based on a majority vote of all members. By the decision in the XXXI. General Assembly of the Bank, held on December 15 2010, the Management Board is authorized to acquire Bank's treasury shares on regulated market or outside regulated market for a period of up to five years, where the total amount of such capital with the treasury shares the Bank already owns must not exceed one tenth of share capital.

Supervisory Board members and activities

In accordance with the Commercial Companies Act and the Bank's Statute, the Supervisory Board's main responsibility is the constant supervision of the Bank's business management, and appointment and removal of the President and Members of the Management Board. also by taking into account the Credit Institutions Act. among other duties, the Supervisory Board approves the Management Board's decisions on the Bank's business policies, financial planning and the framework of annual internal audit program, as well as annual risk control function program and compliance function program. The Supervisory Board has set up an Audit Committee as a supporting body.

Members of the Supervisory Board during 2011 were until the XXXII. General Assembly held on March 30 2011, as follows:

mr.sc. Zdravko Marić	President
Vedran Duvnjak	Vice president
prof.dr.sc. Drago Jakovčević	Member
mr.sc. Grga Ivezić	Member
Robert Jukić	Member
Marijo Dragun	Member

In the XXXII. General Assembly of the Bank, held on March 30 2011, a new Supervisory Board of the Bank was chosen, with following members:

mr.sc. Damir Kaufman
dr. Anita Pavković
Krešimir Bračić
Mario Mikulić
Dražen Kobas
Marin Palada

During the first inaugurating session of the Supervisory Board, held on April 1 2011, new President and Vice president of the Supervisory board were chosen as follows:

Damir Kaufman	President
Dražen Kobas	Vice President

The members of the Supervisory Board do not possess the Bank's shares or any other securities issued by the Bank.

Structure and operations of the Management Board

Authority, obligation and responsibility of the Management Board in managing of the Bank’s operations and representation of the Bank are as prescribes by the Companies Act, the Credit Institutions Act, the Bank’s Statute and Rules of procedure of the Management Board. The main responsibility of the Management Board is managing of the Bank’s operations and representation of the Bank towards third parties, also in accordance with the Credit Institutions Act. Among other things, the Management Board is responsible to ensure that the Bank operates in accordance with the regulations on the risk management, as prescribed by the Credit Institutions Act and related regulations which are framework for banking operations or other financial services provided, and regulations based on the Credit Institutions Act and other laws, and monitoring of the risk to which the Bank is exposed to in its operations and adopting adequate procedures according to which the Bank manages risks, monitoring, estimating and developing strategy of maintaining, i.e. achieving adequate level of the capital with respect to the risks the Bank is exposed to in its operations, functioning of the internal control system in all of the Bank’s business segments and ensuring unimpeded operations of internal audit. In addition, the Management Board is responsible to monitor that the Bank maintains its business and other records and business documentation, prepares accounting documentation, realistically estimates its assets and liabilities, compiles financial and other reports in accordance with the accounting rules and standards and applicable regulations, reports to the Croatian National Bank in accordance with the Credit Institutions Act and applicable regulations, as well as implements measures proposed by the Croatian National Bank. The Management Board, in accordance with the business processes requirements sets up permanent and temporary boards and delegations. Permanent boards are: Loan Approval Committee, Assets and Liability Management Committee and Operational Risk Committee.

Since January 1 until December 14 2011, the Management Board consisted of the following members:

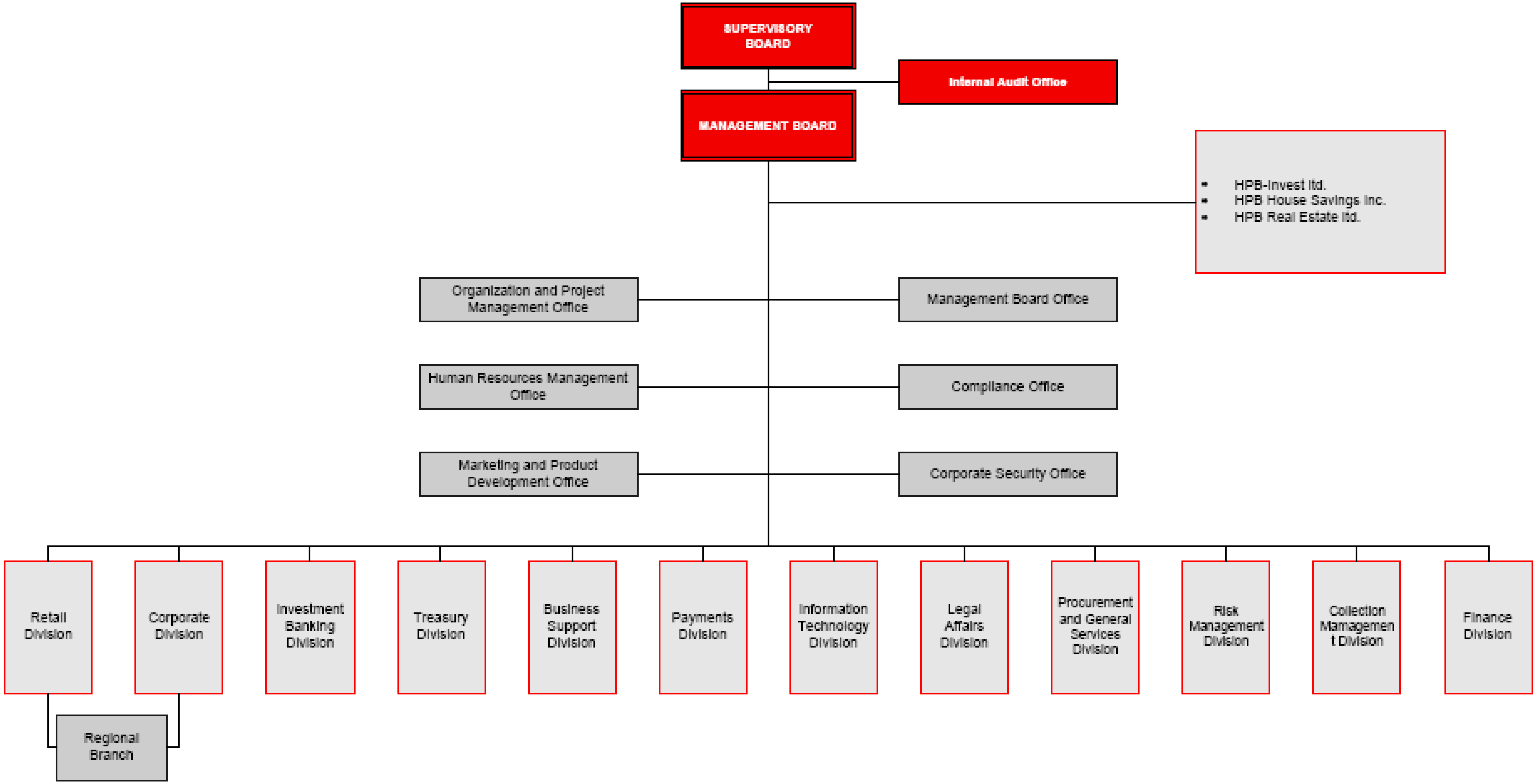
Čedo Maletić	President
Dubravka Kolarić	Member

By the decision of the Supervisory Board since November 3 2011, and by the approval of the Croatian National Bank, the Management Board is amplified to four members, and since December 14 2011 the Management Board has two new members:

Tanja Šimunović	Member
Boženka Mostarčić	Member

The members of the Management Board do not possess the Bank's shares or any other securities issued by the Bank.

The Croatian Postal Bank Inc. - Organizational scheme



Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements

The Management Board of the Bank is required to prepare unconsolidated and consolidated financial statements of the Bank and the Group for each financial year which give a true and fair view of the financial position of the Bank and the Group and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgments and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank and the Group together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements they are deemed confirmed by the Management and Supervisory Board.

The unconsolidated and consolidated and financial statements set out on pages 35 to 145 were authorized by the Management Board on 19 April 2012 for issue to the Supervisory Board and are signed below to signify this.

On behalf of Hrvatska poštanska banka d.d.:

HRVATSKA POŠTANSKA BANKA DIONIČKO DRUŠTVO ZAGREB B

Čedo Maletić
President of the Management Board

Deloitte.

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

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

Independent Auditor's Report

To the Shareholders of Hrvatska poštanska banka d.d. Zagreb:

We have audited the accompanying unconsolidated and consolidated financial statements of Hrvatska poštanska banka d.d. Zagreb ("the Bank"), set out on pages 35 to 145, which comprise the unconsolidated and consolidated statement of financial position at 31 December 2011, and the related unconsolidated and consolidated income statements, statements of other comprehensive income, statements of changes in equity and statements 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

The Management Board is responsible for the preparation and fair presentation of these financial statements in accordance with the statutory accounting requirements for banks in Croatia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 and the Group's internal controls. 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 unconsolidated and consolidated financial statements, set out on pages 35 to 145, present fairly, in all material respects, the financial position of the Bank and the Group at 31 December 2011, and the results of their operations and their cash flows for the year then ended in accordance with the statutory accounting requirements for banks in Croatia.

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Annual Financial Statements of Banks (Official Gazette No. 62/08; hereinafter: "the Decision") The Management Board of the Bank has prepared reporting forms, set out on pages 146 to 161, which comprise the unconsolidated balance sheet at 31 December 2011, the unconsolidated income statement, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows for the year then ended, together with the notes about the reconciliations with the unconsolidated statutory financial statements. These forms and the notes thereto are the responsibility of the Bank's Management Board and they do not constitute a part of the financial statements prepared under the statutory accounting requirements for banks in Croatia, which are set out on pages 35 to 145, but rather a requirement imposed by the above-mentioned decision. The financial information provided in those forms have been derived from the statutory financial statements of the Bank.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor and Board Member

Zagreb, 19 April 2012

	Notes	Group 2011 HRK 000	Group 2010 HRK 000
ASSETS			
Cash and amounts due from banks	5	1,090,199	776,891
Obligatory reserve with Croatian National Bank	6	1,246,649	1,077,730
Loans to and receivables from banks	7	1,307,638	1,329,676
Financial assets at fair value through profit or loss	8	434,138	1,010,696
Financial assets available for sale	9	1,461,485	552,112
Financial assets held to maturity	10	687,072	595,965
Loans and receivables from customers	11	9,708,603	8,946,416
Assets held for sale	12	21,551	21,551
Property and equipment	14	150,970	153,635
Investment property	15	10,450	10,703
Intangible assets	16	204,287	225,052
Deferred tax assets, net	17	37,692	26,088
Tax prepayment		116	207
Other assets	18	331,610	251,228
TOTAL ASSETS		**16,692,460**	**14,977,950**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	2,580	402
Deposits from banks	20	63,593	186,340
Customer deposits	21	12,924,055	11,194,337
Borrowings	22	1,240,908	1,294,797
Hybrid instruments	23	610,548	609,716
Provisions for liabilities and expenses	24	33,686	36,182
Other liabilities	25	573,682	474,544
TOTAL LIABILITIES		**15,449,052**	**13,796,318**
EQUITY			
Share capital	26	966,640	966,640
Capital reserve	26	228,136	228,136
Treasury shares		(874)	(874)
Statutory reserve	26	-	-
General banking risk reserve	26	-	-
Fair value reserve	26	(18,308)	2,193
Revaluation reserve	26	1,290	4,768
Other reserves	26	-	-
Retained earnings / (Accumulated losses)	26	66,524	(19,231)
TOTAL EQUITY		**1,243,408**	**1,181,632**
TOTAL LIABILITIES AND EQUITY		**16,692,460**	**14,977,950**

The significant accounting policies and other notes on pages 35 to 145 form an integral part of these financial statements.

	Notes	Group 2011 HRK 000	Group 2010 HRK 000
Interest and similar income	27	877,451	830,923
Interest and similar expense	28	(385,122)	(434,040)
Net interest income		**492,329**	**396,883**
Fee and commission income	29	585,926	594,101
Fee and commission expense	30	(391,425)	(381,803)
Net fee and commission income		**194,501**	**212,298**
Gains less losses arising from securities at fair value through profit or loss	31	(21,087)	8,036
Gains less losses arising from securities available for sale	32	1,544	3,359
Gains less losses arising from dealing in foreign currencies		36,231	25,653
Other operating income	33	23,405	44,087
Trading and other (expense)/ income		**40,093**	**81,134**
Operating income		**726,923**	**690,316**
General and administrative expenses	34	(453,896)	(425,273)
Depreciation and amortisation	**14.15,16**	(62,435)	(69,161)
Impairment losses on loans and receivables to customers and other assets	35	(132,000)	(136,535)
Provisions for liabilities and expenses	24	1,796	(3,954)
Operating expenses		**(646,535)**	**(632,178)**
PROFIT/(LOSS) BEFORE TAX		**80,389**	**58,138**
Income tax expense	17, 36	5,366	(5,897)
PROFIT/(LOSS) FOR THE YEAR		**85,755**	**52,241**

The significant accounting policies and other notes on pages 35 to 145 form an integral part of these financial statements.

	Group 2011 HRK 000	Group 2010 HRK 000
Net profit /(loss) for the year	**85,755**	**52,241**
Gains/(losses) on available-for-sale assets	(25,626)	(9,007)
Revaluation reserve	(4,358)	(128)
Effect of income tax relating to other comprehensive income	6,005	1,810
Net other comprehensive income/(loss) for the year	**(23,979)**	**(7,325)**
Total comprehensive income, net of tax	**61,776**	**44,916**

The significant accounting policies and other notes on pages 35 to 145 form an integral part of these financial statements.

Group	Share capital HRK 000	Capital reserve HRK 000	Treasury shares HRK 000	Reserves HRK 000	Fair value reserve HRK 000	Revaluation reserve HRK 000	Retained earnings HRK 000	Total HRK 000
Balance at 1 January 2010	**654,320**	**40,460**	**(874)**	**226,700**	**9,398**	**4,888**	**(298,172)**	**636,720**
Share capital increase	312,320	-	-	-	-	-	-	**312,320**
Capital reserve	-	187,676	-	-	-	-	-	**187,676**
Allocation of 2009 profit	-	-	-	-	-	-	-	**-**
- transfer from statutory reserve	-	-	-	(19,258)	-	-	19,258	**-**
- transfer from general banking risk reserve	-	-	-	(170,836)	-	-	170,836	**-**
- transfer from other reserves	-	-	-	(36,606)	-	-	36,606	**-**
Revaluation reserve	-	-	-	-	-	(128)	-	**(128)**
Change in the fair value of financial assets available for sale	-	-	-	-	(9,007)	-	-	**(9,007)**
Deferred tax	-	-	-	-	1,802	8	-	**1,810**
Net profit /(loss) for 2010	-	-	-	-	-	-	52,241	**52,241**
Balance at 31 December 2010	**966,640**	**228,136**	**(874)**	**-**	**2,193**	**4,768**	**(19,231)**	**1,181,632**
Balance at 1 January 2011	**966,640**	**228,136**	**(874)**	**-**	**2,193**	**4,768**	**(19,231)**	**1,181,632**
Revaluation reserve	-	-	-	-	-	(4,358)	-	**(4,358)**
Change in the fair value of financial assets available for sale	-	-	-	-	(25,626)	-	-	**(25,626)**
Deferred tax	-	-	-	-	5,125	880	-	**6,005**
Net profit /(loss) for 2011	-	-	-	-	-	-	85,755	**85,755**
Balance at 31 December 2011	**966,640**	**228,136**	**(874)**	**-**	**(18,308)**	**1,290**	**66,524**	**1,243,408**

The significant accounting policies and other notes on pages 35 to 145 form an integral part of these financial statements.

HRVATSKA POŠTANSKA BANKA

	Notes	Group 2011 HRK 000	Group 2010 HRK 000
Cash flows from operating activities			
Profit before taxation		80,389	58,138
Adjusted by:			
- Depreciation and amortisation	**14,15,16**	62,435	69,161
- Foreign exchange (gains)/ losses	33	(6,054)	(5,127)
- Impairment losses on loans and receivables from customers and other assets	35	132,000	136,535
- Impairment losses on provisions for liabilities and expenses	24	(1,796)	1,210
- Net unrealised losses / (gains) on financial assets at fair value through profit or loss	31	26,192	(8,036)
Changes in operating assets and liabilities			
Net decrease/(increase) in loans to and receivables from banks		4,281	(176,975)
Net (increase)/decrease in financial assets at fair value through profit or loss		227,592	(61,097)
Net increase in loans to and receivables from customers		(894,471)	(1,207,036)
Net increase in other assets		(29,959)	(36,807)
Net decrease in deposits from banks		(122,747)	(177,040)
Net increase in customer deposits		1,729,718	856,763
Net (decrease)/increase in other liabilities		101,043	24,044
Net cash (outflow)/inflow from operating activities before tax		**1,308,621**	**(526,268)**
Income tax received/(paid)		139	248
Net cash (outflow)/inflow from operating activities		**1,308,760**	**(526,020)**
Cash flows from investing activities			
Purchases of property, equipment and intangible assets		(43,110)	(82,189)
Disposal of financial assets available for sale		160,128	335,201
Acquisition of financial assets available for sale		(756,105)	(234,784)
Maturity/(acquisition) of financial assets held to maturity		(93,461)	434
Dividends received		4,333	4,560
Net cash outflow from investing activities		**(728,215)**	**23,222**
Cash flows from financing activities			
Increase in hybrid instruments		-	152,766
Increase in borrowings		678,740	7,664,897
Repayments of borrowings		(728,397)	(8,174,454)
Increase in share capital		-	499,996
Net cash (outflow)/inflow from financing activities		**(49,658)**	**143,206**
Effect of foreign exchange differences on cash and cash equivalents		1,818	15,824
Net (decrease) / increase in cash and cash equivalents		**532,706**	**(343,769)**
Cash and cash equivalents at the beginning of the year	39	**2,986,574**	**3,330,343**
Cash and cash equivalents at the end of the year	39	**3,519,280**	**2,986,574**

The significant accounting policies and other notes on pages 35 to 145 form an integral part of these financial statements.

	Notes	Bank 2011 HRK 000	Bank 2010 HRK 000
ASSETS			
Cash and amounts due from banks	5	1,090,184	776,885
Obligatory reserve with Croatian National Bank	6	1,246,649	1,077,730
Loans to and receivables from banks	7	1,294,448	1,323,676
Financial assets at fair value through profit or loss	8	363,577	1,004,909
Financial assets available for sale	9	1,371,174	458,038
Financial assets held to maturity	10	687,072	541,078
Loans and receivables from customers	11	9,622,149	8,873,240
Assets held for sale	12	21,551	21,551
Investments in subsidiaries	13	53,990	73,990
Property and equipment	14	150,849	153,582
Intangible assets	16	203,764	224,748
Deferred tax assets, net	17	36,308	25,130
Tax prepayment		-	-
Other assets	18	310,110	232,640
TOTAL ASSETS		**16,451,826**	**14,787,197**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	2,580	402
Deposits from banks	20	63,593	186,340
Customer deposits	21	12,702,164	11,021,660
Borrowings	22	1,240,908	1,294,797
Hybrid instruments	23	610,548	609,716
Provisions for liabilities and expenses	24	33,664	36,164
Other liabilities	25	542,965	448,080
TOTAL LIABILITIES		**15,196,422**	**13,597,159**
EQUITY			
Share capital	26	966,640	966,640
Capital reserve	26	228,136	228,136
Treasury shares	26	(874)	(874)
Statutory reserve	26	-	-
General banking risk reserve	26	-	-
Fair value reserve	26	(15,765)	3,316
Revaluation reserve	26	1,290	4,768
Other reserves	26	-	-
Retained earnings	26	75,977	(11,948)
TOTAL EQUITY		**1,255,404**	**1,190,038**
TOTAL LIABILITIES AND EQUITY		**16,451,826**	**14,787,197**

The significant accounting policies and other notes on pages 35 to 145 form an integral part of these financial statements.

	Notes	Bank 2011 HRK 000	Bank 2010 HRK 000
Interest and similar income	27	865,107	821,397
Interest and similar expense	28	(379,116)	(429,898)
Net interest income		**485,991**	**391,499**
Fee and commission income	29	570,597	578,691
Fee and commission expense	30	(390,048)	(380,247)
Net fee and commission income		**180,549**	**198,444**
Gains less losses arising from securities at fair value through profit or loss	31	(16,747)	7,832
Gains less losses arising from securities available for sale	32	862	3,706
Gains less losses arising from dealing in foreign currencies		36,231	25,683
Other operating income	33	24,747	42,852
Trading and other (expense)/income		**45,093**	**80,073**
Operating income		**711,633**	**670,016**
General and administrative expenses	34	(436,787)	(407,018)
Depreciation and amortisation	14, 16	(61,922)	(68,682)
Impairment losses on loans and receivables to customers and other assets	35	(132,329)	(136,546)
Provisions for liabilities and expenses	24	1,801	(1,215)
Operating expenses		**(629,237)**	**(613,461)**
PROFIT/(LOSS) BEFORE TAXATION		**82,396**	**56,555**
Income tax expense	17, 36	5,528	(5,719)
PROFIT/(LOSS) FOR THE YEAR		**87,924**	**50,836**
		HRK	**HRK**
Earnings/(loss) per share	37	**100.15**	**82.30**

The significant accounting policies and other notes on pages 35 to 145 form an integral part of these financial statements.

	2011 HRK 000	Bank 2010 HRK 000
Net profit /(loss) for the year	**87,924**	**50,836**
Gains/(losses) on available-for-sale assets	(23,851)	(9,398)
Revaluation reserve	(4,358)	(128)
Effect of income tax relating to other comprehensive income	5,650	1,888
Net other comprehensive income/(loss) for the year	**(22,559)**	**(7,638)**
Total comprehensive income, net of tax	**65,365**	**43,198**

The significant accounting policies and other notes on pages 35 to 145 form an integral part of these financial statements.

Bank	Share capital HRK 000	Capital reserve HRK 000	Treasury shares HRK 000	Reserves HRK 000	Fair value reserve HRK 000	Revaluation reserve HRK 000	Retained earnings HRK 000	Total HRK 000
Balance at 1 January 2010	**654,320**	**40,460**	**(874)**	**226,700**	**10,834**	**4,888**	**(289,484)**	**646,843**
Share capital increase	312,320	-	-	-	-	-	-	**312,320**
Capital reserve	-	187,676	-	-	-	-	-	**187,676**
Allocation of 2009 profit	-	-	-	-	-	-	-	**-**
- transfer from statutory reserve	-	-	-	(19,258)	-	-	19,258	**-**
- transfer from general banking risk reserve	-	-	-	(170,836)	-	-	170,836	**-**
- transfer from other reserves	-	-	-	(36,606)	-	-	36,606	**-**
Revaluation reserve	-	-	-	-	-	(128)	-	**(128)**
Change in the fair value of financial assets available for sale	-	-	-	-	(9,398)	-	-	**(9,398)**
Deferred tax	-	-	-	-	1,880	8	-	**1,888**
Net profit /(loss) for 2010	-	-	-	-	-	-	50,836	**50,836**
Balance at 31 December 2010	**966,640**	**228,136**	**(874)**	**-**	**3,316**	**4,768**	**(11,948)**	**1,190,038**
Balance at 1 January 2011	**966,640**	**228,136**	**(874)**	**-**	**3,316**	**4,768**	**(11,948)**	**1,190,038**
Revaluation reserve	-	-	-	-	-	(4,358)	-	**(4,358)**
Change in the fair value of financial assets available for sale	-	-	-	-	(23,851)	-	-	**(23,851)**
Deferred tax	-	-	-	-	4,770	880	-	**5,650**
Net profit /(loss) for 2011	-	-	-	-	-	-	87,925	**87,925**
Balance at 31 December 2011	**966,640**	**228,136**	**(874)**	**-**	**(15,765)**	**1,290**	**75,977**	**1,255,404**

The significant accounting policies and other notes on pages 35 to 145 form an integral part of these financial statements.

HPB
HRVATSKA POŠTANSKA BANKA

	Notes	Bank 2011 HRK 000	Bank 2010 HRK 000
Cash flows from operating activities			
Profit before taxation		82,396	56,555
Adjusted by:			
- Depreciation and amortisation	14, 16	61,922	68,682
- Foreign exchange (gains)/ losses	33	-	(5,098)
- Impairment losses on loans and other assets	35	(6,216)	136,546
- Provisions for liabilities and expenses	24	132,329	1,215
- Net unrealised gains on financial assets at FVPL	31	(1,801)	(1,815)
- Reversal of impairment losses on properties	14	21,908	-
Changes in operating assets and liabilities			
Net decrease/(increase) in loans to and receivables from banks		4,281	(176,975)
Net (increase)/decrease in financial assets at FVPL		296,650	(55,487)
Net increase in loans to customers		(881,102)	(1,179,673)
Net increase in other assets		(26,133)	(41,267)
Net decrease in deposits from banks		(122,747)	(177,040)
Net increase in customer deposits		1,680,504	800,492
Net (decrease)/increase in other liabilities		96,364	18,812
Net cash (outflow)/inflow from operating activities before tax		**1,338,356**	**(555,053)**
Income tax received/(paid)		-	-
Net cash (outflow)/inflow from operating activities		**1,338,356**	**(555,053)**
Cash flows from investing activities			
Investments in subsidiaries		20,000	-
Purchases of property, equipment and intangible assets		(42,562)	(81,989)
Disposal of financial assets available for sale		134,265	358,400
Acquisition of financial assets available for sale		(732,230)	(200,726)
Maturity/(acquisition) of financial assets held to maturity		(148,816)	(19,899)
Dividends received		4,333	4,560
Net cash outflow from investing activities		**(765,010)**	**60,531**
Cash flows from financing activities			
Increase in hybrid instruments			152,766
Increase in borrowings		678,740	7,664,897
Repayments of borrowings		(728,397)	(8,174,454)
Increase in share capital			499,997
Net cash (outflow)/inflow from financing activities		**(49,658)**	**143,206**
Effect of FX differences on cash and cash equivalents		1,818	15,824
Net (decrease) / increase in cash and cash equivalents		**525,506**	**(335,492)**
Cash and cash equivalents at the beginning of the year	39	**2,980,568**	**3,316,060**
Cash and cash equivalents at the end of the year	39	**3,506,075**	**2,980,568**

The significant accounting policies and other notes on pages 35 to 145 form an integral part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Hrvatska poštanska banka d.d., Zagreb, ("the Bank") is a joint stock company incorporated and domiciled in the Republic of Croatia. The Bank is the parent of the Hrvatska poštanska banka d.d. Group ("the Group"). These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Accounting Standard 27 "Consolidated and Separate Financial Statements".

The Management Board authorised the issue of these financial statements for approval by the Supervisory Board on 19 April 2012.

The principal accounting policies applied in the preparation of these financial statements are summarized below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards, reference may be made to certain Standards in describing the accounting policies of the Group; unless otherwise stated, Standards applicable at 31 December 2011 are referred to.

a) Statement of compliance

These financial statements are prepared in accordance with the legal requirements applicable to accounting for banks in the Republic of Croatia. The Group's financial reporting is regulated by Croatian National Bank ("the CNB") which is the central supervisory institution of the banking system in Croatia. These financial statements have been prepared in accordance with the above-mentioned banking regulations.

