Raiffeisenbank Austria d.d. Zagreb

ANNUAL REPORT

2011

C O N T E N T S

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

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

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

The Management Board is responsible for the submission of its annual report on the Bank and the Group to the Supervisory Board together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The consolidated and unconsolidated financial statements set out on pages 6 to 120 were authorised by the Management Board on 29 March 2012 for submission to the Supervisory Board and are signed below to signify this.

Signed on behalf of the Raiffeisenbank Austria d.d. Zagreb

Zdenko Adrović
Predsjednik Uprave

Vesna Ciganek Vuković
Članica Uprave

Vlasta Žubrinić-Pick
Članica Uprave

Jasna Širola
Članica Uprave

Zoran Košćak
Član Uprave

Mario Žižek
Član Uprave

Independent Auditor’s Report

To the Shareholders of Raiffeisenbank Austria d.d. Zagreb:

We have audited the accompanying unconsolidated and consolidated financial statements of Raiffeisenbank Austria d.d. Zagreb (“the Bank”) and its subsidiaries (together “the Group”) which comprise unconsolidated and consolidated statements of financial position as at 31 December 2011 and unconsolidated and consolidated statements of comprehensive income, unconsolidated and consolidated changes in equity and unconsolidated and consolidated cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of consolidated and unconsolidated 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 6 to 120, 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 performance and their cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Emphasis of the Matter

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: “the Decision”), the Bank’s management has prepared the forms, as presented in the Appendix to these financial statements on pages 122 to 130, which comprise the consolidated balance sheet as of 31 December 2011, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, as well as the reconciliation to the consolidated financial statements. These forms and the accompanying reconciliation to the consolidated 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 6 to 120, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Group.

Deloitte d.o.o.

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Branislav Vrtačnik, Certified Auditor

Zagreb, 29 March 2012

Consolidated statement of financial position as of 31 December 2011

Assets	Notes	Group 2011 HRK millions	Group 2010 HRK millions
Cash and amounts due from banks	5	2,320	1,169
Obligatory reserve with the Croatian National Bank	6	2,819	2,544
Financial assets at fair value through profit or loss	7	3,806	5,709
Placements with and loans to other banks	8	1,851	3,692
Financial assets available for sale	9	140	118
Loans and advances to customers	10	27,049	26,556
Financial investments held to maturity	11	736	729
Property, plant and equipment	13	1,592	1,622
Intangible assets	14	206	230
Deferred tax assets	15	206	189
Other assets	16	459	451
Total assets		**41,184**	**43,009**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Consolidated statement of financial position as of 31 December 2011 (continued)

Liabilities	Notes	Group 2011 HRK millions	Group 2010 HRK millions
Financial liabilities at fair value through profit or loss	17	743	686
Deposits from banks	18	766	761
Deposits from companies and other similar entities	19	8,960	8,958
Deposits from individuals	20	14,285	13,457
Borrowings	21	9,562	11,974
Debt securities issued	22	-	124
Provisions for liabilities and charges	23	160	170
Current tax liability		-	78
Other liabilities	24	888	897
Total liabilities		**35,364**	**37,105**
Equity			
Share capital	34	3,621	3,699
Treasury shares		-	(10)
Share premium	35	12	15
Capital reserve		1	1
Legal reserve	35	178	178
Reserve for general banking risks	35	-	288
Treasury shares reserve		-	10
Fair value reserve	35	10	14
Retained earnings		1,921	1,620
Total equity attributable to equity holders of the parent		**5,743**	**5,815**
Non controlling interest	37	77	89
Total equity		**5,820**	**5,904**
Total liabilities and equity		**41,184**	**43,009**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2011

	Notes	Group 2011 HRK millions	Group 2010 HRK millions
Interest and similar income	25	2,379	2,392
Interest expense and similar charges	26	(1,038)	(1,082)
Net interest income		**1,341**	**1,310**
Fee and commission income	27	587	568
Fee and commission expense	28	(174)	(127)
Net fee and commission income		**413**	**441**
Net trading (expense)/income	29	(64)	138
Other operating income	30	391	568
Dealing and other income		**327**	**706**
Operating income		**2,081**	**2,457**
Operating expenses	31	(1,287)	(1,475)
Impairment losses on loans and advances to customers and other assets	32	(417)	(398)
Impairment gains/(losses) on provisions for liabilities and charges	23	10	(54)
Profit before tax		**387**	**530**
Income tax expense	33	(82)	(100)
Profit for the year		**305**	**430**
Other comprehensive income			
Net revaluation gain on available for sale financial instruments		(4)	7
Other comprehensive income for the year, net of tax		**(4)**	**7**
Total comprehensive income for the year		**301**	**437**
Profit attributable to:			
- Equity holders of the parent		302	425
- Non-controlling interest	37	3	5
Earnings per share attributable to the equity holders of the parent	38	**HRK 83**	**HRK 117**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2011

