annual report 2011

Content

Management Board Report on the status of the company

Dear customers and business partners,

Last year we witnessed only minor steps forward, despite the fact that the trend of gross domestic product was a positive one. However, the trends in the labour market such as increase of the unemployment rate, followed by the general price rise, the growing gap between the total state income and expenses, and increase in the total state borrowing contributed to the overall negative prefix of this year. Also, last year was mostly about elections, political storms, while long awaited structural reforms and structural changes were put aside. Unfortunately, forecast trends for general economic indicators in the upcoming period still lie on rather fragile foundations and, while general trends are merely indicating stagnation, several signs, such as unemployment growing to long forgotten rates, give sufficient reason to worry.
In these circumstances the whole banking industry, and our bank not being an exception, puts the focus on stability and viability, e.g. risk management becomes the key issue. Consequently, provisions for coverage of credit risks went up in 2011 taking into consideration the general market circumstances and in line with the average system trends. Although by following this approach the risk costs increased, the corresponding reserves and coverage, however, became significantly higher than market average, giving additional boost to the stability of the bank and sufficient reserves to withstand any kind of storm on the banking market.
Despite adverse trends in immediate surroundings, the bank realised a growth of profit after tax and a growth of its customers' deposit base, thus strengthening its market position in the segment of total deposits and lending to retail customers, as its primary market segment.

Bank's results in 2011

OTP banka Hrvatska successfully ended the business year 2011, realising the total profit after tax in the amount of HRK 99,447 thousand, which represented an increase of 32% compared to the profit after tax in 2010. It is especially worth noting that the results went up in the key business segments such as net interest income, which went up by 9.6%, and net fee income, which went up by 2.3%. The bank has been managing the funds rationally, so amid the decline of credit expansion it managed to decrease its liabilities towards credit institutions, as well as the average price of total liabilities. Lowering of the interest rate on loans extended to customers was offset by successful investments into securities, so the yield on interest-earning assets grew by 0.34 percentage points, resulting in the growth of net interest margin of 0.26 percentage points. Last year the bank earned the amount of HRK

120 million on the bonds of the Republic of Croatia that fell due, and by transferring non-realised gains from the capital position to the profit and loss account. This income covered the increased provisioning costs for credit risks that the bank set aside during the previous year. Namely, the bank endorses conservative approach in risk management, especially taking into account that the profitability, liquidity and capital adequacy remain at the satisfactory level. The bank paid out dividends totalling HRK 100 million. Once the profit for the last year is capitalised, the capital adequacy rate as at 31/12/2011 will equal 14.7%.

The operating costs grew by 2.1%, but the operating income grew faster, and the cost to income ratio (C/I ratio) therefore decreased by 1.5 percentage points. The average return on assets (ROA) realised in 2011 equalled 0.78%, and the average return on equity (ROE) equalled 6.92%.

Liquidity was quite satisfactory during 2011, with the annual growth of customers' deposits of 3.2%, which enabled the bank to repay the borrowings from the parent bank and keep its focus on the deposit base as the key financing source. The Bank strengthened the market position in both: the segment of total deposits and the segment of retail lending where it increased the portion it held in housing loans and non-specific purpose loans alike. The regulatory measures were promptly observed throughout the year.

During 2011 the bank continued improving its offer and the quality of its products and services, all in order to meet the financial requirements of its customers and the communities amidst which it operates.

Corporate social responsibility

Our commitment to corporate social responsibility is evident in our assessment of the impacts of our actions on the society, environment and economy, followed by a careful consideration of our responses. For a number of years already the bank operates on the principles of corporate social responsibility primarily evident in responsible and transparent operations, from loan approval to management of savings and risks, but also in projects through which it attempts to contribute to the development of local communities in which it operates, varying from one region to the next. Being aware that its operations affect over one thousand employees, a number of suppliers and customers, OTP banka attempts to instigate and maintain a constant dialogue between the interest groups.

As for investments into the community, in its projects OTP banka promotes knowledge, sports, arts and health safety, and gives due consideration to environment protection and human rights protection, taking into account all the differences and special features of the regions it operates in. In 2011 the bank set aside almost HRK 4 million for participation in those projects.

Within its programme "Green Light to Knowledge", OTP banka set aside HRK 618,000 as scholarships for 93 secondary school and university students of lower financial standing in the County of Istria, the towns of Zadar, Sisak and Otok, and the municipalities of Konavle and Župa dubrovačka in the academic year 2011/2012. The project of scholarships for students of lower financial standing was realised in cooperation with the representatives of local administration and self-government, that is, the bank jointed their existing scholarship projects for the academic year 2011/2012.

Group results in 2011

OTP Invest

OTP Invest recorded a growth of assets under management from HRK 359 million at the end of 2010 to HRK 376 million at the end of 2011, thus becoming the 5th largest investment fund manager in the country. Correspondingly, the market share of the company (in the open investment funds market) increased from 2.76 percent to 3.45 percent in 2011. The largest growth of assets under management was recorded in OTP Money Fund: from HRK 128 million to HRK 216 million in 2011 alone. At that, it deserves a mention that the unit holders in OTP Money Fund are some of the largest institutional investors in the domestic market, along with over 5,000 small investors.

The operating income of the company grew from HRK 3.73 million in 2010 to HRK 4.98 million in 2011. In addition, the business operations of the company significantly improved in 2011, so much so that - after a number of years - it had a positive year-end result. The profit realised in 2011 amounted to HRK 16,084.00.

OTP Nekretnine

Throughout 2011 the company OTP Nekretnine was operating in the circumstances of further decline of the real estate market. On one hand, there was an abundant supply of real properties for sale, and on the other there were unacceptably high rental prices. Still, 2011 went by without a price adjustment indicated by the supply and demand principles. As for the demand, people are still quite restrained in terms of purchase and renting of real properties. The precondition for the real estate market to spring back to life is a steep drop in prices, which the owners are still avoiding. Despite difficulties, the company realised gross profit of HRK 585 thousand, whilst the liquidity was adequate. By providing correct and fair appraisals at lower prices that reflected the market conditions, the company extended support to commercial divisions of the bank in terms of risk management connected to the crediting of real estate business.

Plans for 2012

For 2012 the Bank is planning several upgrades in its operations some of which would be visible also to the clients, whilst some of them would only enhance internal operations and communications of the Bank. OTP Consulting was established at the end of 2011 in order to provide our current and future clients an easier access to European Union funds. The new subsidiary in the Group can play different roles: from giving advice at the beginning, writing appropriate documentation for tenders and controlling investment through its lifetime, up to withdrawal of EU funds, while the Bank could provide solid financing background for the projects.

We are initiating new steps and methods within our corporate social responsibility programs. Besides the already ongoing scholarship program we are also announcing tenders for donations in various areas starting from culture, development, sports, education, environment and more. OTP banka is planning for a stable year, where the operations with retail customers and somewhat more intensive operations with small and medium enterprises will remain in the centre of our interest. Our focus will be on further enhancement of client services, new account packages that are in the pipeline, followed by Internet banking and mobile banking upgrades. Naturally, also this year we are planning on continuing to invest into the development of the network through modernisation of our branches and ATMs. Meanwhile, after the latest innovation of our web prepaid card, we also plan on surprising our clients with state of the art card services to be introduced in the second half of the year. Finally, on my behalf, on behalf of the Management Board, our employees and the complete OTP Group, I would like to extend my thanks to our customers and business partners for the trust shown, and at the same time also acknowledge the significant efforts that the employees and contractors of OTP Group in Croatia put in the success we jointly achieved in 2011.

Yours faithfully,

Balázs Békeffy

President of the Management Board

Corporate Governance Code

Zadar, December 2011

By virtue of the provisions of the Companies Act and the views of the Croatian National Bank, the Management Board of OTP banka Hrvatska d.d. by its decision No 2001-255-3.16/11 of 6th December 2011, adopted the following

CORPORATE GOVERNANCE CODE

1. OBJECTIVES AND BASIC PRINCIPLES

OTP banka Hrvatska d.d. (hereinafter: the Bank) as a credit institution is well aware of the importance of a responsible and ethics-based conduct of corporate entities as an essential prerequisite for developing high-quality relations and loyal competition between business partners as well as for efficient functioning of the market.

To this end, the Bank is developing its business activities and acting in accordance with the good corporate management practice. Moreover, it is trying, by way of its business strategy, business policy, key internal acts and business practice, to contribute to transparent and efficient business activities and better-quality relations with its business environment.

Bank's adequate corporate management includes:

1. clear organisational structure with well defined authorisations and responsibilities;
2. efficient activities for establishing, measuring and monitoring of the risks the Bank is or may be exposed to as well as related reporting activities;
3. adequate internal controls mechanisms which also involve prudent administrative and accounting procedures, the strategies and the procedures for a constant assessment and review of the figures, the structure and the distribution of the internal capital required as coverage for current and future risks;
4. fulfilment of general transparency requirements dictated by investors, clients, rating assessment agencies, supervisors and other counterparties;
5. meeting the obligations and the responsibilities towards the shareholders, the employees and other interested parties;
6. safe and stable business activities in accordance with law and regulations.

It is considered that a vital segment of the Bank's identity is responsible management, therefore the Bank's view is that good corporate management is realised not just by fully meeting the regulatory requirements but that is also derives from the corporate culture prevailing in the Bank and personal integrity of all Bank's employees.

Basic corporate management principles of the Bank are the following:
1. transparency of the business activities;
2. clearly elaborated operating procedures;
3. avoidance of the conflict of interest;
4. efficient internal control;
5. efficient responsibilities system.

Any interpretation of the provisions contained herein should be governed primarily by accomplishment of the mentioned objectives and adherence to the mentioned principles.

2. PUBLICATION

In addition to the data the Bank publishes as it is required to do so by laws and other regulations, the Bank shall also publish and thus make available to any interested party, pertinent information on its work and activities which primarily refers to financial statements given that they are the most important and the most complete source of information on the Bank and the Annual Report on the company's status.

If the Bank's shares are listed on the stock exchange and they are traded in on a regulated securities market, the Bank shall:

1. give notice of any change to the rights under issued shares or other issued securities;
2. publish any information it is familiar with in respect of the shares and other securities of the Bank that are owned by any member of the Supervisory Board or the Management Board;
3. make public any other information that may be regarded vital in relation to the Bank, its financial standing, operating results, the ownership structure and management;
4. publish all the information categories clearly and unambiguously and enable any interested party equal and timely access to such information;
5. publish instantly any information that may have an impact on the making of decisions on investments into shares and other securities of the Bank, covering equally the positive and the negative aspects, with a view to allowing the investor to understand and correctly assess the Bank's standing.

Publishing of information is carried out in the manner laid down in law or the Bank's Articles of Association, whereas the Bank also ensures that pieces of information are published on own web pages and over the Internet.

3. BODIES OF THE BANK

The bodies of the Bank ensuring that good corporate management practice is implemented are the ones stated below:

1. General Meeting
2. Supervisory Board
3. Management Board

3.1 GENERAL MEETING

The General Meeting is the body of the Bank whereby shareholders exercise their main management rights by passing decisions on the Bank's activities that fall under their competence. The decisions passed by the General Meeting are laid down in law and the Bank's Articles of Association.

General Meetings are called when necessary, but at least once a year, and whenever the interests of the company require so.

General Meetings shall be called by the Management Board.

General Meetings may be called by the Supervisory Board in cases prescribed by law, and whenever the Supervisory Board deems it necessary.

The General Meeting shall also be called if so requested by shareholders who separately or together hold no less than 1/20 (One Twentieth) of the Bank's share capital providing that the Management Board has been notified about the purpose of the General Meeting.

Shareholders decide on their rights and obligations at the General Meeting in accordance with law and the Articles of Association.

Shareholders must meet the conditions prescribed by law and the Articles of Association in order to participate in the work of the General Meeting.

Each share, except for those not carrying the right to vote, entitles the shareholder to one vote, in proportion to the nominal value of each share.

The Bank issues shares made out to a name, and depending on the rights they carry they are either regular or preferential.

The Bank shall treat and accord equal conditions to all shareholders regardless of the number of shares they hold. The Bank shall equally accord same treatment to the investors notwithstanding the nature of the investor i.e. individual or institutional investors.

The General Meeting shall make its decisions by votes given by the shareholders present in person or by proxy at the General Meeting.

The General Meeting shall have a quorum if shareholders representing at least 50% (Fifty per cent) of the total share capital of the Bank are present (either in person or represented by proxy).

The General Meeting shall make decisions by a simple majority of the votes, except when deciding on the matters that require a certain necessary majority determined by law and the Articles of Association.

The right of a shareholder to participate in the General Meeting and exercise his/her voting rights may be realised by proxy, a legal entity or a natural person.

A power of attorney shall be issued and verified in the form prescribed by the Management Board and certified by a Notary Public.

3.2 SUPERVISORY BOARD

The Supervisory Board shall supervise the management of the Bank. The competence of the Supervisory Board is laid down by law, the Articles of Association and other acts of the Bank.

It has authority to inspect the Bank's business books and all the Bank's documents and assets including cash and securities, which and when it deems necessary.

Supervisory Board members shall act in the Bank's interest, keep business and bank secrets and act with the due care of a good businessman.

The Supervisory Board members shall dedicate sufficient time to their obligations in the Bank and carry out activities based on complete and reliable information, whilst driven by good intentions.

The Supervisory Board shall have 7 members, one of whom is independent. The members of the Supervisory Board are elected by the General Meeting. The election of the Supervisory Board members is based on the acceptance or rejection of the proposed list of members as a whole. The members of the Supervisory Board shall elect the Chairman and the Deputy of the Supervisory Board among themselves.

The mandate of each Supervisory Board member is two years from the date of the General Meeting at which the member was elected.

The Supervisory Board members can be re-elected.

The Supervisory Board's activities are carried out at its meetings.
The Supervisory Board's meetings are chaired by the Chairman of the Supervisory Board or the Deputy. The Supervisory Board shall make valid decisions if at least 4 (Four) members attend the meeting. Each member of the Supervisory Board has one vote.

The Supervisory Board can pass decisions without convening a meeting, if votes are cast by a letter, phone, fax or by using other envisaged technical possibilities for that purpose, if none of the Supervisory Board members objects to such manner of voting.

The Supervisory Board shall have its own Rules of procedure whereby the arrangement of meetings, decision-making process, position of the committees and their authorities shall be governed.

The Management Board can perform particular types of business activities subject to prior consent of the Supervisory Board.

3.2.1 Audit Committee

In accordance with law, the Supervisory Board established the Audit Committee and appointed its members.

The authority of the Audit Committee is laid down in the provisions of the Audit Act and the Credit Institutions Act.

The work of the Audit Committee is laid down in detail in the Rules of procedure of the Audit Committee.

The Audit Committee shall always have uneven number of members.

3.3 MANAGEMENT BOARD

The Management Board is responsible for conducting the Bank's business. The Management Board acts jointly.

The Bank is represented individually and independently by the president of the Management Board and Management Board members. The Bank can be represented by procura holder providing that he/she acts jointly with a Management Board member.

The Management Board consists of 3 (Three) to 5 (Five) members appointed by the Supervisory Board, subject to prior consent of the Croatian National Bank.
Any person who meets the requirements of the Companies Act and the Credit Institutions

Act can be appointed a member of the Management Board.

Members of the Management Board are appointed for a period not longer than 5 (Five) years and may be re-elected.

When appointing Management Board members, it shall be attempted that they possess the following characteristics:

- experience in banking operations management
- developed organisational skills
- experience in detection and monitoring of risks and dealing with crisis situations
- knowledge of accounting and finance
- familiarization with Bank's business scope
- understanding of domestic and international money market
- ability to incorporate all the interests within the Bank
- personality that contributes to the realisation of the Bank's objectives
- knowledge of good corporate management practice
- strategic vision.

The Management Board shall unanimously adopt the Rules of Conduct of the Management Board, subject to prior consent of the Supervisory Board.

The scope of the Management Board's activities and responsibilities includes the activities in line with law, the Articles of Association and the Rules of Conduct of the Management Board.

During his/her term of office, no member of the Management Board shall without prior written consent of the Supervisory Board:

a) take or have employment, mandate or engagement with any other company or bank,
b) in his/her own name and on his/her own behalf directly or indirectly be concerned or interested in business activities which are related to the Bank's business activities;
c) take or have membership in any limited liability company/partnership.
d) directly or indirectly own, conduct, contract, invest or acquire shares, engage or take part in some other way in any business activity or enterprise, which would represent competition to activities of the Bank.

4. RELATIONS BETWEEN THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND THE COMPANY

The Management Board and the Supervisory Board shall establish the strategic goals and the corporate values of the Bank and familiarize all the employees therewith.

The Management Board shall adopt the strategy and the risk policy, subject to prior consent of the Supervisory Board.

The Bank shall ensure a reasonable, transparent and documented decision-making procedure and see to that assigning of responsibilities and competences within the Bank is clear.
The Bank shall clearly define in writing the powers and key responsibilities of the Management Board, the Supervisory Board, the employees, committees and advisory bodies in the Bank.

The Management Board and the Supervisory Board shall cooperate in the best interest of the Bank as well as negotiate and come to a mutual agreement on the strategic features of the Bank's business activities.

The members of both the Management Board and the Supervisory Board shall avoid conflict of interest or a potential conflict of interest, including also spending of company funds for personal purposes and abuse of power with regard to transactions with related parties.

The Management Board shall timely and in full report to the Supervisory Board on all the facts and circumstances that may have an impact on the business activities, the financial standing and the balance of the Bank's assets and shall grant access to all the required data and the documents necessary to exercise their powers.

Members of the Management Board are entitled to remuneration for their work. The Supervisory Board shall sign contracts with members of the Management Board in order to regulate mutual rights and obligations.

Members of the Supervisory Board shall receive reward for their work in the amount decided by the General Meeting. The reward may be different for each member of the Supervisory Board, depending on the duties entrusted to them.

4.1 Conflict of interest

Conflict of interest exists in a member of the Supervisory Board, that is, a member of the Management Board who is not neutral in respect of the matter to be decided or it can be assumed on the grounds of his connection with other companies, persons or deals that his interests and inclinations do not necessarily correspond to Bank's interests.

Members of the Management Board and the Supervisory Board shall not pass decisions based on personal interests or the interests of the persons they are closely involved with.

All the activities the members of the Management Board or the Supervisory Board or their related parties and the Bank or its related parties are engaged in shall be market-based particularly as concerns deadlines, interest, guarantees etc.

All the contracts or agreements between a member of the Supervisory Board or a Management Board member and the Bank are subject to prior consent of the Supervisory Board.

4.2 Prohibition of competition

Members of the Management Board i.e. the Supervisory Board shall not, for own or someone else's account, personally or through third parties carry out the activities under the Bank's scope nor shall they supply advice to the persons that may be deemed Bank's competition.

Moreover, members of the Management Board and the Supervisory Board shall not hold a significant stake in the companies that may be deemed Bank's competitors.

5. INDEPENDENT EXTERNAL AUDITOR

The Bank is aware of the importance and the role of the audit function for the success of the corporate management, the legality and the transparency in the performance of all business processes in the Bank.

One of the important corporate management factors is to contract an independent external auditor, which the Bank must do, with a view to ensuring that financial statements adequately reflect the actual and the overall situation in the Bank.

The external auditor shall be deemed any auditor who is not related to the Bank by ownership or interests and does not provide, on its own or through related parties, any other service to the Bank.

The independent external auditor shall, as clearly and unambiguously as possible, give own opinion on whether the financial statements prepared by the Management Board adequately reflect the capital balance and the Bank's financial standing and assets as well as the results for the given period.

6. INTERNAL CONTROLS SYSTEM

The Bank shall ensure an adequate internal controls system which enables it to timely monitor and detect any material risk the Bank is or may be exposed to in the pursuit of its business activities.
The Management Board is responsible for developing and maintaining the system which allows for efficient business activities, adequate risk control, reliability of financial and other non-financial information as well as compliance of the Bank's business activities with laws, regulations and Bank's internal acts.

In addition to the members of the Management Board and the Supervisory Board, employees and all organisational units of the Bank partake in the implementation of the mentioned control measures which are directly or indirectly integrated into the business processes.

In the Bank the internal controls system is realised through three mutually independent functions:
1. risk monitoring function
2. compliance monitoring function
3. internal audit function.

When establishing the mentioned functions the Management Board shall adhere to the following principles:
1. all three functions must be co-independent;
2. each function independently and directly reports on its work to the persons and/or bodies in line with laws, regulations and Bank's internal acts;
3. the Management Board should employ sufficient number of the persons qualified to exercise the mentioned functions.

7. BUSINESS BOOKS AND FINANCIAL STATEMENTS

The Bank keeps business books and other business documentation and records, evaluates assets and liabilities, prepares and publishes annual financial statements and the Annual Report on the company's status as required by applicable regulations and professional standards.

The Bank keeps business books and other business documentation and records by applying a method by way of which it may be checked at any time whether the Bank operates in line with applicable regulations and professional standards.

8. RISKS

The Bank manages risks by implementing the procedures and the methods for detecting, measuring i.e. assessing, controlling and monitoring risks and also by reporting on the risks it is or may be exposed to in its business activities.