The accounting regulations of the CNB rely on International Financial Reporting Standards ("IFRSs"). The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- The CNB requires banks to recognize impairment losses, in the income statement, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value through profit or loss, and as per 2010. financial assets available for sale). The Group's and the Bank's portfolio-based provisions made in accordance with those regulations amounted to HRK 142,147 thousand and HRK 141,166 thousand respectively (2010: HRK 130,927 thousand and HRK 129,608 thousand respectively) and the losses recognised in respect of such provisions amounted to HRK 1,046 thousand and HRK 1,100 thousand respectively, which were recognised within impairment losses on loans and receivables to customers and other assets for the year (2010: HRK 1,046 thousand for the Group and HRK 1,100 thousand for the Bank) and additional expense of HRK 2,573 thousand, and HRK 2,747 thousand, respectively, recognised within provisions for liabilities and expenses (**2009:** HRK 337 thousand for the Group and HRK 341 thousand for the Bank). The Group and the Bank recognize such provisions in the income statement, in accordance with the requirements of International Financial Reporting Standards.

- Although the Group calculates impairment losses on corporate lending as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate, in accordance with International Financial Reporting Standards, the CNB requires the amortisation of the discount calculated to be presented in the income statement within the movement on impairment losses on loans and receivables to customers and other assets, rather than as interest income, as required by International Financial Reporting Standards.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Statement of compliance (continued)

- Additionally, the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRSs.

b) Basis of preparation

The financial statements are prepared on the fair value basis for derivative financial instruments, financial assets and liabilities at fair value through profit or loss, and assets available for sale, except those for which a reliable fair value measurement is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

The financial statements have been prepared in a format generally adopted and internationally recognized by banks.

In preparing the financial statements, management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. The estimates and underlying 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 the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on a regular 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 current and future periods.

Judgments made by management in the application of applicable standards that have significant effects on financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

Accounting standards, interpretations and changes to the standards

1. Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 58 of 27 May 2011), resulting in amendments to the following standards:
   - International Financial Reporting Standard 1 - First-time Adoption of International Financial Reporting Standards;
   - International Financial Reporting Standard 3 - Business Combinations;
   - International Financial Reporting Standard 7 - Financial Instruments: Disclosures;
   - International Accounting Standard 1 - Presentation of Financial Statements;
   - International Accounting Standard 21 - The Effects of Changes in Foreign Exchange Rates;
   - International Accounting Standard 28 - Investments in Associates;
   - International Accounting Standard 31 - Interests in Joint Ventures;
   - International Accounting Standard 32 - Financial Instruments: Presentation;
   - International Accounting Standard 34 - Interim Financial Reporting;
   - International Accounting Standard 39 - Financial Instruments: Recognition and Measurement.

The adoption of the Decision has lead to amendments to IFRIC 13 "Customer Loyalty Programmes".

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis for preparation (continued)

2. Correction of the Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 140 of 6 December 2011) revising the following standard:
   - International Financial Reporting Standard 5 – Non-current Assets Held For Sale and Discontinued Operations;

The Decision and the correction thereof are applicable from 1 January 2011 and do not have any significant impact on the accounting policies and financial statements of the Group and the Bank.

In addition to the decisions specified under 1 and 2 above, the Board adopted the following decisions in 2010 applicable to the preparation and presentation of the annual financial statements for the current period:

3. Decision on the Promulgation of International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 19 (Official Gazette No. 120 of 27 October 2010).

   Promulgating IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

4. Decision on the Amendments to the Decision on the Promulgation of International Financial Reporting Standards (Official Gazette No. 120 of 27 October 2010).

   By the Amendments, the Financial Reporting Standards Board has adopted the following Standards:
   - Amendments to International Financial Reporting Standard 1 "First-time Adoption of International Financial Reporting Standards"
   - Amendments to International Financial Reporting Standard 7 "Financial instruments: Disclosures";
   - International Accounting Standard 24 (revised) "Related Party Disclosures"
   - Amendments to International Financial Reporting Standard 8 "Operating Segments"
   - Amendments to IFRIC 14 "IAS 19 - the limits on a defined benefit asset, minimum funding requirements and their interaction".

It is anticipated that the adoption of the Decisions specified under 3 and 4 above will have no significant impact on the accounting policies and financial statements of the Group and the Bank in the future periods.

c) Functional and presentation currency

The Group's and the Bank's financial statements are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

d) Changes in presentation or classification of the items in the financial statements

Where necessary, comparative information has been reclassified to achieve consistency with current financial year amounts and other disclosures.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Basis of consolidation

Financial statements are presented for the Group and the Bank. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiaries: HPB Nekretnine d.o.o., a real estate agency; HPB Invest d.o.o., an investment fund management company; and HPB Stambena štedionica d.o.o., a specialised financial institution involved in collecting deposits from retail customers and granting subsided housing loans to Croatian citizens in the Republic of Croatia. All subsidiaries are 100% owned by the Bank and are incorporated and domiciled in Croatia.

Subsidiaries

Subsidiaries are all enterprises controlled by the Bank. Control is achieved where the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements using the full consolidation method from the date of acquiring control and excluded from the consolidated financial statements from the date the control ceases.

The purchase cost method of accounting is used to account for the acquisition of subsidiaries at the Group. The cost of acquiring a subsidiary is measured at fair value of assets given, equity instruments issued and of liabilities incurred or assumed as of the date of exchange, increased by all costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired including intangible assets is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

f) Interest income and expense

Interest income and expense are recognized in the income statement as they accrue for all interest bearing financial instruments, including those measured at amortized cost, at fair value through profit or loss and available for sale, using the effective interest rate method. Such income and expense is presented as interest and similar income or interest expense and similar charges in the income statement. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortization, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognized on a basis of effective interest rate. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Fee and commission income and expense

Fee and commission income and expense arise on financial services provided by the Group and received by the Group, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Group. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

h) Dividend income

Dividend income on equity investments is recognised in the income statement when the right to receive dividends is established.

i) Gains less losses from financial instruments at fair value through profit or loss and financial instruments available for sale

Gains less losses from financial instruments at fair value through profit or loss include unrealised and realised gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses arising from financial instruments available for sale comprise realised gains from financial instruments available for sale.

j) Gains less losses arising from dealing in foreign currencies

Gains less losses from dealing in foreign currencies include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Foreign currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate applicable at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates applicable at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated.

Changes in the fair value of monetary securities denominated in foreign currencies and classified as available for sale are analysed as the difference between the exchange differences arisen from changes in the security's amortised cost and other changes in the net carrying amount of the security. Exchange differences on monetary securities denominated in foreign currency classified as available for sale are recognised in the income statement, whereas other changes in their carrying amounts are recognised in equity. Translation differences on non-monetary financial assets, such as equity instruments classified as available for sale, are included in equity.

l) Financial instruments

i) Classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, available for sale, held to maturity or financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The management determines the classification of financial instruments upon initial recognition.

Financial assets and liabilities at fair value through profit or loss

This category comprises two subcategories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. The Group designates financial assets and liabilities at fair value through profit or loss when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets at fair value through profit or loss include equity and debt securities, units/shares in investment funds and derivative financial instruments.

Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money to a debtor with no intention of trading with the receivable and include loans to and receivables from banks, loans to and receivables from customers, and the obligatory reserve with the CNB.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Financial instruments (continued)

Financial instruments held to maturity

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. This category includes debt securities.

Financial assets available for sale

This category comprises non-derivative financial assets which are defined as available for sale or are not included in loans and receivables or held-to-maturity investments, or classified as financial assets at fair value through profit or loss. Financial assets available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities.

Other financial liabilities

Other financial liabilities include all financial liabilities not designated as at fair value through profit or loss.

ii) Recognition and derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognised on the settlement date. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders.

The Group derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial instrument. This occurs when the Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Group derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Financial instruments (continued)

iii) Initial and subsequent measurement

Financial assets and liabilities are recognised initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Group measures financial instruments at fair value through profit or loss and financial assets available for sale at their fair value, without any deduction for costs of sale. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at at acquirement cost, and afterwards measured applying internal models of fair value estimation.

Loans and receivables and held-to-maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortised cost.

iv) Gains and losses

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

Gains or losses arising from a change in the fair value of available-for-sale monetary assets are recognised directly within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange differences, interest income and amortisation of premium or discount on available-for-sale monetary assets are recognised in the income statement. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in equity.

Dividend income is recognised in the income statement. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the income statement.

Gains or losses arising from financial instruments carried at amortised cost may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired.

v) Determination of fair value of financial instruments

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Group uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

The fair value of non-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract **at the statement of financial position date** taking into account current market conditions and the current creditworthiness of the counterparties.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

) Financial instruments (continued)

vi) Impairment of financial assets

Impairment of assets identified as impaired

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of an item is estimated.

The Group estimates and performs impairment of all financial assets, except financial assets at fair value through profit or loss.

If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

The recoverable amount of financial instruments measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original interest rate. Short-term balances are not discounted. Allowances for uncollectibility are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts (or lower amount if required by applicable CNB regulations). The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases of impairment allowances are recognised in the income statement. When a loan is identified as uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the income statement.

Impairment of assets not individually identified as impaired

In addition to the above described impairment losses on assets identified as impaired, the Group recognises in the income statement portfolio-based impairment losses on balance and off-balance-sheet credit risk exposures, not recognized as impaired, at rates from 0.85 - 1.20%, in accordance with internal acts based on the regulations prescribed by the CNB.

Debt securities carried at fair value at the reporting date, initially recognized as financial assets at fair value through profit or loss, as well as financial assets available for sale, are excluded from the calculation basis of these impairments.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Financial instruments (continued)

vii) Reclassifications

According to IFRSs, the Group has the possibility to reclassify certain financial instruments out of the category at fair value through profit or loss into available for sale or held to maturity instruments.

During 2011 the Group reclassified a part of its Croatian Government bond portfolio at fair value through profit or loss into available for sale based on the selling and trading potential of those securities in a poorly liquid market.

m) Specific financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks, placements with other banks with original maturities of three months or less, and items in course of collection.

Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Group does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognised at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealised gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Changes in the fair value of derivatives are included in gains less losses arising from dealing securities.

Treasury bills and debt securities

Treasury bills and debt securities that the Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as available-for-sale assets, and are carried at fair value. Treasury bills and debt securities that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Specific financial instruments (continued)

Equity securities and investments in open-ended investment funds

Equity securities and investments in open-ended investment funds are classified as at fair value through profit or loss or as available-for-sale assets.

Placements with banks

Placements with banks are classified as loans and receivables and measured at amortised cost less impairment losses.

Loans and advances to customers

Loans and advances to customers are presented net of impairment losses. Purchased loans that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

Investments in subsidiaries

In the Bank's separate financial statements investments in subsidiaries are accounted for at cost less impairment losses.

Other equity securities are classified as at fair value through profit or loss or available-for-sale financial assets, and are measured at fair value.

Borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings as interest.

Repurchase agreements and linked transactions

The Group enters into purchases / (sales) of investments under agreements to resell (repurchase) substantially identical investments or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognised in loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value, as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase amount is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognised in the income statement, except where it relates to items recognised directly in equity, in which case it is also recognised in equity. Current tax represents tax expected to be paid on the basis of taxable profit for the year, using the tax rate enacted at the reporting date, adjusted by appropriate prior-period items.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply in the period in which the liability is settled or the asset realised, based on tax rates in effect at the reporting date.

The measurement of deferred tax liabilities and assets reflects the amount that the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred taxes are not discounted and are classified in the balance sheet as non-current assets and/or non-current liabilities. Deferred tax assets are recognised only to the extent that it is probable that the related tax benefit will be realised. At each reporting date, the Group reviews the unrecognised potential tax assets and the carrying amount of the recognised tax assets.

o) Property and equipment

Property and equipment are tangible assets that are held for use in the supply of services or other administrative purposes.

Recognition and measurement

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional surveyor.

Any surplus arising on revaluation is recognised directly in a revaluation reserve within equity except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in profit or loss, in which case the credit, to that extent, is recognised in profit or loss. Any deficit on revaluation is recognised in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case it is taken directly to the revaluation reserve.

Depreciation is recognized in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Property and equipment (continued)

Equipment is measured at cost, less accumulated depreciation and accumulated impairment losses.

The estimated useful lives are as follows:

	2011	**2010**
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and equipment	3-4 years	3-4 years
Motor vehicles	5 years	5 years
Other assets	10 years	10 years

Depreciation methods and useful lives are reassessed at each reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in the income statement.

p) Investment property

Investment properties are properties which are held by the Group either to earn rentals or for capital appreciation, or both. Investment property is carried at cost less accumulated depreciation and any impairment losses. The Group's investment property is disclosed in Note 15.

Depreciation is provided on all investment property, except for investment property not yet brought into use, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset as follows:

	2011	**2010**
Investment property	40 years	40 years

Residual values are not taken into account.

q) Intangible assets

Intangible assets are carried at cost less accumulated amortisation and impairment. Development costs are capitalised if all the requirements specified in IAS 38 "Intangible Assets" are met. Amortisation is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognised as an expense when they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Intangible assets (continued)

Amortisation is provided on a straight-line basis over the estimated useful life of an asset as follows:

	2011	2010
Leasehold improvements	4 years	4 years
Software	3-10 years	3-10 years
Licences	3-10 years	3-10 years

r) Assets held for sale

Assets are classified as held for sale when the criteria set out in IFRS 5 *Non-current Assets Held for Sale and Discounted Operations* are met.

Initially, assets held for sale are recognised at the lower of carrying amount or fair value less costs to sell.

The Group discontinues classifying assets as held for sale if the sale is no longer highly probable. The Group measures assets that cease to be classified as held for sale at the lower of the asset's carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations and its recoverable amount at the date of subsequent decision not to sell. Any gain or loss from disposal or reclassification of assets held for sale is recognised in the income statement as incurred.

s) Impairment of non-financial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Provisions for liabilities and expenses

The Group recognises a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis.

Provision for liabilities and expenses are maintained at a level which management believes is adequate to absorb the liabilities and losses in the future. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

u) Operating lease

Leases where the Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation. Rental income under operating leases is recognised in the income statement on a straight-line basis over the term of the lease.

The Group leases office space under operating leases. Payments under operating leases are recognised in the income statement over the term of the underlying lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

v) Employee benefits

Defined pension contributions

The Group pays contributions to insurance plans on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Provisions for severance payments and jubilee awards

In calculating provisions for severance payments and jubilee awards, the Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Group's management, best represent the time value of money.

w) Share capital and reserves

Share capital and reserves

Share capital is denominated in the Croatian kuna and stated at nominal value. The amount of consideration paid on repurchase of share capital, including directly attributable costs, is recognised as a deduction from equity and classified as treasury shares.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Retained earnings

Any profit for the year after appropriations is transferred to reserves, in accordance with General Assembly decisions.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Share capital and reserves (continued)

Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. EPS is not presented for the Group.

x) Contingencies and commitments

In the ordinary course of business, the Group enters into credit related commitments which are recorded in off-balance-sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Such financial commitments are recorded in the Group's balance sheet if and when they become payable.

y) Funds managed for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Group's assets and are excluded from the balance sheet. For the services rendered, the Group charges a fee which is recognised in the income statement on an accruals basis. The Group also manages seven open-end funds with a public offering: HPB Dionički fund, HPB Global fund, HPB Novčani fund, HPB Obveznički fund, HPB Dynamic fund, HPB Titan fund and HPB World Apsolute Value, and HPB Euronovčani fund. The Group also manages HPB Umirovljenički fund, a special-purpose fund, established by the Croatian Government for the payment of debt to retired persons.

z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group has identified four primary segments: corporate banking; retail banking; treasury; and investment banking and asset management with custody (business segments) and its operations, total assets and the majority of its clients are located in Croatia (geographical segment).

2. RISK MANAGEMENT

This note details the Group's risk exposures as well as the methods applied by the management to identify, measure and manage those risks for the purpose of preserving capital. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, interest rate risk in the Bank’s non-trading book, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

An integrated system of risk management is established at the Group level by introducing a set of policies, procedures and manuals, determining the limits of risk levels acceptable to the Group and monitoring their implementation. The limits are set in respect to the amount of regulatory capital and apply to all types of risk. Additionally, the Bank sets limits for annual potential losses measured by Value-at-Risk techniques for its market risk exposure. Internal methodologies and models for managing other types of risks are also being developed.

The responsibility for determining the framework of the Group’s risk management lies with the Bank’s Management Board which has delegated the risk management tasks to the Asset and Liability Committee, Credit Committee and Operational Risk Management Committee.

2.1 Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank evaluates debtors' creditworthiness, and in order to minimise credit risk, obtains appropriate collateral.

At the reporting date, the Group’s credit risk exposure to financial instruments classified as at fair value through profit or loss or as available for sale is presented by the positive fair value of these instruments, as recorded in the balance sheet. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties in derivative transactions and do not measure the Group’s exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Group is exposed to credit risk mainly in respect of housing loans it provides and investments. The amount of credit exposure in this regard, and in respect of held-to-maturity debt securities recognised at amortised cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk in respect of the off-balance-sheet items, through commitments arising from unused facilities and guarantees issued, as disclosed in Note 40.

Credit risk management comprises assessment of placements’ credit risk, subsequent monitoring, supervision, and evaluation of recoverability of placements and off-balance sheet commitments, as well as formation of required impairments and provisions for identified losses on placements and off-balance sheet commitments, and reporting to the Management Board of the Bank.

2 RISK MANAGEMENT (continued)

2.1.1 Credit risk assessment

Assessment of the individual credit risk exposure comprises the following:

- debtors' creditworthiness;
- debtors' timeliness in meeting their obligations; and
- collateral quality.

Monitoring of credit risk includes continuous assessment whether elements exist which would indicate a deterioration of the client's financial position, the client's exposure to currency risk or an increase in risk due to the decrease of collateral value.

2.1.2. Classification of placements into risk categories

The Bank classifies placements into risk categories depending on the estimated recovery rate of placements, and in accordance with the CNB's Decision on Classification of Placements and Off-balance Sheet Liabilities of Credit Institutions. All placements that the Bank estimates are fully recoverable are classified in risk category A. Upon initial approval, the Bank classifies all placements into risk category A. Placements that the Bank estimates are partly recoverable are classified into risk category B, depending on the loss percentage: in subcategory B1 (loss is estimated at below 30% of nominal carrying value of the placement), in subcategory B2 (loss is estimated at between 30% and 70% of nominal carrying value of the placement), and in subcategory B3 (loss is estimated at above 70%, but below 100% of nominal carrying value of the placement). Placements estimated to be fully irrecoverable are classified into risk category C.

2.1.3. Impairment policy on placements

When estimating the recoverable amount of placements, the Bank distinguishes between the small and large portfolio.

Small portfolio represents placements and off-balance sheet commitments whose gross value (before any impairment loss) does not exceed HRK 700 thousand towards a single debtor at the date of estimation.

Generally, the Bank estimates the recoverability of placements to retail customers according to the criteria established for the small portfolio, whereas the recoverability of placements to corporate clients is estimated according to criteria which do not apply to the small portfolio.

2 RISK MANAGEMENT (continued)

2.1.3. Impairment policy on placements (continued)

Individual assessment

The recoverable amount of placements that are not classified within the small loan portfolio of the Bank is estimated on an individual basis according to the following criteria:

- debtors' creditworthiness;
- debtors' timeliness in meeting their obligations; and
- collateral quality.

Portfolio-based assessment

The estimate of the recoverable amount of exposures that are classified within the small loan portfolio is, in general, performed on a portfolio basis by having regard principally to the debtors' timeliness in meeting their obligations.

The following tables present the classification of exposures into risk categories for the Group and the Bank and the allocation of the corresponding impairment losses as a percentage of gross principal.

HPB
HRVATSKA POŠTANSKA BANKA

2 RISK MANAGEMENT (continued)

2.1.3 Impairment policy on placements (continued)

Group

%	Loans and receivables from customers	Impairment allowance	Loans to and receivables from banks	Impairment allowance	Fin. assets available for sale	Impairment allowance	Financial assets held to maturity	Impairment allowance	Balances with the CNB	Impairment allowance	Fees receivable	Impairment allowance
2011												
A	73.11	1.39	99.96	-	-	-	96.18	0.99	100.00	-	82.43	-
A (< 90 days)	2.99	1.39	-	-	-	-	-	-	-	-	0.09	-
B and C	23.89	33.51	0.04	100.00	-	-	3.82	91.24	-	-	17.48	100.00
2010												
A	77.65	1.36	99.96	-	-	-	95.99	0.90	100.00	-	79.18	-
A (delay < 90 days)	1.53	1.36	-	-	-	-	-	-	-	-	0.28	-
B and C	20.82	35.85	0.04	100.00	-	-	4.01	96.16	-	-	20.55	59.48

Bank

%	Loans and receivables from customers	Impairment allowance	Loans to and receivables from banks	Impairment allowance	Fin. assets available for sale	Impairment allowance	Financial assets held to maturity	Impairment allowance	Balances with the CNB	Impairment allowance	Fees receivable	Impairment allowance
2011												
A	72.90	1.39	99.96	-	-	-	96.18	0.99	100.00	-	82.21	-
A (delay < 90 days)	3.01	1.39	-	-	-	-	-	-	-	-	0.09	-
B and C	24.09	33.51	0.04	100.00	-	-	3.82	91.24	-	-	17.70	100.00
2010												
A	77.49	1.36	99.96	-	-	-	95.60	0.99	100.00	-	78.73	-
A (< 90 days)	1.54	1.36	-	-			-	-	-	-	0.28	-
B and C	20.97	35.86	0.04	100.00	-	-	4.40	94.30	-	-	20.99	59.48

2 RISK MANAGEMENT (continued)

Maximum exposure to credit risk before consideration of collateral

The table below shows the maximum exposure to credit risk as at 31 December 2011, not considering the collateral, if any. The exposures presented below are net of impairment losses and provisions.

Maximum exposure		**Group**		**Bank**	
		2011	**2010**	**2011**	**2010**
	Notes	**HRK 000**	**HRK 000**	**HRK 000**	**HRK 000**
Giro account with the CNB and other banks	5	546,179	324,132	546,179	324,132
Obligatory reserve with Croatian National Bank	6	1,246,649	1,077,730	1,246,649	1,077,730
Loans to and receivables from banks	7	1,307,638	1,329,676	1,294,448	1,323,676
Held-to-maturity investments	10	687,072	595,965	687,072	541,078
Loans and receivables from customers	11	9,708,603	8,946,416	9,622,149	8,873,240
Fees receivable	19	34,418	29,032	33,894	28,342
Off-balance sheet exposure	40	**2,229,505**	**1,850,768**	**2,227,447**	**1,849,238**
Undrawn lending commitments		1,587,027	1,236,544	1,584,969	1,235,014
Guarantees		556,618	538,632	556,618	538,632
Other contingent liabilities		85,860	75,592	85,860	75,592
Total credit exposure		**15,760,064**	**14,153,719**	**15,657,838**	**14,017,316**

2 RISK MANAGEMENT (continued)

2.1.4. Assets exposed to credit risk

Group 2011	Loans and receivables from customers HRK 000	Loans to and receivables from banks HRK 000	Financial assets held to maturity HRK 000	Balances with the CNB HRK 000	Fees receivable HRK 000
Loans neither overdue nor impaired	7,805,861	1,307,638	691,506	1,744,518	34,381
Overdue loans not impaired	319,576	-	-	-	37
Impaired loans	2,550,920	500	27,447	-	7,289
Total gross	**10,676,357**	**1,308,138**	**718,953**	**1,744,518**	**41,707**
Individually identified losses	(854,771)	(500)	(25,042)	-	(7,289)
Portfolio-based losses	(112,983)	-	(6,839)	-	-
Total identified losses	**(967,754)**	**(500)**	**(31,881)**	**-**	**(7,289)**
Total	**9,708,603**	**1,307,638**	**687,072**	**1,744,518**	**34,418**

Group 2010	Loans and receivables from customers HRK 000	Loans to and receivables from banks HRK 000	Financial assets held to maturity HRK 000	Balances with the CNB HRK 000	Fees receivable HRK 000
Loans neither overdue nor impaired	7,595,969	1,329,676	600,396	1,348,159	26,188
Overdue loans not impaired	149,588	-	-	-	91
Impaired loans	2,036,329	500	25,096	-	6,796
Total gross	**9,781,886**	**1,330,176**	**625,492**	**1,348,159**	**33,075**
Individually identified losses	(729,976)	(500)	(24,133)	-	(4,042)
Portfolio-based losses	(105,494)	-	(5,394)	-	-
Total identified losses	**(835,470)**	**(500)**	**(29,527)**	**-**	**(4,042)**
Total	**8,946,416**	**1,329,676**	**595,965**	**1,348,159**	**29,033**

2 RISK MANAGEMENT (continued)

2.1.4 Credit risk exposure (continued)

Bank **2011**	**Loans and receivables from customers** **HRK 000**	**Loans to and receivables from banks** **HRK 000**	**Financial assets held to maturity** **HRK 000**	**Balances with the CNB** **HRK 000**	**Fees receivable** **HRK 000**
Loans neither overdue nor impaired	7,719,095	1,294,448	691,506	1,744,518	33,857
Overdue loans not impaired	318,932	-	-	-	37
Impaired loans	2,550,911	500	27,447	-	7,289
Total gross	**10,588,938**	**1,294,948**	**718,953**	**1,744,518**	**41,183**
Individually identified losses	(854,766)	(500)	(25,042)	-	(7,289)
Portfolio-based losses	(112,023)	-	(6,839)	-	-
Total identified losses	**(966,789)**	**(500)**	**(31,881)**	-	**(7,289)**
Total	**9,622,149**	**1,294,448**	**687,072**	**1,744,518**	**33,894**

Bank **2010**	**Loans and receivables from customers** **HRK 000**	**Loans to and receivables from banks** **HRK 000**	**Financial assets held to maturity** **HRK 000**	**Balances with the CNB** **HRK 000**	**Fees receivable** **HRK 000**
Loans neither overdue nor impaired	7,522,543	1,323,676	545,042	1,348,159	25,497
Overdue loans not impaired	149,588	-	-	-	91
Impaired loans	2,035,706	500	25,096	-	6,796
Total gross	**9,707,837**	**1,324,176**	**570,138**	**1,348,159**	**32,384**
Individually identified losses	(729,939)	(500)	(23,666)	-	(4,042)
Portfolio-based losses	(104,658)	-	(5,394)	-	-
Total identified losses	**(834,597)**	**(500)**	**(29,060)**	**-**	**(4,042)**
Total	**8,873,240**	**1,323,676**	**541,078**	**1,348,159**	**28,342**

2 RISK MANAGEMENT (continued)

2.1.4 Credit risk exposure (continued)

In accordance with applicable acts, the Bank utilises the following common types of collateral: bank guarantees; HAMAG ("Croatian Agency for Small Entrepreneurship") and other corporate guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; assignment of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments, such as bills of exchange and promissory notes.

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice and current market trends.

