

BANKA BROD d.d.

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

BANKA BROD d.d.

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management Board of the Bank Brod d.d., Slavonski Brod (hereinafter "the Bank") is responsible for ensuring that the annual financial statements for the year 2011 are prepared in accordance with the Accounting Law (National gazette No 109/07) and the International Financial Reporting Standards (National gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11) issued by the Committee for Financial Reporting Standards, nominated by Government of the Republic of Croatia, to give a true and fair view of the financial position, the results of operations, the changes in equity and the cash flows of the Bank for that period.

After making enquiries, the Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing the financial statements of the Bank.

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable financial reporting 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 such assumption is not appropriate.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position and the results of operations of the Bank and their compliance with the Accounting Law (National gazette No 109/07) and the International Financial Reporting Standards (National gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11) issued by the Committee for Financial Reporting Standards. The Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Arsen Kantarci

Mičo Tomičić

President of the
Management Board

Member of the
Management Board

Zagreb, 12 April 2012

INDEPENDENT AUDITOR'S REPORT

To the owners and to the Management Board of the Bank Brod d.d.

1. We have audited the accompanying annual financial statements of the Bank Brod d.d., Slavonski Brod (hereinafter "the Bank") for the year ended 31 December 2011, which comprise of the Balance sheet/Statement of Financial Position as of that date; the Statement of Income/Statement of Comprehensive Income; the Statement of Changes in Equity; the Cash Flows Statement for the year then ended; and the accompanying Notes to the Financial Statements which concisely set out the principal accounting policies and other disclosures.

Responsibility of the Bank's Management

2. The preparation and a fair presentation of the enclosed Financial Statements according to the International Financial Reporting Standards effective in the Republic of Croatia and also those internal controls which are determined by the Bank's management as necessary to enable preparation of the financial statements free from material misstatements whether due to fraud or error are the responsibility of the Bank's management.

Responsibility of Auditor

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. 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 that the financial statements are free from material misstatements.

An audit includes performing of procedures to obtain audit evidence supporting 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 misstatements in the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Bank's management, as well as evaluating the overall presentation of the Financial Statements.

We believe that auditing proof and evidence being collected by us are sufficient and suitable as the basis for our opinion.

Opinion

4. In our opinion, the enclosed Financial Statements, in all material respects, truly and fairly present the financial position of the Bank Brod d.d., Slavonski Brod as of 31 December 2011 and the results of operations and the cash flows of the Company for the year 2011 in accordance with the Accounting Law and International Financial Reporting Standards effective in the Republic of Croatia.

Other legal and regulatory obligations

According to Decision of the Croatian National Bank regarding structure and content of annual financial reports of banks dated 30 May 2008 (Official Gazette 62/08), the Management Board of the Bank prepared forms shown on pages 34 to 40 ("Forms") which include alternative balance sheet as of 31 December 2011, statement of comprehensive income, statement of changes in equity and the cash flows statement for 2011, as well as reconciliation ("Reconciliation") of the Forms with the financial statements shown on pages 38 to 40. These Forms and Reconciliation are the responsibility of the Bank' Management Board. Financial information's in the Forms are correctly derived from the Bank's financial statements shown on pages 4 to 33, on which we have expressed opinion as above stated.

In Zagreb, 18 April 2012

BDO Croatia d.o.o.
Trg J. F. Kennedy 6b
10000 Zagreb

Marijana Pranjić, Authorized auditor

Jeni Krstičević, President of the
Management Board

BANKA BROD d.d.
STATEMENT OF INCOME / STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

P O S I T I O N	Note	2011	2010
		HRK'000	HRK'000
Interest income	4	42,235	44,076
Interest expense	5	(21,350)	(25,104)
Net interest income		20,885	18,972
Income from fees and commissions	6	6,933	5,778
Expenses from fees and provisions	7	(1,960)	(2,035)
Net income from fees and provisions		4,973	3,743
Net foreign exchange gains	8	4,014	4,445
Other income from operating activities	9	821	380
Total other income		4,835	4,825
Other operating expenses	10, 11, 12	(24,999)	(19,017)
Impairments and provisions	13	(13,817)	(3,350)
Total other expenses		(38,816)	(22,367)
Profit before taxation		(8,123)	5,173
Corporate income tax	14	0	(1,096)
LOSS/PROFIT FOR THE YEAR		(8,123)	4,077
Earnings per share	28	(602,55)	302,43
Unrealized gain from valuation of financial assets available for sale		(2,145)	1,125
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME		(10,268)	5,202

Significant accounting policies and other notes set out on pages 8 to 33 form integral part of these financial statements.

BANKA BROD d.d.
BALANCE SHEET / STATEMENT OF FINANCIAL POSITION
As of 31 December 2011

P O S I T I O N	Note	At 31.12.2011	At 31.12.2010
		HRK'000	HRK'000
ASSETS			
Cash assets	15	119,852	127,631
Receivables from Croatian National Bank	16	43,571	39,497
Placements with banks	17	15,242	39,076
Financial assets held to maturity	18	26,851	18,704
Financial assets available for sale		86,564	37,923
Loans and prepayments to customers	19	220,639	250,177
Property, plant and equipment	20	8,323	6,691
Intangible assets	121	1,830	1,950
Other assets	22	6,048	4,531
Total assets		528,920	526,180
CAPITAL AND LIABILITIES			
Liabilities			
Demand deposits	23	23,329	18,241
Term deposits	24	437,427	426,033
Loans liabilities	25	0	821
Other liabilities	26	22,390	21,170
Total liabilities		483,146	466,265
CAPITAL			
Subscribed capital	27	51,228	51,228
Reserves		2,602	4,543
Retained earnings		67	67
Loss/profit of the current year		(8,123)	4,077
Total capital		45,774	59,915
Total capital and liabilities		528,920	526,180

Significant accounting policies and other notes set out on pages 8 to 33 form integral part of these financial statements.

BANKA BROD d.d.
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

Description	Share capital	Reserves	Retained earnings	Profit of the current year	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 31 December 2009	51,228	3,207	67	4,230	58,732
Allocation of part of profit to legal reserves	-	211	-	(211)	0
Unrealised gain from valuation of the financial assets available for sale	-	1,125	-	-	1,125
Dividend payment	-	-	-	(4,019)	(4,019)
Profit for the year	-	-	-	4,077	4,077
Balance at 31 December 2010	51,228	4,543	67	4,077	59,915
Allocation of part of profit to legal reserves	-	204	-	(204)	0
Unrealised gain from valuation of the financial assets available for sale	-	(2,145)	-	-	(2,145)
Dividend payment	-	0	-	(3,873)	(3,873)
Loss for the period	-	-	-	(8,123)	(8,123)
Balance at 31 December 2011	51,228	2,602	67	(8,123)	45,774

Significant accounting policies and other notes set out on pages 8 to 33 form integral part of these financial statements.

BANKA BROD d.d.
STATEMENT OF CASH FLOWS - INDIRECT METHOD
For the year ended 31 December 2011

P O S I T I O N	2011	2010
	HRK'000	HRK'000
<u>Cash flows from operating activities</u>		
Loss/profit of the current year	(8,123)	4,077
Other changes on capital	(2,145)	1,125
Depreciation	1,496	1,322
Impairments and provisions costs	13,817	3,350
<i>Changes on assets and liabilities from operating activities</i>		
(Increase) in receivables from CNB	(4,074)	(1,346)
Decrease/(increase) in loans and prepayments to customers	39,555	(22,145)
(Increase)/decrease in other assets	(1,517)	7,578
(Decrease) in demand deposits	(23,944)	(1,140)
Increase in term deposits	11,394	34,334
Increase in other liabilities	1,220	1,907
Net cash flow from operating activities	<u>27,679</u>	<u>29,062</u>
<u>Cash flows from investing activities</u>		
(Increase)/decrease in financial assets held to maturity	(8,147)	8,363
(Increase) in financial assets for sale	(48,641)	(37,923)
Purchase of property, plant and equipment and intangible assets	(3,008)	(3,545)
Net cash flows from investing activities	<u>(59,796)</u>	<u>(33,105)</u>
<u>Cash flows from financial activities</u>		
(Decrease) in loan liabilities	(821)	(1,648)
Dividend payment	(3,873)	(4,019)
Net cash flows from financial activities	<u>(4,694)</u>	<u>(5,667)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(36,811)	(9,710)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	156,663	166,373
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>119,852</u>	<u>156,663</u>
DECREASE IN CASH AND CASH EQUIVALENTS	<u><u>(36,811)</u></u>	<u><u>(9,710)</u></u>

Significant accounting policies and other notes set out on pages 8 to 33 form integral part of these financial statements.