The Bank prescribes procedures, criteria and methods for measuring, assessing and managing of risks in its acts, in accordance with statutory regulations, standards and rules of profession.

Risk management includes continuous detection, measuring, assessing and reporting on all materially significant risks the Bank is or may be exposed to.

The risk policy is connected to the Bank's strategy and encompasses defining of the type and the level of risk the Bank is willing to assume in order to reach its business objectives.

The Bank possesses written policies and procedures relating to risk management which are updated and the implementation of which is controlled.

9. TRANSPARENT AND TIMELY REPORTING

The Bank publishes corporate management data and information which are based on statutory regulations and good practice.

The information being published must be true, relevant, timely and available so that all the interested parties' needs are met.

The Bank places special emphasis on transparent and timely reporting to both the Bank's clients and the Bank's shareholders, as well as to any other interested party.

10. STATEMENT ON ADHERING TO THE CORPORATE MANAGEMENT CODE

The Bank's shares are not traded in on a regulated securities market, that is to say, the shares are not listed on the stock exchange.

If the shares of the Bank are listed and traded in on a regulated securities market, the Management Board and the Supervisory Board shall ensure that the Management Board publishes the data laid down in Article 272 p of the Companies Act in a special section of the Annual Report on the company's status.

In accordance with Article 18 of the Accounting Act the Bank shall also introduce into the Annual Report on the company's status an overview of the corporate management rules it applies.

Summary of the Remuneration Policy of the OTP banka Hrvatska Group

Pursuant to the provisions of the Companies Act, the views of the Croatian National Bank on corporate governance in banks, and the relevant European Union directive according to which banks have limited freedom in creating of their remuneration schemes, by their Decision No. 2001-41/12 of 8th February 2012 the Management Board of OTP banka Hrvatska d.d. Zadar adopted the Remuneration Policy of the OTP banka Hrvatska Group, which was confirmed by Supervisory Board Decision No. NO-11-3.13/12 of 23rd February 2012.

1. Purpose of the Policy

The purpose of the Policy is to recognise, to the extent of risk tolerance within the OTP Group, the efforts of the Bank's management and key executives, as well as of subsidiaries' managers, considering the performance on the level of the Bank and of the Group, and to support this by means of incentives.

2. Scope of the Remuneration Policy

The persons that the Remuneration Policy of the OTP banka Hrvatska Group relates to are the following:

- President of the Management Board of OTP banka Hrvatska d.d. and all the presidents of the management boards of the companies within the Bank's Group,

The Supervisory Board shall decide on the persons that the Remuneration Policy of the OTP banka Hrvatska d.d. Group relates to.

3. Manner of payment of performance-based remuneration

Considering their management structure, the complexity of their activities and their special market circumstances, the form of performance-based remuneration, which is founded on the principle of proportionality, shall be determined differently for each member of the OTP banka Hrvatska Group:

- In case of credit institutions, payment of performance-based remuneration shall be made by combining cash payment and shares of the parent bank, where the allocation of shares shall be subject to deferral.

- In case of investment funds and other companies involved on the basis of the scope of their activities, payment of performance-based remuneration shall be made in cash, without a deferral period.

4. Fixed remuneration to performance-based remuneration ratio

With respect to the persons covered by the Remuneration Policy of the OTP banka Hrvatska Group, remuneration shall consist of fixed and variable components. The ratio of those components shall be determined by the Bank's Supervisory Board with prior consent of the Bank's General Meeting, according to the function, size and complexity of the organization managed.

5. Criteria for performance appraisal

With respect to performance-based remuneration, evaluation of the performance (target, appraisal) in OTP Group members shall differ depending on the nature of respective company's activity. When it comes to OTP Group members belonging to various categories, the key performance appraisal criteria shall be defined as follows:

- In case of **credit institutions**, in addition to RORAC (return on risk-adjusted capital), the ratios applied to measuring of collection/ recovery of overdue receivables, revenue figures and individual targets can be used as appraisal criteria;

- In case of **investment funds management companies** - RORAC (return on risk-adjusted capital), calculated as follows: profit/loss of the company / capital requirements proportionate to the managed fund, calculated on the basis of international benchmarks.

Further performance indicators include the market share of the managed funds and the yield of the investment funds measured against the benchmark;

- In case of **factoring companies** the most essential appraisal criterion is the index measuring the success of collection;

- In case of **leasing companies** the return on assets (ROA) is the key appraisal criterion.

As for other members of OTP Group, the key performance appraisal criteria must ensure strengthening of financial management and market position, creating conditions for growth and sound operations.

6. Determining entitlement to performance-based remuneration

In respect of the year evaluated, the entitlement to performance-based remuneration and the extent thereof must be determined within 30 days following the regular annual General Meeting closing the year in question.

With respect to the persons covered by the Remuneration Policy of the OTP banka Hrvatska Group, the entitlement to performance-based remuneration and its amount shall be determined by the Supervisory Board with prior consent of the General Meeting.

7. Principles and rules concerning the payment of performance-based remuneration

- Upon assessing the performance for the year evaluated ("T year"), the amount of performance-based remuneration is broken down to the level of individuals. The amount of performance-based remuneration is determined in consideration of individual performance.

- Performance-based variable remuneration shall be paid out in the form of a cash bonus and shares allocated at preferential rates.

- The number of shares that can be allocated to a single person at preferential rate shall be computed in a way to divide the amount provided for such shares by the value of the preferential rate of a share at the time of performace assessment.

- The value of shares allocated at preferential rates at the time of performance assessment must be determined on the basis of the average daily mean quoted price of the ordinary shares issued by OTP Bank Nyrt, as registered by the Budapest Stock Exchange, on the three business days preceding the date of performance assessment.

- A portion of the share-based remuneration shall be deferred for a period of 3 years, where the rate of deferred payment shall be the same for each year.

- During the entire deferment period the impacts occurring meanwhile in connection with the activity of the persons covered by the Policy shall be considered, and depending on those the amount of the remuneration subject to deferred payment should be reduced as necessary.

- 50% of the first (non-deferred) shares allocated shall be retained for a period of 1 year.

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law and the Croatian Banking Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with the applicable legislation and regulatory requirements, which give a true and fair view of the financial position of OTP banka Hrvatska d.d. Zadar (the "Bank") and Group OTP banka Hrvatska d.d. Zadar (the "Group") and of the results of their operations, changes in equity and cash flows for that period.

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

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

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

These financial statements were authorized for issue by the Management Board on 20 March 2012 and were therefore signed on its behalf as follows:

Balázs Békeffy
President of the Management Board

Zorislav Vidović
Member of the Management Board

OTP banka Hrvatska d.d.
Domovinskog rata 3
23 000 Zadar
Republic of Croatia

20 March 2012

Independent Auditor's Report

TO THE SHAREHOLDERS OF OTP BANKA HRVATSKA D.D.:

We have audited the accompanying unconsolidated and consolidated financial statements of OTP banka Hrvatska d.d. ("the Bank") and its subsidiaries (together "the Group") which comprise the unconsolidated and consolidated Statements of Financial position as at 31 December 2011 and the unconsolidated and consolidated Statements of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the unconsolidated and consolidated financial statements, set out on pages 4 to 84, give a true and fair view of the financial position of the Bank and the Group, respectively, as at 31 December 2011 and of their financial performances and their cash flows for the year then ended in accordance with 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 Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 85 to 94, which comprise the statement of financial position as of 31 December 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 4 to 84, but rather a requirement specified by the Decision. The financial information provided in those forms have been derived from the financial statements of the Bank.

Deloitte.

Deloitte d.o.o.

Branislav Vrtačnik,

Certified Auditor

Zagreb, 20 March 2012

All amounts are expressed in thousands of HRK

Statements of comprehensive income

For the year ended 31 December 2011

	Note	Group Consolidated 2011	Group Consolidated 2010	Bank Unconsolidated 2011	Bank Unconsolidated 2010
Interest and similar income	3	725,051	729,532	725,112	729,780
Interest and similar expense	3	(311,521)	(352,391)	(311,518)	(352,329)
Net interest income		413,530	377,141	413,594	377,451
Fee and commission income	4	148,078	146,641	141,915	140,523
Fee and commission expense	4	(37,904)	(38,895)	(37,904)	(38,895)
Net fee and commission income		110,174	107,746	104,011	101,628
Net trading and valuation gains on financial instruments	5	164,554	49,297	164,545	49,271
Other operating income	6	21,504	17,766	16,949	14,140
Net trading and other income		186,058	67,063	181,494	63,411
Revenue		709,762	551,950	699,099	542,490
Impairment losses and provisions, net	8	(220,362)	(101,270)	(220,362)	(101,270)
Operating expenses	7	(364,237)	(357,885)	(353,926)	(346,630)
Profit before tax		125,163	92,795	124,811	94,590
Income tax	9a	(25,562)	(19,495)	(25,364)	(19,377)
Net profit for the year		99,601	73,300	99,447	75,213
Net profit for the year		99,601	73,300	99,447	75,213
Other comprehensive income					
Assets available for sale:					
Net change of financial assets available for sale	28	(116,144)	14,053	(116,144)	14,053
Tax on items taken directly to or transferred from equity	9	23,229	(2,811)	23,229	(2,811)
		(92,915)	11,242	(92,915)	11,242
Total comprehensive income		6,686	84,542	6,532	86,455
Net profit attributable to:					
Owners of the Bank		99,598	73,715	99,447	75,213
Non-controlling interests		3	(415)	-	-
Profit for the year		99,601	73,300	99,447	75,213
Total comprehensive income attributable to:					
Owners of the Bank		6,683	84,957	6,532	86,455
Non-controlling interests		3	(415)	-	-
Total comprehensive income		6,686	84,542	6,532	86,455
EARNINGS PER SHARE					
- Basic and diluted (in HRK)	10	24.22	17.93	24.19	18.29

• The accompanying notes form an integral part of these financial statements.

All amounts are expressed in thousands of HRK

Statement of financial position

As at 31 December 2011

		Group Consolidated		Bank Unconsolidated	
	Note	2011	2010	2011	2010
ASSETS					
Cash and balances with the Croatian National Bank	11	1,483,434	1,489,477	1,483,434	1,489,477
Amounts due from other banks	12	1,069,818	682,741	1,069,818	682,741
Financial assets at fair value through profit or loss	13a	39,164	40,794	39,164	40,517
Amounts due from customers	14	8,659,478	8,592,884	8,659,478	8,594,877
Financial assets available for sale	15	1,079,668	1,495,145	1,079,668	1,495,145
Held-to-maturity investments	16	9,769	17,404	9,769	17,404
Investments in subsidiaries	17	-	-	82,430	81,390
Investment property	18	75,111	77,227	-	-
Property, plant and equipment	19	208,474	204,407	199,734	194,998
Intangible assets	20	41,697	51,067	41,434	50,452
Goodwill	21	42,966	42,966	42,966	42,966
Deferred tax assets	9c	10,027	-	11,643	-
Other assets	22	54,713	69,156	52,815	68,155
Total assets		12,774,319	12,763,268	12,772,353	12,758,122
LIABILITIES					
Amounts due to other banks	23	21,343	311,071	21,343	311,071
Amounts due to customers	24	10,317,774	10,005,712	10,320,047	10,006,739
Other borrowed funds	25	895,173	798,399	895,173	798,399
Financial liabilities at fair value through profit or loss	13b	505	17,968	505	17,968
Provisions	26	53,631	40,161	53,631	40,161
Deferred income tax liability	9c	-	12,163	-	10,437
Current income tax	9d	6,423	-	6,459	-
Other liabilities	27	86,291	91,771	85,009	89,689
Total liabilities		11,381,140	11,277,245	11,382,167	11,274,464
SHAREHOLDERS' EQUITY					
Share capital	28	822,280	822,280	822,280	822,280
Share premium		171,260	171,260	171,260	171,260
Statutory and legal reserves	28	82,228	82,228	82,228	82,228
Other reserves	28	143,255	236,174	106,805	199,724
Retained earnings		173,772	174,060	207,613	208,166
Total shareholders' equity attributable to equity holders of the Bank		1,392,795	1,486,002	1,390,186	1,483,658
Minority interests		384	21	-	-
Total shareholders' equity		1,393,179	1,486,023	1,390,186	1,483,658
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		12,774,319	12,763,268	12,772,353	12,758,122
CONTINGENCIES AND COMMITMENTS	29	1,078,409	1,529,417	1,078,709	1,531,442

• The accompanying notes form an integral part of these financial statements.

All amounts are expressed in thousands of HRK

Statement of Changes in Equity

For the year ended 31 December 2011

Group Consolidated	Share capital	Share premium	Legal and statutory reserves	Other reserves	Retained earnings	Minority interests	Total
Balance at 1 January 2010	822,280	171,260	82,228	224,936	306,605	(86)	1,607,223
Net profit for the year	-	-	-	-	73,715	(415)	73,300
Other comprehensive income	-	-	-	11,242	-	-	11,242
Total comprehensive income				11,242	73,715	(415)	84,542
Issued share capital	-	-	-	-	-	522	522
Dividend paid	-	-	-	-	(200,000)		(200,000)
Adjustment to change in accounting policy	-	-	-	-	(6,374)	-	(6,374)
Other movements	-	-	-	(4)	114	-	110
Balance at 31 December 2010	822,280	171,260	82,228	236,174	174,060	21	1,486,023
Net profit for the year	-	-	-	-	99,598	3	99,601
Other comprehensive income	-	-	-	(92,915)	-	-	(92,915)
Total comprehensive income				(92,915)	99,598	3	6,686
Issued share capital	-	-	-	-	-	360	360
Dividend paid	-	-	-	-	(100,000)		(100,000)
Other movements	-	-	-	(4)	114	-	110
Balance at 31 December 2011	822,280	171,260	82,228	143,255	173,772	384	1,393,179

• The accompanying notes form an integral part of these financial statements.

All amounts are expressed in thousands of HRK

Statement of Changes in Equity

For the year ended 31 December 2011

Bank Unconsolidated	**Share capital**	**Share premium**	**Legal and statutory reserves**	**Other reserves**	**Retained earnings**	**Total**
Balance at 1 January 2010	822,280	171,260	82,228	188,486	332,953	1,597,207
Changes in equity during 2010						
Net profit for the year	-	-	-	-	75,213	75,213
Other comprehensive income	-	-	-	11,242	-	11,242
Total comprehensive income	-	-	-	11,242	75,213	86,455
Dividend paid	-	-	-	-	(200,000)	(200,000)
Other movements (in the reserve funds for housing units)	-	-	-	(4)	-	(4)
Balance at 31 December 2010	822,280	171,260	82,228	199,724	208,166	1,483,658
Changes in equity during 2011						
Net profit for the year	-	-	-	-	99,447	99,447
Other comprehensive income	-	-	-	(92,915)	-	(92,915)
Total comprehensive income	-	-	-	(92,915)	99,447	6,532
Dividend paid	-	-	-	-	(100,000)	(100,000)
Other movements (in the reserve funds for housing units)	-	-	-	(4)	-	(4)
Balance at 31 December 2011	822,280	171,260	82,228	106,805	207,613	1,390,186

• The accompanying notes form an integral part of these financial statements.

All amounts are expressed in thousands of HRK

Cash flow statements

For the year ended 31 December 2011

	Note	Group Consolidated Year ended 31 December 2011	2010	Bank Unconsolidated Year ended 31 December 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxes		125,163	92,795	124,811	94,590
Adjustments to reconcile profit before taxes to net cash from operating activities					
Net impairment allowance on loans and receivables		203,449	133,158	195,950	139,133
Provisions for legal actions and off-balance sheet items		21,691	10,953	20,965	5,002
Depreciation and amortisation		40,620	39,122	37,596	36,038
Gain on disposal of property and equipment		(418)	(851)	(418)	(851)
Interest income		(725,051)	(729,532)	(725,112)	(729,780)
Interest expense		311,521	352,391	311,518	352,329
Realised gains on assets available for sale		(113,357)	5,328	(113,357)	5,328
Operating income before changes in working capital		*(136,382)*	*(96,636)*	*(148,047)*	*(98,211)*
(Increase)/decrease in operating assets:					
Obligatory reserves with the CNB		(23,709)	20,818	(23,709)	20,818
Amounts due from other banks		(195)	26,430	(195)	26,430
Amounts due from customers		(252,701)	(353,998)	(250,708)	(353,021)
Assets at fair value through profit or loss		(15,833)	(13,589)	(16,110)	(13,612)
Assets available for sale		435,919	(606,135)	435,919	(606,137)
Other assets		(703)	(15,791)	(1,406)	(14,712)
Increase/(decrease) in operating liabilities:					
Amounts due to other banks		(289,728)	242,117	(289,728)	242,177
Amounts due to customers		312,062	819,125	313,308	819,603
Other liabilities		(25,031)	388	(14,774)	(30)
Net cash from operating activities before interest and income taxes paid		*3,699*	*22,729*	*4,550*	*23,305*
Income tax paid		(17,987)	(20,470)	(17,756)	(20,335)
Interests paid		(316,045)	(340,949)	(316,034)	(340,887)
Interests received		732,403	739,759	732,463	740,007
Net cash generated from / (used in) operating activities		402,070	401,069	403,223	402,090
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of property and equipment, intangible assets and investment property		(32,724)	(40,674)	(32,461)	(40,177)
Proceeds from sale of property, equipment and intangible assets and foreclosed assets		(59)	3,670	(435)	3,660
Increase in investments in subsidiaries		-	-	(1,040)	(1,508)
Net proceeds on sale of available-for-sale financial assets		-	-	-	-
Proceeds from matured held to maturity securities		(8,870)	13,227	(8,870)	13,227
Net cash generated from investing activities		(41,653)	(23,777)	(42,806)	(24,798)
CASH FLOWS FROM FINANCING ACTIVITIES					
Paid dividend		(100,000)	(200,000)	(100,000)	(200,000)
Net increase/(decrease) in other borrowed funds		96,774	(764,051)	96,774	(764,051)
Net cash from financing activities		(3,226)	(964,051)	(3,226)	(964,051)
Net increase/(decrease) in cash and cash equivalents		357,191	(586,759)	357,191	(586,759)
Cash and cash equivalents at beginning of year		1,198,682	1,785,441	1,198,682	1,785,441
Cash and cash equivalents at end of year	30	1,555,873	1,198,682	1,555,873	1,198,682

• The accompanying notes form an integral part of these financial statements.


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notes to the *financial statements*

All amounts are expressed in thousands of HRK

Notes to the financial statements

For the year ended 31 December 2011

1. GENERAL

The consolidated group of OTP banka Hrvatska d.d. (the "Group") consists of the parent company OTP banka Hrvatska d.d. (the "Bank") and three subsidiaries fully owned by the Bank (OTP Invest d.o.o., OTP Nekretnine d.o.o., and Kratos Nekretnine d.o.o.). The Bank also owns 50% of OTP Consulting d.o.o. The OTP Consulting d.o.o. has not yet started its operations and does not have impact on the consolidated financial statements. The Bank is headquartered in Zadar, Domovinskog rata 3, and is incorporated in the Republic of Croatia as a joint stock company. The Bank provides retail and corporate banking services. The Bank is registered at the Commercial Court in Zadar, with the registered share capital in the amount of HRK 822,279,600 as at 31 December 2011 (2010: HRK 822,279,600).

The Bank's main areas of operation are as follows:

1. Foreign exchange operations in Croatia;
2. Domestic payment transactions;
3. Receipt of all types of deposits;
4. Issuance of all types of loans, opening of letters of credit, issuance of warranties and bank guarantees, and assuming other financial obligations;
5. Bill-of-exchange, cheque and deposit certificate operations for own account or on behalf of the Bank's customers;
6. Services related to securities (including brokerage);
7. Issuance and management of payment instruments (including cards);
8. Foreign credit operations and payment transactions;
9. Domestic payment operations

Directors and Management

General Assembly	
Viktor Siništaj	President of the General Assembly

Supervisory Board	
Antal György Kovács	President
Gábor Czikora	Member
Gábor Kovács	Member
Lászlo Kecskes	Member
Csaba Attila Farago	Member until 29 September 2011
Anita Szőrád	Member
Zsolt Szabő	Member
Branko Mikša	Member from 29 September 2011

Uprava	
Bálazs Békeffy	President from 23 September 2011.*
Helena Banjad	Member from 26 July 2011
Zorislav Vidović	Member

*Damir Odak was President of the Management Board until 31 August 2011.

All amounts are expressed in thousands of HRK

Shareholding structure

The shareholding structure of the Bank is as follows:

	31 December 2011		31 December 2010	
	Paid capital	Ownership %	Paid capital	Ownership %
OTP Bank Nyrt, Hungary	822,280	100.00	822,280	100.00
Total	822,280	100.00	822,280	100.00

All services are provided in the Republic of Croatia, and therefore are considered a single geographical segment. The Group considers that its business consists of a single business segment, banking and related services, hence no segment information is presented.

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".

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are summarised below.

2.1 Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. The Group's banking operations in Croatia are subject to the Banking Law, in accordance with which the Group's financial reporting is regulated by the Croatian National Bank ("the CNB") which is the central monitoring institution of the banking system in Croatia. These financial statements have been prepared in accordance with these banking regulations.