The gross balance of fully recoverable amounts not identified as past due beyond 90 day and as individually impaired at the reporting date sheet day, together with the underlying collateral at its fair value, expressed as a percentage of net placements is as follows:

2 RISK MANAGEMENT (continued)

2.1.4 Credit risk exposure (continued)

(a) Assets exposed to credit risk but not impaired (risk category A)

Group 2011 HRK 000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	1,117,987	76,792	3,749,335	613,093	3,766	140,376	2,104,512	**7,805,861**	1,307,638	691,506	1,744,518	34,381
Total portfolio-based losses	(15,581)	(1,070)	(52,373)	(8,168)	(52)	(1,956)	(29,330)	**(108,531)**	-	(6,839)	-	-
Net amount	**1,102,406**	**75,722**	**3,696,962**	**604,925**	**3,714**	**138,420**	**2,075,182**	7,697,330	**1,307,638**	**684,667**	**1,744,518**	**34,381**
Collateral value	112,956	68,236	5,094,446	1,203,306	10,048	-	513,473	**7,002,465**	-	-		
Collateral coverage in %	10.25	90.11	137.80	198.92	270.58	-	24.74	**90.97**	-	-	-	-

Group 2010 HRK 000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	1,201,620	166,355	3,737,815	440,600	8,337	137,507	1,903,735	**7,595,969**	1,329,676	600,396	1,348,159	26,188
Total portfolio-based losses	(16,392)	(2,269)	(50,989)	(5,712)	(114)	(1,876)	(26,102)	**(103,453)**	-	(5,861)	-	-
Net amount	**1,185,228**	**164,086**	**3,686,826**	**434,888**	**8,223**	**135,631**	**1,877,633**	7,492,515	**1,329,676**	**594,535**	**1,348,159**	**26,188**
Collateral value	110,778	105,098	3,350,882	847,613	2,581	-	300,449	**4,717,400**				
Collateral coverage in %	9.35	64.05	90.89	194.90	31.38	-	16.00	**62.96**				

2 RISK MANAGEMENT (continued)

2.1.4 Credit risk exposure (continued)

(a) Assets exposed to credit risk but not impaired (risk category A) (continued)

Bank 2011 HRK 000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	1,117,987	76,792	3,757,965	517,697	3,766	140,376	2,104,512	**7,719,095**	1,294,448	691,506	1,744,518	33,857
Total portfolio-based losses	(15,581)	(1,070)	(52,373)	(7,215)	(52)	(1,956)	(29,330)	**(107,578)**	-	(6,839)	-	-
Net amount	**1,102,406**	**75,722**	**3,705,592**	**510,482**	**3,714**	**138,420**	**2,075,182**	**7,611,517**	**1,294,448**	**684,667**	**1,744,518**	**33,857**
Collateral value	112,956	68,236	5,094,446	869,665	10,048	-	513,473	**6,668,824**	-	-	-	-
Collateral coverage in %	10.25	90.11	137.48	170.36	270.58	-	24.74	**87.61**	-	-	-	-

Bank 2010 HRK 000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	1,201,620	166,355	3,737,815	357,447	8,337	137,507	1,913,462	**7,522,543**	1,323,676	545,042	1,348,159	25,497
Total portfolio-based losses	(16,392)	(2,269)	(50,989)	(4,876)	(114)	(1,876)	(26,102)	**(102,617)**	-	(5,394)	-	-
Net amount	**1,185,228**	**164,086**	**3,686,826**	**352,571**	**8,223**	**135,631**	**1,887,340**	**7,419,926**	**1,323,676**	**539,648**	**1,348,159**	**25,497**
Collateral value	110,778	105,098	3,350,882	534,792	2,581	-	300,449	**4,404,580**	-	-	-	-
Collateral coverage in %	9.35	64.05	90.89	151.68	31.38	-	15.92	**59.36**	-	-	-	-

2 RISK MANAGEMENT (continued)

2.1.4 Credit risk exposure (continued)

(b) Assets exposed to credit risk in the risk category A that are past due beyond 90 days but not impaired

The gross balance and the coverage of those assets with collateral at fair value, presented as a percentage of net placements is as follows:

Group 2011 HRK 000	**Loans and receivables from customers**					**Fees receivable**
	Government units	Companies	Housing loans	Other loans	**Total**	
Gross amount	25,096	291,333	643	2,504	**319,576**	37
Total portfolio-based losses	(350)	(4,060)	(6)	(35)	**(4,451)**	-
Net amount	**24,746**	**287,273**	**637**	**2,469**	315,125	**37**
Collateral value	-	507,931	2,120	6,871	**516,922**	
Collateral coverage in %	-	176.81	333.05	278.39	164.04	-

Group 2010 HRK 000	**Loans and receivables from customers**		**Fees receivable**
	Companies	**Total**	
Gross amount	149,588	**149,588**	91
Total portfolio-based losses	(2,041)	**(2,041)**	**-**
Net amount	**147,547**	**147,547**	**91**
Collateral value	158,187	**158,187**	
Collateral coverage in %	107.21	107.21	-

2 RISK MANAGEMENT (continued)

2.1.4 Credit risk exposure (continued)

(b) Assets exposed to credit risk in the risk category A that are past due beyond 90 days but not impaired (continued)

Bank 2011 HRK 000	**Loans and receivables from customers**				**Fees receivable**
	Government units	Companies	Other loans	**Total**	
Gross amount	25,096	291,333	2,503	**318,932**	37
Total portfolio-based losses	(350)	(4,060)	(35)	**(4,445)**	-
Net amount	**24,746**	**287,273**	**2,468**	**314,487**	**37**
Collateral value	-	507,931	6,871	**514,802**	
Collateral coverage in %	-	176.81	278.39	163.70	-

Bank 2010 HRK 000	**Loans and receivables from customers**		**Fees receivable**
	Companies	**Total**	
Gross amount	149,588	**149,588**	91
Total portfolio-based losses	(2,041)	**(2,041)**	**-**
Net amount	**147,547**	**147,547**	**91**
Collateral value	158,187	**158,187**	
Collateral coverage in %	107.21	107.21	-

2 RISK MANAGEMENT (continued)

2.1.4 Credit risk exposure (continued)

(c) Credit risk on impaired assets in risk categories B and C

The table below shows the amount of loans and advances both individually impaired and impaired on a portfolio basis, and their coverage by collateral at fair value, expressed as a percentage of the net amount:

Group 2011 HRK 000	Loans to customers						**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total**			
Gross amount	1,947,303	13,605	39	398	589,575	**2,550,920**	500	27,447	7,289
Total identified losses	(542,089)	(3,202)	(23)	(388)	(309,069)	**(854,771)**	(500)	(25,042)	(7,289)
Net amount	**1,405,214**	**10,403**	**16**	**10**	**280,505**	**1,696,149**	**-**	**2,405**	**-**
Collateral value	2,513,419	24,290	1,149	-	685,663	**3,224,521**	-	-	-
Collateral coverage in %	178.86	233.49	7,082.09	-	244.44	190.11	**-**	**-**	**-**

Group 2010 HRK 000	**Loans and receivables from customers**					**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
	Companies	Housing loans	Mortgage loans	Other loans	**Total**			
Gross amount	1,585,421	18,855	313	431,740	**2,036,329**	500	25,096	6,796
Total identified losses	(434,048)	(5,569)	(166)	(290,193)	**(729,976)**	(500)	(23,666)	(4,042)
Net amount	**1,151,373**	**13,286**	**147**	**141,547**	1,306,353	**-**	**1,430**	**2,754**
Collateral value	2,319,469	29,467	-	579,548	**2,928,484**	-	-	-
Collateral coverage in %	201.45	221.79	-	409.44	224.17	**-**	**-**	**-**

2 RISK MANAGEMENT (continued)

2.1.4 Credit risk exposure (continued)

(c) Credit risk on impaired assets in risk categories B and C (continued)

Bank 2011 HRK 000	Loans to customers								
	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
Gross amount	1,947,303	13,596	39	398	589,575	**2,550,911**	500	27,447	7,289
Total identified losses	(542,089)	(3,197)	(23)	(388)	(309,069)	**(854,766)**	(500)	(25,042)	(7,289)
Net amount	**1,405,214**	**10,399**	**16**	**10**	**280,505**	**1,696,134**	**-**	**2,405**	**-**
Collateral value	2,513,419	24,290	1,149	-	685,663	**3,224,521**	-	-	-
Collateral coverage in %	178.86	233,58	7,082.09	-	244.44	190,11	**-**	**-**	**-**

Bank 2010 HRK 000	Loans and receivables from customers							
	Companies	Housing loans	Mortgage loans	Other loans	**Total**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
Gross amount	1,585,421	18,232	313	431,740	**2,035,706**	500	25,096	6,796
Total identified losses	(434,048)	(5,532)	(166)	(290,193)	**(729,939)**	(500)	(23,666)	(4,042)
Net amount	**1,151,373**	**12,700**	**147**	**141,547**	**1,305,767**	**-**	**1,430**	**2,754**
Collateral value	2,319,469	28,403	-	579,548	**2,927,420**	-	-	-
Collateral coverage in %	201.45	223.65	-	409.44	224.19	**-**	**-**	**-**

2 RISK MANAGEMENT (continued)

(d) Prolonged and rescheduled loans to customers

Prolongation of a loan is approved to customers because of common and current financing needs of their business activities.

Loans are most often rescheduled where borrowers' businesses are disrupted, with considerable changes made to the previously agreed lending terms and conditions.

		Bank
	2011 HRK 000	**2010 HRK 000**
Gross loans and advances to customers		
Corporate	2,072,799	1,037,010
Small and middle enterprises	350,629	419,702
Retail	73,038	15,418
Total	**2,496,466**	**1,774,641**

2.1.5. Credit risk concentration by industry:

Commercial lending is concentrated on corporate and retail customers domiciled in Croatia. In 2011 the Bank revised its system of recording and monitoring the activities of its customers, by implementing the national classification of activities from 2007. As the national classification of activities from 2002 was applied in the previous year, the credit risk concentrations by industry for the year 2010 were not presented because they are not comparable. An analysis of the concentration of credit risk by industry is presented in the table below:

	Group	**Bank**
	2011 HRK 000	**2011 HRK 000**
Agriculture, forestry and fisheries	209,537	209,537
Manufacturing	2,633,289	2,633,289
Construction	778,544	778,544
Transportation and storage	404,764	404,764
Wholesale and retail trade; repair of motor vehicles and motorcycles	706,347	706,347
Accommodation and food service activities	311,370	311,370
Professional, scientific and technical activities	282,267	282,267
Public administration and defence; compulsory social security	1,054,629	1,054,629
Electricity, gas, steam and air conditioning supply	150,609	150,609
Information and communication	149,657	149,657
Arts, entertainment and recreation	120,592	120,592
Administrative and support service activities	105,802	105,802
Other	283,722	292,352
Total gross loans to corporate customers	**7,191,129**	**7,199,759**
Loans to retail customers (gross)	3,416,781	3,320,879
- Collateralised	10,743,908	10,408,147
Accrued interest	68,445	68,300
Provisions for impairment losses	(967,753)	(966,789)
Total	**9,708,603**	**9,622,149**

2 RISK MANAGEMENT (continued)

2.2 Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of its positions. The main categories of liquidity risk to which the Group is exposed are as follows:

- structural liquidity risk, which is the risk that the Bank will not be able to meet efficiently its expected and unexpected present and future cash and collateral requirements without impacting its day-to-day operations or its own financial result;
- market liquidity risk, which is the risk that the Bank will not be able to offset its positions or liquidate positions at market price due to a market disturbance or the market being insufficiently deep.

The Group manages liquidity risk in accordance with the legal and regulatory requirements. In addition to those requirements, liquidity risk management is governed by the following internal regulations:

- Risk Management Policy;
- Liquidity Risk Management Manual;

The system for managing liquidity risk, in line with defined polices, includes:

- estimation and measurement of liquidity risk exposure;
- setting liquidity risk exposure limits;
- reporting and monitoring the limits used;
- control function;

Liquidity risk management is realized through:

- operational management of daily liquidity;
- operational management of daily liquidity;
- structural liquidity management.

Operational management of daily and short-term liquidity is performed through:

- planning and projecting daily/ten-day/monthly cash flows;
- maintaining minimum weekly and monthly liquidity coefficient in HRK, total of all convertible currencies and non-convertible currencies individually, calculated according to CNB's Decision on Liquidity Risk Management, within the prescribed limit.

Structural liquidity management is performed through:

- maintaining positions depending on gap limits between receivables and liabilities according to remaining contractual maturity;
- maintaining positions in accordance with liquidity risk exposure limits;
- diversification of sources of funding.

2 RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

Risk Management Division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liability Management Committee.

The Group is submitting monthly reports to the CNB in form and in deadline prescribed by Decision on Liquidity Risk Management, with end-of-the-month status. Prescribed quantitative requirements consist of following reports: about the amount of highly liquid assets (presently marketable assets), about the maturity gap of assets and liabilities (expected inflows and outflows form), about the level of minimal liquidity coefficient and funds concentration within total liabilities. Information is delivered for two periods: up to one week and up to one month, separately for HRK, convertible currencies and each non-convertible currency individually (if they represent a significant amount). The Group has maintained all limits above prescribed levels during 2011. The Bank maintains obligatory reserve and minimal foreign currency receivables within limits prescribed by Decision on Reserve Requirements and Decision on Minimum Required Amount of Foreign Currency Claims.

The Treasury Division reports monthly to Assets and Liability Management Committee about planned outflows and inflows.

Ultimate responsibility for liquidity risk management rests with the Bank's Management Board. The Bank's Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in it's sessions. Each division to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Group prescribes and implements stress tests of it's liquidity. Risk division conducts tests of immunity to stress by taking into account all the factors specific to the Bank (internal factors) and market factors (external factors).

Immunity to stress tests are conducted for HRK and total convertible currencies, for periods up to one week and up to one month.

Long-term liquidity is managed by maintaining positions in accordance with the limits of exposure to liquidity risk.

2.2.1 Maturity analysis

A maturity analysis of assets and liabilities, as well as equity, of the Group and the Bank, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Group's and the Bank's trading intention, as at 31 December 2011 and 31 December 2010, is presented in the tables below.

2 RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

2.2.1 Maturity analysis (continued)

Group 2011 HRK 000	0-30 days	31-90 days	91-360 days	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	1,090,199	-	-	-	-	1,090,199
Obligatory reserve with Croatian National Bank	1,246,649	-	-	-	-	1,246,649
Loans to and receivables from banks	845,289	254,753	40,000	125,321	42,274	1,307,638
Financial assets at fair value through profit or loss	358,072	12,908	-	-	63,158	434,138
Financial assets available for sale	99,678	216,459	263,458	109,885	772,005	1,461,485
Financial assets held to maturity	36,692	152,297	50,320	74,011	373,752	687,072
Loans and receivables from customers	1,958,822	553,776	3,142,745	1,595,004	2,458,256	9,708,603
Assets held for sale	-	-	-	-	21,551	21,551
Property and equipment	-	-	-	31	150,939	150,970
Investment property	-	-	-	10,450	-	10,450
Intangible assets	-	-	-	380	203,907	204,287
Deferred tax assets, net	-	-	-	-	37,692	37,692
Tax prepayment	-	-	116	-	-	116
Other assets	201,965	4,273	19,487	424	105,461	331,610
TOTAL ASSETS	**5,837,368**	**1,194,465**	**3,516,127**	**1,915,505**	**4,228,996**	**16,692,460**
LIABILITIES						
Financial liabilities at fair value through profit or loss	2,580	-	-	-	-	2,580
Deposits from banks	60,523	3,070	-	-	-	63,593
Customer deposits	6,134,232	1,691,980	4,158,710	841,404	97,729	12,924,055
Borrowings	19,051	114,670	183,212	319,099	604,877	1,240,908
Hybrid instruments	-	8,910	200,000	150,000	251,637	610,548
Provisions for liabilities and expenses	16,763	1,256	9,952	5,404	312	33,687
Other liabilities	441,971	12,872	37,231	15,976	65,633	573,682
Total equity	-	-	-	-	1,243,408	1,243,408
TOTAL LIABILITIES AND EQUITY	**6,675,120**	**1,832,758**	**4,589,104**	**1,331,883**	**2,263,595**	**16,692,460**
MATURITY GAP	**(837,752)**	**(638,293)**	**(1,072,978)**	**583,622**	**1,965,401**	**-**
CUMMULATIVE MATURITY GAP	**(837,752)**	**(1,476,045)**	**(2,549,023)**	**(1,965,401)**	**-**	**-**

2 RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

2.2.1 Maturity analysis (continued)

Group 2010
HRK 000

	0-30 days	31-90 days	91-360 days	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	776,891	-	-	-	-	776,891
Obligatory reserve with Croatian National Bank	1,077,730	-	-	-	-	1,077,730
Loans to and receivables from banks	414,456	735,380	72,984	859	105,998	1,329,676
Financial assets at fair value through profit or loss	1,003,643	7,053	-	-	-	1,010,696
Financial assets available for sale	1	24,795	215,819	100,936	210,561	552,112
Financial assets held to maturity	32,329	60,903	85,310	27,453	389,968	595,965
Loans and receivables from customers	2,293,135	419,549	2,982,598	1,364,178	1,886,957	8,946,416
Assets held for sale	-	-	-	-	21,551	21,551
Property and equipment	-	-	-	-	153,635	153,635
Investment property	-	-	-	-	10,703	10,703
Intangible assets	-	-	-	-	225,052	225,052
Deferred tax assets, net	-	-	-	-	26,088	26,088
Tax prepayment	-	-	207	-	-	207
Other assets	114,824	969	20,040	424	114,971	251,228
TOTAL ASSETS	**5,713,009**	**1,248,649**	**3,376,958**	**1,493,849**	**3,145,485**	**14,977,950**
LIABILITIES						
Financial liabilities at fair value through profit or loss	402	-	-	-	-	402
Deposits from banks	170,410	7,393	8,537	-	-	186,340
Customer deposits	5,143,508	1,351,270	3,837,750	787,812	73,997	11,194,337
Borrowings	79,030	112,576	171,925	312,094	619,172	1,294,797
Hybrid instruments	-	9,074	-	200,000	400,642	609,716
Provisions for liabilities and expenses	14,007	1,911	3,183	8,629	8,452	36,182
Other liabilities	368,886	24,213	32,573	20,337	28,534	474,544
Total equity	-	-	-	-	1,181,632	1,181,632
TOTAL LIABILITIES AND EQUITY	**5,776,242**	**1,506,437**	**4,053,968**	**1,328,872**	**2,312,430**	**14,977,950**
MATURITY GAP	**(63,233)**	**(257,788)**	**(677,010)**	**164,977**	**833,055**	**-**
CUMMULATIVE MATURITY GAP	**(63,233)**	**(321,021)**	**(998,031)**	**(833,055)**	**-**	**-**

2 RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

2.2.1 Maturity analysis (continued)

Bank 2011
HRK 000

	0-30 days	31-90 days	91-360 days	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	1,090,183	-	-	-	-	1,090,183
Obligatory reserve with Croatian National Bank	1,246,649	-	-	-	-	1,246,649
Loans to and receivables from banks	832,099	254,753	40,000	125,321	42,274	1,294,448
Financial assets at fair value through profit or loss	358,072	5,506	-	-	-	363,578
Financial assets available for sale	99,678	215,323	242,191	77,965	736,017	1,371,174
Financial assets held to maturity	36,692	152,297	50,320	74,011	373,752	687,072
Loans and receivables from customers	1,954,909	552,957	3,138,576	1,583,524	2,392,183	9,622,149
Assets held for sale	-	-	-	-	21,551	21,551
Investments in subsidiaries	-	-	-	-	53,990	53,990
Property and equipment	-	-	-	-	150,849	150,849
Intangible assets	-	-	-	-	203,764	203,764
Deferred tax assets, net	-	-	-	-	36,309	36,309
Other assets	192,163	4,988	9,540	424	102,996	310,110
TOTAL ASSETS	**5,810,446**	**1,185,823**	**3,480,627**	**1,861,245**	**4,113,686**	**16,451,826**
LIABILITIES						
Financial liabilities at fair value through profit or loss	2,580	-	-	-	-	2,580
Deposits from banks	60,523	3,070	-	-	-	63,593
Customer deposits	6,119,989	1,685,985	4,104,422	727,741	64,027	12,702,164
Borrowings	19,051	114,670	183,212	319,099	604,877	1,240,908
Hybrid instruments	-	8,910	200,000	150,000	251,638	610,549
Provisions for liabilities and expenses	16,763	1,256	9,930	5,404	312	33,665
Other liabilities	424,622	12,658	27,677	15,976	62,031	542,965
Total equity	-	-	-	-	1,255,403	1,255,403
TOTAL LIABILITIES AND EQUITY	**6,643,528**	**1,826,549**	**4,525,241**	**1,218,220**	**2,238,288**	**16,451,826**
MATURITY GAP	**(833,082)**	**(640,726)**	**(1,044,614)**	**643,025**	**1,875,398**	**-**
CUMMULATIVE MATURITY GAP	**(833,082)**	**(1,473,808)**	**(2,518,422)**	**(1,875,397)**	**-**	**-**

2 RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

2.2.1 Maturity analysis (continued)

Bank 2010
HRK 000

	0-30 days	31-90 days	91-360 days	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	776,885	-	-	-	-	776,885
Obligatory reserve with Croatian National Bank	1,077,730	-	-	-	-	1,077,730
Loans to and receivables from banks	408,456	735,380	72,984	859	105,998	1,323,676
Financial assets at fair value through profit or loss	997,856	7,053	-	-	-	1,004,909
Financial assets available for sale	1	23,502	215,819	88,642	130,074	458,038
Financial assets held to maturity	32,329	56,809	78,752	22,169	351,019	541,078
Loans and receivables from customers	2,288,550	418,672	2,979,723	1,355,110	1,831,184	8,873,240
Assets held for sale	-	-	-	-	21,551	21,551
Investments in subsidiaries	-	-	-	-	73,990	73,990
Property and equipment	-	-	-	-	153,582	153,582
Intangible assets	-	-	-	-	224,748	224,748
Deferred tax assets, net	-	-	-	-	25,130	25,130
Other assets	105,084	1,187	10,975	424	114,970	232,640
TOTAL ASSETS	**5,686,891**	**1,242,603**	**3,358,253**	**1,467,203**	**3,032,248**	**14,787,197**
LIABILITIES						
Financial liabilities at fair value through profit or loss	402	-	-	-	-	402
Deposits from banks	170,410	7,393	8,537	-	-	186,340
Customer deposits	5,145,732	1,349,820	3,798,147	686,946	41,015	11,021,660
Borrowings	79,030	112,576	171,925	312,094	619,172	1,294,797
Hybrid instruments	-	9,074	-	200,000	400,642	609,716
Provisions for liabilities and expenses	14,006	1,894	3,183	8,629	8,452	36,164
Other liabilities	353,222	23,982	24,920	20,337	25,618	448,080
Total equity	-	-	-	-	1,190,038	1,190,038
TOTAL LIABILITIES AND EQUITY	**5,762,802**	**1,504,740**	**4,006,711**	**1,228,007**	**2,284,938**	**14,787,197**
MATURITY GAP	**(75,911)**	**(262,137)**	**(648,458)**	**239,196**	**747,310**	**-**
CUMMULATIVE MATURITY GAP	**(75,911)**	**(338,048)**	**(986,507)**	**(747,310)**	**-**	**-**

2 RISK MANAGEMENT (continued)

2.3 Market risk

The exposure to market risk occurs in respect of balance sheet and off-balance-sheet positions recognised at fair value:

- financial assets held for trading
- financial assets available for sale
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All trading 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 (i.e. impaired). Trading financial instruments are recognised at fair value, and all changes in market conditions directly affect trading income. The Bank manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Guidelines.

Market risk management of the Bank is conducted in accordance with regulatory requirements, as is defined by internal policies and procedures regarding market risks which are regularly revised by the Risk Management Division.

The Risk Management Division daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Croatian National Bank's Decision on the capital adequacy of banks;
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used.
- Capital requirement calculated by an internal model (VaR x 4).

In addition the Bank uses the following internally prescribed measures in measuring exposure to debt instrument position risks;

- Duration (measure of the sensitivity of debt security prices to changes in interest rates)
- PV01 which represents the decline in price value of the portfolio in case of interest rate increase by 0.01%.

The Risk Management Division reports daily to the Treasury Division on the usage of market risk exposure limits, daily to the Finance Division regarding the capital requirements for currency risk and position risks, and monthly to the Asset and Liability Management Committee on market risk exposure.

2 RISK MANAGEMENT (continued)

2.3 Market risk (continued)

a) Trading portfolio

The table below shows the movements in those measures at 31 December 2011 and 31 December 2010:

Bank

2011	**Position HRK 000**	**VaR**
Currency risk	75,501	(699)
Debt instrument position risk	271,552	(3,105)
Equity instrument position risk	50,189	(3,153)
Position risk of units in investment funds	63,655	(1,530)
Correlation effect		3,377
Market risk		**(5,109)**
2010		
Currency risk	47,330	(407)
Debt instrument position risk	886,806	(8,813)
Equity instrument position risk	53,371	(3,134)
Position risk of units in investment funds	60,824	(1,517)
Correlation effect	-	4,273
Market risk		**(9,624)**

2 RISK MANAGEMENT (continued)

2.3 Market risk (continued)

b) Available-for-sale portfolio

The available-for-sale portfolio consists of debt and equity securities.

The table below shows the movements in market values and VaR for the portfolio of debt and equity securities available for sale.

Bank

Debt securities	Market value HRK 000	VaR HRK 000
2011	1,357,477	(16,590)
2010	458,636	(3,294)

Equity securities	Market value HRK 000	VaR HRK 000
2011	11,828	(1,804)
2010	15,539	(2,179)

2 RISK MANAGEMENT (continued)

2.4 Interest rate risk in the Bank's non-trading book

Interest rate risk in the Bank's non-trading book is a risk which can have a negative effect on economic value of the Bank's book and earnings (net interest income), because of variation of market interest rates. Exposure to interest rate risk in the Bank's non-trading book arises as a consequence of:

- mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps);
- various natures of interest rates (reference rates) applied by the Bank in arranging its lending and borrowing activities.

Accordingly, all interest-rate sensitive items in the Bank's non-trading book are exposed to interest rate risk.

The Bank manages interest rate risk in its non-trading book in accordance with the legal and regulatory requirements. In line with CNB's Decision on the Management of Interest rate risk in the Bank's Non-trading Book, in effect from 31 March 2010, the Bank is required to submit quarterly reports to the CNB about the interest rate risk in the bank's non-trading book, on both an individual and a consolidated basis.

Apart from those regulations, managing interest rate risk in the bank's non-trading book is regulated by:

- Risk Management Policy; and
- Manual on Managing Interest Rate Risk in the Bank's Non-trading Book.

The Manual on Managing Interest Rate Risk in the Bank's Non-trading Book defines the management process, evaluation methods and measures of exposure to interest rate risk in the bank's non-trading book, as well as exposure limits, manner and frequency of reporting about the Bank's exposure to that risk.

The Bank assesses interest rate risk in the bank's non-trading book by observing this risk from two perspectives:

- Perspective of economic value: a potential market value decrease of the Bank's non-trading book because of interest rate movements in the market (adjusted to the CNB's Decision on managing interest rate risk in the bank's non-trading book);
- Profit perspective: a potential decrease of net interest income because of movements in market interest rates.

Perspective of economic value of capital

The Bank uses simplified calculation of estimated change in economic value of the bank's book by applying standard interest shock on non-trading book positions which are exposed to interest rate risk, for all significant currencies separately and other currencies jointly. Interest sensitive positions of the non-trading book are distributed in 13 time zones, whereby positions with fixed interest rate, variable interest rate and interest rate which can be changed by Management Board's decision (administrative interest rate) are distinguished, and estimates a change in market value of the Bank's non-trading book by applying basic simulation of parallel interest rates movements by 2 basis points. The Bank calculates a ratio between the change in economic value of the non-trading book and regulatory capital, and maintains it on a level below 18 percent (legal ratio prescribed by the CNB's Decision equals 20 percent). Change in economic value of capital was below legal and internal limits during the whole of 2011.