I GENERAL

1.1. Legal framework and activities

Banka Brod d.d., Slavonski Brod was registered at the Commercial Court in Slavonski Brod. The Bank's headquarter is in Slavonski Brod, Ivana Pl. Zajca 21.

The principal activities are: providing banking services - receiving cash deposits and granting loans and other placements, issuing guarantees or other collaterals, factoring, financing, including consumer loans, mortgage loans and financing of commercial operations, trading on its behalf and for its own account or on its behalf and the client's account: by money market instruments and other transferable securities, foreign currencies including currency exchange transactions, payment transactions in the country, the collection, analysis and providing information on the creditworthiness of legal entities and crafts, renting of safe deposit boxes, financial mediations services and other activities in accordance with the Banking Act, and the approval of the Croatian National Bank.

The Bank has registered branch offices in Požega, Nova Gradiška, Pula, Zagreb, Rijeka and Osijek.

1.2. The Bank's bodies

As at 31 December 2011, Supervisory Board members were as follows:

Burak Tashkinov - President
Mehmet Kocak - Vice President
Boris Zenić - Member

Management Board members during the years were as follows:
Arsen Kantarci, President
Mićo Tomičić, Member

Authorized agent at 31 December 2011 was Ela Dogan Golonu.

II BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia. Banking operations in Croatia are subject to the Credit institutions Act, in accordance with which financial reporting of the Bank is regulated by the Croatian National Bank ("the CNB") as the central supervisory 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 ("IFRS"). The main difference between the accounting regulations of the CNB and International Financial Reporting Standards are as follows:

II BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS - continued

- CNB requires that the banks recognize in the income statement impairment losses for assets not identified as impaired (including assets with country risk), at prescribed rates (excluding assets at fair value through profit and loss account). In accordance with aforementioned requirements, the Bank recognized provisions on portfolio basis in the amount of HRK 3,617 thousand (2010: HRK 3,686 thousand), and also has recognized net income in the amount of HRK 68 thousand (2010: net income in the amount of HRK 243 thousand) within impairment losses. Although, in accordance with the International Financial Reporting Standards, such provisions should be stated adequately as allocation within capital and reserves, due to prudence, the Bank continues to recognize them in the income statement as a replacement for existing, but unidentified impairment losses calculated in accordance with the requirements of International Financial Reporting Standards.

Basis for preparation:

Financial statements of the Bank are prepared in accordance with the International Financial Reporting Standards ("IFRS") (National gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11) issued by the Committee for Financial Reporting Standards nominated by Government of the Republic of Croatia, and in accordance with the accordance with statutory accounting requirements for banks in the Republic of Croatia. Banking operations in the Republic of Croatia are subject to the Credit institutions' Act, in accordance with which financial reporting is regulated by the Croatian National Bank ("the CNB").

Financial statements are prepared based on the fair value for the financial assets available for sale. Other financial assets and liabilities and non-financial assets and liabilities are stated at depreciation cost or historical cost.

In preparing the financial statements, the Bank's management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of commitments and contingent liabilities at the balance sheet date, as well as amounts of income and expenses for the period. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available to date of preparation of financial statements, a result which makes the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

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

Financial statement are stated in Croatian Kuna, which represents the primary currency of the economic environment in which the Bank operates ("the functional currency"), and the amounts are rounded to the nearest thousand. The official exchange rate applied at 31 December 2011 was EUR 1 = HRK 7.530420 (At 31 December 2010: EUR 1 = HRK 7.385173 and USD 1 = HRK 5.819940 (At 31 December 2010: USD 1 = HRK 5.568252).

Where necessary, comparative information has been reclassified to achieve comparability with current year.

III SUMMARY OF ACCOUNTING POLICIES

Summary of accounting policies applied for preparation of the financial statements is set below. Policies are consistently applied to all the periods presented, unless otherwise indicated.

3.1. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board that makes strategic decisions.

The Bank identified four main segments: corporate, retail, banks and others. Information on segments are based on information which are given to management for the purposes of managing. Where it was possible the position of the balance sheet and income statement are stated under the stated segments.

3.2. Financial instruments

Classification

The Bank classifies its financial instruments in the following categories: loans and receivables, instruments available for sale, held to maturity instruments or financial liabilities. The classification depends on the purpose for which the financial instruments are acquired. The Management Board determines classification of the financial instruments at initial recognition.

Loans and receivables

This category comprises all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets available for sale

This category comprises non-derivative financial assets which are not designated as loans and receivables or investments held to maturity or are not defined as financial assets at fair value through profit and loss account. 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.

Financial assets held to maturity

This category comprises financial assets with fixed or determinable payments and fixed maturities, and the Bank intends to hold to maturity.

Other financial liabilities

Other financial liabilities comprise all financial liabilities not designated at fair value through profit or loss account.

Recognition and derecognition

Purchases and sales of financial assets available for sale are recognised on the settlement date, which is the date when the financial instrument is delivered to or transferred from the Bank. Loans and receivables, financial assets held to maturity and financial liabilities at amortised cost are recognised when funds are advanced or received.

3.2. Financial instruments (continued)

The Bank derecognises a financial asset (in total or partially) only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Bank derecognises financial liabilities only when those financial liabilities are discharged, cancelled or they expire. If the term of financial liability changes, the Bank will derecognize that liability and recognize a new financial liability, with the new terms.

Realized gains or losses from sale of financial instruments are calculated at average acquisition cost.

Initial and subsequent measurement

Financial assets available for sale, loans, receivables, financial assets held to maturity and liabilities are initially recognized at fair value increased for transaction costs attributable to the acquisition or issue of financial assets or financial liabilities.

After initial recognition the Bank evaluates the financial assets available for sale at its fair value, without deducting the amount of transaction costs.

Loans and receivables, financial assets held to maturity, and financial liabilities which are not carried at fair value through profit or loss are measured at amortized cost.

Gains and losses

Gains or losses from changes in fair value of monetary assets available for sale are recognized directly in the fair value reserve in equity and are disclosed in the statement of changes in equity and reserves. Impairment losses, foreign exchange gains and losses, interest income, depreciation of premium or discount of monetary assets available for sale are recognized in the income statement. During the sale or other derecognition of assets available for sale, any cumulative gain or loss from the instrument is transferred to the income statement.

Gains or losses arising from financial assets and financial liabilities carried at amortized cost are included in the income statement over the period of depreciation. Gains or losses can also be recognized in the income statement when the financial instrument is derecognised or when its value is decreased.

Determination of fair value of financial instruments

The fair value of financial instruments listed on active markets is based on their currently offered price.

Impairment of financial assets

Recognized assets impairment

At each balance sheet date, all financial assets are reviewed to determine whether there is objective evidence of impairment. If any such indication exists, it is estimated recoverable amount.

3.2. Financial instruments (continued)

The Bank evaluates and performs impairment of all financial assets.

The recoverable amount of financial assets carried at amortized cost, is calculated as the present value of expected future cash flows, discounted at the original interest rate instrument. Short-term amounts are not discounted.

Non-recognized assets impairment

In addition to impairment of assets identified as impaired, the Bank recognized impairment in the income statement on the balance sheet exposure that is not identified as impaired at rate of 0.85% - 1.20%, in accordance with the accounting provisions of the CNB.