The accounting regulations of the CNB are based on International Financial Reporting Standards. The main difference between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards ("IFRS") is as follows:

The CNB requires banks to recognise impairment losses, through profit and loss, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets at fair value through profit or loss and assets available for sale). The Group and the Bank have made portfolio based provisions of HRK 100,038 thousand (2010: HRK 100,223 thousand) carried in the statement of financial position in compliance with these regulations, and have recognised an income of HRK 185 thousand in relation to these provisions (2010: income of HRK 10,254 thousand). Although, in accordance with IFRS, such provisions should more properly be presented as an appropriation within equity, in accordance with CNB rules the Group continues to recognise such provisions as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of IFRS. The Group is in the process of compiling the observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at the statement of financial position date, determining the appropriate emergence period over which these losses come to light, and identifying, for each portfolio, the relevant current economic conditions with which the historical data should be adjusted, as a basis for estimating the extent of unidentified losses existing at the statement of financial position date on the basis required by IFRS.

A further difference between IFRS and the accounting regulations of the CNB relates to the determination of impairment losses by discounting the estimated cash flows of the impaired asset at the instrument's original effective interest rate. Contrary to IFRS, the amortisation of such discount should be recognised as a reversal of the impairment loss in accordance with local regulations, and not as interest income. 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 IFRS.

Management expects that unidentified impairment losses estimated on this basis will not exceed those required to be calculated in accordance with the accounting regulations of the CNB.

2.2 Basis of measurement and preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the consolidated statement of financial position date, as well as amounts of income and expense for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis for making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

Judgements made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in the next year are discussed in Note 39.

The accounting policies have been consistently applied to all periods presented in these financial statements and are presented below. Accounting policies are unified for both Bank and Group except where emphasized.

These financial statements are prepared in HRK that is Group and Bank functional currency.

The following amendments to the existing standards issued by the International

Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

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

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

Standards and Interpretations in issue not yet adopted

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- Amendments to IFRS 7 “Financial Instruments: Disclosures”- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- Amendments to IAS 24 “Related Party Disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- Amendments to IAS 32 “Financial Instruments: Presentation” Đ Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),
- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods

beginning on or after 1 January 2011),

- Amendments to IFRIC 14 "IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

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

2.3 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated and unconsolidated financial statements are presented in Croatian HRK ("HRK") which is the Group's functional and presentation currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The principal rates of exchange set by the Croatian National Bank and used in the preparation of the Group's statement of financial position at the reporting dates were as follows:

31 December 2010

1 EUR = HRK 7.385173 1 USD = HRK 5.568252

31 December 2011

1 EUR = HRK 7.530420 1 USD = HRK 5.819940

2.4 Basis of consolidation

These consolidated financial statements of the Group incorporate the financial statements of the Bank and the entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

2.5 Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are premeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquirer's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively
- liabilities or equity instruments related to the replacement by the Group of an acquirer's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

2.6 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss.

Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at statement of financial position date. The Group does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 "Financial Instruments: Measurement and Recognition" ("IAS 39").

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

The Group has certain assets and liabilities originated in HRK, which are linked to foreign currency with one-way currency clause. In accordance with this clause the Group has an option to revalue relevant assets by the higher of the foreign exchange rate valid as of the date of maturity and foreign exchange rate valid as of the date of origination of the financial instrument. In the case of relevant liabilities the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option cannot be calculated as forward rates for HRK for periods over 6 months are not available. The Group therefore values its assets and liabilities governed by such clauses at the higher of the middle rate of the Croatian National Bank valid at the statement of financial position date and foreign exchange rate agreed by the option (rate valid at origination).

2.7 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquire and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquirer's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquire and the fair value of the acquirer's previously held equity interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.8 Non-controlling interest

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2.9 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.10 Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments.

Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

2.11 Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, granted loans and other credit instruments issued by the Group.

Fees and commissions are generally recognized as income when due.

2.12 Employee benefits

Short-term service benefits

Obligations for contributions to defined contribution pension plans and other short-term benefits are recognised as an expense in the profit and loss as incurred.

Long-term service benefits

The Group provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

2.13 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

2.14 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Croatian National Bank ('CNB'), current accounts with other banks and term placements with other banks with residual maturity up to 1 months.

Cash and cash equivalents exclude the obligatory reserves with the CNB, as these funds are not available for the Group's day to day operations.

2.15 Financial instruments

Classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, financial assets available for sale, held-to-maturity investments or other 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 and, where appropriate, reviews this designation at every reporting date. Items are only classified as at fair value through profit or loss upon initial recognition. Items classified as at fair value through profit or loss are not reclassified.

Financial assets and financial liabilities at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit-taking, or designated as such by management.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at fair value through profit or loss include investments in the investment funds as well as derivatives.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Group provides money to a debtor with no intention of trading with the receivable and include amounts due from other banks, loans to and receivables from customers, and the obligatory reserve with the Croatian National Bank. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. These include certain debt securities. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Available-for-sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. Financial assets designated as 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 and units in open ended investment funds. Fair value is determined in the manner described in note 15. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not held for trading or designated at fair value through profit or loss. Other financial liabilities include amounts due to other banks, amounts due to customers and other borrowed funds.

Recognition and derecognition

Purchases and sales of financial instruments at fair value through profit or loss, held to maturity and available for sale are recognised on the settlement date, which is the date when the financial instrument is delivered to or transferred from the Group. Loans and receivables and other financial liabilities 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 on financial assets. 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.

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their 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 available for sale at their fair value, without any deduction for selling costs. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment. Debt securities that do not have a quoted market price in an active market are stated at cost of investment or indexed cost.

Loans and receivables and held-to-maturity investments and other financial liabilities are measured at amortised cost using the effective interest method.

Gains and losses

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the profit or loss.

Gains and losses from a change in the fair value of available-for-sale monetary assets are recognised directly in a fair value reserve within equity and are disclosed in the statement of changes in other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in the profit or loss. Dividend income is recognised in the profit or loss.

Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses are transferred to the profit or loss.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the profit or loss, when a financial instrument is derecognised or when its value is impaired.

Fair value measurement principles

The fair values of quoted investments are based on current closing bid prices. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Group establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, 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-exchange-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.

Reclassification of financial assets

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

2.16 Impairment of financial assets

Impairment of financial assets identified as impaired

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group. If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If a loan and receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Those individually significant assets which are not impaired are included in the basis for collective impairment assessment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account.

The amount of the reversal is recognised in the profit or loss.

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in the profit or loss.

Financial assets carried at fair value

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of other comprehensive income investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such evidence 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 profit or loss. Impairment losses recognised in the profit or loss on equity securities are not reversed through the profit or loss. 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 profit or loss.

Financial assets carried at cost

These include equity securities classified as available for sale for which there is no reliable fair value. The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted by the current market interest rate for similar financial assets. Impairment losses on such instruments, recognised in the profit or loss, are not subsequently reversed through the profit or loss.

Impairment of financial assets not identified as impaired

In addition to the above described impairment losses on financial assets identified as impaired, the Group recognises impairment losses, in income, on on- and off-balance sheet credit risk exposures not identified as impaired at rates from 0.85-1.20% in accordance with the accounting regulations of the CNB.

Debt securities at fair value through profit or loss were excluded from the basis of such calculation at the statement of financial position date.

2.17 Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative trading purposes. No derivatives are accounted for as hedging instruments.

All derivatives are classified as financial instruments held for trading, within financial instruments at fair value through profit or loss. Derivative financial instruments including foreign exchange contracts, forward rate agreements and cross currency swaps are initially recognised in the statement of financial position and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

Changes in the fair value of derivatives are included in the profit or loss.

2.18 Sale of repurchase agreement

If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized, as the Group retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the statement of financial position as originally classified or the Group reclassifies the asset on its statement of financial position as a repurchase receivable if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in amounts due to banks or amounts due to customers as appropriate.

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets due from banks or as loans and receivables as appropriate, with the corresponding decrease in cash being included in cash and balances with the Croatian National Bank.

The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

2.19 Property, plant, equipment and intangible assets

Property, plant, equipment and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment loss, if any. Land and assets under construction are not depreciated.

Depreciation and amortization are calculated for all assets, except for land and assets under construction, under the straight line method at rates estimated to write off the cost of each asset to their residual values over their estimated useful life as follows:

All amounts are expressed in thousands of HRK

	2011	2010
Buildings	10-40 years	10-40 years
Computers	4 years	4 years
Furniture and equipment	2.5-10 years	2.5-10 years
Motor vehicles	4 years	4 years
Intangible assets	3.3-15 years	3.3-15 years

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to its recoverable amount.
Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.
Repairs and renewals are charged to the profit or loss when the expenditure is incurred. Improvements are capitalised.

2.20 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. The investment property is subsequently measured at cost less depreciation expense and impairment losses, if for any.

2.21 Impairment of property, plant and equipment and intangible assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each statement of financial position date.
An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.
The recoverable amount of property, plant 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 level for which there is 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.
An impairment loss in respect of goodwill is not reversed.
Non-financial assets other than goodwill that 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.
An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.22 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

2.23 Off-balance-sheet 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 statement of financial position if and when they become payable.

2.24 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. The Management Board 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 at the statement of financial position date. Provisions are discounted to present value where the effect is material.

2.25 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements when the Group acts in a fiduciary capacity such as nominee, trustee or agent. Fees earned by the Group for such services are recognised as income when earned.

2.26 Issued share capital

Issued share capital represents the nominal value of paid-in ordinary and preference shares classified as equity and is denominated in HRK.

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

2.27 Treasury shares

When any Group company purchases the Bank's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed of and classified as treasury shares. When such shares are subsequently sold or reissued, any consideration received net of transaction costs is included in equity attributable to the Bank's equity holders.

2.28 Retained earnings

Any profit for the year is retained after appropriations are transferred to reserves.

2.29 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

All amounts are expressed in thousands of HRK

3. NET INTEREST INCOME

	Group Consolidated 2011	Group Consolidated 2010	Bank Unconsolidated 2011	Bank Unconsolidated 2010
Interest and similar income				
Cash reserves and amounts due from other banks	11,758	9,817	11,819	10,065
Balances with Croatian National Bank	900	6,227	900	6,227
Corporate loans	196,162	203,556	196,162	203,556
Retail loans	458,647	462,330	458,647	462,330
Debt securities	57,537	47,602	57,537	47,602
Other	47	-	47	-
	725,051	729,532	725,112	729,780
Interest and similar expense				
Amounts due to retail customers	257,750	294,045	257,750	294,045
Amounts due to corporate customers	28,866	30,822	28,866	30,822
Other borrowed funds and amounts due to other banks	23,779	26,605	23,776	26,543
Other	1,126	919	1,126	919
	311,521	352,391	311,518	352,329

Included within various line items under interest income for the year ended 31 December 2011 is a total of HRK 21,496 thousand (2010: HRK 6,168 thousand) relating to impaired financial assets.

4. NET FEE AND COMMISSION INCOME

a) Net fee and commission income by source

	Group Consolidated 2011	Group Consolidated 2010	Bank Unconsolidated 2011	Bank Unconsolidated 2010
Fee and commission income				
Corporate customers	36,617	38,358	30,454	32,240
Banks	25,154	22,530	25,154	22,530
Retail customers	86,307	85,753	86,307	85,753
	148,078	146,641	141,915	140,523
Fee and commission expense				
Corporate customers	17,969	22,845	17,969	22,845
Banks	19,935	16,050	19,935	16,050
	37,904	38,895	37,904	38,895

b) Net fee and commission income per type of fee

	Group Consolidated 2011	Group Consolidated 2010	Bank Unconsolidated 2011	Bank Unconsolidated 2010
Fee and commission income				
Loans related fees and commissions	12,596	11,748	12,596	11,748
Credit card related fees and commissions	35,746	34,876	35,746	34,876
Domestic payment transaction related fees and commissions	39,180	40,742	39,180	40,742
Foreign payment transaction related fees and commissions	6,456	6,377	6,456	6,377
Guarantee related fees and commissions	4,155	4,813	4,155	4,813
Investment management, brokerage and consultancy fees	1,600	1,596	1,600	1,596
Other fees and commissions	48,345	46,489	42,182	40,371
	148,078	146,641	141,915	140,523
Fee and commission expense				
Credit card related charges	12,115	10,855	12,115	10,855
Domestic payment transaction related charges	10,102	13,375	10,102	13,375
Foreign payment transaction related charges	6,262	3,879	6,262	3,879
Other fees and commissions	9,425	10,786	9,425	10,786
	37,904	38,895	37,904	38,895

All amounts are expressed in thousands of HRK

5. NET TRADING AND VALUATION GAINS ON FINANCIAL INSTRUMENTS

	Group Consolidated		Bank Unconsolidated	
	2011	2010	2011	2010
Net gains on foreign currency spot transactions	45,429	43,065	45,429	43,065
Realized gain on securities available-for-sale securities	113,357	5,328	113,357	5,328
Net gain/(loss) on derivatives	12,494	(20,072)	12,493	(20,073)
Net gain/(loss) on translation of foreign currency assets and liabilities	(6,726)	20,976	(6,734)	20,951
	164,554	49,297	164,545	49,271

6. OTHER OPERATING INCOME

	Group Consolidated		Bank Unconsolidated	
	2011	2010	2011	2010
Management fees	4,824	3,729	-	-
Income from litigations	90	18	90	18
Income on closing of dormant accounts	67	121	67	121
Dividend income	124	166	124	166
Accrued profit under the collective insurance policy	5,129	359	5,129	359
Gains on sale and disposal of property and equipment	418	851	418	851
Sale of written-off inventory	42	1,336	42	1,336
Income generated from bankruptcy estate	297	1,658	297	1,658
Write off liabilities	257	2,399	257	2,399
Income from rentals	2,806	2,666	2,806	2,666
Income from property replacement	3,046	-	3,046	-
Other income	4,404	4,463	4,673	4,566
	21,504	17,766	16,949	14,140

Net book value of sold /disposed assets	(297)	(866)	(297)	(866)
Income from sale of assets	715	1,717	715	1,717
Gains on sale and disposal of property and equipment	418	851	418	851

All amounts are expressed in thousands of HRK

7. OPERATING EXPENSES

	Group Consolidated		Bank Unconsolidated	
	2011	2010	2011	2010
Staff costs	155,222	152,678	150,800	148,171
Provisions for retirement benefits and bonuses to employees	363	4,978	375	5,006
	155,585	157,656	151,175	153,177
Professional services and cost of material	106,008	103,451	105,388	103,303
Savings deposit insurance premiums	23,044	22,126	23,044	22,126
Marketing	18,466	15,085	18,349	14,845
Amortisation and depreciation	40,620	39,122	37,596	36,038
Administrative expenses	15,510	13,339	15,510	13,339
Other taxes and contributions	1,188	1,344	1,188	1,344
Write-off of receivables	198	1,045	198	1,045
Other costs	3,618	4,717	1,478	1,413
	364,237	357,885	353,926	346,630

Staff costs:

	Group Consolidated		Bank Unconsolidated	
	2011	2010	2011	2010
Gross salary	113,808	111,104	110,611	107,754
- Net salaries	*79,130*	*75,228*	*77,169*	*73,357*
- Taxes, surtaxes and contributions	*34,678*	*35,876*	*33,442*	*34,397*
Contributions on salaries	19,902	19,201	19,112	18,612
Other payments to employees	21,875	27,351	21,452	26,811
	155,585	157,656	151,175	153,177

At year end, the Group had 1,028 (2010: 1,030) and the Bank 1,015 (2010: 1,017) employees.

8. IMPAIRMENT LOSSES AND PROVISIONS, NET

	Group Consolidated		Bank Unconsolidated	
	2011	2010	2011	2010
Impairment of loans receivables, net	186,107	91,874	186,107	91,874
Impairment of held-to-maturity investments, net	16,505	-	16,505	-
Impairment of other assets, net	776	1,499	776	1,499
Impairment of amounts due to banks, net	61	126	61	126
Litigation provisions, net	20,969	2,582	20,969	2,582
Provisions for off-balance sheet items, net	(4,056)	5,189	(4,056)	5,189
	220,362	101,270	220,362	101,270

All amounts are expressed in thousands of HRK

9. TAXATION

(a) Income tax expense recognised in the profit or loss

	Group Consolidated		Bank Unconsolidated	
	2011	2010	2011	2010
Current income tax charge	24,410	18,956	24,215	18,843
Net deferred tax charge	1,152	539	1,149	534
	25,562	19,495	25,364	19,377

(b) Reconciliation of the accounting profit and income tax expense at 20%

	Group Consolidated		Bank Unconsolidated	
	2011	2010	2011	2010
Profit before income tax	125,163	92,795	124,811	94,590
Tax calculated at statutory tax rate of 20% (2010: 20%)	25,033	18,559	24,962	18,918
Income not subject to tax net of non-tax deductible expenses	838	705	710	560
Utilisation of double-dip benefits	(309)	(101)	(308)	(101)
Tax loss in a subsidiary not recognised as deferred tax asset	-	332	-	-
Current Income tax charge	25,562	19,495	25,364	19,377
Effective income tax rate	20.42%	21.01%	20.32%	20.49%

(c) Movement in deferred tax asset and (liability)

Group

Consolidated	Deffered loan origination fees	Unrealised gains/(losses) on available-for-sale securities	Other	Total
Balance at 1 January 2010	6,843	(13,934)	(1,837)	(8,928)
Charged to profit or loss	(534)	-	(5)	(539)
Charged to other comprehensive income	-	(2,811)	114	(2,697)
Balance at 31 December 2010	6,309	(16,745)	(1,728)	(12,164)
Charged to profit or loss	(1,149)	-	(3)	(1,152)
Charged to other comprehensive income	-	23,229	114	23,343
Balance at 31 December 2011	5,160	6,484	(1,617)	10,027

Bank

Unconsolidated	Deffered loan origination fees	Unrealised gains/(losses) on available-for-sale securities	Other	Total
Balance at 1 January 2010	6,842	(13,934)	-	(7,092)
Charged to profit or loss	(534)	-	-	(534)
Charged to other comprehensive income	-	(2,811)	-	(2,811)
Balance at 31 December 2010	6,308	(16,745)	-	(10,437)
Charged to profit or loss	(1,149)	-	-	(1,149)
Charged to other comprehensive income	-	23,229	-	23,229
Balance at 31 December 2011	5,159	6,484	-	11,643

All amounts are expressed in thousands of HRK

(d) Current income tax liability

	Group Consolidated		Bank Unconsolidated	
	2011	2010	2011	2010
Current income tax charge	24,410	18,956	24,215	18,843
Paid income tax charge	(17,987)	(20,470)	(17,756)	(20,335)
Current income tax liability	6,423	(1,514)	6,459	(1,492)

The current income tax liability amounts to HRK 6,423 thousand for the Group and HRK 6,459 thousand for the Bank (in 2010 there was no current income tax liability as the Group and the bank have overpaid its tax liability through tax prepayments).

(e) Tax losses

The Group is subject to corporate income tax in accordance with Croatian law. Tax gains and losses of individual Group companies cannot be utilised on the Group level or transferred from one Group member to another. Tax losses can be carried forward up to five years and are subject to adjustment resulting from inspections by the Croatian Ministry of Finance.

Tax losses:

	Group Consolidated		Bank Unconsolidated	
	2011	2010	2011	2010
Tax losses brought forward	9,507	8,742	-	-
Tax loss for the year	-	1,673	-	-
Amounts utilised in the year	(66)	-	-	-
Tax loss not available for carry forward	(2,376)	(908)	-	-
Total tax losses available for carry forward	7,065	9,507	-	-
Tax effect from tax losses carried forward (at a rate of 20%)	1,413	1,901	-	-
Amount not recognised as deferred tax assets	(1,413)	(1,901)	-	-
Recognised deferred tax assets	-	-	-	-

At 31 December 2011 unutilised gross tax losses that are available for setting off against the future profits amount to HRK nil (2010: nil) for the Bank and HRK 7,065 thousand (2010: HRK 9,507 thousand) for the Group. Based on these losses, no deferred tax asset has been recognised by the Group because the management believes that the possibility of companies with accumulated tax losses using them as a tax shield is remote.

At 31 December 2011 and 2010, gross tax losses available for carry forward expire as follows:

	Group Consolidated		Bank Unconsolidated	
	2011	2010	2011	2010
Up to 5 years	-	1,673	-	-
Up to 4 years	1,673	3,077	-	-
Up to 3 years	3,077	1,953	-	-
Up to 2 years	1,899	416	-	-
Up to 1 year	416	2,388	-	-
Total tax loss available for carry forward	7,065	9,507	-	-

Tax positions taken by the Group are subject to examination and could be challenged by the tax authorities. As a result there is uncertainty about the potential impacts should the interpretation of the tax authorities differ from that applied by the Group. However, the Group's management considers that any tax liability which might arise in connection with this would not be material.