2 RISK MANAGEMENT (continued)

Profit perspective

The profit perspective takes into account the potential decrease in net interest income as a result of a change in market interest rates. To measure interest rate risk from the profit perspective, the Bank to simulates basic parallel movements in interest rates ± 2%, through a time period of 12 months and the potential decrease in net interest income is to be maintained within a 10% limit of realized net interest income for the observed period (from beginning of the year) projected to a yearly basis. The Bank has maintained prescribed limit throughout the whole of 2011.

Additionally, at least once a year stress tests are conducted, whereby the Bank tests effects of adverse interest rate movements for specific product types on the market, on net interest income, by assuming a decrease of active interest rates and an increase of passive interest rates.

Risk divisions is reporting monthly to the Asset and Liabilities Committee about exposure the interest rate risk in the Bank's non-trading book.

2.5 Foreign exchange risk

The Bank is exposed to currency risk through transactions in foreign currencies.

Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank directs its business activities trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency.

The Bank manages its currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank directs its business activities towards trying to minimise the gap between assets and liabilities denominated in or linked to a foreign currency, and maintaining daily business activities within the internal and regulatory limits per currency.

The Bank is primarily exposed to changes in the euro exchange rate. As at 31 December 2011 the value of assets denominated in euro or in euro linked currencies amounted to HRK 6,299,992 thousand (2010: HRK 5,387,642 thousand), while liabilities denominated in euro or in euro linked currencies amounted to HRK 5,888,735 thousand (2010: HRK 5,419,996 thousand). Hence, a 1 percentage fall in the HRK/EUR exchange rate (appreciation of the HRK) would affect the result in the amount of HRK 4,112 thousand (**2009:** HRK 324 thousand).

2.5.1 Currency risk analysis

The following tables illustrate the value of total assets and liabilities of the Group and Bank at 31 December 2011 and 31 December 2010 in HRK and foreign currencies (values denominated in HRK with foreign currency clause are mostly linked to EUR).

2 RISK MANAGEMENT (continued)

2.5.1 Foreign currency position analysis (continued)

Group 2011

HRK 000	**HRK**	**HRK, currency clause**	**EUR**	**Other foreign currencies**	**Total**
ASSETS					
Cash and amounts due from banks	899,102	-	144,159	46,938	1,090,199
Obligatory reserve with Croatian National Bank	1,146,886	-	99,763	-	1,246,649
Loans to and receivables from banks	384,740	-	832,431	90,467	1,307,638
Financial assets at fair value through profit or loss	246,438	170,941	2,851	13,908	434,138
Financial assets available for sale	1,180,820	254,507	25,485	673	1,461,485
Financial assets held to maturity	581,215	100,986	4,871	-	687,072
Loans and receivables from customers	4,818,346	4,175,240	635,932	79,085	9,708,603
Assets held for sale	21,551	-	-	-	21,551
Property and equipment	150,970	-	-	-	150,970
Investment property	10,450	-	-	-	10,450
Intangible assets	204,287	-	-	-	204,287
Deferred tax assets, net	37,692	-	-	-	37,692
Tax prepayment	116	-	-	-	116
Other assets	258,358	4,044	68,209	999	331,610
TOTAL ASSETS	**9,940,971**	**4,705,718**	**1,813,701**	**232,070**	**16,692,460**
LIABILITIES					
Financial liabilities at fair value through profit or loss	654	-	-	1,926	2,580
Deposits from banks	25,873	-	19,516	18,204	63,593
Customer deposits	7,632,723	298,991	4,783,922	208,419	12,924,055
Borrowings	278,188	853,946	108,773	-	1,240,908
Hybrid instruments	558,875	51,673	-	-	610,548
Provisions for liabilities and expenses	33,686	-	-	-	33,686
Other liabilities	532,097	-	6,371	35,214	573,682
Total equity	1,243,408	-	-	-	1,243,408
TOTAL LIABILITIES AND EQUITY	**10,305,504**	**1,204,610**	**4,918,582**	**263,763**	**16,692,460**
NET FOREIGN EXCHANGE POSITION	**(364,533)**	**3,501,108**	**(3,104,881)**	**(31,693)**	**-**

2 RISK MANAGEMENT (continued)

2.5.1 Foreign currency position analysis (continued)

Group 2010

HRK 000	**HRK**	**HRK, currency clause**	**EUR**	**Other foreign currencies**	**Total**
ASSETS					
Cash and amounts due from banks	623,365	-	109,753	43,773	776,891
Obligatory reserve with Croatian National Bank	989,034	-	88,696	0	1,077,730
Loans to and receivables from banks	301,136	-	973,333	55,207	1,329,676
Financial assets at fair value through profit or loss	853,360	142,515	2,796	12,025	1,010,696
Financial assets available for sale	289,082	205,421	56,965	644	552,112
Financial assets held to maturity	456,713	128,621	10,631	-	595,965
Loans and receivables from customers	5,028,327	3,418,537	430,879	68,673	8,946,416
Assets held for sale	21,551	-	-	-	21,551
Property and equipment	153,635	-	-	-	153,635
Investment property	10,703	-	-	-	10,703
Intangible assets	225,052	-	-	-	225,052
Deferred tax assets, net	26,088	-	-	-	26,088
Tax prepayment	207	-	-	-	207
Other assets	244,705	1,512	4,591	420	251,228
TOTAL ASSETS	**9,222,958**	**3,896,606**	**1,677,644**	**180,742**	**14,977,950**
LIABILITIES					
Financial liabilities at fair value through profit or loss	80	-	-	322	402
Deposits from banks	158,103	-	12,682	15,555	186,340
Customer deposits	6,498,925	224,441	4,310,198	160,773	11,194,337
Borrowings	309,170	827,918	157,709	-	1,294,797
Hybrid instruments	559,039	50,677	-	-	609,716
Provisions for liabilities and expenses	36,182	-	-	-	36,182
Other liabilities	453,136	-	21,202	206	474,544
Total equity	1,181,632	-	-	-	1,181,632
TOTAL LIABILITIES AND EQUITY	**9,196,267**	**1,103,036**	**4,501,791**	**176,856**	**14,977,950**
NET FOREIGN EXCHANGE POSITION	**26,691**	**2,793,570**	**(2,824,147)**	**3,886**	**-**

2 RISK MANAGEMENT (continued)

2.5.1 Foreign currency position analysis (continued)

Bank 2011
HRK 000

	HRK	HRK, currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	899,087	-	144,159	46,938	1,090,184
Obligatory reserve with Croatian National Bank	1,146,886	-	99,763	-	1,246,649
Loans to and receivables from banks	371,550	-	832,431	90,467	1,294,448
Financial assets at fair value through profit or loss	235,408	111,410	2,851	13,908	363,577
Financial assets available for sale	1,155,046	189,970	25,485	673	1,371,174
Financial assets held to maturity	581,215	100,986	4,871	-	687,072
Loans and receivables from customers	4,826,975	4,080,157	635,932	79,085	9,622,149
Assets held for sale	21,551	-	-	-	21,551
Investments in subsidiaries	53,990	-	-	-	53,990
Property and equipment	150,849	-	-	-	150,849
Intangible assets	203,764	-	-	-	203,764
Deferred tax assets, net	36,309	-	-	-	36,309
Other assets	237,134	3,768	68,209	999	310,110
TOTAL ASSETS	**9,919,764**	**4,486,291**	**1,813,701**	**232,070**	**16,451,826**
LIABILITIES					
Financial liabilities at fair value through profit or loss	654	-	-	1,926	2,580
Deposits from banks	25,873	-	19,516	18,204	63,593
Customer deposits	7,645,955	63,868	4,783,922	208,419	12,702,164
Borrowings	277,523	854,612	108,773	-	1,240,908
Hybrid instruments	558,875	51,673	-	-	610,548
Provisions for liabilities and expenses	33,664	-	-	-	33,664
Other liabilities	501,380	-	6,371	35,214	542,965
Total equity	1,255,404	-	-	-	1,255,404
TOTAL LIABILITIES AND EQUITY	**10,299,328**	**970,153**	**4,918,582**	**263,763**	**16,451,826**
NET FOREIGN EXCHANGE POSITION	**(379,564)**	**3,516,138**	**(3,104,881)**	**(31,693)**	**-**

2 RISK MANAGEMENT (continued)

2.5.1 Foreign currency position analysis (continued)

Bank 2010
HRK 000

	HRK	HRK, currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	623,359	-	109,753	43,773	776,885
Obligatory reserve with Croatian National Bank	989,034	-	88,696	-	1,077,730
Loans to and receivables from banks	295,136	-	973,333	55,207	1,323,676
Financial assets at fair value through profit or loss	847,573	142,515	2,796	12,025	1,004,909
Financial assets available for sale	268,622	131,807	56,965	644	458,038
Financial assets held to maturity	431,770	98,677	10,631	-	541,078
Loans and receivables from customers	5,038,053	3,335,635	430,879	68,673	8,873,240
Assets held for sale	21,551	-	-	-	21,551
Investments in subsidiaries	73,990	-	-	-	73,990
Property and equipment	153,582	-	-	-	153,582
Intangible assets	224,748	-	-	-	224,748
Deferred tax assets, net	25,130	-	-	-	25,130
Other assets	226,265	1,364	4,591	420	232,640
TOTAL ASSETS	**9,218,813**	**3,709,998**	**1,677,644**	**180,742**	**14,787,197**
LIABILITIES					
Financial liabilities at fair value through profit or loss	80	-	-	322	402
Deposits from banks	158,103	-	12,682	15,555	186,340
Customer deposits	6,511,080	39,609	4,310,198	160,773	11,021,660
Borrowings	309,170	827,918	157,709	-	1,294,797
Hybrid instruments	559,039	50,677	-	-	609,716
Provisions for liabilities and expenses	36,164	-	-	-	36,164
Other liabilities	426,672	-	21,203	206	448,080
Total equity	1,190,038	-	-	-	1,190,038
TOTAL LIABILITIES AND EQUITY	**9,190,346**	**918,204**	**4,501,792**	**176,856**	**14,787,197**
NET FOREIGN EXCHANGE POSITION	**28,467**	**2,791,794**	**(2,824,148)**	**3,886**	**-**

2 RISK MANAGEMENT (continued)

2.6. Operational risk management

Operational risk is inherent to all activities, processes, products and systems of the Group. The Group ensures appropriate operational risk management by applying procedures and a system of authorisations and responsibilities specified in detail in its internal by-laws, the Risk Management Policy and the Internal Operational Risk Management Manual as root documents. The operational risk management system has been established through appropriate bodies of the Bank and an efficient internal control system.

The Group defines operational risk as a risk of an event which, as a consequence, exposes the Group to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operational risk is a risk of an event resulting in significant loss because of operational risk.

In order to efficiently manage the overall exposure to operational risk, the Group applies the following:

- Collecting and analysing internal data about operational risk events;
- Self-assessment of risks and controls;
- Assessment of information technology risk; and
- Business Impact Analysis of unavailability of key business processes.

The Group assesses the outsourcing risk as an additional exposure to all significant risks arising from the fact that the Bank does not itself perform the outsourced activities, but rather that those activities are performed by external vendors; hence, the impact of outsourcing on the Bank's risk profile is assessed.

The Group assesses the impact of introducing a new product on the Bank's risk profile, which includes exposure to all significant risks.

For the purpose of managing efficiently operational risk, the Bank has set up the Operational Risk Management Committee. Based on the reports on the Bank's exposure to operational risk, the Operational Risk Management Committee draws conclusions and makes decisions about appropriate measures to manage the risk.

The Group applies the Standardized Approach in calculating the capital requirement for operational risk.

2.7. Capital management

Capital allocation

The amount of capital allocated to individual operations is based primarily on regulatory requirements. The allocation of capital to specific activities is performed independent of individuals in charge of those activities.

Although the maximisation of return on the risk-wieghted capital is the key basis used in determining the allocation of capital within the Group to individual activities, it is not the only basis in the decision-making process. Sinergies with other activities, availability of the Management Board and other resources, as well as the alignment of the activities with the Group's strategic goals in the long run. The directors review regularly the Group's policies for managing and allocating capital.

2 RISK MANAGEMENT (continued)

2.7 Capital management (continued)

Capital requirement calculations are based on exposures to customers classified into the prescribed exposure categories, which are then weighted according to risk depending on the exposure category of the customer (exposure to the State, to institutions, public bodies, individuals, etc.), the remaining period to maturity, type of collateral (i.e. residential or commercial property), diversification of loans, the identified number of past due days and the amount of provisions made, as defined in the Decision on Regulatory Capital Adequacy. The Bank applies standardized approach when calculating capital requirements.

	2011 HRK 000	2010 HRK 000
REGULATORY CAPITAL		
Core capital	1,143,376	1,109,485
Supplementary capital	401,638	600,642
Items deductible from regulatory capital	(53,500)	(55,850)
Total regulatory capital	**1,491,514**	**1,654,277**

	2011 HRK 000	2010 HRK 000
Credit risk exposure (Standardized Approach)	**8,955,997**	**8,356,374**
Capital requirement for currency risk	10,804	5,680
Capital requirement for position risk (debt and equity instruments)	11,598	22,277
Capital requirement for investment in equity instruments risk	23,571	24,484
Capital requirement for operational risk	139,706	125,022
Total capital requirements for market and operational risks	**185,679**	**177,462**
Capital adequacy ratio in %	**14.20**	**16.82**

The Bank, through the Asset and Liability Management Committee, continuously monitors the capital adequacy rate and undertakes necessary measures in line with the Bank's policies, especially the Bank's policy regarding loan placements accordingly.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment losses on loans and receivables

The Group monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Group's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying amount of loans and advances to corporate and retail customers (summarised in Note 11), and as provisions for liabilities and expenses arising from off-balance-sheet risk exposure to customers, mainly in the form of guarantees, documentary credits and undrawn loan commitments (summarised in Notes 24 and 40). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

The following tables represent the summary of impairment losses of loans to and receivables from customers.

Group	**Notes**	**2011 HRK 000**	**2010 HRK 000**
Impairment losses on loans to and receivables from customers	11	967,754	835,470
Provisions for off-balance-sheet exposures	24	22,325	19,575
Total		**990,079**	**855,045**

Bank	**Notes**	**2011 HRK 000**	**2010 HRK 000**
Impairment losses on loans to and receivables from customers	11	966,789	834,597
Provisions for off-balance-sheet exposures	24	22,303	19,556
Total		**989,092**	**854,153**

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Financial assets at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The Group estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgment in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Group also has regard to the ranges of specific impairment loss rates prescribed by the CNB.

At the year end, the gross value of specifically impaired loans and receivables, and the rate of impairment loss recognized, was as follows:

Group	**2011**	**2010**
Gross exposures (in HRK'000)	2,586,156	2,068,721
Impairment rate	34.3%	36.7%

Bank	**2011**	**2010**
Gross exposures (in HRK'000)	2,586,147	2,068,098
Impairment rate	34.3%	36.7%

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2011 would lead to the recognition of an additional impairment loss of HRK 25,862 thousand for the Group (2010: HRK 20,687 thousand) are HRK 25,861 thousand for the Bank (2010: HRK 20,681 thousand).

The Group also seeks to recognise impairment losses which are known to exist at the reporting date, but which have not yet been specifically identified. In estimating identified impairment losses existing in collectively assessed portfolios, and in the absence of reliable data on historical loss rates and the emergence period for the identification of these impairment losses, the Group has regard to the range of impairment loss rates of 0.85% to 1.20% prescribed by the CNB to be calculated on all credit risk exposures except those carried at fair value, including off-balance-sheet amounts (lending commitments and credit card limits) and Croatian sovereign risk. The amounts assessed as impaired on an individual basis are excluded from this calculation.

The amount of impairment allowance at 31 December 2011 estimated on a portfolio basis amounted to HRK 141,961 thousand (2010: HRK 130,927 thousand) of the relevant on- and off-balance-sheet exposure of the Group, and HRK 141,166 thousand (2010: HRK 129,608 thousand) of the relevant on- and off-balance-sheet exposure of the Bank.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Financial assets at amortized cost (continued)

At the minimum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 21,354 thousand (2010: HRK 20,759 thousand) lower than the amount recognised by the Group and HRK 21,387 thousand (2010: HRK 20,562 thousand) lower than the amount recognised by the Bank.

At the maximum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 28,384 thousand (2010: HRK 24,602 thousand) higher than the amount recognised by the Group and HRK 27,934 thousand (2010: HRK 24,339 thousand) higher than the amount recognised by the Bank.

Market value of pledged property and foreclosed assets

As disclosed in Note 2.1.5 (c), loans and receivables to customers at 31 December 2011 include exposures with a carrying value of HRK 2,550,911 thousand classified by the Bank as impaired in view of delinquencies in payment, a significant proportion of which are secured on collateral in the form of property, plant and equipment. In assessing loan recoverability based on pledged property, market value of pledged property is discounted to present value by applying periods prescribed by internal acts. In addition, as disclosed in Note 18, other assets at 31 December 2011 include property, plant and equipment with a carrying value of HRK 132,279 thousand which represent foreclosed assets collected in settlement of non-performing debt. Discrepancy between the carrying amount and the fair value was determined in 2011, and accordingly, impairments on these assets were recognized in the income statement in the amount of HRK 5,275 thousand (2010: HRK 0). At31 December 2011, the net book value of foreclosed assets amounts to HRK 104,183 thousand.

Fair value of derivatives

The fair value of OTC derivatives is determined using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

Fair value of treasury bills

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia using an internal model which considers their remaining maturity and the latest available auction prices of equivalent instruments. As at 31 December 2011, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss amounted to HRK 93,311 thousand (2010: HRK 596,356 thousand). As at 31 December 2011, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss amounted to HRK 494.785 thousand (2010: HRK 206,043 thousand).

Fair value of the financial instruments quoted in an active market

In estimating the fair value of quoted financial instruments, the Bank does not use closing prices at the date of estimation, but applies average prices which are based on the individual transaction volumes of the specified instruments during the day of estimation. This method provides a more realistic indication of the real price of the instrument, and decreases the risk of inadequate or inappropriate estimation of fair value which may result from limited

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

trading in the instrument just before the end of the trading period, at a price which significantly differs from the daily average.

This policy resulted in financial assets at fair value through profit or loss of HRK 147,943 thousand (2010: (2010: HRK 283,074 thousand) being carried at an amount lower by HRK 1,268 thousand (2010: HRK 2,983 thousand higher), and financial assets available for sale of HRK 843,673 thousand (2010: HRK 245,614 thousand) being carried at an amount lower by HRK 3,899 thousand lower (2010: HRK 740 thousand lower), than had closing prices been applied.

Provisions for court cases initiated against the Group

In calculating provisions for court expenses, the Group discounts expected future cash flows in respect of the liabilities using the CNB's discount rate.

Taxation

The Group recognises tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records.

4. SEGMENT REPORTING

The Group's business segments represent the primary reportable segments. The primary format is based on the Group's management and internal reporting structure. As the Group does not allocate overhead expenses and equity to segments, segment profitability is not reported.

Business segments

The Group comprises the following primary business segments:

- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers;
- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers;
- *Treasury* — Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities;
- *Investment Banking and Asset Management* — Includes the Group's corporate and retail finance activities and asset management activities, as well as custody services.

4 SEGMENT REPORTING (continued)

Group

	Corporate	Retail	Treasury	Investment banking and asset management	Unallocated	Total 2011 HRK 000
Net interest income	312,783	75,091	98,067	50	6,338	492,329
Net fee and commission income	34,394	140,018	124	4,673	15,292	194,501
Trading and investment income	-	-	20,346	-	(3,658)	16,688
Other income	10,899	804	10,550	202	950	23,405
Operating income	**358,076**	**215,913**	**129,087**	**4,925**	**18,922**	**726,923**
General and administrative expenses	-	-	-	-	(453,896)	(453,896)
Depreciation and amortisation	-	-	-	-	(62,435)	(62,435)
Impairment losses on loans to and receivables from customers and other assets	(127,215)	(15,836)	16,248	(4)	(5,193)	(132,000)
Provisions for liabilities and expenses	-	-	-	-	1,796	1,796
Operating expenses	**(127,215)**	**(15,836)**	**16,248**	**(4)**	**(519,728)**	**(646,535)**
Profit before taxation						80,389
Income tax expense	-	-	-	-	5,366	5,366
Profit for the year	**-**	**-**	**-**	**-**	**5,366**	**85,755**
Segment assets	7,318,199	3,454,237	5,119,312	46,243	-	15,937,991
Unallocated assets	-	-	-	-	754,469	754,469
Total assets	**7,318,199**	**3,454,237**	**5,119,312**	**46,243**	**754,469**	**16,692,460**
Segment liabilities	6,623,362	7,482,855	600,865	40,319	-	14,747,401
Unallocated equity and liabilities	-	-	-	-	1,945,059	1,945,059
Total equity and liabilities	**6,623,362**	**7,482,855**	**600,865**	**40,319**	**1,945,059**	**16,692,460**

HPB HRVATSKA POŠTANSKA BANKA

4 SEGMENT REPORTING (continued)

Group

	Corporate	Retail	Treasury	Investment banking and asset management	Unallocated	Total
						2010 HRK 000
Net interest income	244,119	47,553	97,788	1,323	6,100	396,883
Net fee and commission income	35,337	155,994	1,165	6,951	12,851	212,298
Trading and investment income	-	-	41,781	-	(173)	41,608
Other income	4,764	3,118	30,410	-	1,235	39,527
Operating income	**284,220**	**206,665**	**171,144**	**8,274**	**20,013**	**690,316**
General and administrative expenses	-	-	-	-	(425,273)	(425,273)
Depreciation and amortisation	-	-	-	-	(69,161)	(69,161)
Impairment losses on loans to and receivables from customers and other assets	(93,247)	(39,069)	(3,123)	(7)	(1,089)	(136,535)
Provisions for liabilities and expenses	-	-	-	-	(1,210)	(1,210)
Operating expenses	**(93,247)**	**(39,069)**	**(3,123)**	**(7)**	**(496,732)**	**(632,178)**
Loss before taxation	**-**	**-**	**-**	**-**	**-**	**58,138**
Income tax expense	-	-	-	-	(5,897)	(5,897)
Loss for the year	**-**	**-**	**-**	**-**	**(5,897)**	**52,241**
Segment assets	6,429,989	3,070,091	4,832,679	27,551	-	14,360,310
Unallocated assets	-	-	-	-	617,640	617,640
Total assets	**6,429,989**	**3,070,091**	**4,832,679**	**27,551**	**617,640**	**14,977,950**
Segment liabilities	5,726,482	6,621,746	820,214	52,926	-	13,221,368
Unallocated equity and liabilities	-	-	-	-	1,756,582	1,756,582
Total equity and liabilities	**5,726,482**	**6,621,746**	**820,214**	**52,926**	**1,756,582**	**14,977,950**

4 SEGMENT REPORTING (continued)

Bank

2011
HRK 000

	Corporate	Retail	Treasury	Investment banking and asset management	Unallocated	Total
Net interest income	312,783	75,091	98,067	50	-	485,991
Net fee and commission income	36,768	140,018	124	4,673	(1,034)	180,549
Trading and investment income	-	-	20,346	-	-	20,346
Other income	13,191	804	10,550	202	-	24,747
Operating income	**362,742**	**215,913**	**129,087**	**4,925**	**(1,034)**	**711,633**
General and administrative expenses	-	-	-	-	(436,787)	(436,787)
Depreciation and amortisation	-	-	-	-	(61,922)	(61,922)
Impairment losses on loans to and receivables from customers and other assets	(127,215)	(15,836)	16,248	(4)	(5,521)	(132,329)
Provisions for liabilities and expenses	-	-	-	-	1,801	1,801
Operating expenses	**(127,215)**	**(15,836)**	**16,248**	**(4)**	**(502,429)**	**(629,237)**
Profit before taxation	**-**	**-**	**-**	**-**	**-**	82,396
Income tax expense	-	-	-	-	5,528	5,528
Profit for the year	**-**	**-**	**-**	**-**	**5,528**	**87,924**
Segment assets	7,340,060	3,454,237	5,119,312	100,233		16,013,842
Unallocated assets	-	-	-	-	437,984	437,984
Total assets	**7,340,060**	**3,454,237**	**5,119,312**	**100,233**	**437,984**	**16,451,826**
Segment liabilities	6,645,223	7,482,855	600,865	40,319	-	14,769,262
Unallocated equity and liabilities	-	-	-	-	1,682,564	1,682,564
Total equity and liabilities	**6,645,223**	**7,482,855**	**600,865**	**40,319**	**1,682,564**	**16,451,826**

4 SEGMENT REPORTING (continued)

Bank

	Corporate	Retail	Treasury	Investment banking and asset management	Unallocated	Total
						2010
						HRK 000
Net interest income	244,835	47,553	97,788	1,323	-	391,499
Net fee and commission income	35,337	155,994	1,165	6,951	(1,003)	198,444
Trading and investment income	-	-	41,781	-	-	41,781
Other income	4,764	3,118	30,410	-	-	38,292
Operating income	**284,936**	**206,665**	**171,144**	**8,274**	**(1,003)**	**670,016**
General and administrative expenses	-	-	-	-	(407,018)	(407,018)
Depreciation and amortisation	-	-	-	-	(68,682)	(68,682)
Impairment losses on loans to and receivables from customers and other assets	(93,247)	(39,069)	(3,123)	(7)	(1,100)	(136,546)
Provisions for liabilities and expenses	-	-	-	-	(1,215)	(1,215)
Operating expenses	**(93,247)**	**(39,069)**	**(3,123)**	**(7)**	**(478,015)**	**(613,461)**
Loss before taxation	**-**	**-**	**-**	**-**	**-**	56,555
Income tax expense	-	-	-	-	(5,719)	(5,719)
Profit for the year	**-**	**-**	**-**	**-**	**(5,719)**	**50,836**
Segment assets	6,439,715	3,070,091	4,832,679	101,541	-	14,444,026
Unallocated assets	-	-	-	-	343,171	343,171
Total assets	**6,439,715**	**3,070,091**	**4,832,679**	**101,541**	**343,171**	**14,787,197**
Segment liabilities	5,738,637	6,621,746	820,214	52,926	-	13,233,523
Unallocated equity and liabilities	-	-	-	-	1,553,674	1,553,674
Total equity and liabilities	**5,738,637**	**6,621,746**	**820,214**	**52,926**	**1,553,674**	**14,787,197**

5. CASH AND RECEIVABLES FROM BANKS

Group

	2011 HRK 000			2010 HRK 000		
	HRK	**In foreign currency**	**Total**	**HRK**	**In foreign currency**	**Total**
Cash in hand						
Held by the Group	238,012	142,761	380,773	208,323	99,820	308,142
Held by other parties	163,221	-	163,221	144,613	-	144,613
Cheques in the course of collection	-	26	26	-	4	4
	401,233	**142,787**	**544,020**	**352,935**	**99,824**	**452,759**
Amounts due from banks						
Current accounts with domestic banks	-	1,831	1,831	-	1,766	1,766
Current accounts with foreign banks	-	46,479	46,479	-	51,937	51,937
Giro account with the CNB	497,869	-	497,869	270,429	-	270,429
	497,869	**48,310**	**546,179**	**270,429**	**53,703**	**324,132**
Total	**899,102**	**191,097**	**1,090,199**	**623,364**	**153,527**	**776,891**

Bank

	2011 HRK 000			2010 HRK 000		
	HRK	**In foreign currency**	**Total**	**HRK**	**In foreign currency**	**Total**
Cash in hand						
Held by the Bank	237,997	142,761	380,758	208,316	99,820	308,136
Held by other parties	163,221	-	163,221	144,614	-	144,614
Cheques in the course of collection	-	26	26	-	4	4
	401,218	**142,787**	**544,005**	**352,930**	**99,824**	**452,754**
Amounts due from banks						
Current accounts with domestic banks	-	1,831	1,831	-	1,766	1,766
Current accounts with foreign banks	-	46,479	46,479	-	51,937	51,937
Giro account with the CNB	497,869	-	497,869	270,428	-	270,428
	497,869	**48,310**	**546,179**	**270,428**	**53,703**	**324,131**
Total	**899,087**	**191,097**	**1,090,184**	**623,358**	**153,527**	**776,885**

6. OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

	Group		Bank	
	2011	**2010**	**2011**	**2010**
	HRK 000	**HRK 000**	**HRK 000**	**HRK 000**
Obligatory reserve				
- in HRK	1,146,838	988,396	1,146,838	988,396
- in foreign currency	99,763	88,696	99,763	88,696
Mandatory Croatian National Bank treasury bills	-	-	-	-
Accrued interest due	48	638	48	638
Accrued interest not yet due	-	-	-	-
Total	**1,246,649**	**1,077,730**	**1,246,649**	**1,077,730**

The obligatory reserve with the CNB represents the amount required to be deposited with the CNB.