3.3. Special instruments

Cash and cash equivalents

Cash and cash equivalents include cash, the Bank accounts with other banks with original maturities of up to 90 days and the instruments in the process of collection.

Debt securities

Debt securities that the Bank hold for the purpose of short-term profit are classified as available for sale and measured at fair value, and assets held to maturity, which are measured at amortized cost.

Placements with banks

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

3.4. Corporate income tax

Corporate income tax is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognized in the income statement, except for items that are recognized directly in equity and reserves where the tax is also recognized in equity and reserves. Current tax is the expected amount of tax payable on the taxable income for the year, in accordance with the tax rates prevailing at the balance sheet, and any corrections amount of tax due for the preceding period.

Deferred tax is calculated using the liability method, whilst taking into account the temporary differences between the carrying amounts of assets and liabilities that are used for financial reporting purposes and amounts used for income tax purposes. 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 that have been enacted by the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as long-term asset and / or liabilities in the balance sheet. Deferred tax assets are recognized only in the amount in which it is likely to be available as tax relief. At each balance sheet date, Bank reassesses unrecognized potential deferred tax assets and the carrying value of recognized deferred tax assets.

3.5. Property, plant and equipment

Property, plant and equipment are stated at historical cost or estimated cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated by a straight-line method as to allocate the cost of assets up to the residual values over their estimated useful life. Land and assets under construction are not amortized.

The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, and adjusted if appropriate. Net carrying value of assets is immediately impaired to its recoverable amount if the carrying value of an asset exceeds its recoverable amount. Gains and losses from the sale are determined by the difference between the amount collected and the net carrying value, and are included in the income statement.

	2011	2010
	%	%
Buildings	2.50	2.50
Office furniture	20	20
Electronic equipment, computers	25	25
Other equipment	10	10

3.6. Intangible assets

Intangible assets are stated at cost less accumulated depreciation and impairment. Costs arising from development activities are recognized as intangible assets if the requirements according to IAS 38 "Intangible Assets" are met. Depreciation is calculated on a straight-line basis over their estimated useful lives of intangible assets.

Depreciation of intangible assets is calculated on a straight line basis over their estimated useful lives of assets as follows:

	2011	2010
	%	%
Intangible assets	20	20

3.7. Impairment of nonfinancial assets

The recoverable amount of property, plant and equipment and intangible assets is the higher of fair value less costs to sell and value in use. For purposes of determining impairment, assets are grouped at the smallest unit whose cash flows can be separately identified ("cash generating units"). In assessing value in use, the present value of estimated future cash flows is calculated using a discount rate before tax that reflects the assessment of the time value of money in the market and the risks specific to the asset or cash-generating unit. Impaired non-financial assets are reviewed at each balance sheet date to determine the possibility to reduce the impairment loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but up to the amount of the carrying value of assets that do not exceeds the carrying amount that would have been determined, taking into account depreciation, if the assets wouldn't be impaired.

3.8. Costs and liabilities provisions

Provisions for liabilities and costs are made at a level Bank's management believe is adequate to absorb probable future losses. Management determines the adequacy of the provisions based upon reviews of individual items, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

3.9. Employees' benefits

Defined pension contributions

The Bank pays contributions to the planned insurance according to mandatory contractual basis. The Bank has no other payment obligations once the contributions are paid. Contributions are recognized as an expense of the employees' benefits when formed.

3.10. Share capital and reserves

Share capital is stated in HRK at nominal value.

3.11. Interest income and expenses

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the straight-line method, including those at amortized cost and those available for sale. Such income and expenses are stated as interest or similar income or interest expenses or similar expenses in the income statement. Income and interest expense also includes amortization of premiums or discounts and other differences between the initial carrying value of interest bearing instrument and its value at maturity, recognized on a straight-line basis.

When the loan repayment become doubtful, principal amount is decreased to their recoverable amount, and interest income is thereafter recognised based on the interest rate used for discounting the future cash flow.

3.12. Fee and commission income and expenses

Fees and commissions income mainly comprises fees and commissions from loan fees, guarantees, letters of credit and other services provided by the Bank. Fees are recorded as income by delivery of service. Fees and commissions expenses comprise fees to the authorized banks for foreign payment transactions and for the services of the Financial Agency ("FINA") for domestic payment transactions.

3.13. Gains impaired for losses from investment securities

Gains impaired for losses from trading investment securities include realized losses from financial instruments available for sale and the amortization of the loss from equity and reserves due to the reclassification of investment securities in a portfolio of securities held to maturity.

3.14. Foreign currencies

Transactions in foreign currencies are translated into HRK (Croatian Kuna) at the CNB middle exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary items denominated in foreign currencies measured at fair value are translated to HRK using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are subsequently measured at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available for sale are analyzed between the exchange rate differences resulting from changes in amortized cost of securities and other changes in the net carrying amount of the securities. Foreign exchange differences are recognized in the income statement as part of foreign exchange gains or losses from the revaluation of monetary assets and liabilities.

3.15. Regulatory requirements

The Bank is subject to the regulatory requirements of the Croatian National Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments and provisioning to cover credit risk, liquidity, interest risk and risk related to foreign currency position.

BANKA BROD d.d.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

4. Interest income

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Corporate	7,819	8,665
Retail	28,457	30,721
Banks	3,094	3,131
Other	2,865	1,559
Total interest income	42,235	44,076

5. Interest expenses

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Corporate	195	255
Retail	20,603	24,286
Banks	10	52
Other	542	511
Total interest expenses	21,350	25,104

6. Fee and commission income

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Corporate	1,013	821
Retail	5,902	4,942
Financial institutions	9	7
Other	9	8
Total fee and commission income	6,933	5,778

7. Fee and commission expenses

DESCRIPTION	2011	2010
	HRK'000	HRK'000
FINA commission	1,409	1,288
CNB	44	54
Domestic banks	496	682
Domestic clients	11	11
Total fee and commission expenses	1,960	2,035

BANKA BROD d.d.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

8. Net foreign exchange gains

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Currency differences on translations	(6,051)	(5,246)
Currency differences from currency clause	5,653	5,281
Currency differences on foreign currency trading	4,412	4,410
Total net foreign exchange gains	4,014	4,445

9. Other income

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Retail	31	38
Income from collected claims	0	0
Income from collected court expenses	278	222
Other income	512	120
Total other income	821	380

10. Other expenses

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Employees (Note 11)	10,212	8,036
Depreciation (Notes 21)	1,496	1,325
Other operating expenses (Note 12)	13,291	9,656
Total other operating expenses	24,999	19,017

11. Employees' expenses

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Net salaries	5,472	4,400
Contributions on salaries	1,412	1,102
Contributions, taxes and surtaxes from salaries	2,783	2,004
Other employees' expenses	545	530
Total employees' expenses	10,212	8,036

As at 31 December 2011 the Bank employed 84 employees (At 31 December 2010: 77 employees).