All amounts are expressed in thousands of HRK

10. EARNING PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders. A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

	Group Consolidated	
	31.12.2011	31.12.2010
Profit for the year attributable to equity holders of the Bank	99,598	73,715
Profit attributable to ordinary shareholders	99,598	73,715
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	4,111,398	4,111,398
Earnings per ordinary share - basic and diluted (HRK)	24.22	17.93

	Bank Unconsolidated	
	31.12.2011	31.12.2010
Profit for the year	99,447	75,213
Profit attributable to ordinary shareholders	99,447	75,213
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	4,111,398	4,111,398
Earnings per ordinary share - basic and diluted (HRK)	24.19	18.29

11. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash in hand	168,792	136,374	168,792	136,374
Giro account balance	263,418	341,866	263,418	341,866
Current accounts with foreign banks	43,480	30,233	43,480	30,233
Current accounts with domestic banks	7,848	5,271	7,848	5,271
Items in course of collection	2,948	2,494	2,948	2,494
Assets included in cash and cash equivalents (Note 30)	486,486	516,238	486,486	516,238
Obligatory reserve at Croatian National Bank				
- in HRK	*825,178*	*803,714*	*825,178*	*803,714*
- in foreign currency	*171,770*	*169,525*	*171,770*	*169,525*
Total obligatory reserve at Croatian National Bank	996,948	973,239	996,948	973,239
	1,483,434	1,489,477	1,483,434	1,489,477

The CNB determines the requirement for banks to hold obligatory reserves, both in the form of amounts required to be deposited with the CNB and in the form of other liquid receivables. The obligatory reserve with the CNB represents the amount required to be deposited with the CNB.

The obligatory reserve requirement at 31 December 2011 amounted to 14% (2010: 13%) of HRK and foreign currency denominated deposits, borrowings and issued debt securities.

At 31 December 2011, the required rate of the HRK obligatory reserve with the CNB amounted to 70% (2010: 70%), while the remaining 30% (2010: 30%) must be held in the form of other liquid receivables, excluding cash in the vault and in hand. The percentage includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

Of the total foreign currency obligatory reserve, 60% (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). The portion of the foreign currency obligatory reserve required to be held in HRK is 75% (2010: 75%), and it is added to the HRK obligatory reserve (see above).

All amounts are expressed in thousands of HRK

12. AMOUNTS DUE FROM OTHER BANKS

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Short-term placements with other banks	1,071,603	639,463	1,071,603	639,463
Loans and advances to other banks in Croatia	-	45,002	-	45,002
	1,071,603	*684,465*	*1,071,603*	*684,465*
Less: impairment allowance	(1,785)	(1,724)	(1,785)	(1,724)
	1,069,818	682,741	1,069,818	682,741

Movements in provisions for impairment for amounts due from other banks for the Group and the Bank were as follows:

	2011	2010
Balance as at 1 January	1,724	1,598
Provisions charged	61	126
Balance as at 31 December	1,785	1,724

The entire amount of amount due to banks is valued at amortised cost.

All amounts are expressed in thousands of HRK

13. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

(a) Financial assets at fair value through profit and loss

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Units in open-ended investment funds	30,317	40,794	30,317	40,517
Fair value of derivatives	8,847	-	8,847	
	39,164	40,794	39,164	40,517

The units in open-ended investment funds are valued at the net asset value of these funds.

(b) Financial liabilities at fair value through profit and loss

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Fair value of derivatives	505	17,968	505	17,968
	505	17,968	505	17,968

The Bank has entered into derivative contracts as noted below.

The Bank uses cross-currency swaps to reduce the currency exposures that are inherent in any banking business. As at 31 December 2011 the Bank has had an receivable for forward SWAP leg in amount of HRK 589,560 thousand in USD currency and HRK 105,426 thousand in EUR currency (2010: HRK 541,270 thousand in USD currency and HRK 258,733 thousand in HRK currency).

In addition the Bank has a payable forward SWAP leg as at 31 December 2011 in amount of HRK 685,701 thousand in CHF currency (2010.: HRK 816,210 thousand in CHF currency).These balances are shown in Bank's off balance. The positive fair value of SWAP as at 31 December 2011 amounts to HRK 8,847 (2010: HRK 0), and negative fair value of SWAP in amount of HRK 505 thousand (in 2010: HRK 17,968 thousand). Counterparties of the Bank's derivative transactions are financial institutions (including related parties).

All amounts are expressed in thousands of HRK

14. AMOUNTS DUE FROM CUSTOMERS

Analysis by type of product

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	**31.12.2010**	**31.12.2011**	**31.12.2010**
HRK denominated				
Retail customers	5,882,579	5,709,055	5,882,579	5,709,055
Corporate customers	2,905,946	2,808,833	2,905,946	2,809,821
Foreign currency denominated				
Retail customers	33	48	33	48
Corporate customers	526,158	543,609	526,158	544,614
Total loans	9,314,716	9,061,545	9,314,716	9,063,538
Less: allowance for impairment	(655,238)	(468,661)	(655,238)	(468,661)
	8,659,478	8,592,884	8,659,478	8,594,877

Included within Group HRK loans are balances linked to foreign currency, such as Euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 6,031,764 thousand (2010: HRK 6,156,241 thousand). Repayments of principal and interest payments are determined in foreign currency and paid in the HRK equivalent translated at the foreign exchange rate applicable on the date of payment.

Movements in allowance for impairment were as follows:

GROUP AND BANK

	31.12.2011	**31.12.2010**
Balance at 1 January	468,661	337,128
Amounts collected	(36,721)	(24,004)
New provisions made	222,828	159,191
Exchange differences	1,926	756
Amounts written off	(1,456)	(4,410)
Balance at 31 December	655,238	468,661

At 31 December 2011, the total gross amount of non-performing loans for the Bank and the Group was HRK 1,059,232 thousand (2010: HRK 929,327 thousand).

All amounts are expressed in thousands of HRK

Concentration of credit risk by industry

Set out below is an overview of the Group's and Bank's concentration by various types of industries (gross amounts before allowance for impairment):

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Agriculture, forestry and fisheries	340,555	270,235	340,555	270,235
Mining	23,123	66,290	23,123	66,290
Food and beverages	75,214	73,871	75,214	73,871
Leather and textiles	8,442	6,783	8,442	6,783
Publishing and printing	10,332	10,912	10,332	10,912
Non-metal mineral and chemical products	36,370	17,499	36,370	17,499
Metal-working industry	20,992	22,389	20,992	22,389
Other manufacturing industries	348,992	376,505	348,992	376,505
Energy, gas and water supply	55,530	55,627	55,530	55,627
Construction	553,269	604,085	553,269	604,085
Trade and commerce	483,482	472,204	483,482	472,204
Hotels and restaurants	418,400	411,001	418,400	411,001
Transport and communications	142,424	119,660	142,424	119,660
Financial intermediation	29,134	15,202	29,134	16,190
Real estate	212,349	150,489	212,349	151,494
Public administration and defence	468,007	468,032	468,007	468,032
Education, health and social welfare	121,741	133,057	121,741	133,057
Other services and social activities	83,748	78,601	83,748	78,602
Foreign entities	-	-	-	-
Total corporate loans	3,432,104	3,352,442	3,432,104	3,354,435
Retail customers	5,882,612	5,709,103	5,882,612	5,709,103
	9,314,716	9,061,545	9,314,716	9,063,538
Less: impairment allowance	(655,238)	(468,661)	(655,238)	(468,661)
Total loans	8,659,478	8,592,884	8,659,478	8,594,877

15. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Equity securities	8,024	6,215	8,024	6,215
Debt securities	1,054,589	1,466,290	1,054,589	1,466,290
Units in open-ended investment funds	17,055	22,640	17,055	22,640
	1,079,668	1,495,145	1,079,668	1,495,145

Equity securities mostly refer to shares of the Zagreb stock exchange and Visa shares.

(a) Equity securities

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Equity securities at cost				
- unquoted	11,616	10,571	11,616	10,571
Less: impairment allowance	(3,592)	(4,356)	(3,592)	(4,356)
	8,024	6,215	8,024	6,215

All amounts are expressed in thousands of HRK

(b) Debt securities

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Quoted				
Bonds of the Ministry of Finance	17,565	17,938	17,565	17,938
CBRD bonds	4,508	9,008	4,508	9,008
Bonds of foreign governments	435,246	676,359	435,246	676,359
Subtotal: Quoted debt securities	457,319	703,305	457,319	703,305
Treasury bills of the Ministry of Finance	597,270	278,184	597,270	278,184
Replacement bonds of the Croatian Ministry of Finance	-	484,801	-	484,801
Subtotal: Unquoted debt securities	597,270	762,985	597,270	762,985
	1,054,589	1,466,290	1,054,589	1,466,290

Replacement bonds matured in 2011 and were collected by the Bank in the total amount of HRK 525,561 thousand. Amount of HRK 120,273 relates to positive revaluation effect recognized through other comprehensive income which was, at moment of maturity, recognized as income for the period. Remaining part of HRK 405,288 thousand relates to principal.

RHMF-O-203E bonds of the Republic of Croatia were issued in 2010. They are denominated in Croatian HRK with foreign currency clause in EUR and bear interest at a rate of 6,50%, which is paid semi-annually. The bonds mature in 2010 and are quoted on the Zagreb Stock exchange. All debt securities which are quoted on the domestic market, fair value is determined using bid price published on Bloomberg website.

RHMF-0-172A bonds of the Republic of Croatia were issued in 2007. They are denominated in Croatian HRK and bear interest at a rate of 4.75%, which is paid semi-annually. The bonds mature in 2017 and are quoted on the Zagreb Stock Exchange. All debt securities which are quoted on the domestic market, fair value is determined using bid price published on Bloomberg website.

The bonds of the Croatian Bank for Reconstruction and Development ("CBRD") are issued with the guarantee of the Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Euro and the interest rate on these bonds is 5.75% and interest is paid annually. The bonds mature on 4 December 2012. These bonds are quoted on the Luxembourg Stock Exchange. Fair value of the bond is determined using bid price published on Bloomberg website.

The bonds of the Hungarian Government were issued in 2003, 2004 and 2009 and are denominated in EUR. They bear interest rate from 4,5% to 6,75% and are paid semi-annually. The bonds mature in 2013 and 2014 and are quoted on foreign stock exchanges. Fair value of the bond is determined using bid price published on Bloomberg website.

Replacement bonds were issued by the Croatian Government to replace economic restructuring bonds based on the Government decision of 6 April 2000. The replacement bonds are denominated in Croatian HRK and are indexed to the industrial price index. Every six months the principal amount of the bond is revalued based on changes in the index and the revaluation gains/(losses) are recognized directly in equity. The interest rate on these bonds is 5% annually, and the interest is paid on a semi-annual basis. The bonds matured and were collected in 2011.

The Bank has in its portfolio Treasury Bills of the Ministry of Finance with maturities of 91, 182 and 364 days. The T-bills are HRK and EUR denominated, and bear interest at market rates.

The Bank has investments in open-end investment funds managed by the investment fund manager OTP Invest d.o.o. These are: OTP Balanced Fund, OTP Cash Fund, OTP Index Fund, OTP Euro Bond Fund, and OTP Europa Plus.

All amounts are expressed in thousands of HRK

16. HELD TO MATURITY INVESTMENTS

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Receivables for Bonds of the Croatian Ministry of Finance	16,505	16,186	16,505	16,186
Corporate bills of exchange	9,855	1,304	9,855	1,304
Less: allowance for impairment	(16,591)	(86)	(16,591)	(86)
	9,769	17,404	9,769	17,404

Movement in provision of the Group and Bank related to impairment of held to maturity investments:

	2011	2010
Balance at 1 January	86	86
Provision charged	16,505	-
Balance at 31 December	16,591	86

The receivables for bonds of the Ministry of Finance relates to compensation for flats purchased by the Government of Croatia. Pending the clarification of the terms, the Bank has not recognised accrued interest on these bonds. As the collection of these receivables is trying to be realized through court proceedings, the Management of the Bank is aware that there is uncertainty related to the collection of these receivables because of which value adjustment has been recorded in 2011.
The investments held-to-maturity are not traded publicly.

The Management of the Bank believes that the rest of the securities' carrying value is equal to their fair value.

17. INVESTMENTS IN SUBSIDIARIES

Set out below are the operating subsidiaries of the Bank, included in the consolidated statements of the Group:

Name	Business activity	Effective share	
		31.12.2011	31.12.2010
OTP Invest d.o.o.	Investment fund management	74.33%	74.33%
OTP Nekretnine d.o.o.	Real estate	100%	100%
Kratos nekretnine d.o.o	Real estate	100%	100%

In July 2007 OTP Invest d.o.o., then a fully owned subsidiary of the Bank, underwent a process of legal division into three separate companies, each owned by the Bank. As a result of this process, the Bank became the owner of two new subsidiaries, Kratos nekretnine d.o.o. and Kvirinal nekretnine d.o.o., each with an issued share capital of HRK 20 thousand. During 2008, the company Kvirinal nekretnine d.o.o. was merged into the Bank. As of 31 December 2011, total investment in subsidiaries was HRK 82,430 thousand (2010: HRK 81,390 thousand)
Investment in OTP Nekretnine d.o.o. is HRK 72,762 thousand (2010: HRK 72,762 thousand), OTP Invest d.o.o. HRK 9,648 thousand (2010: HRK 8,608 thousand) and in Kratos Nekretnine d.o.o. HRK 20 thousand (2010: HRK 20 thousand). Increase in investment in OTP Invest d.o.o. relates to increase in share capital of the company in amount of HRK 1,040 thousand.
The Bank assessed the recoverability of its investments in subsidiaries and determined that there is no impairment on these investments.

All amounts are expressed in thousands of HRK

18. INVESTMENT PROPERTY

The movement in investment property during the year as follows:

	2011	2010
Opening balance	77,227	85,717
Depreciation expense for the year	(2,116)	(2,116)
Depreciation expense from previous year recorded through other comprehensive income due to change in accounting policy	-	(6,374)
Closing balance	75,111	77,227

19. PROPERTY, PLANT AND EQUIPMENT

Group Consolidated	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Assets under construction	Total
Cost:							
At 1 January 2010	241,308	73,439	136,515	2,793	1,323	11,579	466,957
Transfer from assets under construction	10,267	5,468	4,984	-	-	(20,719)	-
Additions	-	36	7	-	223	26,774	27,040
Disposals	(1,359)	(22,586)	(4,897)	(392)	-	-	(29,234)
At 31 December 2010	250,216	56,357	136,609	2,401	1,546	17,634	464,763
At 1 January 2011	250,216	56,357	136,609	2,401	1,546	17,634	464,763
Transfer from assets under construction	13,550	3,414	14,257	854	-	(32,075)	-
Additions	35	23	-	-	78	30,661	30,797
Disposals	(4,511)	(86)	(10,179)	(739)	-	-	(15,515)
At 31 December 2011	259,290	59,708	140,687	2,516	1,624	16,220	480,045
Accumulated depreciation/amortisation and impairment							
At 1 January 2010	111,119	58,170	91,445	2,137	115	-	262,986
Charge for the year	5,765	7,727	11,907	244	39	-	25,682
Disposals	(484)	(22,586)	(4,850)	(392)	-	-	(28,312)
At 31 December 2010	116,400	43,311	98,502	1,989	154	-	260,356
At 1 January 2011	116,400	43,311	98,502	1,989	154	-	260,356
Charge for the year	6,580	6,785	10,093	336	64	-	23,858
Disposals	(1,788)	-	(10,116)	(739)	-	-	(12,643)
At 31 December 2011	121,192	50,096	98,479	1,586	218	-	271,571
Net book value:							
At 1 January 2011	133,816	13,046	38,107	412	1,392	17,634	204,407
At 31 December 2011	138,098	9,612	42,208	930	1,406	16,220	208,474

All amounts are expressed in thousands of HRK

Bank Unconsolidated	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Assets under construction	Total
Cost:							
At 1 January 2010	218,375	73,120	136,223	2,046	969	11,570	442,303
Transfer from assets under construction	10,267	5,468	4,984	-	-	(20,719)	-
Additions	-	-	-	-	-	26,774	26,774
Disposals	(1,359)	(22,586)	(4,897)	(392)	-	-	(29,234)
At 31 December 2010	227,283	56,002	136,310	1,654	969	17,625	439,843
At 1 January 2011	227,283	56,002	136,310	1,654	969	17,625	439,843
Transfer from assets under construction	13,550	3,414	14,257	854	-	(32,075)	-
Additions	-	-	-	-	-	30,661	30,661
Disposals	(4,511)	(86)	(10,113)	(622)	-	-	(15,332)
At 31 December 2011	236,322	59,330	140,454	1,886	969	16,211	455,172
Accumulated depreciation/amortisation and impairment							
At 1 January 2010	97,405	57,888	91,363	1,651	-	-	248,307
Charge for the year	5,192	7,702	11,855	100	-	-	24,849
Disposals	(484)	(22,586)	(4,849)	(392)	-	-	(28,311)
At 31 December 2010	102,113	43,004	98,369	1,359	-	-	244,845
At 1 January 2011	102,113	43,004	98,369	1,359	-	-	244,845
Charge for the year	6,006	6,765	10,049	268	-	-	23,088
Disposals	(1,788)	-	(10,085)	(622)	-	-	(12,495)
At 31 December 2011	106,331	49,769	98,333	1,005	-	-	255,438
Net book value:							
At 1 January 2011	125,170	12,998	37,941	295	969	17,625	194,998
At 31 December 2011	129,991	9,561	42,121	881	969	16,211	199,734

20. INTANGIBLE ASSETS

	Group Consolidated Intangible assets	Bank Unconsolidated Intangible assets
Cost:		
At 1 January 2010	96,920	95,817
Transfer from assets into use	-	-
Additions	13,640	13,419
Disposals	(12,402)	(12,402)
At 31 December 2010	98,158	96,834
Transfer from assets into use	-	-
Additions	5,646	5,518
Disposals	(488)	(38)
At 31 December 2011	103,316	102,314
Accumulated amortisation		
At 1 January 2010	46,265	45,691
Charge for the year	11,324	11,189
Disposals	(10,498)	(10,498)
At 31 December 2010	47,091	46,382
Charge for the year	14,646	14,508
Disposals	(118)	(10)
At 31 December 2011	61,619	60,880
Net book value:		
At 31 December 2010	51,067	50,452
At 31 December 2011	41,697	41,434

All amounts are expressed in thousands of HRK

21. GOODWILL

Goodwill reported on the Bank's statement of financial position represents goodwill originally arisen on the acquisition of Istarska Bank d.d., Pula and Sisačka Bank d.d. Sisak (which is included in the Bank's accounts following the merger with these banks on 30 June 2002), and Dubrovačka Bank d.d., Dubrovnik (which is included in the Bank's accounts following the merger with this bank on 30 September 2004). The value of goodwill as of 31 December 2011 amounts to HRK 42,966 thousand (2010: HRK 42,966 thousand).

For the purposes of impairment testing, goodwill was allocated to each of the Bank's cash-generating units. For each of the cash-generating units present value of discounted cash flows has been calculated. Discounted cash flows have been compared to the carrying amount.

The Group assessed the recoverability of the goodwill and determined that there is no impairment on goodwill as of 31 December 2011 and 2010.

22. OTHER ASSETS

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	**31.12.2010**	**31.12.2011**	**31.12.2010**
Accrued fees and commissions	14,014	13,208	14,014	13,208
Accounts receivable	12,325	10,401	11,200	9,250
Foreclosed assets	5,919	178	5,919	178
Receivables in respect of credit card operations	19,315	20,845	19,315	20,845
Due from insurance company	174	23,409	174	23,409
Receivables for prepaid income tax	-	1,514	-	1,492
Receivables for prepaid taxes and contributions	10	266	-	-
Prepaid expenses	8,205	6,540	8,205	6,540
Other	4,618	1,886	3,855	2,324
	64,580	78,247	62,682	77,246
Less: impairment allowance	(9,867)	(9,091)	(9,867)	(9,091)
	54,713	69,156	52,815	68,155

Movements in provisions for impairment for other assets for the Group and the Bank were as follows:

	31.12.2011	**31.12.2010**
Balance as at 1 January	9,091	7,592
Provision charged	776	1,499
Balance as at 31 December	9,867	9,091

23. AMOUNTS DUE TO OTHER BANKS

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	**31.12.2010**	**31.12.2011**	**31.12.2010**
Demand deposits				
HRK denominated	409	140	409	140
Foreign currency denominated	3,234	27,093	3,234	27,093
Time deposits				
Domestic currency denominated	-	257,250	-	57,250
Foreign currency denominated	17,700	26,588	17,700	26,588
	21,343	311,071	21,343	311,071

All amounts are expressed in thousands of HRK

24. AMOUNTS DUE TO CUSTOMERS

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Retail customers				
Demand deposits				
HRK denominated	927,825	889,363	927,825	889,363
Foreign currency denominated	1,150,657	1,024,682	1,150,657	1,024,682
Time deposits				
HRK denominated	1,109,508	1,099,307	1,109,508	1,099,307
Foreign currency denominated	5,954,641	5,824,773	5,954,641	5,824,773
Corporate customers				
Demand deposits				
HRK denominated	452,473	462,365	452,473	462,365
Foreign currency denominated	167,025	158,402	167,025	158,402
Time deposits				
HRK denominated	202,721	277,243	202,721	277,243
Foreign currency denominated	352,924	269,577	352,924	269,577
Current accounts and deposits of subsidiaries	-	-	2,273	1,027
	10,317,774	10,005,712	10,320,047	10,006,739

25. OTHER BORROWED FUNDS

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Domestic creditors:				
CBRD	848,209	746,281	848,209	746,281
Ministry of Finance	2,802	2,802	2,802	2,802
Other	2	2	2	2
Foreign creditors:				
Government agencies	38,653	38,395	38,653	38,395
Commercial banks	5,452	10,869	5,452	10,869
Other	55	50	55	50
	895,173	798,399	895,173	798,399

(a) Amounts due to the Croatian Bank for Reconstruction and Development (the "CBRD")

Other funds borrowed from CBRD are designated for approving loans to end users - corporate and retail customers - under the SMEs, tourist trade and agriculture incentive programme supported by the CBRD, at an average interest rate of od 2.41% (2010: 2.21 %).