The obligatory reserve requirement until 12 October 2011 was set at 13 percent of HRK and foreign currency deposits, borrowings and issued debt securities, and at 14 percent thereafter (2010: 13%).

At 31 December 2011 the required minimum rate of maintenance of the kuna obligatory reserve with the CNB equalled 70 percent (2010: 70 percent), whereas the remaining 30 percent (2010: 30%) could be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

60% of the foreign currency obligatory reserve (2010: 60%) is maintained with the CNB, while the remaining 40% (2010: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). 75% (2010: 75%) of the foreign currency obligatory reserve is required to be held in HRK and is added to the HRK obligatory reserve (see above).

In March 2011, the CNB annulled the payment of the fee on obligatory reserve funds (2010.: 0.25%).

7. LOANS TO AND RECEIVABLES FROM BANKS

	Group 2011 HRK 000	Group 2010 HRK 000	Bank 2011 HRK 000	Bank 2010 HRK 000
Short-term placements with domestic banks	215,223	121,000	202,033	115,000
Short-term placements with foreign banks	913,426	1,024,049	913,426	1,024,049
Short-term loans to domestic banks	2,800	-	2,800	-
Short-term loans to domestic banks - HBOR	-	72,984	-	72,984
Total short-term placements and loans banks	**1,131,449**	**1,218,033**	**1,118,259**	**1,212,033**
Guarantee deposits with foreign banks	7,203	4,073	7,203	4,073
Long-term placements with domestic banks	42,274	51,452	42,274	51,452
Long-term loans to domestic banks - HBOR	124,982	54,546	124,982	54,546
Total short-term placements and loans banks	**174,459**	**110,071**	**174,459**	**110,071**
Short-term placements with domestic non-banking financial institutions	500	500	500	500
Long-term placements with domestic non-banking financial institutions	340	858	340	858
Long-term placements with domestic non-banking financial institutions	**840**	**1,358**	**840**	**1,358**
Specific provision for placements non-banking financial institutions	**(500)**	**(500)**	**(500)**	**(500)**
Accrued interest not yet due	1,390	714	1,390	714
Total interest receivable	**1,390**	**714**	**1,390**	**714**
Total	**1,307,638**	**1,329,676**	**1,294,448**	**1,323,676**

Long-term placements with domestic banks include an amount of HRK 42,274 thousand (2010: HRK 51,452 thousand) held at domestic banks, pledged as collateral for the repayment of long-term borrowings repayable in 17 installments from 14 September 2009 to 14 September 2015. Guarantee deposits mainly relate to deposits for card operations.

Movements in impairment allowance

The movements in the impairment allowance for loans to and receivables from banks, recognised in the income statement, were as follows:

	Group 2011 HRK 000	Group 2010 HRK 000	Bank 2011 HRK 000	Bank 2010 HRK 000
Balance at 1 January	500	500	500	500
(Decrease)/increase in impairment loss on loans to and receivables from banks	-	-	-	-
Balance at 31 December	**500**	**500**	**500**	**500**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2011 HRK 000	2010 HRK 000	2011 HRK 000	2010 HRK 000
Trading instruments				
Debt securities quoted on active markets				
Bonds of the Ministry of Finance	206,985	282,143	143,827	282,143
Corporate bonds and commercial papers	4,116	3,908	4,116	3,908
Debt securities quoted in an active market	**211,101**	**286,051**	**147,943**	**286,051**
Debt securities not quoted in an active market				
Treasury bills of the Croatian Ministry of Finance	98,279	601,337	93,311	596,356
Units in investment funds quoted in an active market	64,903	61,628	63,655	60,824
Equity securities quoted in an active market	50,189	53,372	50,189	53,372
	213,371	**716,337**	**207,155**	**710,552**
Positive fair value of financial instruments				
- Forward contracts, OTC	2,973	1,253	2,973	1,253
- Futures, quoted on active markets	-	-	-	-
	2,973	**1,253**	**2,973**	**1,253**
Accrued interest not yet due	**6,694**	**7,055**	**5,506**	**7,053**
Total	**434,138**	**1,010,696**	**363,577**	**1,004,909**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

As of 28 December 2011 the Bank reclassified certain financial assets at fair value through profit and loss (trading portfolio) into the available for sale portfolio. Fair value of the reclassified assets was HRK 309,816 thousand as of the reclassification date.

Bank **HRK '000**	**28 December 2011**		**31 December 2011**	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at fair value through profit and loss reclassified to available for sale portfolio	309,816	309,816	310,247	310,247

Before reclassification these assets affected the income statement with the loss of HRK 10,190 thousand during 2011. Fair value does not include accrued interest.

If the reclassification was not implemented, the financial result in the income statement for 2011 would include unrealized gain on fair value for the reclassified assets (fair value net of accrued interest) in the amount of HRK 431 thousand, which was included in the statement of comprehensive income as the change in fair value of financial instruments as available for sale.

Effective 31 December 2011 a subsidiary of the Bank conducted a reclassification of financial assets at fair value through profit or loss (trading assets) into financial assets available for sale. The fair value of the reclassified assets at the reclassification date was HRK 81,100 thousand.

9. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Debt securities not quoted on active markets				
Bonds of the Ministry of Finance	850,440	242,330	767,383	170,009
Bills of exchange	-	-	-	-
Corporate bonds	76,290	75,606	76,290	75,606
Commercial papers		-	-	-
	926,730	**317,936**	**843,673**	**245,615**
Debt securities not quoted on active markets				
Treasury bills of the Croatian Ministry of Finance	500,904	206,043	494,785	206,043
Equity securities not quoted on active markets				
- Corporate	2,208	2,200	2,208	2,200
- Non-banking financial institutions	1,334	21,794	1,334	1,334
	3,542	**23,994**	**3,542**	**3,534**
Equity securities quoted in an active market				
- Corporate	-	-	-	-
- Non-banking financial institutions	11,828	15,539	11,828	15,539
	11,828	**15,539**	**11,828**	**15,539**
Accrued interest due	-	1	-	1
Accrued interest not yet due	18,482	4,847	17,346	3,555
Provisions for impairment losses	-	(16,248)	-	(16,248)
Impairment allowance for identified losses	-	-	-	-
Total	**1,461,485**	**552,112**	**1,371,174**	**458,038**

In accordance with the applicable accounting policies, the Bank recognizes available-for-sale financial assets at fair value with changes in fair value recognized within a fair value reserve in equity.

9. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Movement in impairment allowance for financial assets available for sale

Group			**2011 HRK 000**			**2010 HRK 000**
	Individually identified losses	**Portfolio-based losses**	**Total**	**Individually identified losses**	**Portfolio-based losses**	**Total**
At 1 January	**16,248**	**-**	**16,248**	**18,548**	**5,467**	**24,015**
Increase / (decrease) of impairment losses	(16,248)		**(16,248)**	(2,300)	(5,467)	**(7,767)**
At 31 December	-	**-**	**-**	**16,248**	**-**	**16,248**

Bank			**2011 HRK 000**			**2010 HRK 000**
	Individually identified losses	**Portfolio-based losses**	**Total**	**Individually identified losses**	**Portfolio-based losses**	**Total**
At 1 January	**16,248**	**-**	**16,248**	**18,548**	**5,326**	**23,874**
Increase / (decrease) of impairment losses	(16,248)	**-**	**(16,248)**	(2,300)	(5,326)	**(7,626)**
At 31 December	-	**-**	**-**	**16,248**	**-**	**16,248**

10. FINANCIAL ASSETS HELD TO MATURITY

	Group 2011 HRK 000	Group 2010 HRK 000	Bank 2011 HRK 000	Bank 2010 HRK 000
Bonds of the Ministry of Finance	455,854	391,049	455,854	346,348
HBOR bonds (Croatian development bank)	5,997	11,708	5,997	11,708
Corporate bonds	19,081	30,787	19,081	30,787
Bonds issued by banks		6,991	-	6,991
Bills of exchange	230,169	168,639	230,169	168,639
Treasury bills	-	10,237	-	-
	711,101	**619,411**	**711,101**	**564,473**
Accrued interest not yet due	**7,852**	**6,081**	**7,852**	**5,665**
Provisions for impairment losses	**(25,042)**	**(23,666)**	**(25,042)**	**(23,666)**
Impairment allowance for identified losses	**(6,839)**	**(5,861)**	**(6,839)**	**(5,394)**
Total	**687,072**	**595,965**	**687,072**	**541,078**

Movement in impairment allowance for financial assets held to maturity

The movements in the impairment allowance for financial assets held to maturity, recognised in the income statement, were as follows:

Group	2011 HRK 000 Individually identified losses	2011 HRK 000 Portfolio-based losses	2011 HRK 000 Total	2010 HRK 000 Individually identified losses	2010 HRK 000 Portfolio-based losses	2010 HRK 000 Total
At 1 January	**23,666**	**5,861**	**29,527**	**20,556**	**5,849**	**26,405**
Increase / (decrease) of impairment losses	1,376	978	**2,354**	5,337	12	**5,349**
Amounts written-off		-	-	(2,227)	-	**(2,227)**
At 31 December	**25,042**	**6,839**	**31,881**	**23,666**	**5,861**	**29,527**

Bank	2011 HRK 000 Individually identified losses	2011 HRK 000 Portfolio-based losses	2011 HRK 000 Total	2010 HRK 000 Individually identified losses	2010 HRK 000 Portfolio-based losses	2010 HRK 000 Total
At 1 January	**23,666**	**5,394**	**29,060**	**20,556**	**5,208**	**25,764**
Increase / (decrease) of impairment losses	1,376	1,445	**2,822**	5,337	186	**5,523**
Amounts written-off	-	-	-	(2,227)	-	**(2,227)**
At 31 December	**25,042**	**6,839**	**31,881**	**23,666**	**5,394**	**29,060**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	Group		Bank	
	2011 HRK 000	2010 HRK 000	2011 HRK 000	2010 HRK 000
Short-term loans				
Corporate	3,532,654	3,336,907	3,532,654	3,336,907
Retail	805,599	854,829	805,599	854,829
Total short-term loans	**4,338,253**	**4,191,736**	**4,338,253**	**4,191,736**
Long-term loans				
Corporate	3,658,475	3,312,744	3,667,105	3,322,470
Retail	2,611,182	2,211,527	2,515,280	2,127,864
Total long-term loans	**6,269,657**	**5,524,271**	**6,182,385**	**5,450,334**
Total gross loans	**10,607,910**	**9,716,007**	**10,520,638**	**9,642,070**
Accrued interest due	44,104	42,653	43,964	42,544
Accrued interest not yet due	24,343	23,226	24,336	23,223
Provisions for impairment losses	**(854,771)**	**(729,976)**	**(854,766)**	**(729,939)**
Impairment allowance for identified losses	**(112,983)**	**(105,494)**	**(112,023)**	**(104,658)**
Total	**9,708,603**	**8,946,416**	**9,622,149**	**8,873,240**
Total impairment allowance and provisions as a percentage of gross loans to customers	**9.12%**	**8.60%**	**9.19%**	**8.66%**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Movements in impairment allowance

Movements in the impairment allowance on loans to and receivables from customers were as follows:

Group			2011 HRK 000			2010 HRK 000
	Individually identified losses	Portfolio-based losses	Total	Individually identified losses	Portfolio-based losses	Total
At 1 January	**729,976**	**105,494**	**835,470**	**594,057**	**98,991**	**693,048**
Increase/ (decrease) of impairment losses	119,710	7,489	**127,199**	130,409	6,503	**136,912**
Amounts recovered during the year	(481)	-	**(481)**	(1,353)	-	**(1,353)**
Net foreign exchange loss/(gain)	5,892	-	**5,892**	2,756	-	**2,756**
Write-offs and other	(326)	-	**(326)**	4,107	-	**4,107**
At 31 December	**854,771**	**112,983**	**967,754**	**729,976**	**105,494**	**835,470**

Bank			2011 HRK 000			2010 HRK 000
	Individually identified losses	Portfolio-based losses	Total	Individually identified losses	Portfolio-based losses	Total
At 1 January	**729,939**	**104,658**	**834,597**	**594,057**	**98,418**	**692,475**
Increase/ (decrease) of impairment losses	119,742	7,365	**127,107**	130,372	6,240	**136,612**
Amounts recovered during the year	(481)	-	**(481)**	(1,353)	-	**(1,353)**
Net foreign exchange loss/(gain)	5,892	-	**5,892**	2,756	-	**2,756**
Amounts reversed (utilised)	(326)	-	**(326)**	4,107	-	**4,107**
At 31 December	**854,766**	**112,023**	**966,789**	**729,939**	**104,658**	**834,597**

12. ASSETS HELD FOR SALE

a) The Group's assets held for sale include:

	Industry	Domicile	Ownership at 31 December 2011 %
H1 Telekom d.d.	Telecommunications	Croatia	41.25

On 25 March 2008 the Bank made an agreement with H1 Telekom d.d., Split, on the conversion of the Bank's receivables based on a long-term loan contract into share capital.

Given that the Bank has no intention to hold its equity stake over a long-term period, it classified it as assets held for sale in accordance with IFRS 5: *Non-current Assets Held for Sale and Discounted Operations*.

Based on the 2011 estimation of fair value, the fair value was determined not to depart from the market value, as a result of which no impairment losses were recognised in the income statement (2010: nil).

The business results of H1 Telekom d.d. are not reflected in the consolidated financial statements of the Group.

b) Assets held for sale are as follows:

	Group and Bank	
	2011	2010
	HRK 000	HRK 000
H1 Telekom d.d.	21,551	21,551
Total	**21,551**	**21,551**

c) Movements in assets held for sale:

	Group and Bank	
	2011	2010
	HRK 000	HRK 000
Balance at 1 January	**21,551**	**21,551**
Impairment loss	-	-
Balance at 31 December	**21,551**	**21,551**

13. INVESTMENTS IN SUBSIDIARIES

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Ownership at 31 December 2011 %
HPB Invest d.o.o.	Investment fund management	Croatia	100
HPB Nekretnine d.o.o.	Real estate agency and construction	Croatia	100
HPB Stambena štedionica d.d.	Savings bank	Croatia	100

All the subsidiaries are fully consolidated in the Group's financial statements.

b) Investments in subsidiaries are as follows:

	Bank 2011 HRK 000	Bank 2010 HRK 000
HPB Invest d.o.o.	13,500	13,500
HPB Nekretnine d.o.o.	490	20,490
HPB Stambena štedionica d.d.	40,000	40,000
Total	**53,990**	**73,990**

In 2011, the investment in the share capital of HPB Nekretnine was reduced by HRK 20,000 thousand.

c) Movements in investments in subsidiaries:

	Bank 2011 HRK 000	Bank 2010 HRK 000
Balance at 1 January	**73,990**	**73,990**
Decrease of investments in HPB Nekretnine d.o.o.	(20,000)	-
Balance at 31 December	**53,990**	**73,990**

14. PROPERTY AND EQUIPMENT

Group

2011	Land and buildings HRK 000	Computers, equipment and motor vehicles HRK 000	Assets under construction HRK 000	Total HRK 000
Cost				
Balance at 1 January 2011	157,997	258,775	2,398	419,170
Revaluation of land and buildings	-	-	-	-
Additions	4,407	-	24,134	28,541
Amounts written-off	-	(4,132)	-	(4,132)
Disposals	(9,844)	-	-	(9,844)
Brought into use	34	21,026	(21,060)	-
Balance at 31 December 2011	**152,594**	**275,669**	**5,472**	**433,735**
Accumulated depreciation				
Balance at 1 January 2011	(53,460)	(212,075)	-	(265,535)
Charge for the year	(2,792)	(23,490)	-	(26,282)
Revaluation	(749)	-	-	(749)
Amounts written-off	-	4,009	-	4,009
Disposals	5,792	-	-	5,792
Balance at 31 December 2011	**(51,209)**	**(231,556)**	**-**	**(282,765)**
Net book value				
Balance at 1 January 2011	104,537	46,700	2,398	153,635
Balance at 31 December 2011	**101,385**	**44,113**	**5,472**	**150,970**

Group

2010	Land and buildings HRK 000	Computers, equipment and motor vehicles HRK 000	Assets under construction HRK 000	Total HRK 000
Cost				
Balance at 1 January 2010	158,083	240,898	377	399,358
Revaluation of land and buildings	(86)	-	-	(86)
Additions	-	27	21,754	21,781
Amounts written-off	-	(1,883)	-	(1,883)
Brought into use	-	19,733	(19,733)	-
Balance at 31 December 2010	**157,997**	**258,775**	**2,398**	**419,170**
Accumulated depreciation				
Balance at 1 January 2010	(50,618)	(183,344)	-	(233,962)
Charge for the year	(2,842)	(30,590)	-	(33,432)
Amounts written-off	-	1,859	-	1,859
Balance at 31 December 2010	**(53,460)**	**(212,075)**	**-**	**(265,535)**
Net book value				
Balance at 1 January 2010	107,465	57,554	377	165,396
Balance at 31 December 2010	**104,537**	**46,700**	**2,398**	**153,635**

As at 31 December 2011, assets in the course of construction comprise equipment at cost of HRK 5,472 thousand (2010: HRK 2,398 thousand).

HPB
HRVATSKA POŠTANSKA BANKA

14 PROPERTY AND EQUIPMENT (continued)

Bank

2011	**Land and buildings HRK 000**	**Computers, equipment and motor vehicles HRK 000**	**Assets under construction HRK 000**	**Total HRK 000**
Cost				
Balance at 1 January 2011	157,997	258,529	2,399	418,925
Revaluation of land and buildings	-	-	-	-
Additions	4,407	-	24,028	28,435
Amounts written-off	-	(4,096)	-	(4,096)
Disposals	(9,844)	-	-	(9,844)
Balance at 31 December 2011	**152,594**	**275,353**	**5,473**	**433,420**
Accumulated depreciation				
Balance at 1 January 2011	**(53,460)**	**(211,883)**	**-**	**(265,343)**
Charge for the year	(2,791)	(23,452)	-	(26,243)
Revaluation of land and buildings	(749)	-	-	(749)
Amounts written-off	-	3,972	-	3,972
Disposals	5,792	-	-	5,792
Balance at 31 December 2011	**(51,208)**	**(231,363)**	**-**	**(282,571)**
Net book value				
Balance at 1 January 2011	104,537	46,646	2,399	153,582
Balance at 31 December 2011	**101,386**	**43,990**	**5,473**	**150,849**

Bank

2010	**Land and buildings HRK 000**	**Computers, equipment and motor vehicles HRK 000**	**Assets under construction HRK 000**	**Total HRK 000**
Cost				
Balance at 1 January 2010	158,083	240,670	378	399,131
Revaluation of land and buildings	(86)	-	-	(86)
Additions	-	-	21,754	21,754
Amounts written-off	-	(1,874)	-	(1,874)
Brought into use	-	19,733	(19,733)	-
Balance at 31 December 2010	**157,997**	**258,529**	**2,399**	**418,925**
Accumulated depreciation				
Balance at 1 January 2010	(50,618)	(183,186)	-	(233,804)
Charge for the year	(2,842)	(30,547)	-	(33,389)
Revaluation of land and buildings	-	-	-	-
Amounts written-off	-	1,850	-	1,850
Balance at 31 December 2010	**(53,460)**	**(211,883)**	**-**	**(265,343)**
Net book value				
Balance at 1 January 2010	107,465	57,484	378	165,327
Balance at 31 December 2010	**104,537**	**46,646**	**2,399**	**153,582**

As at 31 December 2011, assets in the course of construction comprise equipment at cost of HRK 5,473 thousand (2010: HRK 2,399 thousand).

15. INVESTMENT PROPERTIES

Group	2011 HRK 000	2010 HRK 000
Cost		
Balance at 1 January	11,596	11,596
Additions	-	-
Amounts written-off	-	-
Disposals	-	-
Balance at 31 December	**11,596**	**11,596**
Accumulated depreciation		
Balance at 1 January	(893)	(640)
Disposals	-	-
Charge for the year	(253)	(253)
Balance at 31 December	**(1,146)**	**(893)**
Net book value		
Balance at 1 January	10,703	10,956
Balance at 31 December	**10,450**	**10,703**

16. INTANGIBLE ASSETS

Group

2011	**Software HRK 000**	**Leasehold improvements HRK 000**	**Licences HRK 000**	**Assets under construction HRK 000**	**Total HRK 000**
Cost					
Balance at 1 January 2011	195,513	66,484	51,324	32,822	346,143
Additions	-	-	-	15,135	15,135
Brought into use	9,660	4,435	2,762	(16,857)	-
Amounts written-off	(86)	-	-	-	(86)
Balance at 31 December 2011	**205,087**	**70,919**	**54,086**	**31,100**	**361,192**
Accumulated amortisation					
Balance at 1 January 2011	(39,742)	(50,651)	(30,698)	-	(121,091)
Charge for the year	(20,542)	(9,674)	(5,684)	-	(35,900)
Amounts written-off	86	-	-	-	86
Balance at 31 December 2011	**(60,198)**	**(60,325)**	**(36,382)**	**-**	**(156,905)**
Net book value					
Balance at 1 January 2011	155,771	15,833	20,626	32,822	225,052
Balance at 31 December 2011	**144,889**	**10,594**	**17,704**	**31,100**	**204,287**

Group

2010	**Software HRK 000**	**Leasehold improvements HRK 000**	**Licences HRK 000**	**Assets under construction HRK 000**	**Total HRK 000**
Cost					
Balance at 1 January 2010	46,853	64,874	38,584	138,471	288,782
Additions	-	179	-	61,104	61,283
Brought into use	150,253	3,760	12,740	(166,753)	-
Amounts written-off	(1,593)	(2,329)	-	-	(3,922)
Balance at 31 December 2010	**195,513**	**66,484**	**51,324**	**32,822**	**346,143**
Accumulated amortisation					
Balance at 1 January 2010	(26,800)	(38,636)	(23,294)	-	(88,730)
Charge for the year	(14,133)	(13,939)	(7,404)	-	(35,476)
Amounts written-off	1,191	1,924	-	-	3,115
Balance at 31 December 2010	**(39,742)**	**(50,651)**	**(30,698)**	**-**	**(121,091)**
Net book value					
Balance at 1 January 2010	20,053	26,238	15,290	138,471	200,052
Balance at 31 December 2010	**155,771**	**15,833**	**20,626**	**32,822**	**225,052**

As at 31 December 2011 assets in the course of construction comprise application software, licences and leasehold improvements at a cost of HRK 31,000 thousand (2010: HRK 32,822 thousand) which are being prepared for use by the Group.

16. INTANGIBLE ASSETS (continued)

Bank

2011	**Software HRK 000**	**Leasehold improvements HRK 000**	**Licences HRK 000**	**Assets under construction HRK 000**	**Total HRK 000**
Cost					
Balance at 1 January 2011	**195,005**	**66,311**	**51,324**	**32,819**	**345,459**
Additions	-	-	-	14,694	14,694
Brought into use	9,245	4,409	2,762	(16,416)	-
Amounts written-off	(86)	-	-	-	(86)
Balance at 31 December 2011	**204,164**	**70,720**	**54,086**	**31,097**	**360,067**
Accumulated amortisation					
Balance at 1 January 2011	**(39,374)**	**(50,639)**	**(30,698)**	**-**	**(120,711)**
Charge for the year	(20,366)	(9,628)	(5,684)	-	(35,678)
Amounts written-off	86	-	-	-	86
Balance at 31 December 2011	**(59,654)**	**(60,267)**	**(36,382)**	**-**	**(156,303)**
Net book value					
Balance at 1 January 2011	155,631	15,672	20,626	32,819	224,748
Balance at 31 December 2011	**144,510**	**10,453**	**17,704**	**31,097**	**203,764**

Bank

2010	**Software HRK 000**	**Leasehold improvements HRK 000**	**Licences HRK 000**	**Assets under construction HRK 000**	**Total HRK 000**
Cost					
Balance at 1 January 2010	46,345	64,868	38,584	138,468	288,265
Additions	-	-	-	61,104	61,104
Brought into use	150,253	3,760	12,740	(166,753)	-
Amounts written-off	(1,593)	(2,317)	-	-	(3,910)
Balance at 31 December 2010	**195,005**	**66,311**	**51,324**	**32,819**	**345,459**
Accumulated amortisation					
Balance at 1 January 2010	(26,602)	(38,630)	(23,294)	-	(88,526)
Charge for the year	(13,963)	(13,926)	(7,404)	-	(35,293)
Amounts written-off	1,191	1,917	-	-	3,108
Balance at 31 December 2010	**(39,374)**	**(50,639)**	**(30,698)**	**-**	**(120,711)**
Net book value					
Balance at 1 January 2010	19,743	26,238	15,290	138,468	199,739
Balance at 31 December 2010	**155,631**	**15,672**	**20,626**	**32,819**	**224,748**

As at 31 December 2011 assets in the course of construction comprise application software, licences and leasehold improvements at a cost of HRK 31,097 thousand (2010: HRK 32,819 thousand) which are being prepared for use by the Bank.