BANKA BROD d.d.
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12. Other operating expenses

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Material and similar expenses	1,037	994
Services expenses	6,423	3,987
Representation, advertising and propaganda expense	725	629
Saving deposits' insurance premiums	1,241	1,227
Other	3,865	2,819
Total other operating expenses	13,291	9,656

13. Impairment and provision costs

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Impairment of loans and prepayments to customers (note 20)	8,290	3,468
Impairment of other assets (note 22)	5,396	23
Special reserves for identified cumulative losses (note 20)	(68)	(243)
Provisions for court disputes (note 22)	230	102
Provisions for contingent liabilities (note 29)	(31)	0
Total impairment and provisions costs	13,817	3,350

14. Corporate income tax

Reconciliation of accounting result to tax balance sheet is shown as follows:

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Accounting profit	(8,123)	5,173
Items which increase tax base	468	334
Items which decrease tax base	0	(29)
Corporate income tax base	(7,655)	5,478
Corporate income tax rate	20%	20%
Corporate income tax liability	0	1,096

15. Cash and accounts with banks

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Gyro account	39,332	38,219
Cash in hand:		
- HRK	10,038	8,741
- foreign currency	17,608	73,100
Cash at foreign account at domestic banks	52,874	7,571
Total cash assets	119,852	127,631

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16. Receivables from the Croatian National bank

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Obligatory reserve		
- foreign currency	8,042	6,706
- HRK	35,529	32,791
Total receivables from the Croatian National Bank	43,571	39,497

17. Placements with banks

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
- HRK	5,000	15,000
- foreign currency	10,242	24,076
Total placements with banks	15,242	39,076

18. Financial assets held to maturity

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Bills of exchange - trade companies	8,738	3,898
Factoring - receivables from trade companies	18,094	14,787
Factoring - receivables from the Republic of Croatia	19	19
Total financial assets held to maturity	26,851	18,704

19. Financial assets available for sale

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Bonds RH	36,522	37,923
Treasury bills	50,042	0
Total financial assets available for sale	86,564	37,923

20. Loans and prepayments to customers

Loans and prepayments to the customers by customers type are shown as follows:

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Corporate	62,652	65,624
Individuals and sole traders	183,094	192,930
Other	10,258	18,963
Loan impairments	(35,365)	(27,340)
Total loans and prepayments to customers, net	220,639	250,177

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20. Loans and prepayments to customers (continued)

As at 31 December 2011, gross exposure by partially recoverable and unrecoverable placements amounted to HRK 68,415 thousand (2010: HRK 51,250 thousand), and related impairment amounted to HRK 35,365 thousand (2010: HRK 27,340 thousand).

Risk concentration by economic sector in customers loan portfolio is shown as follows:

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Manufacturing	5,186	9,376
Trade	9,775	13,466
Tourism	948	856
Agriculture	6,372	5,025
Constructing	27,971	30,585
Services	19,164	4,687
Individuals	183,107	203,420
Other	3,481	10,102
Total by sector	256,004	277,517
Impairments and provisions for loan losses	(35,365)	(27,340)
Total loans and prepayments to customers, net	220,639	250,177

Movements on impairments and provisions for possible losses are shown as follows:

	2011			2010		
	Impairment	Special reserves for identified cumulative losses	Total	Impairment	Special reserves for identified cumulative losses	Total
Balance at 1 January	23,652	3,688	27,340	21,038	3,931	24,969
Net impairment and provisions (Note 12)	8,096	(71)	8,025	2,614	(243)	2,371
Balance at 31 December	31,748	3,617	35,365	23,652	3,688	27,340

According to the current legislative, the Bank is required to establish reserves for identified cumulative losses, determined in loan portfolio based on previous experience. Taking into consideration the law provisions, the amount of these reserves according to Bank' policies cannot be lower than 1% of non-risk assets and 1% of non-risk contingent commitments as at 31 December 2011 (2010: 1% of non-risk assets and 1% of non-risk contingent commitments).

Special reserves for identified cumulative losses, the Bank recognizes in the statement of comprehensive income.

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21. Property, plant and equipment and intangible assets

Movements on property, plant and equipment and intangible assets are shown as follows:

Description	Land	Buildings	Equipment	Office furniture and transport vehicles	Flats	Assets under construction	Total property, plant and equipment	Intangible assets	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 31 December 2009	0	3,490	4,898	1,112	0	0	9,500	4,967	14,467
Additions	480	988	162	978	302	0	2,910	1,081	3,991
Disposals and sale	(11)	0	(64)	0	0	0	(75)	(435)	(510)
Balance at 31 December 2010	469	4,478	4,996	2,090	302	0	12,335	5,613	17,948
Additions	0	1,739	625	286	0	826	3,476	587	4,063
Disposals and sale	0	(436)	(215)	(476)	(302)	0	(1,429)		(1,429)
Balance at 31 December 2011	469	5,781	5,406	1,900	0	826	14,382	6,200	20,582
<i>Impairment</i>									
Balance at 31 December 2009	0	260	3,796	916	0	0	4,972	3,077	8,049
Depreciation for the year	0	87	481	168	6	0	736	586	1,322
Disposal and sale	0	0	(64)	0	0	0	(64)	0	(64)
Balance at 31 December 2010	0	347	4,213	1,084	6	0	5,644	3,663	9,307
Depreciation for the year	0	88	497	204	0	0	789	707	1,496
Disposal and sale	0	0	(280)	(94)	(6)	0	(374)	0	(374)
Balance at 31 December 2011	0	435	4,430	1,194	0	0	6,059	4,370	10,429
<i>Current value</i>									
Balance at 31 December 2010	469	4,131	783	1,006	296	0	6,691	1,950	8,641
Balance at 31 December 2011	469	5,346	976	706	0	826	8,323	1,830	10,153

As at 31 December 2011 the Bank didn't have pledged assets with other legal entities.

22. Other assets

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Interest receivables	3,846	3,644
Receivables for fees and provisions	656	751
Paid corporate income tax	1,069	0
Trade receivables	2	7
Receivables for advances	301	902
Prepayments	242	72
Derivative financial assets	13	2
Other receivables	704	337
Foreclosed assets	892	134
Impairment	(1,677)	(1,318)
Total other assets	6,048	4,531

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23. Demand deposits

DESCRIPTION	At 31 Dec 2011 HRK'000	At 31 Dec 2010 HRK'000
Demand deposits - individuals		
- HRK	10,116	4,370
- foreign currency	5,923	6,324
<i>Total individuals</i>	16,039	10,694
Demand deposits - trade companies		
- HRK	6,400	5,952
- foreign currency	298	227
<i>Total trade companies</i>	6,698	6,179
Demand deposits - financial institutions		
- HRK	11	713
<i>Total financial institutions</i>	11	713
Demand deposits - State and other institutions		
- HRK	369	328
- foreign currency	0	0
<i>Total State and other institutions</i>	369	328
Demand deposits - foreigners		
- HRK	181	112
- foreign currency	240	215
<i>Total foreigners</i>	421	327
Total demand deposits	23,329	18,241

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24. Term deposits

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Term deposits - individuals		
- HRK	73,058	88,146
- foreign currency	353,977	323,490
Total individuals	427,035	411,636
Term deposits - trade companies		
- HRK	95	2,740
- foreign currency	377	1,516
Total trade companies	472	4,256
Term deposits - State and other institutions		
- HRK	53	1,131
Total State and other institutions	53	1,131
Term deposits - foreigners		
- HRK	95	359
- foreign currency	9,772	8,651
Total foreigners	9,867	9,010
Total term deposits	437,427	426,033

25. Loan liabilities

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Domestic banks	0	821
Total loan liabilities	0	821

26. Other liabilities

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Interest liabilities	13,458	15,266
Liabilities to employees	1,175	653
Liabilities for taxes and contributions from income	87	113
Dividend liabilities	25	8
Trade payables	4,015	1,909
Deferred interest income	953	626
Deferred income from factoring fees	0	168
Liabilities for loan prepayments	1,790	2,081
Other liabilities	549	158
Provisions	338	188
Total other liabilities	22,390	21,170

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27. Share capital

As at 31 December 2011 share capital amounted to HRK 51,227,800 (At 31 December 2010: HRK 51,227,800) and was divided to 13,481 shares with nominal value of HRK 3,800.

The largest Bank's shareholders as at 31 December 201 were as follows:

Name / abbreviated firm of the bearer / owner	Code of security paper	Balance	% portion into basic capital
EKSEN HOLDING A.S.	BRBA-R-A	10,906	80,899
HYPO ALPE-ADRIA-BANK D.D.	BRBA-P-A	634	4,7029
JELČIĆ NEDJO	BRBA-P-A	220	1,6319
BILOBRK ROBERTINO	BRBA-P-A	200	1,4836
BARANČIĆ MIHOVIL	BRBA-P-A	170	1,261
TADIĆ STIPO	BRBA-P-A	150	1,1127
BOROŠA BORIS	BRBA-P-A	130	0,9643
TOMIČIĆ MIĆO	BRBA-P-A	104	0,7715
VIDAKOVIĆ ZDENKO	BRBA-P-A	102	0,7566
OTHERS		865	6,42
TOTAL		13,481	100,00

28. Earnings per share

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Profit for the current year	(8,123)	4,077
Number of shares (in thousands)	13,481	13,481
Earnings per share	(602.55)	302.43

29. Contingent liabilities and commitments

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Guarantees	5,370	8,509
Unused bank overdrafts on gyro accounts	154	167
Total contingent liabilities and commitments	5,524	8,676
Provisions for contingent liabilities and commitments (Note 13)	(55)	(87)
Total contingent liabilities and commitments, net	5,469	8,589

30. Court disputes

Against the Bank momentarily 14 court disputes were initiated. The value of subjects of dispute amounts approximately HRK 4,663 thousand. The Bank has formed pertaining provisions according to possible losses arising from court disputes in the financial statements in the amount of HRK 283 thousand (Notes 13 and 26 to the financial statements).