(b) Amounts due to commercial banks

Liabilities refer to a World Bank (IBRD) loan. The interest on the borrowings is determined at a variable rate in the amount of 6-month EURIBOR + 0.50% margin annually. The loan is repayable in semi-annual instalments and matures in 2012.

(c) Amounts due to government agencies

The major portion of this debt relates to the debt to the Deutsche Investitions und Entwicklungsgeselschaft (the ''DEG''), which amounts to HRK 38,502 thousand (2010: HRK 37,760 thousand). The loan was approved for a period of 6 years, at a variable interest rate (6-month EURIBOR + 1.3%); these funds are included in the Bank's supplementary capital in accordance with

All amounts are expressed in thousands of HRK

CNB regulations. The entire loan is due on 15 November 2014.

Part of the total debt to government agencies in 2010 in the amount of HRK 508 thousand represents a loan from MEDIOCREDITO, which is repayable in equal semi-annual instalments until 2011, at a fixed interest rate of 1.75%.

(d) Amounts due to the Croatian Ministry of Finance

This liability refers to the liability toward Ministry of Finance transferred from Dubrovačka banka and relates to interest based on „old" foreign currency savings.

26. PROVISIONS

(a) Analysis of provisions

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Provisions for off-balance sheet items	10,337	14,393	10,337	14,393
Litigation provision	43,294	25,768	43,294	25,768
	53,631	40,161	53,631	40,161

(b) Movements in provisions for risks and charges

Provisions for off-balance sheet items	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Balance at 1 January	14,393	9,204	14,393	9,204
Additional provisions established	411	5,717	411	5,717
Amounts released	(4,467)	(528)	(4,467)	(528)
Balance at 31 December	10,337	14,393	10,337	14,393

Litigation provisions	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Balance at 1 January	25,768	24,982	25,768	24,982
Additional provisions established	20,969	2,582	20,969	2,582
Write-off of liability in respect of net profit distributions	-	(1,057)	-	(1,057)
Amounts released	(3,443)	(739)	(3,443)	(739)
Balance at 31 December	43,294	25,768	43,294	25,768

Litigation provision relates to the legal led against the Bank, i.e. where the Bank is the defendant. Bank has provided for these legal cases where it is expected that outcome of the legal case will result in an outflow from the Bank of resources embodying economic benefits.

All amounts are expressed in thousands of HRK

27. OTHER LIABILITIES

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Provisions for retirement benefits, jubilees and vacation days	9,610	9,247	9,609	9,234
Bonuses to employees	11,894	15,416	11,516	14,877
Amounts due to suppliers	17,668	20,045	17,316	19,079
Salaries and contributions payable	12,176	11,424	11,821	11,077
Due to State agency for deposit insurance and bank rehabilitation for saving deposits insurance	5,887	5,764	5,887	5,764
Deferred income	1,312	1,188	1,312	1,188
Liabilities under credit card operations	3,867	4,087	3,867	4,087
Tax-liability from previous years	6,711	6,711	6,711	6,711
Liabilities under opening accounts	3,162	3,224	3,162	3,224
Other liabilities	14,004	14,665	13,808	14,448
	86,291	91,771	85,009	89,689

Provisions for retirement benefits, jubilees and vacation days	Group Consolidated	Bank Unconsolidated
Beginning balance 1/1/2010	4,269	4,228
Expense from new provisions (net)	4,978	5,006
Balance as at 31/12/2010	9,247	9,234
Expense from new provisions (net)	363	375
Balance as at 31/12/2011	9,610	9,609

All amounts are expressed in thousands of HRK

28. SHAREHOLDERS' EQUITY

SHARE CAPITAL

As at 31 December 2011 the share capital of the Bank comprised 4,111,398 ordinary shares (2010: 4,111,398 ordinary shares), with a par value of HRK 200 each. All the ordinary shares are ranked equally and carry one vote per share.

Dividend has been paid out to the owner in the amount of HRK 100 million from retained earnings as of 29 December 2011 based on the decision of the General Assembly (2010: HRK 200 million).

RESERVES

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Legal reserve	41,114	41,114	41,114	41,114
Statutory reserve	41,114	41,114	41,114	41,114
Total legal and statutory reserves	82,228	82,228	82,228	82,228
Fair value reserve	(2,257)	90,658	(2,257)	90,658
General banking risks reserve	105,819	105,819	105,819	105,819
Other reserves	39,693	39,697	3,243	3,247
Total other reserves	143,255	236,174	106,805	199,724

Movements within the reserves related to fair valuation was as follows:

GROUP AND BANK

	31.12.2011	31.12.2010
Balance as at 1 January 2011	90,658	79,416
Increase in reserves	35,165	29,848
Decrease in reserves	(151,309)	(15,795)
Taxes	23,229	(2,811)
Balance as at 31 December 2011	(2,257)	90,658

Legal and statutory reserves

A legal reserve has been formed in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to this reserve until it reaches 5% of issued share capital. The legal reserve, in the amount of up to 5% of issued share capital, can be used for covering current and prior year losses. In addition, in accordance with the Bank's internal regulations, an additional reserve equivalent to the legal reserve has been created in an amount of up to 5% of the share capital to cover impairment losses, payment of dividend on preference shares and for the same purposes as legal reserve.

Reserve for general banking risks

According to earlier CNB regulations the Bank was obliged to create a reserve for general banking risks if the increase of relevant on- and off-balance-sheet exposure at the statement of financial position date exceeds 15% of the exposure at the prior year end. The general banking risk reserve is not transferrable to retained earnings or other reserves, or otherwise distributable until the expiry of a consecutive three-year period from the period in which the Bank has recorded an annual growth over 15%. As the period of three years passed, the Bank can use the mentioned reserve as it could with retained earnings.

All amounts are expressed in thousands of HRK

Fair value reserve

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

	31.12.2011
Balance as at 1 January 2011	90,658
Realized gain arising from Big bonds	(120,273)
Realized loss from other securities	6,916
Other changes	20,442
Balance as at 31 December 2011	(2,257)

Other reserves

Other reserves at Group mainly represent revaluation reserve related to properties that have been transferred to investment properties.The revaluation of these properties occurred prior to the transfer.

Retained earnings

Retained earnings include accumulated profits from prior years.

29. CONTINGENCIES AND COMMITMENTS

Presented below are contractual amounts of the Group's and the Bank's off-balance-sheet financial instruments:

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Payment guarantees	91,196	514,141	91,196	514,141
Performance guarantees	54,977	59,090	54,977	59,090
Letters of credit	18,256	21,277	18,256	21,277
Approved unused loans	913,980	932,339	914,280	934,364
Other	-	2,570	-	2,570
	1,078,409	1,529,417	1,078,709	1,531,442

30. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statements, cash and cash equivalent comprise the following balances with maturities of up to 90 days:

	Group Consolidated		Bank Unconsolidated	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank - Note 11)	486,486	516,238	486,486	516,238
Amounts due from other banks - Note 12	1,069,387	682,444	1,069,387	682,444
	1,555,873	1,198,682	1,555,873	1,198,682

All amounts are expressed in thousands of HRK

31. CAPITAL RISK MANAGEMENT

The Croatian National Bank ("the CNB"), as the Bank's key regulator, determines and supervises capital requirements for the Bank as a whole. 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-weighted capital is the key basis used in determining the allocation of capital within the Bank to individual activities, it is not the only basis in the decision-making process. Synergies with other activities, availability of the Management Board and other resources, as well as the alignment of the activities with the Bank's strategic goals in the long run. The directors review regularly the Bank's policies for managing and allocating capital.

The capital adequacy ratio is determined as the ratio between the regulatory capital and the risk-weighted assets, risk exposures,the overall uncovered FX exposure to the currency risk and operational risk. The Bank has included in its calculation of capital adequacy its net profit for the year, that it plans on transferring to retained earnings. For needs of the CNB, they are not considered as the Group so they do not calculatethe Group capital adequacy.

The capital adequacy ratio in accordance with CNB regulations is presented in the following table:

BANK **Unconsolidated**	**2011**	**2010**
Regulatory capital		
Tier 1 capital	1,336,384	1,373,615
Tier 2 capital	15,401	22,656
Items deductible from regulatory capital	(12,129)	(11,306)
Total regulatory capital	1,339,656	1,384,965
Capital requirements in respect of credit and counterparty risks	960,054	988,820
Capital requirements in respect of currency risk		
Capital requirements in respect of position risk	4,139	4,842
Capital requirements in respect of operational risk	126,059	115,077
Total capital requirements for risks	1,090,252	1,108,739
Capital adequacy ratio %	14.8%	15.0%

All amounts are expressed in thousands of HRK

32. CREDIT RISK

The Group and the Bank take on exposure to credit risk, which is the risk upon credit approval that the counterparty will be unable to pay amounts in full when due. Both the Group and the Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to credit risk for all assets exposed to credit risk is limited by the carrying amount of that asset in the statement of financial position. The exposure to credit risk of derivatives which relate to foreign currency is equal to total od positive current market contract value and potential counterparty risk exposure. Additionally, the Group and Bank are exposed to credit risk on off-balance-sheet items, including undrawn commitments to extend credit guarantees and letters of credit. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Concentration of assets and liabilities related to the Croatian state and its institutions.

		Group Consolidated		Bank Unconsolidated	
	Notes	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
Current account with the Croatian National Bank	11	263,418	341,866	263,418	341,866
Obligatory reserve with the Croatian National Bank	11	996,948	973,239	996,948	973,239
Ministry of Finance - Treasury bills	15b)	597,270	278,184	597,270	278,184
Republic of Croatia bonds	15b)	17,565	17,938	17,565	17,938
Loans provided by Croatian Bank for Reconstruction and Development and Government		459,356	450,496	459,356	450,496
Replacement bonds	15b)	-	484,801	-	484,801
Factoring receivables from Ministry of Agriculture	14	14,048	6,612	14,048	6,612
Other assets		15	2,091	5	1,790
Current income tax payable	9d)	(6,423)	-	(6,459)	
Other liabilities		(9,113)	(8,820)	(8,868)	(8,604)
		2,333,084	2,546,407	2,333,283	2,546,322

All amounts are expressed in thousands of HRK

Bank Unconsolidated	Croatia	Hungary	Belgium	Germany	Italy	Netherlands	Norway	France	Other	Total
At 31 December 2011										
Assets										
Cash and balances with the Croatian National Bank	1,439,954	765	696	4,810	2,186	-	33	-	34,990	1,483,434
Amounts due from other banks	-	182,531	112,962	331,351	75,305	225,589	63,147	75,306	3,627	1,069,818
Financial assets at fair value through profit or loss	30,317	8,847	-	-	-	-	-	-	-	39,164
Amounts due from customers	8,659,467	-	-	-	-	-	-	-	11	8,659,478
Financial assets available for sale	640,089	435,246	81	-	-	-	-	-	4,252	1,079,668
Held-to-maturity investments	9,769	-	-	-	-	-	-	-	-	9,769
Investments in subsidiaries	82,430	-	-	-	-	-	-	-	-	82,430
Property, plant and equipment and intangible assets	284,134	-	-	-	-	-	-	-	-	284,134
Deferred tax assets	11,643	-	-	-	-	-	-	-	-	11,643
Other assets	52,006	18	329	52	39	2	1	3	365	52,815
	11,209,809	627,407	114,068	336,213	77,530	225,591	63,181	75,309	43,245	12,772,353

Group Consolidated	Croatia	Hungary	Belgium	Germany	Italy	Netherlands	Norway	France	Other	Total
At 31 December 2011										
Assets										
Cash and balances with the Croatian National Bank	1,439,954	765	696	4,810	2,186	-	33	-	34,990	1,483,434
Amounts due from other banks	-	182,531	112,962	331,351	75,305	225,589	63,147	75,306	3,627	1,069,818
Financial assets at fair value through profit or loss	30,317	8,847	-	-	-	-	-	-	-	39,164
Amounts due from customers	8,659,467	-	-	-	-	-	-	-	11	8,659,478
Financial assets available for sale	640,089	435,246	81	-	-	-	-	-	4,252	1,079,668
Held-to-maturity investments	9,769	-	-	-	-	-	-	-	-	9,769
Investment property	75,111	-	-	-	-	-	-	-	-	75,111
Property, plant and equipment and intangible assets	293,137	-	-	-	-	-	-	-	-	293,137
Deferred tax assets	10,027	-	-	-	-	-	-	-	-	10,027
Other assets	53,904	18	329	52	39	2	1	3	365	54,713
	11,211,775	627,407	114,068	336,213	77,530	225,591	63,181	75,309	43,245	12,774,319

All amounts are expressed in thousands of HRK

Bank Unconsolidated	Croatia	Hungary	Belgium	Germany	Italy	Netherlands	Norway	France	Great Britain	Spain	Other	Total
At 31 December 2010												
Assets												
Cash and balances with the Croatian National Bank	1,459,244	1,279	925	5,819	1,647	-	789	-	-	-	19,774	1,489,477
Amounts due from other banks	45,001	323,759	160,977	-	-	-	-	-	73,290	76,843	2,871	682,741
Financial assets at fair value through profit or loss	40,517	-	-	-	-	-	-	-	-	-	-	40,517
Amounts due from customers	8,594,865	-	-	-	-	-	-	-	-	-	12	8,594,877
Financial assets available for sale	815,887	676,359	79	-	-	-	-	-	2,820	-	-	1,495,145
Held-to-maturity investments	17,404	-	-	-	-	-	-	-	-	-	-	17,404
Investments in subsidiaries	81,390	-	-	-	-	-	-	-	-	-	-	81,390
Property, plant and equipment and intangible assets	288,416	-	-	-	-	-	-	-	-	-	-	288,416
Other assets	67,141	2	420	35	32	2	1	3	7	-	512	68,155
	11,409,865	1,001,399	162,401	5,854	1,679	2	790	3	76,117	76,843	23,169	12,758,122

Group Consolidated	Croatia	Hungary	Belgium	Germany	Italy	Netherlands	Norway	France	Great Britain	Spain	Other	Total
At 31 December 2010												
Assets												
Cash and balances with the Croatian National Bank	1,459,244	1,279	925	5,819	1,647	-	789	-	-	-	19,774	1,489,477
Amounts due from other banks	45,001	323,759	160,977	-	-	-	-	-	73,290	76,843	2,871	682,741
Financial assets at fair value through profit or loss	40,794	-	-	-	-	-	-	-	-	-	-	40,794
Amounts due from customers	8,592,872	-	-	-	-	-	-	-	-	-	12	8,592,884
Financial assets available for sale	815,887	676,359	79	-	-	-	-	-	2,820	-	-	1,495,145
Held-to-maturity investments	17,404	-	-	-	-	-	-	-	-	-	-	17,404
Investment property	77,227	-	-	-	-	-	-	-	-	-	-	77,227
Property, plant and equipment and intangible assets	298,440	-	-	-	-	-	-	-	-	-	-	298,440
Other assets	68,142	2	420	35	32	2	1	3	7	-	512	69,156
	11,415,011	1,001,399	162,401	5,854	1,679	2	790	3	76,117	76,843	23,169	12,763,268

All amounts are expressed in thousands of HRK

Concentration of assets related to risk groups.

Bank Unconsolidated	**Assets classified in A risk group**	**Assets classified in B risk group**	**Assets classified in C risk group**	**Assets not classified in risk groups**	**Value adjustment**	**Total**
At 31 December 2011						
ASSETS						
Cash and balances with the Croatian National Bank	1,311,694	-	-	171,740	-	1,483,434
Amounts due from other banks	1,069,674	1,073	856	-	(1,785)	1,069,818
Financial assets at fair value through profit or loss	-	-	-	39,164	-	39,164
Amounts due from customers	8,203,160	804,517	307,039		(655,238)	8,659,478
Financial assets available for sale	-	-	-	1,079,668	-	1,079,668
Held-to-maturity investments	9,769	-	16,591	-	(16,591)	9,769
Investments in subsidiaries	-	-	-	82,430	-	82,430
Property, plant and equipment and intangible assets	-	-	-	284,134	-	284,134
Deferred tax assets	-	-	-	11,643	-	11,643
Other assets	34,077	4,759	5,858	17,988	(9,867)	52,815
Total assets	10,628,374	810,349	330,344	1,686,767	(683,481)	12,772,353

Group Consolidated	**Assets classified in A risk group**	**Assets classified in B risk group**	**Assets classified in C risk group**	**Assets not classified in risk groups**	**Value adjustment**	**Total**
At 31 December 2011						
ASSETS						
Cash and balances with the Croatian National Bank	1,311,694	-	-	171,740	-	1,483,434
Amounts due from other banks	1,069,674	1,073	856	-	(1,785)	1,069,818
Financial assets at fair value through profit or loss	-	-	-	39,164	-	39,164
Amounts due from customers	8,203,160	804,517	307,039		(655,238)	8,659,478
Financial assets available for sale	-	-	-	1,079,668	-	1,079,668
Held-to-maturity investments	9,769	-	16,591	-	(16,591)	9,769
Investment property	-	-	-	75,111	-	75,111
Property, plant and equipment and intangible assets	-	-	-	293,137	-	293,137
Deferred tax assets	-	-	-	10,027	-	10,027
Other assets	34,077	4,759	5,858	19,886	(9,867)	54,713
Total assets	10,628,374	810,349	330,344	1,688,733	(683,481)	12,774,319

All amounts are expressed in thousands of HRK

Bank Unconsolidated	Assets classified in A risk group	Assets classified in B risk group	Assets classified in C risk group	Assets not classified in risk groups	Value adjustment	Total
At 31 December 2010						
ASSETS						
Cash and balances with the Croatian National Bank	1,350,610	-	-	138,867	-	1,489,477
Amounts due from other banks	682,601	1,044	820	-	(1,724)	682,741
Financial assets at fair value through profit or loss	-	-	-	40,517	-	40,517
Amounts due from customers	8,086,038	753,071	224,429	-	(468,661)	8,594,877
Financial assets available for sale	-	-	-	1,495,145	-	1,495,145
Held-to-maturity investments	17,404	-	86	-	(86)	17,404
Investments in subsidiaries	-	-	-	81,390	-	81,390
Property, plant and equipment and intangible assets	-	-	-	288,416	-	288,416
Other assets	58,207	4,738	5,222	9,079	(9,091)	68,155
Total assets	10,194,860	758,853	230,557	2,053,414	(479,562)	12,758,122

Group Consolidated	Assets classified in A risk group	Assets classified in B risk group	Assets classified in C risk group	Assets not classified in risk groups	Value adjustment	Total
At 31 December 2010						
ASSETS						
Cash and balances with the Croatian National Bank	1,350,610	-	-	138,867	-	1,489,477
Amounts due from other banks	682,601	1,044	820	-	(1,724)	682,741
Financial assets at fair value through profit or loss	-	-	-	40,794	-	40,794
Amounts due from customers	8,084,045	753,071	224,429	-	(468,661)	8,592,884
Financial assets available for sale	-	-	-	1,495,145	-	1,495,145
Held-to-maturity investments	17,404	-	86	-	(86)	17,404
Investment property	-	-	-	77,227	-	77,227
Property, plant and equipment and intangible assets	-	-	-	298,440	-	298,440
Other assets	58,207	4,738	5,222	10,080	(9,091)	69,156
Total assets	10,192,867	758,853	230,557	2,060,553	(479,562)	12,763,268

33. MARKET RISK

CURRENCY RISK

The Bank and the Group take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial positions and cash flows.
The table below provides an analysis of the Group's and of the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies.' Both the Group and the Bank monitor their foreign exchange (FX) position for compliance with the regulatory requirements of the Croatian National Bank established in respect of limits on open positions. Measuring the open positions of the Group and of the Bank includes monitoring the value at risk limit both for the Group and for the Bank. Other currencies also include CHF linked.
The Bank has made VaR analysis (Value at Risk). This analysis is defined as worst possible scenario in time frame in normal market conditions. For the calculation, 10 days frame is taken and reliability of 99%. Possibility that the Bank will lose more that VaR calculated in normal market conditions is 1%. VaR calculated as of 31 December 2011 is HRK 157 thousand (2010: HRK 651 thousand).