17. NET DEFERRED TAX ASSETS

a) Recognised deferred tax assets and liabilities - Group

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2011 are presented below:

Group **2011**	**2011 HRK 000**	**Recognised as income/(expense) in the income statement HRK 000**	**Credited to equity HRK 000**	**2010 HRK 000**
Deferred tax assets				
Loans and advances to customers	12,631	1,209	-	11,422
Other provisions	1,120	(45)	-	1,165
Financial assets	21,189	4,538	-	16,651
Fair value reserve	4,576	-	4,296	280
Deferred tax liability				
Borrowings	(781)	(103)	-	(678)
Revaluation reserve	(334)	-	880	(1,214)
Fair value reserve	-	-	829	(829)
Prepaid expenses	(709)	-	-	(709)
Deferred tax assets, net	**37,692**	**5,599**	**6,005**	**26,088**

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2010 are presented below:

Group **2010**	**2010 HRK 000**	**Recognised as income/(expense) in the income statement HRK 000**	**Credited/(charged) to equity HRK 000**	**2009 HRK 000**
Deferred tax assets				
Loans and advances to customers	11,422	(3,349)	-	14,771
Other provisions	1,165	(1,881)	-	3,047
Financial assets	16,651	(460)	-	17,111
Fair value reserve	280	-	(78)	358
Deferred tax liability				
Borrowings	(678)	72	-	(750)
Revaluation reserve	(1,214)	-	8	(1,222)
Fair value reserve	(829)		1,880	(2,709)
Prepaid expenses	(709)	1	-	(710)
Deferred tax assets, net	**26,088**	**(5,617)**	**1,810**	**29,896**

17. NET DEFERRED TAX ASSETS (continued)

b) Recognised deferred tax assets and liabilities - the Bank

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2011 are presented below:

Bank **2011**	**2011** **HRK 000**	**Recognised as income/(expense) in the income statement** **HRK 000**	**Credited to equity** **HRK 000**	**2010** **HRK 000**
Deferred tax assets				
Loans and advances to customers	11,404	1,174	-	10,230
Other provisions	1,117	(1)	-	1,126
Financial assets	21,189	4,538	-	16,651
Fair value reserve	3,941	-	3,941	-
Deferred tax liability				
Borrowings	(1,009)	(183)	-	(826)
Revaluation reserve	(334)	-	880	(1,214)
Fair value reserve	-	-	829	(829)
Deferred tax assets, net	**36,308**	**5,528**	**5,650**	**25,130**

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2010 are presented below:

Bank **2010**	**2010** **HRK 000**	**Recognised as income/(expense) in the income statement** **HRK 000**	**Credited/(charged) to equity** **HRK 000**	**2008** **HRK 000**
Deferred tax assets				
Loans and advances to customers	10,230	(3,418)	-	13,648
Other provisions	1,118	(1,810)	-	2,928
Financial assets	16,651	(460)	-	17,111
Fair value reserve	-	-	-	-
Deferred tax liability				
Borrowings	(826)	(31)	-	(795)
Revaluation reserve	(1,214)	-	8	(1,222)
Fair value reserve	(829)	-	1,880	(2,709)
Deferred tax assets, net	**25,130**	**(5,719)**	**1,888**	**28,961**

18. OTHER ASSETS

	Group		Bank	
	2011 HRK 000	2010 HRK 000	2011 HRK 000	2010 HRK 000
Fees receivable	41,707	33,075	41,183	32,384
Foreclosed tangible assets	132,279	138,012	132,279	138,012
Items in course of collection	94,427	26,190	94,427	26,190
Deferred fee expense	2,777	3,037	791	1,110
Prepaid expenses	9,583	10,967	9,381	10,798
Other receivables	90,574	69,400	71,774	53,573
Total other assets, gross	**371,347**	**280,681**	**349,835**	**262,067**
Impairment loss	(39,737)	(29,453)	(39,724)	(29,427)
Total	**331,610**	**251,228**	**310,111**	**232,640**

At 31 December 2011 the gross carrying amount of foreclosed assets by the Bank amounted to HRK 132,279 thousand (2010: HRK 138,012 thousand) Those assets comprise buildings in the amount of HRK 93,554 thousand, land in the amount of HRK 30,696 thousand and equipment in the amount of HRK 8,029 thousand. The 2011 market value estimate of these assets revealed departure between the fair and book values, and therefore impairment loss in total amount of HRK 5,275 thousand was recognized in 2011 (2010: HRK 0).

Movements in foreclosed tangible assets

Movements in foreclosed tangible assets for 2010 are not significant. The following table represents movements in foreclosed assets during 2011:

Group and Bank

	HRK 000
Balance at 1 January	114,364
Foreclosed in 2011	16,597
Disposed of in 2011	(21,014)
Leased out under finance lease during 2011	(525)
Impairment loss	(5,275)
Balance at 31 December	**104,147**

Movements in impairment allowance

Movements in the impairment allowance on other assets were as follows:

	Group		Bank	
	2011 HRK 000	2010 HRK 000	2011 HRK 000	2010 HRK 000
Balance at 1 January	29,453	26,966	29,427	26,951
Increase in impairment losses	11,426	4,405	11,371	4,399
Amounts reversed (utilised)	(1,142)	(1,918)	(1,074)	(1,923)
Balance at 31 December	**39,737**	**29,453**	**39,724**	**29,427**

19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2011	2010	2011	2010
	HRK 000	HRK 000	HRK 000	HRK 000
Negative fair value of futures contracts	-	-	-	-
Negative fair value of forward foreign exchange contracts	1,758	155	1,758	155
Negative fair value of cross currency swaps	822	247	822	247
Balance at 31 December	**2,580**	**402**	**2,580**	**402**

20. DEPOSITS FROM BANKS

	Group		Bank	
	2011	2010	2011	2010
	HRK 000	HRK 000	HRK 000	HRK 000
Demand deposits				
- in HRK	2,813	28,173	2,813	28,173
- in foreign currency	18,540	28,237	18,540	28,237
Term deposits				
- in HRK	23,000	129,537	23,000	129,537
- in foreign currency	19,170	-	19,170	-
Interest payable not yet due	-	393	-	393
Interest payable - due	70	-	70	-
Total	**63,593**	**186,340**	**63,593**	**186,340**

21. DEPOSITS FROM CUSTOMERS

Group	2011			2010		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Demand deposits						
Retail	1,885,106	245,136	2,130,242	1,956,319	207,084	2,163,403
Corporate	1,405,270	107,642	1,512,912	1,150,420	183,008	1,333,428
Restricted deposits						
Retail	6,010	10	6,020	5,320	1,051	6,371
Corporate	1,217,994	70,109	1,288,103	818,126	17,459	835,585
	4,514,380	**422,897**	**4,937,277**	**3,930,185**	**408,602**	**4,338,787**
Term deposits						
Retail	2,068,471	3,428,621	5,497,092	1,625,580	2,920,911	4,546,491
Corporate	1,316,841	1,096,281	2,413,122	1,140,117	1,097,114	2,237,231
	3,385,312	**4,524,902**	**7,910,214**	**2,765,697**	**4,018,025**	**6,783,722**
Interest payable - due	1	-	1	1	-	1
Interest payable - not yet due	32,022	44,541	76,563	27,483	44,344	71,827
Total	**7,931,715**	**4,992,340**	**12,924,055**	**6,723,366**	**4,470,971**	**11,194,337**

Bank	2011			2010		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Demand deposits						
Retail	1,885,106	245,136	2,130,242	1,956,319	207,084	2,163,403
Corporate	1,407,525	107,642	1,515,167	1,152,026	183,008	1,335,034
Restricted deposits						
Retail	6,010	10	6,020	5,320	1,051	6,371
Corporate	1,217,994	70,109	1,288,103	818,126	17,459	835,585
	4,516,635	**422,897**	**4,939,532**	**3,931,791**	**408,602**	**4,340,393**
Term deposits						
Retail	1,833,348	3,428,621	5,261,969	1,440,747	2,920,911	4,361,658
Corporate	1,327,769	1,096,281	2,424,050	1,150,667	1,097,114	2,247,781
	3,161,117	**4,524,902**	**7,686,019**	**2,591,414**	**4,018,025**	**6,609,439**
Interest payable - due	1	-	1	1	-	1
Interest payable - not yet due	32,071	44,541	76,612	27,483	44,344	71,827
Total	**7,709,824**	**4,992,340**	**12,702,164**	**6,550,689**	**4,470,971**	**11,021,660**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.

22. BORROWINGS

Group	2011			2010		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Short-term loans from other financial institutions	63,000	1,506	64,506	81,000	-	81,000
Short-term loans from domestic banks	3,000	-	3,000	-	-	-
Long-term bank borrowings	-	106,312	106,312	-	156,667	156,667
Long-term borrowing from HBOR (kuna and foreign currency clause)	1,063,372	-	1,063,372	1,051,543	-	1,051,543
Accrued interest due	475	-	475	492	-	492
Accrued interest not yet due	2,288	955	3,243	4,053	1,042	5,095
Total	**1,132,135**	**108,773**	**1,240,908**	**1,137,088**	**157,709**	**1,294,797**

Bank	2011			2010		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Short-term loans from other financial institutions	63,000	1,506	64,506	81,000	-	81,000
Short-term loans from domestic banks	3,000	-	3,000	-	-	-
Long-term bank borrowings	-	106,312	106,312	-	156,667	156,667
Long-term borrowing from HBOR (kuna and foreign currency clause)	1,063,372	-	1,063,372	1,051,543	-	1,051,543
Accrued interest due	475	-	475	492	-	492
Accrued interest not yet due	2,288	955	3,243	4,053	1,042	5,095
Total	**1,132,135**	**108,773**	**1,240,908**	**1,137,088**	**157,709**	**1,294,797**

In accordance with their terms, borrowings from the Croatian Bank for Reconstruction and Development (“HBOR”) are used to fund loans to customers of the Bank for financing eligible reconstruction and development projects at preferential interest rates.

23. HYBRID INSTRUMENTS

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Hybrid instruments	601,638	600,642	601,638	600,642
Accrued interest not yet due	8,910	9,074	8,910	9,074
Balance at 31 December	**610,548**	**609,716**	**610,548**	**609,716**

24. PROVISIONS FOR LIABILITIES AND EXPENSES

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Litigation provision	8,852	13,951	8,852	13,951
Provisions for contingent liabilities	-	340	-	340
Provisions for other liabilities	2,149	2,317	2,149	2,317
Portfolio-based provisions for off-balance-sheet exposures	22,325	19,574	22,303	19,556
Other provisions	360	-	360	-
Balance at 31 December	**33,686**	**36,182**	**33,664**	**36,164**

Movements in provisions for contingent liabilities

The movements in provisions for liabilities and charges were as follows:

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Balance at 1 January	36,182	34,971	36,164	34,949
Increase/(decrease) in provisions in the income statement	(1,796)	1,211	(1,801)	1,215
Amounts utilised	(699)	-	(699)	-
Balance at 31 December	**33,687**	**36,182**	**33,664**	**36,164**

25. OTHER LIABILITIES

	Group		Bank	
	2011 HRK 000	2010 HRK 000	2011 HRK 000	2010 HRK 000
Trade accounts payable	37,793	24,378	36,997	23,673
Salaries, amounts to be withheld from salaries, taxes and contributions	16,756	18,302	15,890	17,436
Provisions for retirement benefits, termination benefits and similar Liabilities	20,672	14,310	20,672	14,310
Fees payable	16,517	14,734	16,377	15,439
Items in course of settlement	331,332	308,485	330,663	308,233
Deferred fee income	70,431	60,044	61,104	51,167
Other liabilities	80,181	34,291	61,262	17,822
Balance at 31 December	**573,682**	**474,544**	**542,965**	**448,080**

Items in the course of settlement mainly relate to liabilities for repayment of pensions on behalf of the Croatian Pension Fund in the amount of HRK 242 million (2010: HRK 211 million) and liabilities for transfer of cash inflows from the Bank’s account to customers who do not hold accounts with the Bank in the amount of HRK 28 million (2010: HRK 29 million).

26. EQUITY

a) Share capital

At 31 December 2011, the Company's authorised, subscribed and fully paid-in capital amounted to HRK 966,640 thousand (2010: HRK 966,640 thousand) and comprised 878,764 (2010: HRK 878,764 thousand) of authorised ordinary shares with a nominal value of HRK 1,100 each. At 31 December 2011 the Bank held 795 treasury shares (2010: 795) in the total amount of HRK 874 thousand (2010: HRK 874 thousand).

The ownership structure is as follows:

	2011		2010	
	Paid-in capital HRK 000	Ownership in %	Paid-in capital HRK 000	Ownership in %
Republic of Croatia (Agency for State Property Management)	497,443	51.46%	-	-
Central State Office for State Property Management	-	-	281,090	29.08%
Croatian Privatisation Fund	-	-	216,353	22.38%
Hrvatska pošta d.d.	265,771	27.49%	265,771	27.49%
Croatian State Pension Insurance Fund	195,042	20.18%	195,042	20.18%
Others	8,384	0.87%	8,384	0.87%
Total	**966,640**	**100.00%**	**966,640**	**100.00%**

By the establishment of the Agency for State Property Management on 1 April 2011 the management of the Croatian Government share in the Bank, which had hitherto been entrusted to the Central Office for State Property Management (amounting to 29.08%) and the Croatian Privatisation Fund (amounting to 22.38%) over the Agency for State Property Management.

26. EQUITY (continued)

b) Capital gain

Capital gain is the excess amount paid in respect of nominal value of shares at the issue of new shares. At the end of 2011 the Bank had realized capital gains amounting to HRK 228,136 thousand (2010: HRK 228,136 thousand).

c) Statutory reserve

The Bank is required to build a legal reserve by appropriating 5% of net profit for the year until the reserve reaches 5% of share capital. The balance on the legal reserve at 31 December 2011 amounted to HRK 0 (2010: nil), or 0% (2010: nil) of the share capital. Thus, the statutory reserve accumulated during 2010 was utilised to cover the 2009 loss. In the General Shareholders' Meeting to be held in 2012, the Management Board will propose to allocate the 2011 profit, remaining after the coverage of the accumulated losses, to the statutory reserve.

d Fair value reserve

The fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets available for sale, net of tax.

e) Revaluation reserve

A revaluation reserve in the amount of HRK 1,290 thousand (2010: HRK 4,888 thousand), net of tax, arises from the revaluation of land and buildings of the Group. Decrease in revaluation reserves in 2011 relates to the disposal of tangible assets of the Bank.

f) Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of Shareholders. The Management Board will not propose any dividend payment for the year ended 31 December 2011 (2010: nil).

f) Other reserves

Other reserves as at 31 December 2011 amounted to HRK 0 thousand (2010: HRK 0).

g) Retained earnings or accumulated losses

Accumulated losses comprise the loss from 2009. The 2011 profit will be used to cover outstanding 2009 losses, and the Management Board will propose, in the General Meeting of Shareholders to be held in 2012, to allocate the portion of 2011 profits remaining after the coverage of the loss to be transferred to retained earnings.

27. INTEREST AND SIMILAR INCOME

a) Analysis by product:

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Loans and advances to customers				
- Corporate	455,378	419,446	456,070	420,214
- Individuals	278,859	268,574	274,063	264,807
	734,237	**688,020**	**730,133**	**685,021**
Loans and advances to customers	12,754	10,368	12,358	9,978
Debt securities	108,643	111,294	100,799	105,157
Bills of exchange	20,975	13,648	20,975	13,648
Obligatory reserve with Croatian National Bank	842	7,593	842	7,593
Total	**877,451**	**830,923**	**865,107**	**821,397**

b) Analysis by source:

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Corporate	402,849	405,222	403,541	405,989
Retail	278,859	268,574	274,063	264,807
Government and public sector	168,160	126,953	160,316	120,816
Banks and other financial institutions	24,663	28,523	24,268	28,133
Other organisations	2,920	1,652	2,919	1,652
Total	**877,451**	**830,923**	**865,107**	**821,397**

28. INTEREST AND SIMILAR EXPENSE

a) Analysis by product:

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Borrowings	37,004	48,722	37,004	48,722
Customer deposits				
- Corporate	145,336	166,337	145,413	166,388
- Retail	197,470	210,503	191,388	206,310
	342,806	**376,840**	**336,801**	**372,698**
Deposits from banks	4,009	7,789	4,009	7,789
Other	1,303	689	1,302	689
Total	**385,122**	**434,040**	**379,116**	**429,898**

b) Analysis by recipient:

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Corporate	46,104	59,399	46,181	59,450
Retail	197,470	210,503	191,388	206,310
Government and public sector	52,185	53,393	52,185	53,393
Banks and other financial institutions	80,506	101,674	80,506	101,674
Others	8,857	9,071	8,856	9,071
Total	**385,122**	**434,040**	**379,116**	**429,898**

29. FEE AND COMMISSION INCOME

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Cash payment operations	390,227	400,681	390,227	400,681
Non-cash payment operations	42,366	26,535	42,366	26,535
Retail and credit card operations	107,342	110,002	105,434	108,586
Letters of credit, guarantees and foreign-exchange payment operations	9,736	19,053	9,736	19,053
Other fee and commission income	36,255	37,830	22,834	23,836
Total	**585,926**	**594,101**	**570,597**	**578,691**

30. FEE AND COMMISSION EXPENSE

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Cash payment operations	330,672	317,951	330,672	317,951
Non-cash payment operations	26,107	31,465	26,107	31,465
Card operations	25,442	23,705	25,442	23,705
Other fee and commission income	9,204	8,682	7,827	7,126
Total	**391,425**	**381,803**	**390,048**	**380,247**

31. GAINS LESS LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Net unrealised losses / (gains) on financial assets at fair value through profit or loss				
Realised gains/(losses)				
-Debt securities	778	2,449	862	2,422
- Equity securities	-	-	-	-
- Investment funds	3,282	4,249	3,254	4,249
- Forward contracts, OTC	1,045	(653)	1,045	(653)
	5,105	**6,045**	**5,161**	**6,018**
Unrealised gains/(losses)				
-Debt securities	(19,652)	4,905	(15,178)	4,728
- Investment funds	(2,190)	(3,841)	(2,380)	(3,841)
- Equity securities	(3,894)	876	(3,894)	876
- Futures	-	-	-	-
- Forward contracts, OTC	(456)	51	(456)	51
	(26,192)	**1,991**	**(21,908)**	**1,814**
Total	**(21,087)**	**8,036**	**(16,747)**	**7,832**

32. GAINS LESS LOSSES FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Realised gains on disposal of debt securities available for sale	1,240	2,208	558	2,208
Realised gains on disposal of equity securities available for sale	304	1,151	304	1,498
Impairment of equities		-	-	-
Total	**1,544**	**3,359**	**862**	**3,706**

33. OTHER OPERATING INCOME

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Dividend income	4,333	4,560	4,333	4,560
Net foreign exchange gain from translation of monetary assets and liabilities	6,054	5,127	6,216	5,098
Income on dormant customer accounts	97	2,509	97	2,509
Other income	12,921	31,891	14,101	30,685
Total	**23,405**	**44,087**	**24,747**	**42,852**

Other income in the amount of HRK 8.6 million, realized through the sale of foreclosed assets (2010: HRK 52.7 thousand).

34. GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Materials and services	147,491	138,625	143,381	133,346
Administration and marketing	19,446	26,264	18,815	24,955
Postage and telecommunications	36,810	34,785	36,643	34,501
Staff costs	208,833	193,771	196,564	183,218
Savings deposit insurance costs	20,586	18,177	19,905	17,694
Other general and administrative expenses	20,730	13,651	21,479	13,304
Total	**453,896**	**425,273**	**436,787**	**407,018**

a) Staff costs

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Net salaries, termination and other employee benefit costs	99,107	91,236	93,174	86,731
Taxes and contributions (including contributions payable by employers)	100,563	93,816	95,501	89,066
Other fees to employees	8,071	8,106	7,645	7,276
Fees to Supervisory Board Members	1,092	613	243	145
Total	**208,833**	**193,771**	**196,563**	**183,218**

At 31 December 2011, there were 1071 persons employed at the Bank (2010: 1012), and 1109 at the Group (2010: 1051 persons).

35. IMPAIRMENT LOSSES ON LOANS TO AND RECEIVABLES FROM CUSTOMERS AND OTHER ASSETS

		Group		Bank	
	Notes	2011 HRK 000	2010 HRK 000	2011 HRK 000	2010 HRK 000
Individually identified losses					
Loans and receivables from customers	11	(119,229)	(129,056)	(119,261)	(129,019)
Interest receivable		(7,750)	1,096	(7,759)	1,096
Financial assets available for sale	9	16,248	(3,124)	16,248	(3,124)
Financial assets held to maturity	10	(1,376)	-	(1,376)	-
Other assets	18	(11,426)	(4,405)	(11,371)	(4,399)
Assets held for sale	12	-	-	-	-
Loans to and receivables from banks	7	-	-	-	-
Total release/(charge)		**123,533**	**(135,489)**	**(123,519)**	**(135,446)**
Portfolio based provisions for identified losses					
Loans and receivables from customers	11	(7,489)	(6,503)	(7,365)	(6,240)
Financial assets available for sale	9	-	5,468	-	5,326
Financial assets held to maturity	10	(978)	(11)	(1,445)	(186)
Other assets	18	-	-	-	-
Loans to and receivables from banks	7	-	-	-	-
Total release/(charge)		**(8,467)**	**(1,046)**	**(8,810)**	**(1,100)**
Total portfolio-based and individually identified losses					
Loans and receivables from customers	11	(126,718)	(135,559)	(126,627)	(135,259)
Interest receivable		(7,750)	1,096	(7,758)	1,096
Financial assets available for sale	9	16,248	2,344	16,248	2,202
Financial assets held to maturity	10	(2,354)	(11)	(2,821)	(186)
Other assets	18	(11,426)	(4,405)	(11,371)	(4,399)
Assets held for sale	12	-	-	-	-
Loans to and receivables from banks	7	-	-	-	-
Total release/(charge)		**132,000**	**(136,535)**	**(132,329)**	**(136,546)**

36. INCOME TAX

Total recognized income tax expense, calculated at the income tax rate of 20%, comprises income tax expense recognized in the income statement and movements in deferred tax recognized in equity, as follows:

Income tax expense recognised in the income statement

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Current tax	(232)	(280)	-	-
Deferred tax income/(expense) in respect of origination and reversal of temporary differences	5,559	(5,617)	5,528	(5,719)
Total current tax recognised in the income statement	**5,366**	**(5,897)**	**5,528**	**(5,719)**

Movements in the income tax recognized directly in equity

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Deferred tax income in respect of unrealised losses on available-for-sale assets not recognised in the fair valuation reserve	5,125	1,802	4,770	1,880
Deferred tax income/(expense) in respect of revaluation of property	880	8	880	8
Total tax income/(expense) recognized directly in equity	**6,005**	**1,810**	**5,650**	**1,888**

Reconciliation of income tax expense

The reconciliation between income tax expense and profit before tax is shown as follows:

	Group		Bank	
	2011 HRK 000	**2010 HRK 000**	**2011 HRK 000**	**2010 HRK 000**
Profit/(loss) before taxation	80,389	58,138	82,396	56,555
Income tax at the rate of 20% (2010: 20%)	(16,078)	(11,628)	(16,479)	(11,311)
Tax non-deductible expenses	(10,660)	(13,107)	(10,506)	(12,899)
Non-taxable income	5,247	13,048	5,237	12,963
Taxable income	-	-	-	-
Deferred tax income	(11)	(61)	-	-
Effect of unrecognised deferred tax	26,868	5,851	27,276	5,528
	5,366	**(5,897)**	**5,528**	**(5,719)**
Effective income tax rate	-	10.1%	-	10.1%

36 INCOME TAX (continued)

Unrecognized deferred tax in respect of tax losses disposable in prospective periods

At 31 December 2011, the Bank's branch had HRK 2,874 thousand (2010: HRK 9,678 thousand) gross accumulated tax losses available for reduction of taxable profits in future periods. At 31 December 2011 the Bank held 312,849 thousand (2010: HRK 449,721 thousand) accumulated tax losses available for utilisation until 31 December 2014. Deferred tax assets with respect to tax losses carried forward were not recognized in these financial statements because the realisation of sufficient future taxable profits against which the losses could be utilised is not certain.

The availability of tax losses for reduction of taxable profits, for the Group without the Bank, of prospective periods is as follows:

Group (without the Bank)	**2011 HRK 000 Gross tax losses**	**2011 HRK 000 Deferred tax not recognised**	**2010 HRK 000 Gross tax losses**	**2010 HRK 000 Deferred tax not recognised**
31 December 2011	-	-	4,499	900
31 December 2012	804	161	3,109	622
31 December 2013	2,070	414	2,070	414
Total tax losses carried forward	**2,874**	**575**	**9,678**	**1,936**

37. EARNINGS OR LOSS PER SHARE

For the purposes of determining earnings per share, earnings represent the Bank's net profit for the year attributable to the equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used in determining the basic earnings per shares was 877,969 (2010: 616,907). As there is no impact of any options, convertible bonds or similar effects, the weighted average number of ordinary shares used in determining diluted earnings per share was equal to the one used in determining basic earnings per share i.e. 877,969 (2010: 616,907).

		Bank
	2011 HRK 000	**2010 HRK 000**
Net profit /(loss) for the year	87,924	50,836
Profit allocated to cover losses from previous years	87,924	50,836
Average number of ordinary shares in issue (excluding treasury shares)	877,969	616,907
Earnings / (Loss) per share (in kunas and lipas):	**100.15**	**82.30**

38. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

		Group		Bank	
	Notes	2011 HRK 000	2010 HRK 000	2011 HRK 000	2010 HRK 000
Giro account with the CNB	5	497,869	270,428	497,869	270,428
Obligatory reserve with Croatian National Bank	6	1,246,649	1,077,730	1,246,649	1,077,730
Bonds of the Republic of Croatia		1,393,957	931,164	1,393,957	812,432
Treasury bills of the Croatian Ministry of Finance		593,064	817,619	588,096	802,400
Loans and advances to the Republic of Croatia		994,789	1,014,550	994,789	1,014,550
Deposits from the Republic of Croatia		(1,601,839)	(1,017,139)	(1,601,839)	(1,017,139)
Total		**3,124,489**	**3,094,352**	**3,119,521**	**2,960,401**

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group		Bank	
	2011 HRK 000	2010 HRK 000	2011 HRK 000	2010 HRK 000
Loans	175,189	201,004	175,189	201,004
Deposits	(705,014)	(480,170)	(705,014)	(480,170)
Total	**(529,825)**	**(279,166)**	**(529,825)**	**(279,166)**

39. CASH AND CASH EQUIVALENTS

		Group		Bank	
	Notes	2011 HRK 000	2010 HRK 000	2011 HRK 000	2010 HRK 000
Cash and amounts due from banks	5	1,090,199	776,891	1,090,183	776,885
Obligatory reserve with Croatian National Bank	6	1,246,649	1,077,730	1,246,649	1,077,730
Deposits with banks with original maturities of up to 90 days		1,088,006	1,105,763	1,074,816	1,099,763
Items in course of collection	18	94,427	26,190	94,427	26,190
Total		**3,519,281**	**2,986,574**	**3,506,075**	**2,980,568**

40. CONTINGENT LIABILITIES

	Group		Bank	
	2011 HRK 000	2010 HRK 000 As restated	2011 HRK 000	2010 HRK 000 As restated
Guarantees denominated in HRK	486,204	531,172	486,204	531,172
Guarantees denominated in foreign currency	70,414	7,460	70,414	7,460
Letters of credit	85,860	75,592	85,860	75,592
Undrawn lending commitments	1,587,027	1,236,544	1,584,969	1,235,014
Total	**2,229,505**	**1,850,768**	**2,227,447**	**1,849,238**

At 31 December 2011, the Group and the Bank recognized portfolio-based provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credit and undrawn lending commitments, the Group in the amount of HRK 22,325 thousand, (2010: HRK 19,574 thousand), and the Bank in the amount of HRK 22,303 thousand (2010: HRK 19,556 thousand) thousand which are included in Provisions for liabilities and expenses (see Note 24).

41. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Group had the following derivative contracts, accounted for as trading instruments, open at year-end.