31. Cash and cash equivalents

For the cash flow reporting purposes, cash and cash equivalents are shown as follows:

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Cash assets	119,852	127,631
Placements with other banks up to 3 months	0	29,032
Total cash and cash equivalents	119,852	156,663

32. Related party transactions

Related parties are those where one party controls or has significant influence on the financial and operating decisions from another party. In the ordinary business, banking transactions are performed with related parties, including loans and deposits. These transactions were carried out with commercial terms and at market rates or prices. The total amounts of transactions with related parties - shareholders, outstanding balances at year end and related expenses and revenues for the year are summarized as follows:

DESCRIPTION	At 31 Dec 2011	At 31 Dec 2010
	HRK'000	HRK'000
Loans and prepayments to customers	0	2,239
Contingent liabilities and commitments	0	3,663
Demand deposits	209	245
Term deposits	0	528
Income	0	712
Expenses	0	62

33. Risk management policies

Details of the Bank's exposure to risks and methods used by the Management for control of risk are described below. The most important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes risk of changes in foreign currency and interest rates.

Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements such as loan commitments and other issued guarantees. Credit risk management and risk control are centralised within the Risk Management Department.

In measuring credit risk of loans and advances to customers and to banks based on contracts, the Bank reflects three components: (i) credit worthiness of the client, (ii) regular settlement of contractual liabilities and (iii) quality of security instruments of receivables.

33. Risk management policies (continued)

(i) The Bank assesses the credit worthiness of the client using internal rating tools. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Placements of the Bank are segmented into three rating classes: fully recoverable placements, partially recoverable and unrecoverable placements.

(ii) Settlement of liabilities means the payment of all liabilities within contractual maturity terms, without establishing new receivables.

(iii) The quality of security instruments of receivables is established based on market effectiveness, the existence of documentation and the possibility of forced collection.

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposure to credit risk is also 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.

The carrying amounts of financial assets that the Bank has as collaterals for loans and prepayments to customers are summarized as follows:

DESCRIPTION	2011	2010
	HRK'000	HRK'000
Pledge over properties	182,045	98,629
Other	3,635	3,575
Total	185,680	102,204
Loans and prepayments to customers	256,004	253,909
<i>Pledge coverage (%)</i>	73%	40%

Liquidity risk

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

The Bank's fund sources are deposits and share capital. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management.

The Bank adjusts its business activities to manage liquidity risk according to regulatory and internal policies.

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33. Risk management policies (continued)

The Bank manages property and sources of assets from aspect of financial flows, cash flows and the aspect of concentration, but everything with a goal of adjustment of cash inflows and outflows of the Bank. Such management include identification of known, expected and contingent cash outflows and preparation of different management strategies for assets and liabilities so to ensure the Bank's needs for cash inflows. In accordance to above, liquidity risk management represent: estimate and measurement of the exposure to the liquidity risk, setting limits of exposure and reporting and supervision of the limit use.

Management of liquidity risk is maintained by operational management of short-term and long-term liquidity. Short-term liquidity is realized by maintenance of regular liquidity reserves in HRK and by plan and projection of daily, respectively weekly cash flows.

The liquidity risk management is the responsibility of the Management Board.

Remaining maturity of the Bank's assets and liabilities as at 31 December 2011 is shown as follows:

2011	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
ASSETS						
Cash	27,646	-	-	-	-	27,646
Receivables from Croatian National Bank	74,861	-	-	-	-	74,861
Placements with banks	76,158	-	-	-	-	76,158
Treasury bills of Ministry of Finance	-	50,042	-	-	-	50,042
Financial assets held to maturity	2,241	3,921	3,560	17,129	-	26,851
Financial assets available for sale	-	-	-	-	36,523	36,523
Derivative financial assets	13	-	-	-	-	13
Loans and prepayments to customers	20,056	7,169	40,853	70,586	85,598	224,262
Property, plant, equipment	-	-	-	-	8,323	8,323
Foreclosed assets	892	-	-	-	-	892
Intangible assets	-	-	-	-	1,830	1,830
Other assets	4,342	-	797	-	-	5,139
Total assets	206,209	61,132	45,210	87,715	132,274	532,540
LIABILITIES						
Demand deposits	23,307	-	-	-	-	23,307
Term deposits	43,917	67,600	209,564	115,679	666	437,426
Liabilities for received loans	-	-	-	-	272	272
Other liabilities	8,731	13,409	-	-	3,620	25,760
Total liabilities	75,955	81,009	209,564	115,679	4,558	486,765
CAPITAL						
Share capital	-	-	-	-	51,228	51,228
Reserves	-	-	-	-	3,623	3,623
Unrealized profit/loss	-	-	(1,020)	-	-	(1,020)
Retained earnings	-	-	-	-	67	67
Profit of the current year	-	-	(8,123)	-	-	(8,123)
Total capital	0	0	(9,143)	0	54,918	45,775
Total liabilities and capital	75,955	81,009	200,421	115,679	59,476	532,540
Net assets/liabilities and capital	130,254	(19,877)	(155,211)	(27,964)	72,798	-

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33. Risk management policies (continued)

Remaining maturity of the Bank's assets and liabilities as at 31 December 2010 is shown as follows:

2010	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
ASSETS						
Cash	81,841	-	-	-	-	81,841
Receivables from Croatian National Bank	71,010	-	-	-	-	71,010
Placements with banks	53,353	-	-	-	-	53,353
Financial assets held to maturity	816	8,588	4,234	5,066	-	18,704
Financial assets available for sale	-	-	-	-	37,923	37,923
Derivative financial assets	2	-	-	-	-	2
Loans and prepayments to customers	16,649	27,122	57,382	65,462	87,294	253,909
Property, plant, equipment	-	-	-	-	6,690	6,690
Foreclosed assets	134	-	-	-	-	134
Intangible assets	-	-	-	-	1,950	1,950
Other assets	3,588	764	-	-	-	4,352
Total assets	227,393	36,474	61,616	70,528	133,857	529,868
LIABILITIES						
Due to banks	-	-	-	-	-	-
Demand deposits	17,317	-	-	-	-	17,317
Term deposits	52,032	73,527	195,465	105,110	812	426,946
Liabilities for received loans	-	821	-	-	-	821
Other liabilities	5,915	15,266	-	-	3,688	24,869
Total liabilities	75,264	89,614	195,465	105,110	4,500	469,953
CAPITAL						
Share capital	-	-	-	-	51,228	51,228
Reserves	-	-	-	-	3,419	3,419
Unrealized profit/loss	-	-	-	-	1,124	1,124
Retained earnings	-	-	-	-	67	67
Profit of the current year	-	-	4,077	-	-	4,077
Total capital	0	0	4,077	0	55,838	59,915
Total liabilities and capital	75,264	89,614	199,542	105,110	60,338	529,868
Net assets/ liabilities and capital	152,129	(53,140)	(137,926)	(34,582)	73,519	-

Market risk

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The financial assets available for sale are recognised at fair value, and all changes in market conditions directly affect reserves for the fair value.

The Bank manages its financial assets available for sale in response to changing market conditions. Exposure to market risk is formally managed by purchase or sale in accordance with risk limits approved by senior management.