All amounts are expressed in thousands of HRK

Group Consolidated	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2011							
Assets							
Cash and balances with the Croatian National Bank	49,563	-	49,563	187,947	1,206,155	39,769	1,483,434
Amounts due from other banks	657,564	-	657,564	275,442	11,301	125,511	1,069,818
Financial assets at fair value through profit or loss	-	-	-	-	39,164	-	39,164
Amounts due from customers	525,155	5,167,106	5,692,261	48,535	2,125,443	793,239	8,659,478
Financial assets available for sale	439,835	222,237	662,072	4,252	413,344	-	1,079,668
Held-to-maturity investments	-	-	-	-	9,769	-	9,769
Property and equipment and intangible assets and goodwill	-	-	-	-	293,137	-	293,137
Investment property	-	-	-	-	75,111	-	75,111
Deferred tax assets	-	-	-	-	10,027	-	10,027
Other assets	313	-	313	86	54,202	112	54,713
Total assets	1,672,430	5,389,343	7,061,773	516,262	4,237,653	958,631	12,774,319
Liabilities							
Amounts due to other banks	19,635	-	19,635	529	408	771	21,343
Amounts due to customers	6,250,661	49,525	6,300,186	1,106,106	2,639,606	271,876	10,317,774
Other borrowed funds	44,104	760,415	804,519	55	90,599	-	895,173
Financial liabilities at fair value through profit or loss	-	-	-	-	505	-	505
Provisions	-	-	-	-	53,631	-	53,631
Other liabilities and current income tax liability	3,169	-	3,169	813	88,677	55	92,714
Total liabilities	6,317,569	809,940	7,127,509	1,107,503	2,873,426	272,702	11,381,140
Net FX position	(4,645,139)	4,579,403	(65,736)	(591,241)	1,364,227	685,929	1,393,179
At 31 December 2010							
Total assets	1,598,878	5,454,668	7,053,546	449,468	4,257,934	1,002,320	12,763,268
Total liabilities	6,216,872	817,096	7,033,968	987,440	3,069,919	185,918	11,277,245
Net FX position	(4,617,994)	4,637,572	19,578	(537,972)	1,188,015	816,402	1,486,023

Bank Unconsolidated	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2011							
Assets							
Cash and balances with the Croatian National Bank	49,563	-	49,563	187,947	1,206,155	39,769	1,483,434
Amounts due from other banks	657,564	-	657,564	275,442	11,301	125,511	1,069,818
Financial assets at fair value through profit or loss	-	-	-	-	39,164	-	39,164
Amounts due from customers	525,155	5,167,106	5,692,261	48,535	2,125,443	793,239	8,659,478
Financial assets available for sale	439,835	222,237	662,072	4,252	413,344	-	1,079,668
Held-to-maturity investments	-	-	-	-	9,769	-	9,769
Investments in subsidiaries	-	-	-	-	82,430	-	82,430
Property and equipment and intangible assets and goodwill	-	-	-	-	284,134	-	284,134
Deferred tax assets	-	-	-	-	11,643	-	11,643
Other assets	313	-	313	86	52,304	112	52,815
Total assets	1,672,430	5,389,343	7,061,773	516,262	4,235,687	958,631	12,772,353
Liabilities							
Amounts due to other banks	19,635	-	19,635	529	408	771	21,343
Amounts due to customers	6,250,664	49,525	6,300,189	1,106,111	2,641,871	271,876	10,320,047
Other borrowed funds	44,104	760,415	804,519	55	90,599	-	895,173
Financial liabilities at fair value through profit or loss	-	-	-	-	505	-	505
Provisions	-	-	-	-	53,631	-	53,631
Other liabilities and current income tax liability	3,169	-	3,169	813	87,430	56	91,468
Total liabilities	6,317,572	809,940	7,127,512	1,107,508	2,874,444	272,703	11,382,167
Net FX position	(4,645,142)	4,579,403	(65,739)	(591,246)	1,361,243	685,928	1,390,186
At 31 December 2010							
Total assets	1,599,866	5,454,668	7,054,534	449,468	4,251,800	1,002,320	12,758,122
Total liabilities	6,216,878	817,096	7,033,974	987,444	3,067,128	185,918	11,274,464
Net FX position	(4,617,012)	4,637,572	20,560	(537,976)	1,184,672	816,402	1,483,658

All amounts are expressed in thousands of HRK

Group Consolidated	**EUR**	**EUR currency clause**	**Total EUR**	**USD**	**HRK**	**Other currencies**	**Total**
At 31 December 2010							
Assets							
Cash and balances with the Croatian National Bank	37,125	-	37,125	181,532	1,246,881	23,939	1,489,477
Amounts due from other banks	317,718	-	317,718	217,200	46,002	101,821	682,741
Financial assets at fair value through profit or loss	-	-	-	-	40,794	-	40,794
Amounts due from customers	542,182	5,213,372	5,755,554	47,852	1,912,929	876,549	8,592,884
Financial assets available for sale	685,446	218,027	903,473	2,820	588,852	-	1,495,145
Held-to-maturity investments	16,186	-	16,186	-	1,218	-	17,404
Property and equipment and intangible assets and goodwill	-	-	-	-	298,440	-	298,440
Investment property	-	-	-	-	77,227	-	77,227
Other assets	221	23,269	23,490	64	45,591	11	69,156
Total assets	1,598,878	5,454,668	7,053,546	449,468	4,257,934	1,002,320	12,763,268
Liabilities							
Amounts due to other banks	51,969	-	51,969	1,018	257,390	694	311,071
Amounts due to customers	6,111,407	104,589	6,215,996	985,597	2,618,949	185,170	10,005,712
Other borrowed funds	49,065	712,507	761,572	248	36,579	-	798,399
Financial liabilities at fair value through profit or loss	-	-	-	-	17,968	-	17,968
Provisions	-	-	-	-	40,161	-	40,161
Deferred tax liability	-	-	-	-	12,163	-	12,163
Other liabilities and current income tax liability	4,431	-	4,431	577	86,709	54	91,771
Total liabilities	6,216,872	817,096	7,033,968	987,440	3,069,919	185,918	11,277,245
Net FX position	(4,617,994)	4,637,572	19,578	(537,972)	1,188,015	816,402	1,486,023
At 31 December 2009							
Total assets	1,460,056	4,889,287	6,349,343	864,964	4,416,832	926,828	12,557,967
Total liabilities	5,541,760	789,602	6,331,362	862,060	2,832,520	924,803	10,950,745
Net FX position	(4,081,704)	4,099,685	17,981	2,904	1,584,312	2,025	1,607,222

Bank Unconsolidated	**EUR**	**EUR currency clause**	**Total EUR**	**USD**	**HRK**	**Other currencies**	**Total**
At 31 December 2010							
Assets							
Cash and balances with the Croatian National Bank	37,125	-	37,125	181,532	1,246,881	23,939	1,489,477
Amounts due from other banks	317,718	-	317,718	217,200	46,002	101,821	682,741
Financial assets at fair value through profit or loss	-	-	-	-	40,517	-	40,517
Amounts due from customers	543,170	5,213,372	5,756,542	47,852	1,913,934	876,549	8,594,877
Financial assets available for sale	685,446	218,027	903,473	2,820	588,852	-	1,495,145
Held-to-maturity investments	16,186	-	16,186	-	1,218	-	17,404
Investments in subsidiaries	-	-	-	-	81,390	-	81,390
Property and equipment and intangible assets and goodwill	-	-	-	-	288,416	-	288,416
Other assets	221	23,269	23,490	64	44,590	11	68,155
Total assets	1,599,866	5,454,668	7,054,534	449,468	4,251,800	1,002,320	12,758,122
Liabilities							
Amounts due to other banks	51,969	-	51,969	1,018	257,390	694	311,071
Amounts due to customers	6,111,413	104,589	6,216,002	985,601	2,619,966	185,170	10,006,739
Other borrowed funds	49,065	712,507	761,572	248	36,579	-	798,399
Financial liabilities at fair value through profit or loss	-	-	-	-	17,968	-	17,968
Provisions	-	-	-	-	40,161	-	40,161
Deferred tax liability	-	-	-	-	10,437	-	10,437
Other liabilities and current income tax liability	4,431	-	4,431	577	84,627	54	89,689
Total liabilities	6,216,878	817,096	7,033,974	987,444	3,067,128	185,918	11,274,464
Net FX position	(4,617,012)	4,637,572	20,560	(537,976)	1,184,672	816,402	1,483,658
At 31 December 2009							
Total assets	1,460,056	4,889,287	6,349,343	864,964	4,403,888	926,828	12,545,023
Total liabilities	5,541,760	789,602	6,331,362	862,060	2,829,591	924,803	10,947,816
Net FX position	(4,081,704)	4,099,685	17,981	2,904	1,574,297	2,025	1,597,207

All amounts are expressed in thousands of HRK

INTEREST RATE RISK

Interest rate sensitivity of assets and liabilities

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's and of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprise to a market rate of interest before maturity, the next reprising date. It is the policy both of the Group and of the Bank to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of reprising mismatch in the statement of financial position. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in the 'Non-interest-bearing' category. Earnings will also be affected by the currency of the assets and liabilities. The Group and the Bank have a significant proportion of interest earning assets and interest-bearing liabilities denominated in or linked to foreign currency. A significant portion of loans and receivables from customers presented as at fixed rate relates to corporate loans where the Bank has the right to change the interest rates, but in practice has not done so to date.

The Bank has calculated the impact of a 200 bp change in interest rates, in which case the the economic value would change to 5.35% percent of the regulatory capital.

Group Consolidated	**Up to 1 month**	**1 do 3 months**	**3 months to 1 year**	**Over 1 year**	**Non-interest bearing**	**Total**
At 31 December 2011						
Assets						
Cash and balances with the Croatian National Bank	19,687	-	-	-	1,463,747	1,483,434
Amounts due from other banks	1,069,387	-	-	-	431	1,069,818
Financial assets at fair value through profit or loss	-	-	-	-	39,164	39,164
Amounts due from customers	6,208,964	99,737	617,733	1,682,860	50,184	8,659,478
Financial assets available for sale	1,037,093	-	-	-	42,575	1,079,668
Held-to-maturity investments	4,119	2,100	3,550	-	-	9,769
Property and equipment and intangible assets and goodwill	-	-	-	-	293,137	293,137
Investment property	-	-	-	-	75,111	75,111
Deferred tax assets	-	-	-	-	10,027	10,027
Other assets	-	-	-	-	54,713	54,713
Total assets	8,339,250	101,837	621,283	1,682,860	2,029,089	12,774,319
Liabilities						
Amounts due to other banks	19,461	-	-	-	1,882	21,343
Amounts due to customers	5,661,004	886,954	3,640,865	37,682	91,269	10,317,774
Other borrowed funds	20,782	43,270	109,491	714,348	7,282	895,173
Financial liabilities at fair value through profit or loss	-	-	-	-	505	505
Provisions	-	-	-	-	53,631	53,631
Other liabilities and current corporate income tax liability	-	-	-	-	92,714	92,714
Total liabilites	5,701,247	930,224	3,750,356	752,030	247,283	11,381,140
On-balance-sheet interest rate gap	2,638,003	(828,387)	(3,129,073)	930,830	1,781,806	1,393,179

All amounts are expressed in thousands of HRK

Bank Unconsolidated	Up to 1 month	1 do 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
At 31 December 2011						
Assets						
Cash and balances with the Croatian National Bank	19,687	-	-	-	1,463,747	1,483,434
Amounts due from other banks	1,069,387	-	-	-	431	1,069,818
Financial assets at fair value through profit or loss	-	-	-	-	39,164	39,164
Amounts due from customers	6,208,964	99,737	617,733	1,682,860	50,184	8,659,478
Financial assets available for sale	1,037,093	-	-	-	42,575	1,079,668
Held-to-maturity investments	4,119	2,100	3,550	-	-	9,769
Investments in subsidiaries	-	-	-	-	82,430	82,430
Property and equipment and intangible assets and goodwill	-	-	-	-	284,134	284,134
Deferred tax assets	-	-	-	-	11,643	11,643
Other assets	-	-	-	-	52,815	52,815
Total assets	8,339,250	101,837	621,283	1,682,860	2,027,123	12,772,353
Liabilities						
Amounts due to other banks						
Amounts due to customers	19,461	-	-	-	1,882	21,343
Other borrowed funds	5,663,277	886,954	3,640,865	37,682	91,269	10,320,047
Provisions	20,782	43,270	109,491	714,348	7,282	895,173
Deferred tax liability	-	-	-	-	505	505
Other liabilities and current income tax liability	-	-	-	-	53,631	53,631
Other liabilities	-	-	-	-	91,468	91,468
Total liabilites	5,703,520	930,224	3,750,356	752,030	246,037	11,382,167
On-balance-sheet interest rate gap	2,635,730	(828,387)	(3,129,073)	930,830	1,781,086	1,390,186

Group Consolidated	Up to 1 month	1 do 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
At 31 December 2010						
Assets						
Cash and balances with the Croatian National Bank	819,047	-	-	-	670,430	1,489,477
Amounts due from other banks	682,444	-	-	-	297	682,741
Financial assets at fair value through profit or loss	-	-	-	-	40,794	40,794
Amounts due from customers	5,900,804	185,559	578,374	1,871,333	56,814	8,592,884
Financial assets available for sale	1,444,028	-	-	-	51,117	1,495,145
Held-to-maturity investments	818	399	-	-	16,187	17,404
Property and equipment and intangible assets and goodwill	-	-	-	-	298,440	298,440
Investment property	-	-	-	-	77,227	77,227
Other assets	-	-	-	-	69,156	69,156
Total assets	8,847,141	185,958	578,374	1,871,333	1,280,462	12,763,268
Liabilities						
Amounts due to other banks	53,810	256,960	-	-	301	311,071
Amounts due to customers	5,103,943	1,152,141	3,629,991	23,990	95,647	10,005,712
Other borrowed funds	1,164	41,059	97,889	654,464	3,823	798,399
Financial liabilities at fair value through profit or loss	17,968	-	-	-	-	17,968
Provisions	-	-	-	-	40,161	40,161
Deferred tax liability	-	-	-	-	12,163	12,163
Other liabilities and current corporate income tax liability	-	-	-	-	91,771	91,771
Total liabilities	5,176,885	1,450,160	3,727,880	678,454	243,866	11,277,245
On-balance-sheet interest rate gap	3,670,256	(1,264,202)	(3,149,506)	1,192,879	1,036,596	1,486,023

All amounts are expressed in thousands of HRK

Bank Unconsolidated	Up to 1 month	1 do 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
At 31 December 2010						
Assets						
Cash and balances with the Croatian National Bank	819,047	-	-	-	670,430	1,489,477
Amounts due from other banks	682,444	-	-	-	297	682,741
Financial assets at fair value through profit or loss	-	-	-	-	40,517	40,517
Amounts due from customers	5,900,804	185,559	580,367	1,871,333	56,814	8,594,877
Financial assets available for sale	1,444,028	-	-	-	51,117	1,495,145
Held-to-maturity investments	818	399	-	-	16,187	17,404
Investments in subsidiaries	-	-	-	-	81,390	81,390
Property and equipment and intangible assets and goodwill	-	-	-	-	288,416	288,416
Other assets	-	-	-	-	68,155	68,155
Total assets	8,847,141	185,958	580,367	1,871,333	1,273,323	12,758,122
Liabilities						
Amounts due to other banks	53,810	256,960	-	-	301	311,071
Amounts due to customers	5,104,970	1,152,141	3,629,991	23,990	95,647	10,006,739
Other borrowed funds	1,164	41,059	97,889	654,464	3,823	798,399
Financial liabilities at fair value through profit or loss	17,968	-	-	-	-	17,968
Provisions	-	-	-	-	40,161	40,161
Deferred tax liability	-	-	-	-	10,437	10,437
Other liabilities and current income tax liability	-	-	-	-	89,689	89,689
Total liabilities	5,177,912	1,450,160	3,727,880	678,454	240,058	11,274,464
On-balance-sheet interest rate gap	3,669,229	(1,264,202)	(3,147,513)	1,192,879	1,033,265	1,483,658

The table below summarises the average effective interest rate at year-end for monetary financial instruments.

	Group Consolidated			
	31.12.2011	Interest rate %	31.12.2010	Interest rate %
Cash and balances with the Croatian National Bank	1,483,434	0.0	1,489,477	0.4
Amounts due from other banks	1,069,818	1.2	682,741	1.2
Amounts due from customers	8,659,478	7.1	8,592,884	7.7
Held-to-maturity investments	9,769	8.4	17,404	2.3
Financial assets available for sale	1,079,668	4.2	1,495,145	4.1
	12,302,167		12,277,651	
Amounts due to other banks	21,343	1.4	311,071	3.8
Amounts due to customers	10,317,774	2.7	10,005,712	3.1
Other borrowed funds	895,173	2.4	798,399	2.2
	11,234,290		11,115,182	

	Bank Unconsolidated			
	31.12.2011	Interest rate %	31.12.2010	Interest rate %
Cash and balances with the Croatian National Bank	1,483,434	0.0	1,489,477	0.4
Amounts due from other banks	1,069,818	1.2	682,741	1.2
Loans and other financial assets created by the Bank	8,659,478	7.1	8,594,877	7.7
Held-to-maturity investments	9,769	8.4	17,404	2.3
Financial assets available for sale	1,079,668	4.2	1,495,145	4.1
	12,302,167		12,279,644	
Amounts due to other banks	21,343	1.4	311,071	3.8
Amounts due to customers	10,320,047	2.7	10,006,739	3.1
Other borrowed funds	895,173	2.4	798,399	2.2
	11,236,563		11,116,209	

All amounts are expressed in thousands of HRK

34. LIQUIDITY RISK

The Group and the Bank are exposed to daily calls on their available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdown's, guarantees and from margin and other calls on cash-settled derivatives. The Group and the Bank do not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The table below analyses assets and liabilities of the Group and of the Bank into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date.

Group Consolidated	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Unidentified**	**Total**
At 31 December 2011							
Assets							
Cash and balances with the Croatian National Bank	868,964	154,620	440,596	9,514	9,740	-	1,483,434
Amounts due from other banks	1,069,818	-	-	-	-	-	1,069,818
Financial assets at fair value through profit or loss	39,164	-	-	-	-	-	39,164
Amounts due from customers	1,664,247	206,891	1,041,313	1,769,730	3,977,297	-	8,659,478
Financial assets available for sale	147,318	195,807	293,185	418,132	25,226	-	1,079,668
Held-to-maturity investments	4,119	2,100	3,550	-	-	-	9,769
Property and equipment and intangible assets and goodwill	-	-	-	-	-	293,137	293,137
Investment property	-	-	-	-	-	75,111	75,111
Deffered tax assets	-	-	-	-	-	10,027	10,027
Other assets	48,595	-	6,118	-	-	-	54,713
Total assets	3,842,225	559,418	1,784,762	2,197,376	4,012,263	378,275	12,774,319
Liabilities							
Amounts due to other banks	3,647	17,696	-	-	-	-	21,343
Amounts due to customers	4,034,176	1,590,822	4,533,177	59,388	100,211	-	10,317,774
Other borrowed funds	28,064	43,270	109,491	259,648	454,700	-	895,173
Financial liabilities at fair value through profit or loss	505	-	-	-	-	-	505
Provisions	-	-	-	-	-	53,631	53,631
Other liabilities and current income tax liability	92,714	-	-	-	-	-	92,714
Total liabilities	4,159,106	1,651,788	4,642,668	319,036	554,911	53,631	11,381,140
Net liquidity gap	(316,881)	(1,092,370)	(2,857,905)	1,878,340	3,457,352	324,643	1,393,179
At 31 December 2010							
Total assets	2,836,472	883,784	2,500,223	1,900,528	4,266,594	375,667	12,763,268
Total liabilities	4,037,268	1,869,344	4,525,645	246,967	545,697	52,324	11,277,245
Net liquidity gap	(1,200,796)	(985,560)	(2,025,422)	1,653,561	3,720,897	323,343	1,486,023

All amounts are expressed in thousands of HRK

Bank Unconsolidated	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Unidentified	Total
At 31 December 2011							
Assets							
Cash and balances with the Croatian National Bank	868,964	154,620	440,596	9,514	9,740	-	1,483,434
Amounts due from other banks	1,069,818	-	-	-	-	-	1,069,818
Financial assets at fair value through profit or loss	39,164	-	-	-	-	-	39,164
Amounts due from customers	1,664,247	206,891	1,041,313	1,769,730	3,977,297	-	8,659,478
Financial assets available for sale	147,318	195,807	293,185	418,132	25,226	-	1,079,668
Held-to-maturity investments	4,119	2,100	3,550	-	-	-	9,769
Investments in subsidiaries	-	-	-	-	-	82,430	82,430
Property and equipment and intangible assets and goodwill	-	-	-	-	-	284,134	284,134
Deferred tax assets	-	-	-	-	-	11,643	11,643
Other assets	46,697	-	6,118	-	-	-	52,815
Total assets	3,840,327	559,418	1,784,762	2,197,376	4,012,263	378,207	12,772,353
Liabilities							
Amounts due to other banks	3,647	17,696	-	-	-	-	21,343
Amounts due to customers	4,036,449	1,590,822	4,533,177	59,388	100,211	-	10,320,047
Other borrowed funds	28,064	43,270	109,491	259,648	454,700	-	895,173
Financial liabilities at fair value through profit or loss	505	-	-	-	-	-	505
Provisions	-	-	-	-	-	53,631	53,631
Other liabilities and current income tax liability	91,468	-	-	-	-	-	91,468
Total liabilities	4,160,133	1,651,788	4,642,668	319,036	554,911	53,631	11,382,167
Net liquidity gap	(319,806)	(1,092,370)	(2,857,906)	1,878,340	3,457,352	324,576	1,390,186
At 31 December 2010							
Total assets	2,835,212	883,784	2,502,198	1,900,528	4,266,594	369,806	12,758,122
Total liabilities	4,036,765	1,869,344	4,525,093	246,967	545,697	50,598	11,274,464
Net liquidity gap	(1,201,553)	(985,560)	(2,022,895)	1,653,561	3,720,897	319,208	1,483,658