Group and Bank	Notional amount, remaining life					Fair value	
2011	**Up to 3 months HRK 000**	**3 to 12 months HRK 000**	**1 to 5 years HRK 000**	**Over 5 years HRK 000**	**Total HRK 000**	**Assets HRK 000**	**Liabilities HRK 000**
Forward foreign exchange contracts - OTC	163,916	-	-	-	163,916	2,128	1,758
Cross currency swap contracts - OTC	318,649	37,950	-	-	356,599	845	822
Futures	-	-	-	-	-	-	-
	482,565	**37,950**	**-**	**-**	**520,515**	**2,973**	**2,580**

Group and Bank	Notional amount, remaining life					Fair value	
2010	**Up to 3 months HRK 000**	**3 to 12 months HRK 000**	**1 to 5 years HRK 000**	**Over 5 years HRK 000**	**Total HRK 000**	**Assets HRK 000**	**Liabilities HRK 000**
Forward foreign exchange contracts - OTC	246,032	29,541	-	-	275,573	998	155
Cross currency swap contracts - OTC	101,572	-	-	-	101,572	254	247
Futures	-	-	-	-	-	-	-
	374,604	**29,541**	**-**	**-**	**377,145**	**1,252**	**402**

42. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska poštanska banka d.d. Group. The key shareholders of the Bank and of the Group are the Republic of Croatia, Hrvatska pošta d.d.. ("HP") and the State Pension Insurance Fund ("HZMO") which together own 99.13% (2010: 99.13%) of the Bank's shares. The remaining 0.87 percent (2010: 0.87%) are publicly traded. The Bank considers that it has an immediate related party relationship with its key shareholders; its subsidiaries and the investment funds managed by one of its subsidiaries, HPB Invest d.o.o.; the Supervisory and Management Board members and other executive management (together "key management personnel"); and entities controlled, jointly controlled or significantly influenced by members of the Management Board, in accordance with the definitions contained in IAS 24 "Related Party Disclosures" ("IAS 24").

a) Key transactions with immediate related parties

Croatian Post ("HP") performs domestic payment transactions for and on behalf of the Bank. Exposure to Croatian Post mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank, as well as placements in debt securities issued by Croatian Post. Liabilities towards Croatian Post are mainly in respect of demand and term deposits. Expenses include commission expense for services provided and interest expense payable on its deposits with the Bank. Exposure to Republic of Croatia is disclosed in Note 38 Concentrations of assets and liabilities

The exposure to HPB Invest consists of investment into investment funds managed by HPB Invest. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB Nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management personnel held no ordinary shares at the year-end (2010: -).

42 RELATED-PARTY TRANSACTIONS (continued)

b) Balances arising from related party transactions

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the years ended 31 December 2011 and 31 December 2010 of the Group, arising from transactions with related parties were as follows:

Group 2011	**Exposure* HRK 000**	**Liabilities HRK 000**	**Income HRK 000**	**Expenses HRK 000**
Key shareholders				
Hrvatska pošta d.d.	85,897	107,744	382,622	320,800
HZMO	11,606	30	9	-
Republic of Croatia	-	-	1,912	9
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	1,141	3,202	31	17,491
Long-term benefits (loans and deposits)	24,145	639	978	469
Severance payments	-	-	-	413
Companies under significant influence	131,610	1,475	1,922	9
Total	**254,399**	**113,090**	**387,474**	**339,191**

Group 2010	**Exposure* HRK 000**	**Liabilities HRK 000**	**Income HRK 000**	**Expenses HRK 000**
Key shareholders				
Hrvatska pošta d.d.	71,233	93,934	390,550	323,792
HZMO	-	18,394	52	3,511
Croatian Privatisation Fund	45,965	335	3,212	193
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	2,275	2,012	45	16,064
Long-term benefits (loans and deposits)	30,852	644	1,115	164
Severance payments				1,076
Companies under significant influence	80,670	1,141	5,609	93
Total	**230,995**	**116,460**	**400,583**	**344,893**

***** Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 61,625 thousand (2010: HRK 28,837 thousand) of off-balance-sheet exposure, whereof HRK 59,421 thousand (2010: HRK 27,713 thousand) relates to Croatian Post and key management personnel.

Exposure to key members of the Group's Management include loan receivables in the amount of 25,286 thousand (2010: HRK 30,849 thousand).

42 RELATED-PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with immediate related parties

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the years ended 31 December 2011 and 31 December 2010 of the Bank, arising from transactions with related parties were as follows:

Bank 2011	**Exposure* HRK 000**	**Liabilities HRK 000**	**Income HRK 000**	**Expenses HRK 000**
Key shareholders				
Hrvatska pošta d.d.	85,897	107,744	382,622	320,800
HZMO	11,606	30	9	-
Croatian Privatisation Fund	-	-	1,912	9
Subsidiaries				
HPB Invest d.o.o.	13,569	183	707	3
HPB Nekretnine d.o.o.	9,635	724	14,860	5
HPB Stambena štedionica d.d.	40,024	12,370	4	6
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	970	3,138	25	13,150
Long-term benefits (loans and deposits)	18,456	639	783	54
Severance payments	-	-		197
Companies under significant influence	131,610	1,475	1,922	9
Total	**311,767**	**126,303**	**402,844**	**334,233**

Bank 2010	**Exposure* HRK 000**	**Liabilities HRK 000**	**Income HRK 000**	**Expenses HRK 000**
Key shareholders				
Hrvatska pošta d.d.	71,233	93,934	390,550	323,792
HZMO	-	18,394	52	3,511
Croatian Privatisation Fund	45,965	335	3,212	193
Subsidiaries				
HPB Invest d.o.o.	49,571	7,726	935	24
HPB Nekretnine d.o.o.	10,311	308	1,334	1,728
HPB Stambena štedionica d.d.	144	4,147	850	25
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	1,069	1,950	39	14,631
Long-term benefits (loans and deposits)	26,450	644	942	164
Severance payments	-	-	-	1,076
Companies under significant influence	80,670	1,141	5,609	93
Total	**285,413**	**128,579**	**403,523**	**345,237**

* Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 59,580 thousand (2010: HRK 28,729 thousand) of off-balance-sheet exposure, whereof HRK 58,994 thousand (2010: HRK 27,065 thousand) relates to Croatian Post and key management personnel.

c) State owned companies

Major shareholders of the Bank, which together own 99.13% of its shares, are state agencies or state owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has a significant exposure to these parties, which is disclosed in Note 38.

43. REPURCHASE AND RESALE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognised and the proceeds are accounted for as interest bearing borrowings. At the end of the year assets sold under repurchase agreements were as follows:

	Fair value of securities HRK 000	Carrying amount of corresponding liabilities HRK 000	Repurchase date	Repurchase price HRK 000
Debt securities at fair value through profit or loss - repurchase agreements				
2011	5,166	7,451	January 2012	7,452
2010	76,869	103,982	January 2011	104,051

According to IAS 39 *Financial instruments Recognition and Measurement*.

The Bank also purchases financial instruments under agreements to resell them at future dates (“reverse repurchase agreements”). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers and are accounted for as loans and advances to customers; the underlying financial instruments are not recognised. At 31 December 2011 assets purchased and subject to agreements to resell them and linked transactions were as follows:

	Carrying amount of receivables HRK 000	Fair value of collateral HRK 000	Repurchase date	Repurchase price HRK 000
Loans to customers - reverse repo agreements				
2011	64,174	64,873	February to December 2012	64,716
2010	83,281	81,443	January to May 2011	84,000

44. FUNDS MANAGED FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Bank provides trust and custody services to companies, banks, individuals, and investment funds (Group's investment funds) whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognized in the Bank's balance sheet. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2011, the total assets under custody held by the Bank on behalf of customers, including the funds within the HPB Group, amounted to HRK 3.16 billion (2010: HRK 3.44 billion).

In addition, at 31 December 2011, total assets of investment and pension funds to which the Bank act as a depository bank, amounted to HRK 2.81 billion (2010: HRK 3.10 billion).

Furthermore, the Bank manages loan exposures of other parties as follows:

	2011 HRK 000	2010 HRK 000
Assets		
Corporate	230,706	272,171
Retail	639,757	634,115
Giro accounts	121,155	59,890
Total assets	**991,619**	**966,176**
Liabilities		
Croatian Employment Office	91,186	97,983
Counties	20,817	29,176
Government of the Republic of Croatia	715,316	658,633
HBOR	9,388	10,025
Development and Employment Fund	146,861	165,198
Other liabilities	8,052	5,161
Total liabilities	**991,619**	**966,176**

45. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group Assets	Average interest rates 2011	Average interest rates 2010
Cash and amounts due from banks	0.27%	0.17%
Obligatory reserve with Croatian National Bank	0.06%	0.75%
Loans to and receivables from banks	0.95%	0.80%
Financial assets at fair value through profit or loss	4.47%	5.36%
Financial assets available for sale	5.85%	5.78%
Financial assets held to maturity	7.59%	7.11%
Loans and receivables from customers	7.84%	8.34%
Liabilities		
Deposits from banks	3.21%	2.35%
Customer deposits	2.51%	3.15%
Borrowings	2.93%	3.13%
Hybrid instruments	6.92%	7.02%

Bank Assets	Average interest rates 2011	Average interest rates 2010
Cash and amounts due from banks	0.27%	0.17%
Obligatory reserve with Croatian National Bank	0.08%	0.75%
Loans to and receivables from banks	0.93%	0.77%
Financial assets at fair value through profit or loss	4.46%	5.37%
Financial assets available for sale	5.92%	6.00%
Financial assets held to maturity	7.59%	7.14%
Loans and receivables from customers	7.86%	8.36%
Liabilities		
Deposits from banks	3.21%	2.35%
Customer deposits	2.50%	3.15%
Borrowings	2.93%	3.13%
Hybrid instruments	6.92%	7.02%

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial instruments at fair value through profit or loss or available-for-sale financial assets are measured at fair value. Loans and receivables, and held-to-maturity investments are measured at amortised cost less impairment.

Set out below is an overview of key methods and assumptions used in estimating the fair values of financial instruments.

Loans

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio based provisions for performing (i.e. A-risk rated) loans calculated at rates prescribed by the CNB. Expected future cash flows for homogeneous categories of loans, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. As the Bank has a very limited portfolio of loans and advances with fixed rates and longer-term maturity, the fair value of loans and advances is not significantly different from their carrying value, whereas differences at the Group level relate to loans from the Bank's branch provided at fixed rates and where there is a difference between the fair value and the carrying amount.

Investments carried at cost

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where discounted cash flow techniques provide insufficiently reliable valuations due to a number of uncertainties related to estimations of future cash flows, investments are carried at cost less impairment. There is no indication for impairment of these investments.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Borrowings

Most of the Group's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Group for new debt of similar type and remaining maturity.

The following table represents the Group's and the Bank's estimate of the fair value of financial instruments as of 31 December 2011 and 31 December 2010.

Group			**2011 HRK 000**			**2010 HRK 000**
	Carrying amount	**Fair value**	**Unrecognised gains/(losses)**	**Carrying amount**	**Fair value**	**Unrecognised gains/(losses)**
Cash and amounts due from banks	1,090,199	1,090,199	-	776,891	776,891	-
Obligatory reserve with Croatian National Bank	1,246,649	1,246,649	-	1,077,730	1,077,730	-
Loans to and receivables from banks	1,307,638	1,306,724	(914)	1,329,676	1,327,077	(2,599)
Financial assets at fair value through profit or loss	434,138	434,138	-	1,010,696	1,010,696	-
Financial assets available for sale	1,461,485	1,461,485	-	552,112	552,112	-
Financial assets held to maturity	687,072	579,916	(107,156)	595,965	496,461	(99,504)
Loans and receivables from customers	9,708,603	9,688,230	(20,373)	8,946,416	8,927,771	(18,645)
Financial liabilities at fair value through profit or loss	2,580	2,580	-	402	402	-
Deposits from banks	63,593	63,593	-	186,340	186,256	84
Customer deposits	12,924,055	12,890,331	33,724	11,194,337	11,168,798	25,539
Borrowings	1,240,908	1,231,487	9,421	1,294,797	1,294,243	554
Total			**(85,298)**			**(94,570)**

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank			2011 HRK 000			2010 HRK 000
	Carrying amount	Fair value	Unrecognised gains/(losses)	Carrying amount	Fair value	Unrecognised gains/(losses)
Cash and amounts due from banks	1,090,184	1,090,184	-	776,885	776,885	-
Obligatory reserve with Croatian National Bank	1,246,649	1,246,649	-	1,077,730	1,077,730	-
Loans to and receivables from banks	1,294,448	1,291,395	(3,053)	1,323,676	1,321,156	(2,520)
Financial assets at fair value through profit or loss	363,577	363,577	-	1,004,909	1,004,909	-
Financial assets available for sale	1,371,174	1,371,174	-	458,038	458,038	-
Financial assets held to maturity	687,072	579,916	(107,156)	541,078	451,415	(89,663)
Loans and receivables from customers	9,622,149	9,622,149	-	8,873,240	8,873,240	-
Financial liabilities at fair value through profit or loss	2,580	2,580	-	402	402	-
Deposits from banks	63,593	63,593	-	186,340	186,256	84
Customer deposits	12,702,164	12,677,794	24,370	11,021,660	11,006,523	15,137
Borrowings	1,240,908	1,231,487	9,421	1,294,797	1,294,243	554
Total			**(76,417)**			**(76,409)**

Balance sheet at 31/12/2011

	2011 HRK 000	2010 HRK 000
Cash and balances with the CNB	2,271,408	1,786,998
-- Cash	544,383	452,953
-- Deposits with the CNB	1,727,025	1,334,045
Deposits with banking institutions	1,201,114	1,235,794
Treasury bills of the Ministry of Finance and the CNB bills	588,096	802,400
Securities and other financial instruments held for trading	261,787	400,247
Securities and other financial instruments available for sale	859,043	248,440
Securities and other financial instruments held to maturity	679,222	535,413
Securities and other financial instruments at fair value through profit or loss - not actively traded	-	-
Derivative financial assets	2,973	1,253
Loans to financial institutions	202,024	290,092
Loans to other customers	9,495,343	8,656,328
Investments in subsidiaries, associates and joint ventures	75,541	95,541
Foreclosed assets	104,183	114,364
Tangible assets (less depreciation)	155,785	158,710
Interest, fees and other assets	557,028	464,685
TOTAL ASSETS	**16,453,547**	**14,790,265**
LIABILITIES		
Borrowings from financial institutions	1,237,190	1,260,508
- short-term borrowings	67,506	124,786
- long-term borrowings	1,169,684	1,135,722
Deposits	11,392,930	10,293,809
- giro and current account deposits	2,552,222	2,276,665
- savings deposits	1,112,519	1,278,168
- term deposits	7,728,189	6,738,976
Other borrowings	-	26,340
- short-term borrowings	-	-
- long-term borrowings	-	26,340
Derivative financial ans other liabilities held for trading	2,580	402
Issued debt securities	-	-
- short-term debt securities issued	-	-
- long-term debt securities issued	-	-
Subordinated debt issued	-	-
Issued hybrid instruments	601,638	600,642
Interest, fees and other liabilities	1,963,806	1,418,526
TOTAL LIABILITIES	**15,198,144**	**13,600,227**
EQUITY		
Share capital	1,193,902	1,193,902
Profit/(Loss) for the year	87,924	50,836
Retained earnings / (Accumulated losses)	(12,823)	(63,659)
Legal reserves	-	-
Statutory and other capital reserves	2,165	5,643
Unrealised gains/(losses) on revaluation of financial assets available for sale	(15,765)	3,316
Hedging reserve	-	-
TOTAL EQUITY	**1,255,403**	**1,190,038**
TOTAL LIABILITIES AND EQUITY	**16,453,547**	**14,790,265**

Income Statement for the period 01/01 - 31/12/2011

	2011	2010
	HRK 000	**HRK 000**
Interest income	867,728	823,011
Interest expense	(400,027)	(448,688)
Net interest income	**467,701**	**374,323**
Fee and commission income	570,599	578,701
Fee and commission expense	(390,047)	(380,247)
Net fee and commission income	**180,552**	**198,454**
Gains/(losses) on investments in subsidiaries, associates and joint ventures	-	-
Trading gains/(losses)	19,484	33,515
Gains/(losses) on embedded derivatives	-	-
Gains/(losses) on assets at fair value through profit or loss not actively traded	-	-
Gains / (losses) on available-for-sale assets	862	3,398
Gains / (losses) on held-to-maturity assets	-	-
Hedging gains/(losses)	-	-
Income from investments in subsidiaries, associates and joint ventures	-	-
Income from other equity investments	4,333	4,560
Foreign exchange gains/(losses)	10,489	8,796
Other income	34,540	42,826
Other expenses	53,507	(41,901)
General and administrative expenses, and depreciation	446,951	(427,128)
Net profit from operations before provisions and impairment losses	**217,504**	**196,843**
Impairment losses and provisions	135,108	(140,288)
PROFIT OR LOSS BEFORE TAXATION (146-147)	**82,396**	**56,555**
INCOME TAX EXPENSE	(5,528)	(5,719)
PROFIT / LOSS FOR THE YEAR	**87,924**	**50,836**
Earnings per share	100.15	82.30

Changes in equity during 2011

Bank	Share capital HRK 000	Treasury shares HRK 000	Legal, statutory and other reserves HRK 000	Retained profit / (Accumula ted losses) HRK 000	Profit /loss for the year HRK 000	Unreal. gains /losses on remeasure ment of financial assets available for sale HRK 000	Total equity HRK 000
Balance at 1 January 2011	**1,194,776**	**(874)**	**5,643**	**(63,659)**	**50,836**	**3,316**	**1,190,038**
Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-	**-**
Restated balance at 1 January 2011	1,194,776	(874)	5,643	(63,659)	50,836	3,316	1,190,038
Disposal of financial assets available for sale	-	-	-	-	-	-	**-**
Change in the fair value of financial assets available for sale	-	-	-	-	-	(23,851)	(23,851)
Tax on items recognised directly in/transferred from equity	-	-	880	-	-	4,770	5,650
Other gains and losses recognised directly in equity	-	-	(4,358)	-	-	-	(4,358)
Net gains/losses recognised directly in equity	**-**	**-**	**(3,478)**	**-**	**-**	**(19,081)**	**(22,559)**
Profit /loss for the year	-	-	-	-	87,924	-	87,924
Total recognised income and expenses for 2011	**-**	**-**	**(3,478)**	**-**	**87,924**	**(19,081)**	**65,365**
Increase/decrease in share capital	-	-	-	-	-	-	-
Purchase/sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transferred to reserves	-	-	-	50,836	(50,836)	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocation	-	-	-	**50,836**	**(50,836)**	**-**	**-**
Balance at 31 December 2011	**1,194,776**	**(874)**	**2,165**	**(12,823)**	**87,924**	**(15,765)**	**1,255,403**

Changes in equity during 2010

Bank	Share capital HRK 000	Treasury shares HRK 000	Legal, statutory and other reserves HRK 000	Retained profit / (Accumulated losses) HRK 000	Profit /loss for the year HRK 000	Unreal. gains /losses on remeasurement of financial assets available for sale HRK 000	Total equity HRK 000
Balance at 1 January 2011	**694,779**	**(874)**	**232,463**	**158,456**	**(448,815)**	**10,834**	**646,843**
Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-	**-**
Restated balance at 1 January 2011	694,779	(874)	232,463	158,456	(448,815)	10,834	646,843
Disposal of financial assets available for sale	-	-	-	-	-	3,706	**3,706**
Change in the fair value of financial assets available for sale	-	-	-	-	-	(11,224)	**(11,224)**
Tax on items recognised directly in/transferred from equity	-	-	(120)	-	-	-	**(120)**
Other gains and losses recognised directly in equity	-	-	-	-	-		**-**
Net gains/losses recognised directly in equity	**-**	**-**	**(120)**	**-**	**-**	**(7,518)**	**(7,638)**
Profit /loss for the year					50,836		50,836
Total recognised income and expenses for 2011	**-**	**-**	**(120)**	**-**	**50,836**	**(7,518)**	**43,198**
Increase/decrease in share capital	499,997						499,997
Purchase/sale of treasury shares							-
Other changes							-
Transferred to reserves			(226,700)	(222,115)	448,815		-
Dividends paid							-
Profit allocation	**-**	**-**	**(226,700)**	**(222,115)**	**448,815**	**-**	**-**
Balance at 31 December 2011	**1,194,776**	**(874)**	**5,643**	**(63,659)**	**50,836**	**3,316**	**1,190,038**

Cash flows for the year 2011

	2011 HRK 000	2010 HRK 000
OPERATING ACTIVITIES		
Operating cash flows before changes in operating assets	**290,538**	**256,085**
Profit/loss before taxation	82,396	56,555
Impairment losses and provisions	130,528	137,761
Depreciation and amortisation	61,922	68,682
Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss	21,908	(1,815)
Gains/losses on sale of tangible assets	-	-
Other gains/losses	(6,216)	(5,098)
Net (increase) / decrease in operating assets	**(1,192,342)**	**(1,172,039)**
Treasury bills of the Ministry of Finance and the CNB bills	214,304	118,689
Deposits with banking institutions and loans to financial institutions	92,349	(253,354)
Loans to other customers	(971,208)	(975,764)
Securities and other financial instruments held for trading	116,552	(61,715)
Securities and other financial instruments available for sale	(618,206)	41,372
Other operating assets	(26,133)	(41,267)
Net increase/decrease in operating liabilities	**1,642,195**	**518,574**
Demand deposits	275,557	176,845
Savings and term deposits	823,564	392,981
Derivative financial and other liabilities held for trading	2,178	(1,148)
Other liabilities	540,896	(50,104)
Net cash flow from operations before income tax	**740,392**	**(397,380)**
Income taxes paid	-	-
Net cash inflow/outflow from operating activities	**740,392**	**(397,380)**
INVESTING ACTIVITIES		
Net cash from investing activities	**(167,045)**	**(97,143)**
Proceeds from sale/(Payments for purchases) of tangible and intangible assets	(42,562)	(81,989)
Proceeds from sale of/Payments for investments in subsidiaries, associates and joint ventures	20,000	-
Proceeds from/(Payments to acquire) securities and other financial instruments held to maturity	(148,816)	(19,714)
Dividends received	4,333	4,560
FINANCING ACTIVITIES		
Net cash from financing activities	**(49,658)**	**143,206**
Net increase/decrease in borrowings	(49,658)	(509,556)
Net increase/(decrease) in subordinated debt and hybrid instruments	-	152,766
Proceeds from issuance of share capital	-	499,997
Net increase/decrease in cash and cash equivalents	**523,689**	**(351,316)**
Effect of changes in foreign exchange rates on cash and cash equivalents	1,818	15,824
Net increase/decrease in cash and cash equivalents	**525,507**	**(335,492)**
Cash and cash equivalents at the beginning of the year	**2,980,568**	**3,316,060**
Cash and cash equivalents at the end of the year	**3,506,075**	**2,980,568**

Reconciliation of the balance sheet as at 31 December 2011

	CNB requirements HRK 000	Per Financial Statements HRK 000	Difference HRK 000
Cash and balances with the CNB			
-- Cash	544,383	-	544,383
-- Deposits with the CNB	1,727,025	-	1,727,025
Cash and amounts due from banks	-	1,090,184	(1,090,184)
Obligatory reserve with Croatian National Bank	-	1,246,649	(1,246,649)
Deposits with banking institutions	1,201,114	-	1,201,114
Loans to and receivables from banks	-	1,294,448	(1,294,448)
Treasury bills of the Ministry of Finance and the CNB bills	588,096	-	588,096
Securities and other financial instruments held for trading	261,787	-	261,787
Financial assets at fair value through profit or loss	-	363,577	(363,577)
Securities and other financial instruments available for sale	859,043	-	859,043
Financial assets available for sale	-	1,371,174	(1,371,174)
Securities and other financial instruments held to maturity	679,222	-	679,222
Financial assets held to maturity	-	687,072	(687,072)
Securities and other financial instruments at fair value through profit or loss not actively traded	-	-	-
Derivative financial assets	2,973	-	2,973
Loans to financial institutions	202,024	-	202,024
Loans to other customers	9,495,343	-	9,495,343
Loans and receivables from customers	-	9,622,149	(9,622,149)
Investments in subsidiaries, associates and joint ventures	75,541	-	75,541
Investments in associates	-	21,551	(21,551)
Investments in subsidiaries	-	53,990	(53,990)
Foreclosed assets	104,183	-	104,183
Tangible assets (less depreciation)	155,785	-	155,785
Property and equipment	-	150,849	(150,849)
Intangible assets	-	203,764	(203,764)
Deferred tax assets, net	-	36,309	(36,309)
Interest, fees and other assets	557,028	-	557,028
Other assets	-	310,110	(310,110)
TOTAL ASSETS	**16,453,547**	**16,451,826**	**1,721**

Reconciliation of the balance sheet as at 31 December 2011 (continued)

LIABILITIES	**Under CNB requirements HRK 000**	**Per Financial Statements HRK 000**	**Difference HRK 000**
Financial liabilities at fair value through profit or loss	-	2,580	(2,580)
Borrowings from financial institutions			
Short-term borrowings	67,506	-	67,506
Long-term borrowings	1,169,684	-	1,169,684
Borrowings	-	1,240,908	(1,240,908)
Deposits			
Giro and current account deposits	2,552,222	-	2,552,222
Savings deposits	1,112,519	-	1,112,519
Term deposits	7,728,189	-	7,728,189
Deposits from banks	-	63,593	(63,593)
Deposits from customers	-	12,702,164	(12,702,164)
Other borrowings			
Short-term borrowings	-	-	-
Long-term borrowings	-	-	-
Derivative financial and other liabilities held for trading	2,580	-	2,580
Issued debt securities	-	-	-
Short-term debt securities issued	-	-	-
Long-term debt securities issued	-	-	-
Subordinated debt issued	-	-	-
Issued hybrid instruments	601,638	-	601,638
Hybrid instruments	-	610,548	(610,548)
Provisions for liabilities and expenses	-	33,664	(33,664)
Deferred tax liabilities, net	-	-	-
Interest, fees and other liabilities	1,963,806	-	1,963,806
Other liabilities	-	542,965	(542,965)
TOTAL LIABILITIES	**15,198,144**	**15,196,422**	**1,722**
EQUITY			
Share capital	1,193,902	966,640	227,263
Capital gains	-	228,136	(228,136)
Treasury shares	-	(874)	874
Profit /(loss) for the year	87,924	-	87,924
Retained earnings / (Accumulated losses)	(12,823)	75,977	(88,800)
Legal reserves	-	-	-
Other reserves	-	-	-
Statutory and other capital reserves	2,165		2,165
General banking risk reserve	-	-	-
Revaluation reserve	-	1,290	(1,290)
Unrealised gains/losses on revaluation of financial assets available for sale	(15,765)	(15,765)	-
Hedging reserve	-	-	-
TOTAL EQUITY	**1,255,403**	**1,255,404**	**(1)**

TOTAL LIABILITIES AND EQUITY	**16,453,547**	**16,451,826**	**1,721**

Reconciliation of the balance sheet at 31 December 2011

1 The foreign currency balance with foreign banks in the amount of HRK 46,479 thousand is included in the regulatory statements under the CNB Decision in Deposits with banking institutions and in the statutory financial statements it is reported within Cash and amounts due from banks.

2 The foreign currency balance with foreign banks in the amount of HRK 1,831 thousand is included in the regulatory financial statements under the CNB Decision in Deposits with banking institutions and in the statutory financial statements it is reported within Cash and amounts due from banks.

3 The amount of HRK 497,869 thousand is included in the regulatory statements under the CNB Decision in Deposits with the CNB and in the statutory financial statements it is reported within Cash and amounts due from banks.

4 Reclassification of deposits held with non-banking financial institutions in the amount of HRK 340 thousand (accounts 5214) from the item Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans to and receivables from banks in the financial statements.

5 Reclassification of the HBOR loan in the amount of HRK 127,530 thousand from Loans to financial institutions in the balance sheet per the CNB regulatory requirements to Loans to and receivables from banks in the financial statements.