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33. Risk management policies (continued)

Foreign exchange risk

The Bank is exposed to exchange rate risk from transactions in foreign currencies. The foreign exchange risk exposure is realized from deposit and investment activities and is controlled daily as prescribed by the regulatory and internally determined limits by certain currency and for overall assets and liabilities denominated in foreign currencies or with foreign currency clause.

The Bank focuses its business activities primarily by trying to minimize the unadjustment between assets and liabilities denominated in foreign currency or with foreign currency clause. The Bank seeks to manage its assets and liabilities in a manner that maintains currency adjustment of certain foreign currency assets and liabilities in order to optimize the relationship between risk and profitability due to unfavourable intercurrency movements.

The Bank's foreign currency assets and liabilities as at 31 December 2011 are shown as follows:

2011	EUR	USD	CHF	Other currencies	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
ASSETS						
Cash	14,453	501	2,640	14	10,038	27,646
Receivables from Croatian National Bank	-	-	-	-	74,861	74,861
Placements with banks	66,429	284	4259	186	5000	76,158
Treasury bills of the Ministry of Finance	50,042	-	-	-	-	50,042
Financial assets held to maturity	18,094	-	-	-	8,757	26,851
Financial assets available for sale	36,523	-	-	-	-	36,523
Derivative financial assets	13	-	-	-	-	13
Loans and prepayments to customers	189,589	17,141	10,433	-	7,099	224,262
Property, plant, equipment	-	-	-	-	8,323	8,323
Foreclosed assets	-	-	-	-	892	892
Intangible assets	-	-	-	-	1,830	1,830
Other assets	3,200	-	-	-	1,939	5,139
Total assets	378,343	17,926	17,332	200	118,739	532,540
LIABILITIES						
Demand deposits	4,891	656	515	2	17,243	23,307
Term deposits	341,803	16,264	15,878	70	63,411	437,426
Liabilities for received loans	-	-	-	-	272	272
Other liabilities	11,548	-	-	-	14212	25,760
Total liabilities	358,242	16,920	16,393	72	95,138	486,765
CAPITAL						
Share capital	-	-	-	-	51,228	51,228
Reserves	-	-	-	-	3,623	3,623
Unrealized profit/loss	-	-	-	-	(1,020)	(1,020)
Retained earnings	-	-	-	-	67	67
Profit of the current year	-	-	-	-	(8,123)	(8,123)
Total capital	0	0	0	0	45,775	45,775
Total liabilities and capital	358,242	16,920	16,393	72	140,913	532,540
Net assets/ liabilities and capital	20,101	1,006	939	128	(22,174)	-

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33. Risk management policies (continued)

The Bank's foreign currency assets and liabilities as at 31 December 2010 are shown as follows:

2010	EUR	USD	CHF	Other currencies	HRK	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
ASSETS						
Cash	69,554	763	2,765	18	8,741	81,841
Receivables from Croatian National Bank	-	-	-	-	71,010	71,010
Placements with banks	32,990	2279	3084	-	15000	53,353
Financial assets held to maturity	14,787	-	-	-	3,917	18,704
Financial assets available for sale	37,923	-	-	-	-	37,923
Derivative financial assets	-	-	-	-	2	2
Loans and prepayments to customers	213,504	13,930	7,371	-	19,104	253,909
Property, plant, equipment	-	-	-	-	6,690	6,690
Foreclosed assets	-	-	-	-	134	134
Intangible assets	-	-	-	-	1,950	1,950
Other assets	2,947	3	2	-	1,400	4,352
Total assets	371,705	16,975	13,222	18	127,948	529,868
LIABILITIES						
Due to banks	-	-	-	-	-	-
Demand deposits	4,998	312	328	214	11,465	17,317
Term deposits	336,062	15,826	13,610	-	61,448	426,946
Liabilities for received loans	821	-	-	-	-	821
Other liabilities	12	-	-	-	24857	24,869
Total liabilities	341,893	16,138	13,938	214	97,770	469,953
CAPITAL						
Share capital	-	-	-	-	51,228	51,228
Reserves	-	-	-	-	3,419	3,419
Unrealized profit/loss	-	-	-	-	1,124	1,124
Retained earnings	-	-	-	-	67	67
Profit of the current year	-	-	-	-	4,077	4,077
Total capital	0	0	0	0	59,915	59,915
Total liabilities and capital	341,893	16,138	13,938	214	157,685	529,868
Net assets/ liabilities and capital	29,812	837	(716)	(196)	(29,737)	-

Interest risk

The Bank's operations are exposed to risk of change in interest rates in the level in which interest-bearing assets and liabilities matures or their interest rates are changing in different periods and different amounts. Risk management activities are focused on optimisation of net interest income in accordance with the Bank's business strategy, with given market interest rates.

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NOTES TO THE FINANCIAL STATEMENTS
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33. Risk management policies (continued)

“Assets-liabilities” risk management activities are conducted in the context of the Bank's sensitivity to changes in interest rates. The exposure to changes in interest rates is the result of unadjustment of assets and liabilities in relation to the possibility of interest rate changes, and is monitored using the analysis of unadjustment of assets and liabilities. Interest risk management objective is to ensure optimum and stable net interest margin, and hence net profit. In accordance with the Policy of assets and liabilities management, the Bank unadjustment of assets and liabilities, distributed according to criteria of possibility of interest rate changes, maintain so to changes in the market value of equity at simultaneous changes in interest rates by 2% does not exceed 10% of the market value of equity.

Interest rate risk is minimized by taking of deposits and granting loans and investments with fixed interest rates.

The following table represents the carrying value of the Bank's assets and liabilities, categorized by the earlier contractual re-pricing or maturity, depending which term is earlier as at 31 December 2011:

2011	Up to 1	From 1	From 3 to	From 1 to 3	Over 3	Interest	Total
	month	to 3	12 months	years	years	free	
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
ASSETS							
Cash	-	-	-	-	-	27,646	27,646
Receivables from Croatian National Bank	-	-	-	-	-	74,861	74,861
Placements with banks	76,158	-	-	-	-	-	76,158
Treasury bills of the Ministry of Finance	-	50,042	-	-	-	-	50,042
Financial assets held to maturity	2,241	3,921	3,560	17,129	-	-	26,851
Financial assets available for sale	-	-	-	-	36,523	-	36,523
Derivative financial assets	-	-	-	-	-	13	13
Loans and prepayments to customers	20,056	7,169	40,853	70,586	85,598	-	224,262
Property, plant, equipment	-	-	-	-	-	8,323	8,323
Foreclosed assets	-	-	-	-	-	892	892
Intangible assets	-	-	-	-	-	1,830	1,830
Other assets	-	-	-	-	-	5,139	5,139
Total assets	98,455	61,132	44,413	87,715	122,121	118,704	532,540
LIABILITIES							
Demand deposits	23,307	-	-	-	-	-	23,307
Term deposits	43,917	67,600	209,564	115,679	666	-	437,426
Liabilities for received loans	-	-	-	-	272	-	272
Other liabilities	-	-	-	-	-	25,760	25,760
Total liabilities	67,224	67,600	209,564	115,679	938	25,760	486,765
CAPITAL							
Share capital	-	-	-	-	-	51,228	51,228
Reserves	-	-	-	-	-	3,623	3,623
Unrealized profit/loss	-	-	-	-	-	(1,020)	(1,020)
Retained earnings	-	-	-	-	-	67	67
Profit of the current year	-	-	-	-	-	(8,123)	(8,123)
Total capital	0	0	0	0	0	45,775	45,775
Total liabilities and capital	67,224	67,600	209,564	115,679	938	71,535	532,540
Net assets/ liabilities and capital	31,231	(6,468)	(165,151)	(27,964)	121,183	47,169	-

BANKA BROD d.d.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2011

33. Risk management policies (continued)

The following table represents the carrying value of the Bank's assets and liabilities, categorized by the earlier contractual re-pricing or maturity, depending which term is earlier as at 31 December 2010:

2011	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Interest free	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
ASSETS							
Cash	-	-	-	-	-	81,841	81,841
Receivables from Croatian National Bank	71,010	-	-	-	-	-	71,010
Placements with banks	53,353	-	-	-	-	-	53,353
Financial assets held to maturity	816	8,588	4,234	5,066	-	-	18,704
Financial assets available for sale	-	-	-	-	37,923	-	37,923
Derivative financial assets	2	-	-	-	-	-	2
Loans and prepayments to customers	16,649	27,122	57,382	65,462	87,294	-	253,909
Property, plant, equipment	-	-	-	-	-	6,690	6,690
Foreclosed assets	-	-	-	-	-	134	134
Intangible assets	-	-	-	-	-	1,950	1,950
Other assets	-	-	-	-	-	4,352	4,352
Total assets	141,830	35,710	61,616	70,528	125,217	94,967	529,868
LIABILITIES							
Due to banks	-	-	-	-	-	-	0
Demand deposits	17,317	-	-	-	-	-	17,317
Term deposits	52,032	73,527	195,465	105,110	812	-	426,946
Liabilities for received loans	-	821	-	-	-	-	821
Other liabilities	-	-	-	-	-	24,869	24,869
Total liabilities	69,349	74,348	195,465	105,110	812	24,869	469,953
CAPITAL							
Share capital	-	-	-	-	-	51,228	51,228
Reserves	-	-	-	-	-	3,419	3,419
Unrealized profit/loss	-	-	-	-	-	1,124	1,124
Retained earnings	-	-	-	-	-	67	67
Profit of the current year	-	-	-	-	-	4,077	4,077
Total capital	0	0	0	0	0	59,915	59,915
Total liabilities and capital	69,349	74,348	195,465	105,110	812	84,784	529,868
Net assets/ liabilities and capital	72,481	(38,638)	(133,849)	(34,582)	124,405	10,183	-

33. Risk management policies (continued)

Table below shows effective interest rates for interest bearing assets and liabilities:

	2011	2010
	<i>u</i> %	<i>u</i> %
Assets		
Receivables from Croatian National Bank		0.25
Placements with banks	0.20-4.25	0.30-4.25
Treasury bills of the Ministry of Finance	3.50-4.50	
Financial assets held to maturity	8.9	8.9
Loans and prepayments to customers	6.90-8.90	6.99-8.99
Liabilities		
Due to banks		-
Demand deposits	0.5	1
Term deposits	1.25-5.25	1.50-6.00
Liabilities for received loans	5.99	6

Price risk

Price risk is the risk that the value of a financial instrument fluctuates as a result of changes in market prices, influenced by factors specific to an individual instrument, the issuer or all factors affecting all instruments traded in the market.

Operational risk

The Bank is exposed to operational risk in all its business activities. The Bank seeks to manage operational risk in accordance with defined principles and policy in order to mitigate and avoid operational risk.

As operational risk The Bank recognizes the risk of events which could have or have financial loss for the Bank, gain or lost earnings, and the reasons for them are inadequate or failed internal processes, systems, human resources and external influences.

Regulatory requirements

The Bank is subject to the regulatory requirements of the Croatian National Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments and provisioning to cover credit risk, liquidity, interest risk and risk related to foreign currency position.

34. Fair value of financial assets and liabilities

Fair value represents the amount in which funds can be exchanged or liabilities settled in the best interest of all parties. Since market prices for the major part of Bank's financial assets and liabilities are not available, the fair value of these items is based on the estimates of the Management Board according to the type of assets and liabilities. According to the estimation of the Management Board, the market value is not materially different from the carrying value of all categories of assets and liabilities.

33. Concentration of assets, liabilities and off-balance sheet items

The Bank doesn't have concentration of assets, liabilities and off-balance sheet in any country other than Croatia.

36. After the balance sheet date events

During March 2012, the basic capital of the Bank is increased from the amount of HRK 51,227,800, for the amount of HRK 75,479,400, to the amount of HRK 126,707,200 by payment in cash in full. A total of 19,863 ordinary shares are issued by a title, in non-materialized form each with a nominal amount of HRK 3,800, marked BRBA-R-A.

New shares are issued by private emission and it is made by the investment in cash from the part of the investor EKSEN HOLDING Anonim Sirketi, with the registered residence in Istanbul, Turkey.

Appendix A - Other legal and regulatory requirements

a) Balance sheet as at 31 December 2011:

Position	Previous year	Current year
ASSETS	HRK'000	HRK'000
1. CASH AND DEPOSITS AT CNB	152,212	101,834
1.1. Cash	81,841	27,646
1.2. Deposits at CNB	70,371	74,188
2. DEPOSITS AT BANK INSTITUTIONS	52,846	75,482
3. TREASURY BILLS OF THE MF AND TREASURY RECORDS OF CNB	0	50,042
5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	37,923	36,523
6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	18,517	26,582
8. DERIVATIVE FINANCIAL ASSETS	2	13
9. LOANS TO FINANCIAL INSTITUTIONS	10,397	3,430
10. LOANS TO OTHER CUSTOMERS	241,194	218,861
11. FORECLOSED ASSETS	134	892
13. TANGIBLE ASSETS (LESS DEPRECIATION)	6,690	8,323
14. INTEREST, FEES AND OTHER ASSETS	6,266	6,939
A) TOTAL ASSETS	526,180	528,920
LIABILITIES		
1. LOANS FROM FINANCIAL INSTITUTIONS	821	0
1.1. Short-term loans	0	0
1.2. Long-term loans	821	0
2. DEPOSITS	444,264	460,734
2.1. Deposits on gyro and current accounts	11,465	17,243
2.2. Saving deposits	5,852	6,064
2.3. Term deposits	426,947	437,426
3. OTHER LOANS		272
8. INTEREST, FEES AND OTHER LIABILITIES	21,181	22,140
B) TOTAL LIABILITIES	466,265	483,146
CAPITAL		
1. SHARE CAPITAL	51,228	51,228
2. PROFIT (LOSS) FOR THE CURRENT YEAR	4,077	-8,123
3. RETAINED PROFIT (LOSS)	67	67
4. LEGAL RESERVES	3,419	3,623
6. UNREALIZED PROFIT (LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	1,124	-1,020
C) TOTAL CAPITAL	59,915	45,774
D) TOTAL LIABILITIES AND CAPITAL	526,180	528,920

Appendix A - Other legal and regulatory requirements

b) Income statement for 2011

Position	Previous year	Current year
	HRK'000	HRK'000
1. Interest income	44,075	42,233
2. Interest expenses	26,330	22,590
3. Net interest income	17,745	19,644
4. Income from fees and commissions	5,778	6,932
5. Expenses from fees and commissions	2,034	1,958
6. Net income from fees and commissions	3,744	4,974
8. Profit/ loss from trading	4,411	4,412
16. Profit/loss from accrued foreign currency differences	35	-398
17. Other income	380	821
18. Other expenses	1,117	2,246
19. General administrative costs and depreciation	16,775	21,744
20. Net operating income before value adjustments and loss provisions	8,421	5,463
21. Value adjustments and loss provisions' costs	3,249	13,586
22. PROFIT / LOSS BEFORE TAXATION	5,173	-8,123
23. CORPORATE INCOME TAX	1,096	0
24. PROFIT / LOSS FOR THE CURRENT YEAR	4,077	-8,123
25. Earnings per share	302	0