All amounts are expressed in thousands of HRK

Group Consolidated	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Unidentified	Total
At 31 December 2010							
Assets							
Cash and balances with the Croatian National Bank	889,045	153,401	430,249	3,991	12,791	-	1,489,477
Amounts due from other banks	284,431	398,310	-	-	-	-	682,741
Financial assets at fair value through profit or loss	40,794	-	-	-	-	-	40,794
Amounts due from customers	1,530,912	272,262	937,611	1,804,925	4,047,174	-	8,592,884
Financial assets available for sale	44,902	59,412	1,108,776	91,612	190,443	-	1,495,145
Held-to-maturity investments	819	399	-	-	16,186	-	17,404
Property and equipment and intangible assets and goodwill	-	-	-	-	-	298,440	298,440
Investment property	-	-	-	-	-	77,227	77,227
Other assets	45,569	-	23,587	-	-	-	69,156
Total assets	2,836,472	883,784	2,500,223	1,900,528	4,266,594	375,667	12,763,268
Liabilities							
Amounts due to other banks	54,111	256,960	-	-	-	-	311,071
Amounts due to customers	3,893,094	1,571,325	4,407,146	40,883	93,264	-	10,005,712
Other borrowed funds	4,987	41,059	97,889	206,084	448,380	-	798,399
Financial liabilities at fair value through profit or loss	17,968	-	-	-	-	-	17,968
Provisions	-	-	-	-	-	40,161	40,161
Deferred tax liability	-	-	-	-	-	12,163	12,163
Other liabilities and current income tax liability	67,108	-	20,610	-	4,053	-	91,771
Total liabilities	4,037,268	1,869,344	4,525,645	246,967	545,697	52,324	11,277,245
Net liquidity gap	(1,200,796)	(985,560)	(2,025,422)	1,653,561	3,720,897	323,343	1,486,023
At 31 December 2009							
Total assets	3,402,378	565,623	2,299,598	1,965,796	3,941,264	383,308	12,557,967
Total liabilities	3,930,521	1,705,941	3,717,499	952,681	600,989	43,114	10,950,745
Net liquidity gap	(528,143)	(1,140,318)	(1,417,901)	1,013,115	3,340,275	340,194	1,607,222

All amounts are expressed in thousands of HRK

Bank Unconsolidated	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Unidentified	Total
At 31 December 2010							
Assets							
Cash and balances with the Croatian National Bank	889,045	153,401	430,249	3,991	12,791	-	1,489,477
Amounts due from other banks	284,431	398,310	-	-	-	-	682,741
Financial assets at fair value through profit or loss	40,517	-	-	-	-	-	40,517
Amounts due from customers	1,530,930	272,262	939,586	1,804,925	4,047,174	-	8,594,877
Financial assets available for sale	44,902	59,412	1,108,776	91,612	190,443	-	1,495,145
Held-to-maturity investments	819	399	-	-	16,186	-	17,404
Investments in subsidiaries	-	-	-	-	-	81,390	81,390
Property and equipment and intangible assets	-	-	-	-	-	288,416	288,416
Other assets	44,568	-	23,587	-	-	-	68,155
Total assets	2,835,212	883,784	2,502,198	1,900,528	4,266,594	369,806	12,758,122
Liabilities							
Amounts due to other banks	54,111	256,960	-	-	-	-	311,071
Amounts due to customers	3,894,121	1,571,325	4,407,146	40,883	93,264	-	10,006,739
Other borrowed funds	4,987	41,059	97,889	206,084	448,380	-	798,399
Financial liabilities at fair value through profit or loss	17,968	-	-	-	-	-	17,968
Provisions	-	-	-	-	-	40,161	40,161
Deferred tax liability	-	-	-	-	-	10,437	10,437
Other liabilities and current income tax liability	65,578	-	20,058	-	4,053	-	89,689
Total liabilities	4,036,765	1,869,344	4,525,093	246,967	545,697	50,598	11,274,464
Net liquidity gap	(1,201,553)	(985,560)	(2,022,895)	1,653,561	3,720,897	319,208	1,483,658
At 31 December 2010							
Total assets	3,404,061	565,623	2,301,311	1,965,796	3,941,264	366,968	12,545,023
Total liabilities	3,930,208	1,705,941	3,716,719	952,681	600,989	41,278	10,947,816
Net liquidity gap	(526,147)	(1,140,318)	(1,415,408)	1,013,115	3,340,275	325,690	1,597,207

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group and the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group and the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

35. OPERATIONAL RISK

Operational risk is the probability of loss resulting from inadequately defined or improperly executed business processs, human error, inappropriate system operation or as a result of external factors. The Bank's activities in the area of managing operational risk are in line with the applicable regulations and good operational risk management practice, and are regularly revised to reflect any changes therein. The Operational Risk Management Rules and the Operational Risk Management Guidelines as well as the Guidelines for Operational Risk Self-assessment constitute the framework for managing operational risk at the Bank.

The Bank has a Business Continuity Plan that defines the system supporting the continuity of operations in cases where they become temporarily discontinued as a result of an exceptional event.

Operational risks are managed centrally: the responsibility for managing operational risks rests with the managers and staff in charge of those organisational units in which operational risks are inherent to the activities performed by those units. They best understand, control and monitor the processes taking place in their organisational units and their dutiy is to ensure that the processes they manage follow appropriate procedures and are safe from the aspect of incurrence of operational risks. Operational risk management activities that are a joint responsiblity of all the Bank's organisational units include the following: identification, measurement, assessment and analysis, as well as control and monitoring operational risk that arise. The Division for Quantitative Analysis, Market and Operational Risks operates as an independent unit within the Operational Risk Management Department and is responsible for suggesting the set-up of the operational risk management environment and the rules governing this area, for collecting data about losses caused by operational risks, informing the Bank's Management Board regularly on operational risk events, as well as for providing assistance and support to all the Bank's organisational units in understanding the structured approach to managing operational risks. In line with the decentralised operational risk management methodology, the owners of each of the processes at the Bank have the obligation to co-operate closely in assessing the risks inherent in those processes (self-assessment) or to assess those risks against the guidelines provided by the Division for Quantitative Analysis, Market and Operational Risks. In order to obtain a full view of the Bank's exposure to the risk, an Operational Risk Management Committee has been established.

The Bank applies a simplified approach in determining the capital requirements for operational risk.

All amounts are expressed in thousands of HRK

36. RELATED PARTY TRANSACTIONS

The Bank is the parent of the OTP banka Group. The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its subsidiaries and associates; the investment funds managed by one of its subsidiaries, OTP Invest; Supervisory Board members, Management Board members; close family members of Management Board; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" (the "IAS 24").

Outstanding balances at the year-end and relating expense and income for the year are as follows:

	31.12.2011		31.12.2010	
	Receivables	Payables	Receivables	Payables
OTP Bank Nyrt. Hungary	192,090	606	156,499	275,573
OTP Nekretnine d.o.o.	1,190	1,060	1,284	646
OTP Invest d.o.o.	14	1,209	1,011	513
Kratos nekretnine d.o.o.	-	4	-	1
	193,294	2,879	158,794	276,733

	2011		2010	
	Income	Expenses	Income	Expenses
OTP Bank Nyrt. Hungary	17,177	5,344	3,041	33,018
OTP Nekretnine d.o.o.	437	906	596	755
OTP Invest d.o.o.	86	4	88	2
Kratos nekretnine d.o.o.	4	-	1	-
	17,704	6,254	3,726	33,775

Remuneration paid to key management personnel amounted to HRK 8,638 thousand and relates to short-term employee benefits (2010: HRK 8,425 thousand). Included in key management personnel are Management Board members.

Remuneration paid to Supervisory Board members amounted to HRK 512 thousand (2010: HRK 910 thousand).

37. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Group manages funds on behalf of third parties placed mainly as loans between enterprises through the Group as agent. These assets are accounted for separately from those of the Group and no liability falls on the Group in connection with these transactions. The Group charges a fee for these services.

At 31 December 2011, Funds managed by the Group and the Bank as an agent on behalf of third parties amounted to HRK 112,965 thousand (2010: HRK 120,725 thousand). Additionally, assets under the management of OTP Invest, a subsidiary of the Bank, amounted to HRK 375,990 thousand (2010: HRK 358,874 thousand).

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction, where available. Fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where quoted market prices are not readily available, fair value is estimated using alternative techniques, or financial assets are measured at cost, amortised cost or indexed cost.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All amounts are expressed in thousands of HRK

2011	Goup Consolidated			
	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Financial assets at fair value through profit or loss				
Non-derivative financial assets	30,317	-	-	30,317
Other derivative financial assets	-	8,847	-	8,847
Available-for-sale financial assets				
Equity securities	4,252	-	3,772	8,024
Debt securities	457,319	597,270	-	1,054,589
Units in open-ended investment funds	17,055	-	-	17,055
Total	508,943	606,117	3,772	1,118,832
Financial liabilities at fair value through profit or loss				
Other derivative financial liabilities	-	505	-	505
Total	-	505	-	505

2010	Group Consolidated			
	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Financial assets at fair value through profit or loss				
Non-derivative financial assets	40,794	-	-	40,794
Other derivative financial assets	-	-	-	-
Available-for-sale financial assets				
Equity securities	2,820	-	3,395	6,215
Debt securities	703,305	278,184	484,801	1,466,290
Units in open-ended investment funds	22,640	-	-	22,640
Total	769,559	278,184	488,196	1,535,939
Financial liabilities at fair value through profit or loss				
Other derivative financial liabilities	-	17,968	-	17,968
Total	-	17,968	-	17,968

2011	Bank Unconsolidated			
	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Financial assets at fair value through profit or loss				
Non-derivative financial assets	30,317	-	-	30,317
Other derivative financial assets	-	8,847	-	8,847
Available-for-sale financial assets				
Equity securities	4,252	-	3,772	8,024
Debt securities	457,319	597,270	-	1,054,589
Units in open-ended investment funds	17,055	-	-	17,055
Total	508,943	606,117	3,772	1,118,832
Financial liabilities at fair value through profit or loss				
Other derivative financial liabilities	-	505	-	505
Total	-	505	-	505

2010	Bank Unconsolidated			
	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Financial assets at fair value through profit or loss				
Non-derivative financial assets	40,517	-	-	40,517
Other derivative financial assets	-	-	-	
Available-for-sale financial assets				
Equity securities	2,820	-	3,395	6,215
Debt securities	703,305	278,184	484,801	1,466,290
Units in open-ended investment funds	22,640	-	-	22,640
Total	769,282	278,184	488,196	1,535,662
Financial liabilities at fair value through profit or loss				
Other derivative financial liabilities	-	17,968	-	17,968
Total	-	17,968	-	17,968

There were no transfers between Level 1 and 2 in the period.

All amounts are expressed in thousands of HRK

39. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group and the Bank 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 and in the Bank'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 and the Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with 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 value of loans to and receivables from corporate and retail customers (summarised in note 14), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees, letters of credit and unused credit card limits (summarised in note 26). 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.

	Notes	Group Consolidated 2011	Group Consolidated 2010	Bank Unconsolidated 2011	Bank Unconsolidated 2010
Summary of impairment losses on customers					
Impairment allowance on loans to and receivables from customers	14	655,238	468,661	655,238	468,661
Provisions for off-balance-sheet exposures	26	10,337	14,393	10,337	14,393
		665,575	483,054	665,575	483,054

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 judgement 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.

All amounts are expressed in thousands of HRK

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

Group and Bank			2011			2010
	Corporate	Retail	Total	Corporate	Retail	Total
Gross value of Exposure of impaired loans	523,357	535,875	1,059,232	359,427	569,900	929,327
Impairment rate	35.09%	61.31%	48.36%	24.62%	42.86%	35.80%

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 10,592 thousand for the Group and the Bank.

The Group has recognised an impairment allowance calculated on a portfolio basis in accordance with 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 through profit or loss and available for sale portfolio, including off-balance-sheet amounts (including undrawn lending and credit card commitments) and sovereign risk. Amounts assessed as impaired are excluded from this calculation.

The amount of impairment allowance at 31 December 2011 calculated on a portfolio basis in accordance with local regulations amounted to HRK 100,037 thousand (2010: HRK 100,223 thousand) of the relevant on- and off-balance-sheet exposure for the Group and Bank. The total of these portfolio based impairment losses amounted to 0.85% % (2010: 0.85%) of eligible loans to and receivables from customers and commitments and contingencies of the Group and the Bank respectively, in both cases net of amounts individually assessed as impaired.

At the maximum rate prescribed by the CNB, portfolio based impairment losses would be HRK 41,192 thousand (2010: HRK 41,268 thousand) higher than the amount recognised by the Group and Bank.

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the nominal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

Taxation

The Group provides for 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.

Regulatory requirements

The CNB is entitled to carry out regulatory inspections of the Group's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

Legal actions

In the ordinary course of business, the Group is subject to various legal actions and complaints, the outcome of which is uncertain. As of 31 December 2011, based on the advice of legal counsel, management created provisions for the related risks amounting to HRK 43,294 thousand (2010: HRK 25,768 thousand).

40. APPROVAL OF FINANCIAL STATEMENTS

The consolidated and unconsolidated financial statements are signed by and approved for issuing by the Management Board of OTP banka Hrvatska d.d. Zadar on 20 March 2012.

Balázs Békeffy
President of the Management Board

Zorislav Vidović
Member of the Management Board

All amounts are expressed in thousands of HRK

Pursuant to the Croatian Accounting Law, Croatian National Bank issued the Decision on structure and contents of annual financial statement of the banks.

The following tables present consolidated financial statements in accordance to the above mentioned decision.

Statements of comprehensive income

	2011 HRK '000	2010 HRK '000
1. Interest income	726,310	730,999
2. (Interest expenses)	(336,660)	(376,292)
3. Net interest income	389,650	354,706
4. Commission and fee income	141,918	140,525
5. (Commission and fee expenses)	(37,906)	(38,893)
6. Net commission and fee income	104,012	101,632
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	57,924	22,992
9. Gain/(loss) from embedded derivatives	32	(7)
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	956	608
11. Gain/(loss) from financial assets available for sale	113,357	5,328
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	124	166
16. Gain/(loss) from foreign exchange differences	(3,942)	22,329
17. Other income	14,376	13,454
18. Other expenses	(39,284)	(26,204)
19. General and administrative expenses, depreciation and amortization	(312,654)	(300,970)
20. Net income before value adjustments and provisions for losses	324,551	194,035
21. Expenses from value adjustments and provisions for losses	(199,740)	(99,445)
22. Profit/(loss) before tax	124,811	94,590
23. Income tax	(25,364)	(19,377)
24. Current year profit/(loss)	99,447	75,213
25. Earnings per share	24,19	18.29
26. Current year profit/(loss)	99,447	75,213
27. Distributable to the parent company shareholders	99,447	75,213
28. Minority participation	-	-

All amounts are expressed in thousands of HRK

Statement of financial position

Assets	2011	2010
	HRK '000	HRK '000
1. Cash and deposits with the CNB	1,432,096	1,453,452
1.1. Cash	171,740	138,867
1.2. Deposits with the CNB	1,260,356	1,314,585
2. Deposits with banking institutions	1,120,966	673,192
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	597,270	278,184
4. Securities and other financial instruments held for trading	-	-
5. Securities and other financial instruments available for sale	463,706	1,193,878
6. Securities and other financial instruments held to maturity	23,816	24,016
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	30,317	40,517
8. Derivative financial assets	9,368	18
9. Loans to financial institutions	22,966	57,978
10. Loans to other clients	8,708,916	8,657,383
11. Investments in subsidiaries, affiliated companies and joint ventures	83,626	82,211
12. Repossessed assets	5,919	178
13. Tangible and intangible assets (minus depreciation and amortization)	205,047	198,687
14. Interests, fees and other assets	223,614	263,197
15. Special reserves for identified losses	(90,898)	(87,258)
A. Total assets	12,836,729	12,835,633
Liabilities and equity		
1. Borrowings from financial institutions	843,477	745,654
2. Deposits	10,237,378	10,211,971
2.1. Deposits on giro-accounts and current accounts	1,344,649	1,328,641
2.2. Savings deposits	1,341,412	1,211,028
2.3. Term deposits	7,551,317	7,672,302
3. Other borrowings	5,421	11,133
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	5,421	11,133
4. Derivative financial liabilities and other trading financial liabilities	996	17,997
5. Issued debt securities	-	-
6. Issued subordinated instruments	38,502	37,760
7. Issued Subordinated debt	-	-
8. Interests, fees and other liabilities	320,769	327,459
B. Total liabilities	11,446,543	11,351,974
1. Share capital	989,607	989,607
2. Current year gain/loss	99,447	75,213
3. Retained earnings/(loss)	131,845	156,633
4. Legal reserves	41,114	41,114
5. Statutory and other capital reserves	154,109	154,113
6. Unrealised gain /(loss) from available for sale fair value adjustment	(25,936)	66,979
C. Total equity	1,390,186	1,483,659
D. Total liabilities and equity	12,836,729	12,835,633
8. Total equity	1,390,186	1,483,659
9. Equity distributable to parent company shareholders	1,390,186	1,483,659
10. Minority participation	-	-

All amounts are expressed in thousands of HRK

Statement of Changes in Equity

Change in equity	Share capital	Legal statutory and other reserves	Retained earning /(losses)	Current year profit /loss	Unrealised gain/(losses) from available for sale financial assets fair value adjustement	Total capital and reserves
1. Balance at 1 January 2011	989,607	195,227	156,633	75,213	66,979	1,483,659
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-
3. Restated balance at 1 January 2011(1+2)	989,607	195,227	156,633	75,213	66,979	1,483,659
4 . Sale of financial assets available for sale	-	-	-	-	(113,425)	(113,425)
5. Fair value changes of financial assets available for sale	-	-	-	-	(2,719)	(2,719)
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	23,229	23,229
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	(92,915)	(92,915)
9. Current year gain/(loss)	-	-	-	99,447	-	99,447
10. Total income and expenses recognised for the current year 2011	-	-	-	99,447	(92,915)	6,532
11. Increase/ (decrease) in share capital	-	-	-	-	-	-
12. Buying/(sale) of treasury shares	-	-	-	-	-	-
13. Other changes	-	(4)	75,213	(75,213)	-	(4)
14. Transfer to reserves	-	-	-	-	-	-
15. Dividends paid	-	-	(100,000)	-	-	(100,000)
16. Distribution of profit (14+15)			(100,000)			(100,000)
17. Balance at 31 December 2011 (3+10+11+12+13+16)	989,607	195,223	131,846	99,447	(25,936)	1,390,187

Changes in equity	Share capital	Legal statutory and other reserves	Retained earning /(losses)	Current year profit /loss	Unrealised gain/(losses) from available for sale financial assets fair value adjustement	Total capital and reserves
1. Balance at 1 January 2010	989,607	195,231	267,986	88,647	55,736	1,597,207
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-
3. Restated balance at 1 January 2010(1+2)	989,607	195,231	267,986	88,647	55,736	1,597,207
4 . Sale of financial assets available for sale	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	14,054	14,054
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	(2,811)	(2,811)
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	11,243	11,243
9. Current year gain/(loss)	-	-	-	75,213	-	75,213
10. Total income and expenses recognised for the current year 2010	-	-	-	75,213	11,243	86,456
11. Increase/ (decrease) in share capital	-	-	-	-	-	-
12. Buying/(sale) of treasury shares	-	-	-	-	-	-
13. Other changes	-	(4)	88,647	(88,647)	-	(4)
14. Transfer to reserves	-	-	-	-	-	-
15. Dividends paid	-	-	(200,000)	-	-	(200,000)
16. Distribution of profit (14+15)	-	-	(200,000)	-	-	(200,000)
17. Balance at 31 December 2010 (3+10+11+12+13+16)	989,607	195,227	156,633	75,213	66,979	1,483,659

All amounts are expressed in thousands of HRK

Cash flow statement

	2011 HRK '000	2010 HRK '000
Operating activities		
1.1. Gain/(loss) before tax	124,811	94,590
1.2. Value adjustments and provisions for losses	3,640	(14,015)
1.3. Depreciation and amortization	37,596	36,038
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	-	-
1.5. Gain/(loss) from tangible assets sale	(853)	5,283
1. Operating cash flow before operating assets movements	165,194	121,896
2.1. Deposits with CNB	54,229	(58,490)
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	(319,086)	(91,676)
2.3. Deposits with banking institutions and loans to financial institutions	(447,774)	742,771
2.4. Loans to other clients	(16,521)	(247,200)
2.5. Securities and other financial instruments held for trading	850	31,572
2.6. Securities and other financial instruments available for sale	637,257	(497,520)
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	-	-
2.8. Other operating assets	32,350	3,189
2. Net (increase)/decrease in operating assets	(58,695)	(180,498)
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	16,008	10,749
3.2. Savings and term deposits	9,399	1,033,424
3.3. Derivative financial liabilities and other trading liabilities	(17,001)	17,937
3.4. Other liabilities	(12,807)	20,335
3. Net increase/(decrease) in operating liabilities	(4,401)	1,082,445
4. Net cash flow form operating activities before profit tax paying	102,098	1,023,843
5. Paid profit tax	(17,756)	(20,335)
6. Net inflows/(outflows) of cash from operating activities	84,342	1,003,508
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(43,103)	(40,177)
7.2. Receipts from sale /(payments for buying) investments in subsidiaries, affiliated companies and joint ventures	(1,415)	(1,508)
7.3. Receipts from collection/(payments for buying) securities and other financial instruments held to maturity	200	6,613
7. Net cash flow from investing activities	(44,318)	35,072
Financial activities		
8.1. Net increase/(decrease) in borrowings	92,111	(763,532)
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated and Subordinated debt	738	(400)
8.4. Receipts from issued share capital	-	-
8.5. (Dividends paid)	(100,000)	(200,000)
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities	(7,151)	(963,132)
9. Net increase/(decrease) in cash and cash equivalents	32,873	5,304
10. Cash and cash equivalents at the beginning of the year	1,790,715	1,785,411
11. Cash and cash equivalents at the and of the year	1,823,588	1,790,715

All amounts are expressed in thousands of HRK

As data in financial statements prepared in accordance with the Croatian National Bank ("CNB") decision are classified differently from those in financial statements prepared according to the statutory accounting requirements for banks in Croatia the following tables present comparatives.