6 Reclassification of receivables from accrued interest not yet due in the amount of HRK 56,429 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements into the following line items in the financial statements: HRK 1,390 thousand to Loans to and receivables from banks; HRK 5,506 thousand to Financial assets at fair value through profit or loss; HRK 17,346 thousand to Financial assets available for sale; HRK 7,852 thousand to Financial assets held to maturity; and HRK 24,336 thousand to Loans and receivables from customers.

7 Of the accrued interest due in the amount of HRK 44,012 thousand included in the in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets, HRK 48 thousand are reclassified in the financial statements into Obligatory reserve with CNB and HRK 43,964 thousand into Loans and receivables from customers.

8 Portfolio based provisions included in the balance sheet per the CNB regulatory requirements in Deposits with the CNB in the amount of HRK 17,445 thousand, Deposits with the banking institutions in the amount of HRK 12,132 thousand, Loans to financial institutions in the amount of HRK 2,041 thousand and Interest, fees and other assets in the amount of HRK 1,630 thousand are presented in the financial statements within Loans to and receivables from customers in the total amount of HRK 40,085 thousand.

9 Treasury bills of the Ministry of Finance in the amount of HRK 588,096 thousand are included in the balance sheet per the CNB regulatory requirements in Treasury bills issued by the Ministry of Finance and CNB bills, whereas in the financial statements they are split into HRK 93,311 thousand reported in Financial assets at fair value through profit or loss and HRK 494,785 thousand included in Financial assets available for sale.

10 Intangible assets in the amount of HRK 203,764 thousand are included in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets, and in the financial statements in Intangible assets.

11 Reclassification of HRK 1,253 thousand from Derivative financial instrument sper the CNB regulatory requirements to Financial assets at fair value through profit or loss in the financial statements.

12 Reclassification of loans to commercial banks in the amount of HRK 2,800 thousand reported in the balance sheet per the CNB regulatory requirements within Loans to financial institutions to Loans to and receivables from banks in the financial statements.

13 Reclassification of loans to other and non-banking financial institutions in the amount of HRK 76,283 thousand reported in the balance sheet per the CNB regulatory requirements within Loans to financial institutions to Loans to and receivables from banks in the financial statements.

14 Reclassification of credit card receivables in the amount of HRK 15,602 thousand (accounts 14811) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans to and receivables from banks in the financial statements.

15 Reclassification of impairment losses on credit card receivables in the amount of HRK 134 thousand (account 1493) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans and receivables from customers in the financial statements.

16 Deferred tax assets in the amount of HRK 37,652 thousand included in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets reclassified to Deferred tax assets, net, in the financial statements.

17 Netting-off of the deferred tax liability in the amount of HRK 1,343 thousand within Interest, fees and other liabilities in the balance sheet per the CNB regulatory requirements and its inclusion in Deferred tax assets, net, in the financial statements.

18 Foreclosed assets in the amount of HRK 104,183 thousand included in the balance sheet per the CNB regulatory requirements in Foreclosed assets are included in the financial statements in Other assets.

19 Reclassification of the stock of office supplies of HRK 4,936 thousand from Tangible assets (less depreciation) in the balance sheet per the CNB regulatory requirements to Other assets in the financial statements.

20 The investment in H1 telekom d.d. in the amount of HRK 21,551 thousand is included in the balance sheet per the CNB regulatory requirements in Investments in subsidiaries, associates and joint ventures, whereas in the financial statements it is reported within Assets held for sale.

21 Reclassification of long-term borrowings of HRK 1,169,684 thousand from Borrowings from financial institutions in the balance sheet per the CNB regulatory requirements into Borrowings in the financial statements.

22 Derivative financial liabilities and other financial liabilities held for trading in the total amount of HRK 2,580 thousand reported in the balance sheet per the CNB regulatory requirements within Financial liabilities at fair value through profit or loss are reclassified in the financial statements to Financial liabilities at fair value through profit or loss.

23 Accrued interest not yet due in the amount of HRK 88,835 thousand, included in the balance sheet per the CNB regulatory requirements in Interest, fees and other liabilities are reclassified to the following items in the financial statements: HRK 3,234 thousand to Borrowings, HRK 70 thousand to Deposits from banks; HRK 76,612 thousand to Customer deposits; and HRK 8,910 thousand to Hybrid instruments.

24 Accrued interest not yet due in the amount of HRK 476 thousand, included in the balance sheet per the CNB regulatory requirements in Interest, fees and other liabilities are reclassified to the following items in the financial statements: HRK 475 thousand to Borrowings, HRK 1 thousand to Customer deposits.

25 Reclassification of temporary transfers for the purpose of investing in domestic companies' share capital in the amount of HRK 2,052 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Customer deposits in the financial statements.

26 Reclassification of HRK 378 thousand of retail balances in course of settlement (CNB account 2690) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Cash and amounts due from banks in the financial statements.

27 Reclassification of Restricted deposits in the total amount of HRK 1,294,102 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Customer deposits in the financial statements.

28 Reclassification of Provisions for liabilities and expenses of HRK 36,164 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Provisions for liabilities and expenses in the financial statements.

29 The items Giro and current account deposits in the amount of HRK 2.552.222 thousand, Savings deposits in the amount of HRK 1,112,509 thousand and Term deposits in the amount of HRK 7.728.189 thousand in the balance sheet per the CNB regulatory requirements are reported in the financial statements as follows: HRK 63,523 thousand within Deposits from banks and HRK 11,329,397 within Customer deposits.

30 Reclassification of HRK 228,136 thousand from Share capital in the balance sheet per the CNB regulatory requirements to Capital gains in the financial statements.

31 Treasury shares in the amount of HRK 874 thousand are shown in the financial statements as a deduction from share capital.

32 Reclassification of HRK 50,836 thousand from Profit for the year in the balance sheet per the CNB regulatory requirements to Retained earnings/(loss) in the financial statements.

33 Reclassification of the treasury share reserve in the amount of HRK 874 thousand from item Statutory and other capital reserves in the balance sheet per the CNB regulatory requirements to Retained earnings/(Accumulated losses) in the financial statements.

34 Reclassification of HRK 1,290 thousand from Statutory and other capital reserves in the balance sheet per the CNB regulatory requirements to Revaluation reserve in the financial statements.

Reconciliation of the income statement for the year 2011

	CNB requirements HRK 000	Per financial statements HRK 000	Difference HRK 000
Interest income	867,728	865,107	2,621
Interest expense	(400,027)	(379,116)	(20,911)
Net interest income	**467,701**	**485,991**	**(18,290)**
Fee and commission income	570,600	570,597	3
Fee and commission expense	(390,047)	(390,048)	1
Net fee and commission income	**180,552**	**180,549**	**3**
Gains less losses arising from securities at fair value			
through profit or loss and held for trading	-	(16,747)	16,747
Gains less losses arising from securities available for sale	-	862	(862)
Gains less losses arising from dealing in foreign currencies	-	36,231	(36,231)
Other operating income	-	24,747	(24,747)
Operating income		**711,633**	
Other non-interest income	69,708		69,708
Other non-interest expenses	53,507		53,507
Other non-interest income, net	**16,201**		**16,201**
Net non-interest income	**196,753**		196,753
General and administrative expenses, and depreciation	446,951	498,709	(51,758)
Net operating income before provisions and impairment losses	**217,504**		**217,504**
Impairment losses on loans and receivables to customers			
and other assets		132,329	(132,329)
Provisions for liabilities and expenses		(1,801)	1,801
Operating expenses		**629,237**	**(629,237)**
Impairment losses and provisions	123,549		123,549
Provisions for portfolio based impairment losses	11,558		11,558
Total provisions for impairment losses	**135,108**		**135,108**
Profit/loss before taxation	**82,396**	**82,396**	**-**
Income tax expense	5,528	(5,528)	11,056
Profit /loss for the year	**87,924**	**87,924**	**-**
Earnings per share	**100.1 5**	**100. 15**	**-**

Reconciliation of the income statement for the year 2011

1 Reconciliation of foreign exchange differences

Net foreign exchange differences in the amount of HRK 2,621 thousand are included in the income statement per the CNB regulatory requirements within Interest income and in the annual financial statements they are reported within Other operating income.

Net foreign exchange differences in the amount of HRK 1,979 thousand are included in the income statement per the CNB regulatory requirements within Impairment losses and provisions and in the financial statements they are reported within Other operating income.

Net foreign exchange differences in the amount of HRK 1,005 thousand are included in the income statement per the CNB regulatory requirements within Interest expense and in the financial statements they are reported within Other operating income.

Net foreign exchange differences in the amount of HRK 3 thousand included in the income statement per the CNB regulatory requirements within Fee and commission income are reported in financial statements within Other operating income.

Exchange differences in the amount of HRK 36,231 thousand from foreign currency dealings, which are included in the income statement per the CNB regulatory requirements within Other non-interest income are included in the financial statements in Gains less losses arising from dealing in foreign currencies.

Exchange differences in the amount of HRK 10,489 thousand on retranslation of the balance sheet at the middle exchange rate are included in the income statement per the CNB regulatory requirements in Other non-interest income whereas in the financial statements they are reported within Other operating income.

Exchange differences in the amount of HRK 3,913 thousand on impairment losses (accounts 6409 and 6419) included in the income statement per the CNB regulatory requirements within Impairment losses and provisions are reclassified in the financial statements to Other operating income.

2 Reclassification of HRK 19,905 thousand of the insurance premium expense from Interest expense in the income statement per the CNB regulatory requirements to General and administrative expenses and depreciation.

3 Reclassification of HRK 862 thousand from Realised gains on financial assets available fore sale from Other non-interest income in the income statement per the CNB regulatory requirements to Gains less losses arising from financial instruments available for sale in the financial statements.

4 Gains less losses arising from financial instruments at fair value through profit or loss in the amount of HRK 17,736 thousand reported in the income statement per the CNB regulatory requirements are included in the financial statements in Other non-interest income.

5 Gains on derivative financial instrument trading in the amount of HRK 589 thousand included in the income statement per the CNB regulatory requirements in Other non-interest income are reported in the financial statements in Gains less impairment losses on securities at fair value through profit or loss and held for trading.

6 The amount of HRK 4,333 thousand of dividends received are included in the income statement per the CNB regulatory requirements in Other non-interest income whereas in the financial statements it is included in Other operating income.

7 The amount of HRK 5,575 thousand on impairment losses (Other income accounts 68 less balances on accounts 68010, 6885 and income from reversal of provisions on accounts 6881 and 6882) included in the income statement per the CNB regulatory requirements within Other non-interest income is captured in the financial statements within Other operating income.

8 The amount of HRK 7,231 thousand included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in General and administrative expenses.

9 The amount of HRK 12,943 thousand (income from reversal of provisions - accounts 6881, 68810) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in Provisions for liabilities and expenses.

10 The amount of HRK 168 thousand (income from reversal of provisions - account 68804) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in Provisions for liabilities and expenses.

11 The amount of HRK 18,815 thousand (accounts 627) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in General and administrative expenses.

12 The amount of HRK 25,787 thousand (accounts 634, 635 and 6311) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in General and administrative expenses.

13 The amount of HRK 8,902 thousand (accounts 632 and 638) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements under Provisions for liabilities and expenses.

14 The amount of HRK 8,623 thousand (income from the sale of foreclosed assets) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in Other operating income.

15 Reclassification of the amount of HRK 5,521 thousand (net impairment losses on tangible assets) from General and administrative expenses in the income statement er the CNB regulatory requirements to Impairment losses on loans to and receivables from customers and other assets in the financial statements.

16 Reclassification of the amount of HRK 117,997 thousand (account 647) from Impairment losses and provisions for identified losses in the income statement er the CNB regulatory requirements to Impairment losses on loans to and receivables from customers and other assets in the financial statements.

17 Reclassification of the amount of HRK 8,811 thousand (account 647) from Provisions for portfolio based impairment in the income statement per the CNB regulatory requirements to Impairment losses on loans to and receivables from customers and other assets in the financial statements.

18 Reclassification of the amount of HRK 2,747 thousand from the item Provisions for portfolio based impairment losses on off-balance sheet exposure in the income statement per the CNB regulatory requirements to Provisions for liabilities and expenses in the financial statements.

19 Income from reversal of provisions for off-balance sheet exposures in the amount of HRK 340 thousand included in the income statement per the CNB regulatory requirements within Impairment losses and provisions reclassified to Provisions for liabilities and expenses in the financial statements.

Reconciliation of the Statement of Changes in Equity for the year 2011

Bank	Share capital HRK 000	Treasury shares HRK 000	Legal, statutory and other reserves HRK 000	Retained profit / (Accumulated losses) HRK 000	Profit /loss for the year HRK 000	Unreal. gains /losses on remeasurement of financial assets available for sale HRK 000	Total equity HRK 000
Balance at 1 January 2011	**1,194,776**	**(874)**	**5,643**	**(63,659)**	**50,836**	**3,316**	**1,190,038**
Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-	-
Restated balance at 1 January 2011	1,194,776	(874)	5,643	(63,659)	50,836	3,316	1,190,038
Disposal of financial assets available for sale	-	-	-	-	-	-	-
Change in the fair value of financial assets available for sale	-	-	-	-	-	(23,851)	(23,851)
Tax on items recognised directly in/transferred from equity	-	-	880	-	-	4,770	5,650
Other gains and losses recognised directly in equity	-	-	(4,358)	-	-	-	(4,358)
Net gains/losses recognised directly in equity	**-**	**-**	**(3,478)**	**-**	**-**	**(19,081)**	**(22,559)**
Profit /loss for the year	-	-	-	-	87,924	-	87,924
Total recognised income and expenses for 2011	**-**	**-**	**(3,478)**	**-**	**87,924**	**(19,081)**	**65,365**
Increase/decrease in share capital	-	-	-	-	-	-	-
Purchase/sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transferred to reserves	-	-	-	50,836	(50,836)	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocatioin	-	-	-	**50,836**	**(50,836)**	**-**	**-**
Balance at 31 December 2011	**1,194,776**	**(874)**	**2,165**	**(12,823)**	**87,924**	**(15,765)**	**1,255,403**

Items: Legal reserve; General banking risk reserve, Revaluation reserve and Other reserves from the financial statements are presented in the statement of changes in equity per the CNB regulatory requirements in Legal, statutory and other reserves.

Retained earnings from the Annual Report are presented within Retained earnings/(Accumulated losses), Profit/(loss) for the year.

Reconciliation of cash flows for the year 2011

	CNB requirements HRK 000	Per Financial Statements HRK 000	Difference HRK 000
Cash flows from operating activities			
Profit before taxation	82,396	82,396	-
Adjusted by:			
- Depreciation and amortisation	61,922	61,922	-
- Foreign exchange (gains)/ losses	(6,216)	(6,216)	-
- Impairment losses on loans and receivables to customers and other assets	-	132,329	(132,329)
- Impairment losses on provisions for liabilities and expenses	-	(1,801)	1,801
Impairment losses and provisions	130,528	-	130,528
- Gains less losses from financial assets at fair value through profit or loss	21,908	21,908	-
Changes in operating assets and liabilities			
Net increase in loans to and receivables from customers	-	4,281	(4,281)
Net decrease in financial assets at fair value through profit or loss	-	296,650	(296,650)
Treasury bills of the Ministry of Finance and the CNB bills	214,304	-	214,304
Deposits with banking institutions and loans to financial institutions	92,349	-	92,349
Loans to other customers	(971,208)	-	(971,208)
Securities and other financial instruments held for trading	116,552	-	116,552
Net (increase)/decrease in loans to and receivables from customers	-	(881,102)	881,102
Net (increase)/decrease in other assets	(26,133)	(26,133)	-
Net (decrease)/increase in deposits from banks	-	(122,747)	122,747
Net increase/(decrease) in deposits from customers	-	1,680,504	(1,680,504)
Net increase/(decrease) in other liabilities	-	96,364	(96,364)
Demand deposits	275,557	-	275,557
Savings and term deposits	823,564	-	823,564
Derivative financial and other liabilities held for trading	2,178	-	2,178
Other liabilities	540,896		540,896
Net cash inflow from operating activities before tax	**-**	**1,338,356**	**(1,338,356)**
Income taxes paid	-	-	**-**
Net cash generated from operating activities	**-**	**1,338,356**	**(1,338,356)**
Cash flows from investing activities			
Investments in subsidiaries	20,000	20,000	**-**
Investments in associates	-	-	**-**
Purchases of property, plant, equipment and intangible assets	(42,562)	(42,562)	**-**
Disposal of financial assets available for sale	-	134,265	(134,265)
Acquisition of financial assets available for sale	(618,206)	(732,230)	114,024
Net disposal/(acquisition) of financial assets held to maturity	(148,816)	(148,816)	**-**
Dividends received	4,333	4,333	**-**
Net cash inflow/(outflow) from investing activities	**-**	**(765,010)**	**765,010**
Cash flows from financing activities			
Increase in hybrid instruments	-	-	**-**
Increase in borrowings	-	678,740	(678,740)
Repayments of borrowings	-	(728,397)	728,397
Net increase/decrease in borrowings	(49,658)		(49,658)
Proceeds from issuance of share capital	-	-	**-**
Net cash inflow from financing activities	**-**	**(49,658)**	**49,658**
Effect of foreign exchange differences on cash and cash equivalents	1,818	1,818	**-**
Net increase/(decrease) in cash and cash equivalents	**525,506**	**525,506**	**-**
Cash and cash equivalents at the beginning of the year	**2,980,568**	**2,980,568**	**-**
Cash and cash equivalents at the end of the year	**3,506,075**	**3,506,075**	**-**

1. Reclassification of HRK 130,528 thousand from Impairment losses and provisions in the cash flow statement per the CNB regulatory requirements into the following items in the financial statements: HRK 136,546 thousand to Impairment losses on loans and receivables from customers and other assets, and HRK 1,215 thousand to Provisions for liabilities and expenses.

2. Reclassification of HRK 214,304 thousand from Treasury bills issued by the Ministry of finance and CNB bills, HRK 92,349 thousand from Deposits and loans to financial institutions, HRK 971,208 thousand from Loans to other customers, HRK 116,652 of Securities and other financial instruments held for trading, HRK 275,557 thousand of Demand deposits, HRK 823,654 thousand of Savings and term deposits, HRK 2,178 thousand of Financial derivatives and other financial liabilities held for trading, HRK 540,896 thousand of Other liabilities, and Acquisition of financial assets available for sale in the amount of HRK 618,206 thousand from the cash flow statement as per the CNB reporting requirements to the following items in the financial statements: HRK 4,281 thousand to Net increase/decrease in loans and receivables from banks; HRK 296,650 thousand to Net (increase)/decrease in financial assets at fair value through profit or loss; HRK 881,102 thousand to Net (increase)/decrease in loans and receivables from customers; HRK 122,747 thousand to Net (decrease)/increase in deposits from banks; HRK 1,680,504 thousand to Net (decrease)/increase in deposits to customers; HRK 96,364 thousand to Net (decrease)/increase in other liabilities; and HRK 134,265 to Disposal of financial assets available for sale and HRK 732,230 thousand to Acquisition of financial assets available for sale.

Hrvatska poštanska banka d.d.

HEADQUARTERS	
Address:	Jurišićeva 4 10 000 Zagreb
tel.:	062 472 472, 0800 472 472
fax:	01 4810 773
e-mail:	hpb@hpb.hr
SWIFT:	HPBZHR2X
web site:	www.hpb.hr
OFFICE ZAGREB - JURIŠIĆEVA	
Address:	Jurišićeva 4 10 000 Zagreb
tel.:	01 4804 615 / 551
fax:	01 4804 522
BRANCH JURIŠIĆEVA	
Address:	Jurišićeva 13 10 000 Zagreb
tel.:	01 4800 051
fax:	01 4800 067
OFFICE ZAGREB - BRITANSKI TRG	
Address:	Britanski trg 12 10 000 Zagreb
tel.:	01 4686 001
fax:	01 4686 009
OFFICE ZAGREB - DUBRAVA	
Address:	Avenija Dubrava 47 10 040 Zagreb
tel.:	01 2908 971
fax:	01 2908 978
BRANCH AUTOBUSNI KOLODVOR	
Address:	Avenija Marina Držića 4 10 000 Zagreb
tel.:	01 6323 550
fax:	01 6323 569
BRANCH GAJNICE	
Address:	Huzjanova 2 10 000 Zagreb
tel.:	01 3466 930
fax:	01 3466 947

OFFICE ZAGREB - SESVETE

Address:	Trg D. Domjanića 8 10 360 Zagreb
tel.:	01 2019 270
fax:	01 2019 287

OFFICE ZAGREB - MAKSIMIRSKA

Address:	Maksimirska 107
tel.:	01 2383 786
fax:	01 2383 789

OFFICE ZAGREB - SAVSKA

Address:	Savska 58
tel.:	01 5553 503
fax:	01 5553 506

OFFICE ZAPREŠIĆ

Address:	Drage Švajcara 5 10 290 Zaprešić
tel.:	01 3340 271
fax:	01 3340 287

OFFICE VELIKA GORICA

Address:	Trg kralja Tomislava 37 10 410 Velika Gorica
tel.:	01 6238 600
fax:	01 6238 614

OFFICE STRMEC, Hoto-centar

Address:	Ulica dr. Franje Tuđmana 4 10 434 Strmec
tel.:	01 3369 650
fax:	01 3369 660

OFFICE KARLOVAC

Address:	Ivana Gorana Kovačića 4 47 000 Karlovac
tel.:	047 555 040
fax:	047 555 049

OFFICE VARAŽDIN

Address:	Trg slobode 9a 42 000 Varaždin
tel.:	042 215 320
fax:	042 215 330

OFFICE BJELOVAR

Address:	Vladimira Nazora 1a 43 000 Bjelovar
tel.:	043 555 095
fax:	043 555 099

OFFICE KOPRIVNICA

Address:	Florijanski trg 13 48 000 Koprivnica
tel.:	048 555 095
fax:	048 555 099

OFFICE SLAVONSKI BROD

Address:	M. Gupca 3 35 000 Slavonski Brod
tel.:	035 212 530
fax:	035 212 539

OFFICE VINKOVCI

Address:	Trg dr.Franje Tuđmana 2 32 100 Vinkovci
tel.:	032 455 503
fax:	032 455 508

OFFICE VUKOVAR

Address:	Strossmayerova 4 32 000 Vukovar
tel.:	032 451 000 / 010
fax:	032 451 019

OFFICE OSIJEK

Address:	Trg Ante Starčevića 7 31 000 Osijek
tel.:	031 284 880
fax:	031 284 888

BRANCH OSIJEK

Address:	Kardinala A. Stepinca 17 31 000 Osijek
tel.:	031 200 937
fax:	031 200 974

OFFICE VALPOVO

Address:	Trg kralja Tomislava 17 31 550 Valpovo
tel.:	031 654 041
fax:	031 654 042

BRANCH BELIŠĆE

Address: Gutmanna S.H. 24
31 551 Belišće

tel.: 031 665 168

fax: 031 665 169

BRANCH DONJI MIHOLJAC

Address: Vukovarska 4
31 540 Donji Miholjac

tel.: 031 620 040

fax: 031 620 041

OFFICE VIROVITICA

Address: Trg kralja Zvonimira 3
33 000 Virovitica

tel.: 033 740 060

fax: 033 740 068

OFFICE ĐAKOVO

Address: Trg Franje Tuđmana 1a
31 400 Đakovo

tel.: 031 815 156

fax: 031 815 158

OFFICE NAŠICE

Address: J.J.Strossmayera 2
31 500 Našice

tel.: 031 615 162

fax: 031 615 173

OFFICE BELI MANASTIR

Address: Imre Nagya 2e
31 300 Beli Manastir

tel.: 031 701 412

fax: 031 701 414

OFFICE PULA

Address: Anticova 9
52 100 Pula

tel.: 052 300 602 / 03

fax: 052 300 609

BRANCH BANJOLE

Address: Banjole Kamnik bb
52 100 Pula

tel.: 052 573 409

fax: 052 573 378

BRANCH LIŽNJAN

Address:	Ližnjan 146 52 204 Ližnjan
tel.:	052 578 550
fax:	052 578 552

OFFICE POREČ

Address:	Trg slobode 14 52 440 Poreč
tel.:	052 703 220
fax:	052 703 229

OFFICE RIJEKA

Address:	Korzo 13 51 000 Rijeka
tel.:	051 301 280
fax:	051 301 288

OFFICE GOSPIĆ

Address:	Trg S. Radića bb 53 000 Gospić
tel.:	053 617 101
fax:	053 617 109

OFFICE ZADAR

Address:	Zrinsko - Frankopanska 8 23 000 Zadar
tel.:	023 350 000
fax:	023 350 018

OFFICE ŠIBENIK

Address:	Zadarska 2 22 000 Šibenik
tel.:	022 209 401
fax:	022 209 408

BRANCH KNIN

Address:	Zvonimirova 9 22 300 Knin
tel.:	022 556 000
fax:	022 556 009

OFFICE SPLIT - BIHAĆKA

Address:	Bihaćka 2 21 000 Split
tel.:	021 340 626
fax:	021 340 629

OFFICE SPLIT - DUBROVAČKA

Address:	Dubrovačka 31 21 000 Split
tel.:	021 401 624 / 620
fax:	021 401 639

OFFICE SPLIT – BOŠKOVIĆEVA

Address:	Ruđera Boškovića 18a 21 000 Split
tel.:	021 555 854
fax:	021 555 873

OFFICE KAŠTEL STARI

Address:	Ivana Danila 12 21 216 Kaštel Stari
tel.:	021 246 184
fax:	021 246 199

OFFICE TROGIR

Address:	Trg Ivana Pavla II, br. 1 21 220 Trogir
tel.:	021 555 724
fax:	021 555 743

OFFICE SINJ

Address:	Vrlička 50 21 230 Sinj
tel.:	021 708 080
fax:	021 708 097

BRANCH ALKARSKI DVORI

Address:	Put Petrovca 12 21 230 Sinj
tel.:	021 823 133
fax:	021 823 117

BRANCH TRILJ

Address:	Bana Josipa Jelačića 8 21 240 Trilj
tel.:	021 830 410
fax:	021 830 427

BRANCH IMOTSKI

Address:	Šetalište S. Radića 19 21 260 Imotski
tel.:	021 555 280
fax:	021 555 289

OFFICE MAKARSKA

Address:	Trg 4. svibnja 533 br.1 21 300 Makarska
tel.:	021 695 760
fax:	021 695 768

OFFICE DUBROVNIK

Address:	Vukovarska 16 20 000 Dubrovnik
tel.:	020 362 045
fax:	020 362 048

OFFICE KONAVLE

Address:	Gruda 43 20 215 Gruda
tel.:	020 450 800
fax:	020 450 802

BRANCH CAVTAT

Address:	Trumbićeva 10 20 210 Cavtat
tel.:	020 450 810
fax:	020 450 811

Members of the HPB Group:

HPB INVEST d.o.o.

Address:	Praška 5 10 000 Zagreb
tel.:	01 4888 202
fax:	01 4804 599
e-mail:	hpb.invest@hpb-invest.hr
web site:	www.hpb-invest.hr

HPB STAMBENA ŠTEDIONICA d.d.

Address:	Savska 58 10 000 Zagreb
tel.:	0800 232 332
fax:	01 5553 905
e-mail:	hpb.stedionica@hpb-stedionica.hr
web site:	www.hpb-stedionica.hr

HPB NEKRETNINE d.o.o.

Address:	Amruševa 8 10 000 Zagreb
tel.:	01 5553 920
fax:	01 4839 235
e-mail:	hpb.nekretnine@hpb.hr
web site:	www.hpb-nekretnine.hr