Appendix A - Other legal and regulatory requirements

c) Cash flow statement for 2011

Position	Previous year	Current year
	HRK'000	HRK'000
1. Cash flows from operating activities before changes in operating assets	11,082	5,605
1.1. Profit/ loss before taxation	5,173	-8,123
1.2. Impairments and loss provisions	3,460	13,790
1.3. Depreciation	1,325	1,496
1.4. Net unrealized profit/loss from financial assets and liabilities at fair value through profit and loss account	1,124	-1,020
1.5. Profit / loss from sale of tangible assets	0	47
1.6. Other profit / loss	0	-584
2. Net increase / decrease operating assets	-35,278	-58,530
2.1. Deposits at CNB	19,894	-4,490
2.2. Treasury notes of Ministry of Finance and treasury bills of CNB	0	-50,042
2.3. Deposits at banking institutions and loans to financial institutions	-2,089	-16,346
2.4. Loans to other customers	-11,936	15,442
2.6. Securities and other financial instruments available for sale	-37,923	0
2.8. Other operating assets	-3,225	-3,093
3. Net increase /decrease in operating assets	35,102	17,701
3.1. Demand deposits	-3,348	5,778
3.2. Saving and term deposits	36,595	10,691
3.4. Other liabilities	1,854	1,231
4. Net cash flows from operating activities before corporate income tax	10,905	-35,224
5. Paid corporate income tax	-1,096	-1,069
6. Net inflow /outflow of cash from operating activities	9,809	-36,293
INVESTING ACTIVITIES		
7. Net cash flows from investing activities	5,496	-12,395
7.1. Receipts from sale /payments for purchase of tangible and intangible assets	-3,055	-4,061
7.3. Receipts from sale /payments for purchase of securities and other financial instruments held to maturity	8,550	-8,334
FINANCIAL ACTIVITIES		
8. Net cash flows from financial activities	-5,667	-4,677
8.1. Net increase / decrease in received loans	-1,649	-821
8.5. Paid dividend	-4,018	-3,856
9. Net increase/ decrease in cash and cash equivalents	9,638	-53,364
10. Effects of changes in foreign currencies on cash and cash equivalents	394	-830
11. Net increase/ decrease in cash and cash equivalents	10,033	-54,195
12. Cash and cash equivalents at the beginning of the year	71,808	81,841
13. Cash and cash equivalents at the end of the year	81,841	27,646

Appendix A - Other legal and regulatory requirements

d.) Statement of changes in equity for 2011

Position	Available to the shareholders of the Parent company					Total capital and reserves
	Share capital	Legal, statutory and other reserves	Retained earnings / loss	Profit / loss for the current year	Unrealized profit/loss from value adjustment of financial assets available for sale	
Balance at 1 January - current year	51,227,800	3,418,939	66,990	4,077,265	1,124,260	59,915,254
Change in fair value of the portfolio financial assets available for sale					-2,144,667	-2,144,667
Net gains/losses recognized directly into capital and reserves	0	0	0	0	-2,144,667	-2,144,667
Profit/ loss the year				-8,122,926	0	-8,122,926
Total recognized income and expenses for the current year	0	0	0	-8,122,926	-2,144,667	-10,267,593
Transfer to reserves	0	203,863	0	0	0	203,863
Dividend payment	0	0	0	-4,077,265	0	-4,077,265
Allocation of profit	0	203,863	0	-4,077,265	0	-3,873,402
Balance at 31 December - current year	51,227,800	3,622,802	66,990	-8,122,926	-1,020,407	45,774,259

Appendix A - Other legal and regulatory requirements

Reconciliation of statutory financial statements prepared in accordance with reporting framework and statutory financial statements prescribed by the CNB Decision on structure and content of annual financial statements of banks:

a) Reconciliation of the Balance sheet as at 31 Dec 2011

Position	CNB Decision	Annual report	Difference
ASSETS	in HRK 000	in HRK 000	in HRK 000
CASH AND DEPOSITS AT CNB	101,834	43,571	58,263
<i>Cash</i>	0	119,852	-119,852
DEPOSITS AT BANK INSTITUTIONS	75,482	15,242	60,240
TREASURY NOTES MF AND TREASURY BILLS AT CNB	50,042	0	50,042
SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	36,523	86,564	-50,041
SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	26,582	26,851	-269
DERIVATIVE FINANCIAL ASSETS	13	0	13
LOANS TO FINANCIAL INSTITUTIONS	3,430	0	3,430
LOANS TO OTHER CUSTOMERS	218,861	220,639	-1,778
FORECLOSED ASSETS	892	0	892
TANGIBLE ASSETS (LESS DEPRECIATION)	8,323	8,323	0
<i>Intangible assets</i>	0	1,830	-1,830
INTEREST, FEES AND OTHER ASSETS	6,939	6,048	891
TOTAL ASSETS	528,920	528,920	0
LIABILITIES			
LOANS FROM FINANCIAL INSTITUTIONS			0
DEPOSITS	460,734	460,756	-22
OTHER LOANS	272	0	272
INTEREST, FEES AND OTHER LIABILITIES	22,140	22,390	-250
TOTAL LIABILITIES	483,146	483,146	-1
CAPITAL			0
SHARE CAPITAL	51,228	51,228	0
PROFIT (LOSS) FOR THE CURRENT YEAR	-8,123	-8,123	0
RETAINED EARNINGS (LOSS)	67	67	0
LEGAL RESERVES	3,623	2,602	1,021
UNREALIZED PROFIT (LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	-1,020		-1,020
TOTAL CAPITAL	45,774	45,774	0
TOTAL LIABILITIES AND CAPITAL	528,920	528,920	0

Appendix A - Other legal and regulatory requirements

a) Reconciliation of the Balance sheet as at 31 Dec 2011 (continued)

Deviations of the balance sheet positions in the Annual Report in relation to the standard prescribed by the CNB Decision relate to the following categories:

ASSETS

Cash and deposits with CNB, Deposits at banking institutions and Loans to financial institutions are items that are separately stated according to CNB Decision and in the Annual Report are those values reported in the *items Cash, Due from the CNB and, Placements with banks*.

Items Loans to financial institutions and Derivative financial assets are at CNB standard shown separately, while in the Annual Report are included in the item *Loans and prepayments to banks*.

Items Intangible assets and other assets are at CNB standard shown under other assets while in the Annual Report are shown separately.

LIABILITIES AND CAPITAL

Loans at financial institutions (short- and long-term) and other loans are items that are according to CNB standard separately mentioned, are presented in the Annual Report in the item *Loan liabilities*.

Deposits at giro and current accounts, saving deposits and term deposits are items according to CNB standard and in the Annual Report these items are included in *Demand deposits and Term deposits*.

Interest, fees and other liabilities are at CNB standard shown separately, while in the Annual Report are stated in *Other liabilities, Provisions and Due to banks*.

Statutory and other capital reserves are at CNB standard shown separately while in the Annual Report are stated under Unrealized profit/loss from value adjustment of financial assets available for sale and represent item *Reserves*.

Appendix A - Other legal and regulatory requirements

b) Reconciliation of the Income statement for 2011

Position	CNB Decision	Annual report	Difference
	in HRK 000	in HRK 000	in HRK 000
Interest income	42,233	42,235	-2
Interest expense	22,590	21,350	1,240
Net interest income	19,644	20,885	-1,241
Income from fees and commissions	6,932	6,933	-1
Expenses from fees and provisions	1,958	1,960	-2
Net income from fees and provisions	4,974	4,973	1
Profit/(loss) from trading	4,412	0	4,412
Profit/(loss) from accounted foreign exchange differences	-398	4,014	-4,412
Other income	821	821	0
Other expenses	2,246	24,999	-22,753
General administrative costs and depreciation	21,744	0	21,744
Net operating income before value adjustments and loss provisions	5,463	5,694	-231
Value adjustments and loss provisions' costs	13,586	13,817	-231
PROFIT/LOSS BEFORE TAXATION	-8,123	-8,123	0
CORPORATE INCOME TAX	0	0	0
PROFIT /LOSS FOR THE CURRENT YEAR	-8,123	-8,123	0
Earnings per share	0	0	0

In item Interest expense according to the CNB standard it is included expenses of saving deposits insurance premiums, which are stated in the Annual Report under the item Other expenses.

According to CNB standard item Profit/(loss) from trading, Profit/(loss) from embedded derivatives, Profit/(loss) from accrued foreign exchange differences and already mentioned Net foreign exchange differences represent item Net foreign exchange gains in the Annual report.

The item Other expenses, General administrative expenses and Depreciation according to CNB standard make the item Other operating expenses in the Annual Report.