Comparative statements of comprehensive income for 2011 and 2010

HRK '000

	Croatian National Bank decision 2011	**Accounting Requirements for banks in Croatia for 2011**	**Difference 2011**	**Croatian National Bank decision 2010**	**Accounting Requirements for banks in Croatia for 2010**	**Difference 2010**
1. Interest income	726,310	725,112	1,198	730,999	729,780	1,219
2. (Interest expenses)	(336,660)	(311,518)	(25,142)	(376,292)	(352,329)	(23,963)
3. Net interest income	389,650	413,594	(23,944)	354,706	377,451	(22,746)
4. Commission and fee income	141,918	141,915	3	140,525	140,523	2
5. (Commission and fee expenses)	(37,906)	(37,904)	(2)	(38,893)	(38,895)	2
6. Net commission and fee income	104,012	104,011	1	101,632	101,628	4
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-	-	-	-	-
8. Gain/(loss) from trading activities	57,924	57,924	-	22,992	22,992	-
9. Gain/(loss) from embedded derivatives	32	-	32	(7)	-	(7)
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	956	-	956	608	-	608
11. Gain/(loss) from financial assets available for sale	113,357	113,357	-	5,328	5,328	-
12. Gain/(loss) from financial assets held to maturity	-	-	-	-	-	-
13. Gain/(loss) from hedging transactions	-	-	-	-	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-	-	-	-	-
15. Income from other equity investments	124	-	124	166	-	166
16. Gain/(loss) from foreign exchange differences	(3,942)	(6,735)	2,793	22,329	20,951	1.378
17. Other income	14,376	16,948	(2,572)	13,454	14,140	(686)
18. Other expenses	(39,284)	-	(39,284)	(26,204)	-	(26,204)
19. General and administrative expenses, depreciation and amortization	(312,654)	(353,926)	41,272	(300,970)	(346,630)	45,660
20. Net income before value adjustments and provisions for losses	324,551	345,173	(20,622)	194,035	195,860	(1,825)
21. Expenses from value adjustments and provisions for losses	(199,740)	(220,362)	20,622	(99,445)	(101,270)	200,715
22. Profit/(loss) before tax	124,811	124,811	-	94,590	94,590	-
23. Income tax	(25,364)	(25,364)	-	(19,377)	(19,377)	-
24. Current year profit/(loss)	99,447	99,447	-	75,213	75,213	-
25. Earnings per share	24,19	24,19	-	18.29	18.29	-
26. Current year profit/(loss)	99,447	99,447	-	75.213	75.213	-

Reconciliations between the statement of comprehensive income items disclosed in the Annual Report and those specified by the CNB Decision relate to the following categories:

Reconciliation notes to the 2011 Statements of comprehensive income

The difference in the total interest income reported CNB accounting requirements for banks in the Republic of Croatia versus the Annual Report relates to net foreign exchange difference relating to interest income, which is presented in Annual report with item "Net profit or loss from trading in foreign currencies, securities and translation of foreign-currency denominated assets and liabilities".

The difference in the total interest income reported CNB accounting requirements for banks in the Republic of Croatia versus the Annual Report relates to savings deposit insurance premiums, which were included in "Operating expenses" in the Annual Report as well as to the position "Net profit or loss from trading in foreign currencies, securities and translation of foreign-currency denominated assets and liabilities".

The items "Trading gains/losses", "Gains/losses on derivatives" and "Gains/losses on exchange differences" are presented separately under the CNB bank accounting requirements, whereas in the Annual Report they have been included in "Net proft or loss from trading in foreign currencies, securities and translation of foreign-currency denominated assets and liabilities".

Items "Profit/(loss) on assets not actively traded and measured at FVTPL", "Income from other equity investments", "Other income" and "Extraordinary income" are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are aggregated under "Other operating income".

Items "Other expenses", "Extaordinary expenses" and "General and administrative expenses and depreciation" are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are aggregated under "Operating expenses".

All amounts are expressed in thousands of HRK

Comparatives for Statement of financial position as at 31 December 2011 and 2010

HRK '000

Assets	Croatian National Bank decision 2011	Accounting Requirements for banks in Croatia for 2011	Difference 2011	Croatian National Bank decision 2010	Accounting Requirements for banks in Croatia for 2010	Difference 2010
1. Cash and deposits with the CNB	1,432,096	1,483,434	(51,338)	1,453,452	1.489.477	(36.025)
1.1. Cash	171,740	486,486	(314,746)	138,867	516.238	(377.371)
1.2. Deposits with the CNB	1,260,356	996,948	263,408	1,314,585	973.239	341.346
2. Deposits with banking institutions	1,120,966	1,069,818	51,148	673,192	682.741	(9.549)
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	597,270	-	597,270	278,184	-	278.184
4. Securities and other financial instruments held for trading	-	-	-	-	-	-
5. Securities and other financial instruments available for sale	463,706	1,079,668	(615,962)	1,193,878	1.495,145	(301.267)
6. Securities and other financial instruments held to maturity	23,816	9,769	14,047	24,016	17,404	6,612
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	30,317	39,164	(8,847)	40,517	40,517	-
8. Derivative financial assets	9,368	-	9,368	18	-	18
9. Loans to financial institutions	22,966	-	22,966	57,978	-	57.978
10. Loans to other clients	8,708,916	8,659,478	49,438	8,657,383	8,594,877	62,506
11. Investments in subsidiaries, affiliated companies and joint ventures	83,626	82,430	1,196	82,211	81,390	821
12. Repossessed assets	5,919	-	5,919	178	-	178
13. Tangible and intangible assets (minus depreciation and amortization)	205,047	284,134	(79,087)	198,687	288,416	(89,729)
	-	11,642	(11,642)			
14. Interest, fees and other assets	223,614	52,816	170,798	263,198	68,155	195,043
15.Specific reserves for indentified losses	(90,898)	-	(90,898)	(87,258)	-	(87,258)
A. Total assets	12,836,729	12,772,353	64,376	12,836,633	12,758,122	77,511

Liabilities and equity	Croatian National Bank decision 2011	Accounting Requirements for banks in Croatia for 2011	Difference 2011	Croatian National Bank decision 2010	Accounting Requirements for banks in Croatia for 2010	Difference 2010
1. Borrowings from financial institutions	843,477	895,173	(51,696)	745,654	798,399	(52,745)
2. Deposits	10,237,378	-	10,237,378	10,211,971	-	10,211,971
2.1. Deposits on giro-accounts and current accounts	1,344,649	-	1,344,649	1,328,641	-	1,328,641
2.2. Savings deposits	1,341,412	-	1,341,412	1,211,028	-	1,211,028
2.3. Term deposits	7,551,317	-	7,551,317	7,672,302	-	7,672,302
3. Other borrowings	5,421	-	5,421	11,133	-	11,133
3.1. Short-term borrowings	-	-	-	-	-	-
3.2. Long-term borrowings	5,421	-	5,421	11,133	-	11,133
4.Due to other banks and deposits from customers	-	21,343	(21,343)	-	311,071	(311,071)
5. Due to customers	-	10,320,047	(10,320,047)	-	10,006,739	(10,006,739)
6. Derivative financial liabilities and other trading financial liabilities	996	505	491	17,997	17,968	29
8. Issued subordinated instruments	38,502	-	38,502	37,760	-	37,760
9. Financial liabilities through fair value	-	-	-	-	-	-
10. Provisions	-	53,631	(53,631)	-	40,161	(40,161)
11. Deferred tax liabilities	-	-	-	-	10,437	(10,437)
12. Income tax liabilities	-	6,459	(6,459)	-	-	-
13. Interest, fees and other liabilities	320,769	85,009	235,760	327,459	89,689	237,771
B. Total liabilities	11,446,543	11,382,167	64,376	11,351,974	11,274,464	77.511
1. Share capital	989,607	822,280	167,327	989,607	822,280	167,327
Share premium	-	171,260	(171,260)	-	171,260	(171,260)
2. Current year gain/loss	99,447	-	99,447	75,213	-	75,213
3. Retained earnings/(loss)	131,845	207,613	(75,768)	156,633	208,166	(51,533)
4. Legal reserves	41,114	-	41,114	41,114	-	41,114
Statutory and other capital reserves	-	82,228	(82,228)	-	82,228	(82,228)
5. Statutory and other capital reserves	154,109	-	154,109	154,113	-	154,113
Other reserves	-	106,805	(106,805)	-	199,724	(199.724)
6. Unrealised gain /(loss) from available for sale fair value adjustment	(25,936)	-	(25,936)	66,979	-	66,979
C. Total equity	1,390,186	1,390,186	-	1,483,659	1,483,658	-
D. Total liabilities and equity	12,836,729	12,772,353	64,376	12,835,633	12,758,122	77.511

Reconciliations between the statement of financial position items disclosed in the Annual Report and those specified by the CNB Decision relate to the following categories:

Reconciliation notes to the 2011 Statement of financial position

ASSETS

Items “Cash and deposits with the CNB” and “Deposits and receivables from banking institutions” are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are captured under “Loans and receivables from other banks”, “Mandatory reserve with the CNB” and “Loans to other banks”.

The Treasury Bills of the Ministry of Finance and of the Croatian National Bank are presented separately, in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual Report, they are reported under “Financial assets available for sale”. Securities and other financial instruments not actively traded and carried at FVTPL are presented separately under the CNB accounting requirements for banks, whereas in the Annual Report they are included in “Financial assets at fair value through profit or loss”.

Foreclosed assets are presented separately, in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual Report they are included in “Other assets”.

Deferred tax assets are presented within item „Interest, fees and other assets“ in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual report they are presented separately.

Accrued interest and fees due and not yet due as well as intangible assets are presented under the CNB accounting requirements for banks in the Republic of Croatia within “Interest, fees and other assets”, whereas in the Annual Report they are presented separately, i.e. the interest is presented together with the principal due and not yet due and the related securities.

LIABILITIES AND EQUITY

In accordance with the CNB accounting requirements for banks in the Republic of Croatia, short-term and long-term loans from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are items to be presented separately, whereas in the Annual Report they are included under “Other borrowed funds”.

Under the CNB accounting requirements for banks in the Republic of Croatia, balances on current and giro accounts, savings and term deposits are presented separately, whereas in the Annual Report they are included in “Amounts due to other banks” and “Amounts due to customers”.

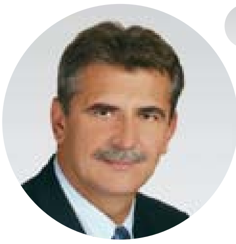
In accordance with the CNB accounting requirements for banks in the Republic of Croatia, provisions, deferred tax liabilities and current income tax are included in “Interest, fees and other liabilities”, whereas they are presented separately in the Annual Report.

Accrued interest due and not yet due are presented in the Annual Report under the related principal due and not yet due, whereas under the CNB accounting requirements for banks in the Republic of Croatia they are included in “Interest, fees and other liabilities”.

Supervisory Board and Management Board


MU

Supervisory Board



Antal György Kovács

Executive Director for South Transdanubian region in OTP Bank Rt

Antal György Kovács, President of the Supervisory Board, OTP Bank Executive Director for South Transdanubian region, was born in 1953. He graduated from the Budapest Faculty of Economics in 1985, and in 1990 he started his career in finances by taking a position with K&H Bank in Nagyatád, where he was promoted to the position of a director three years later. During his employment with that bank he attended numerous seminars in the USA, specialising in the finance field. He joined OTP Bank in 1995 as the director for Somogy county and in 1997 he was in charge of the branch offices for Somogy and Tolnu counties. He took his current position in the bank in 1998, where he is in charge of management of the regional branch offices' operations, business planning, cost management, loan granting and other tasks.

Gábor Czikora

Managing Director of the IT Development Department in OTP Bank Rt

Gábor Czikora, SB Deputy President, was born in 1958. Having obtained a programmer degree from Számalk University, specialized in IT technology and economics, he worked with Volán Elektronik as an operator. In 1980 he transfered to OTP Bank, where he started as an operator and advanced to the position of project manager. Since 1996 he was assistant to the Head of Loan Systems IT Development Unit and became the Head of Unit in 2000. After four years at this position he became Head of IT Development Directorate, C/A andLoan Systems IT Development Department. In October 2006 he was appointed IT Development Directorate Managing Director.

Gábor Kovács

Head of the Marketing and Sales Department in OTP Bank Rt

Gábor Kovács was born in 1973 in Pécs. He received the degree in geography and library history in 1996, but continued education and obtained Professional Master of Business Administration Training at the Faculty of Economics Pécs. In 1996 he began his career in Nationale Netherlanden, where he was in charge of life insurance segment. He transfered to OTP Bank Pécs in 1997 and advanced within Sales and Branch Management Department. In June 2004 he moved to Budapest, where he became a part of OTP Bank START project in Marketing and Sales Division. As of October 2004 he holds the position of OTP Bank Marketing and Sales Division Head of Deparment.

László Kecskés

Managing Director of the Internal Audit Department in OTP Bank Rt

László Kecskés graduated on Financial Accounting College and began his career as the Manager of Kecskés and Co accountant and tax-consultant company. After two years he transfered to the position of Chief Manager at Intertia Accountant Trustee, where he remained until 1994 when he became an auditor in OTP Bank. In 1996 he became Deputy Head of the Banking Operation Audit Department and obtained the position of the General Director in 2001. Since April 2007 he is the Managing Director of the OTP Bank Internal Audit Directorate.

Anita Szórád

Senior controlling expert at the Subsidiary Strategy and Analysis Department

Anita Szórád graduated from Corvinus University, Budapest in 2006 with the major of financial investments analysis and risk management. She started her career at the Strategy and Finance Division of OTP Bank on the Operational Risk Management Department in 2006. After a year she joined the Capital Allocation Department dealing with group level capital management matters, where she was in charge of all capital related issues. Since 2007 she works as main responsible person for central controlling and planning of DSK Bank and presently is a senior controlling expert at the Subsidiary Strategy and Analysis Department.

Zsolt Szabó

Director of the Corporate Market and Product Management Head Department at OTP Bank Rt

Zsolt Szabó graduated from the Debrecen Agricultural University in 1987 and earned a degree from Budapest Economic College, Faculty of Accountancy in 2000. Between 1995 and 2002 he worked for OTP Bank Plc. in various managerial positions in the North-Alföldi Region, his last position there being Deputy Managing Director of Region. From 2002 he is the Director of the Corporate Market and Product Management Head Department at OTP Bank Plc. He is also member of the Supervisory Board of OTP Bank Romania and the Supervisory Board of OTP Flat Lease Ltd. Hungary.

Branko Mikša

Independent member of the Supervisory Board

Branko Mikša was born in 1947 in Đurmanec, Croatia. He graduated in 1970 and attained masters degree in 1973 from the Faculty of Economics, University of Zagreb. From 1970 until 1991 he worked in Pliva on various positions from associate to head of supply chain, export director and marketing director. In 1991 and 1992 he was director of Pliva Handels GmbH in Germany, while in 1992 and 1993 he held the position of Minister of Trade and Tourism in the Croatian Government. From 1993 until 1996 he was Mayor of Zagreb, while from 1996 until 1999 he returned to Pliva Handels GmbH in Germany. Since 1999 he has been Deputy President of Supervisory Board of Agrokor d.d. and advisor to the President of the Agrokor Group. He has been an independent member of Supervisory Board since 29 September 2011.

Csaba Attila Faragó

Csaba Attila Faragó was an independent member of the Supervisory Board until 29 September 2011.

Management Board

Balázs Békeffy

President of the Management Board of OTP banka Hrvatska d.d.

Balázs Békeffy, president of the Management Board of OTP banka d.d., was born in 1977 in Budapest. He graduated from the Budapest University of Economics, and gained specialised education at professional schools in Moscow and Sweden. He started his career in a subsidiary of the Swiss-based pharmaceutical and research company Novartis Seeds, and afterwards worked with the audit company PricewaterhouseCoopers as a consultant at Corporate Finance Services. He joined OTP Bank in March 2003, as a senior project manager in charge of bank acquisitions. In March 2006, he was appointed head of the Operations Division within OTP banka Hrvatska, and in September 2006 he was appointed Management Board member. He was appointed Management Board president on 23 September 2011, and is in charge of Operations, Retail Banking, IT, Marketing and Corporate Communications, Human Resources, Legal Affairs and Audit.

Zorislav Vidović

Member of the Management Board of OTP banka Hrvatska d.d.

Zorislav Vidović, member of the Management Board of OTP banka d.d., was born in 1964 in Šibenik. He graduated from the Faculty of Economics at the University of Zagreb in 1988. In the period from 1988 to 1990 he held a job in the Finance Section of the company Kepol Zadar. At the end of 1990 he joined Dalmatinska banka where he was assigned to the Assets and Lending Division and in 1992 he earned his broker's license. From 1997 to 2002 he held the position of the director of the Treasury Department. He has been a member of the Management Board since 1 April 2002. He is in charge of the Treasury, Finance, Corporate Banking and Group management system. He has been a long-standing member of the supervisory boards of the Bank's subsidiaries.

Helena Banjad

Member of the Management Board of OTP banka Hrvatska d.d.

Helena Banjad, member of the Management Board of OTP banka d.d., was born in 1955 in Zadar. She graduated from the Faculty of Economics at the University of Zagreb in 1978. She started her career in the development department of Pliva pharmaceutical company in Zagreb, and in 1981 took a job in Zadar, working in the foreign trade unit of a chemical company. She joined Dalmatinska banka in 1990, and left the Bank for a company offering financial services, where she worked from 1993 to 1995. Her jobs with the Bank included running the international market and managing f/x liquidity (1990 to 1993), correspondent banking and procurement of funds from international markets (1995 to 1998), and since 1998 she has been heading the Risk Management Division. In the period from 2002 to 2004 she held the position of the Management Board member in charge of risks. She was appointed Management Board member on 26 July 2011, and the supervision over credit, market and operational risks remains within her competence.

Damir Odak

Damir Odak was President of the Management Board until 31 August 2011.

Business Network

OTP banka Hrvatska d.d.

Zadar, Domovinskog rata 3

Tel: + 385 (0) 62 201 555

Fax: +385 (0) 62 201 950

Swift: OTPV HR 2X

Web: www.otpbanka.hr

e-mail: info@otpbanka.hr

GROUP

OTP Invest d.o.o.

Zagreb, Zelinska 2

Tel: + 385 (0) 62 201 092

Fax: + 385 (1) 65 28 087

Web: www.otpinvest.hr

e-mail: info@otpinvest.hr

OTP Nekretnine d.o.o.

Zadar, Domovinskog rata 3

Tel: + 385 (0) 62 201 666

Fax: +385 (0) 62 201 967

Web: www.otpnekretnine.hr

e-mail: info@otpnekretnine.hr

OTP Consulting d.o.o.

Dubrovnik, Vukovarska 19

Tel: + 385 (0) 62 201 064

Fax: +385 (0) 62 201 066

e-mail: goran.krmpotic@otpbanka.hr

OTP Leasing d.d.

Zagreb, Avenue Center, Avenija Dubrovnik 16/V

Tel: + 385 (1) 66 66 700

Fax: + 385 (1) 66 66 701

Web: www.otpleasing.hr

e-mail: otpleasing@otpleasing.hr

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OTP banka Hrvatska d.d.

Zadar, Domovinskog rata 3

Tel: + 385 (0) 62 201 555

Fax: +385 (0) 62 201 950

Swift: OTPV HR 2X

Web: www.otpbanka.hr

e-mail: info@otpbanka.hr