	Attributable to equity holders of the parent											
	Share capital	Treasury shares	Share premium	Capital reserve	Legal reserve	Reserve for general banking risks	Treasury shares reserve	Fair value reserve	Retained earnings	Total	Non controlling interest	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 1 January 2011	**3,699**	**(10)**	**15**	**1**	**178**	**288**	**10**	**14**	**1,620**	**5,815**	**89**	**5,904**
Other comprehensive income for the year, net of tax	-	-	-	-	-	-	-	(4)	-	(4)	-	(4)
Profit for the year	-	-	-	-	-	-	-	-	302	302	3	305
Transfer of reserves for banking risks to retained earnings	-	-	-	-	-	(288)	-	-	288	-	-	-
Cancelation of preference shares	(78)	10	(3)	-	-	-	(10)	-	13	(68)	-	(68)
Dividend paid for 2010	-	-	-	-	-	-	-	-	(302)	(302)	(15)	(317)
At 31 December 2011	**3,621**	**-**	**12**	**1**	**178**	**-**	**-**	**10**	**1,921**	**5,743**	**77**	**5,820**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2010

	Attributable to equity holders of the parent											
	Share capital	Treasury shares	Share premium	Capital reserve	Legal reserve	Reserve for general banking risks	Treasury shares reserve	Fair value reserve	Retained earnings	Total	Non controlling interest	Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 1 January 2010	**3,699**	**(9)**	**15**	**1**	**178**	**361**	**9**	**7**	**1,277**	**5,538**	**88**	**5,626**
Other comprehensive income for the year, net of tax	-	-	-	-	-	-	-	7	-	7	-	7
Profit for the year	-	-	-	-	-	-	-	-	425	425	5	430
Share premium	-	-	-	-	-	-	1	-	(1)	-	-	-
Transfer of reserves for banking risks to retained earnings	-	-	-	-	-	(73)	-	-	73	-	-	-
Acquisition of preference shares	-	(1)	-	-	-	-	-	-	-	(1)	-	(1)
Dividend paid for 2009	-	-	-	-	-	-	-	-	(154)	(154)	(4)	(158)
At 31 December 2010	**3,699**	**(10)**	**15**	**1**	**178**	**288**	**10**	**14**	**1,620**	**5,815**	**89**	**5,904**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Consolidated statement of cash flow for the year ended 31 December 2011

	Notes	Group 2011 HRK millions	Group 2010 HRK millions
Cash flows from operating activities			
Profit before tax		387	530
Adjustments for:			
- Amortisation and depreciation	31	290	300
- Foreign exchange differences	29	(91)	(879)
- Impairment losses	23, 32	407	452
-Loss on disposal of assets under operating leases		8	8
- Net interest income on trading and non trading financial instruments	25,26	(265)	(257)
Changes in operating assets and liabilities			
Net decrease in financial assets at fair value through profit or loss		1,974	1,524
Net increase in placements with banks, with original maturity more than three months		(123)	(225)
Net (increase)/decrease in obligatory reserve with the Croatian National bank		(247)	321
Net increase in loans and advances to customers		(383)	(184)
Net decrease in other assets		152	367
Net (increase)/decrease in financial investments held to maturity		(20)	164
Net increase in financial liabilities at fair value through profit or loss		57	519
Net (decrease)/ increase in deposits from banks		(7)	180
Net (decrease)/ increase) in deposits from companies and other similar entities		(93)	1,027
Net increase / (decrease) in deposits from individuals		538	(137)
Net (decrease)/ increase) in other liabilities		(28)	34
Net cash from operating activities before tax		***2,556***	***3,744***
Income tax paid		(264)	(61)
Net cash from operating activities		***2,292***	***3,683***

Consolidated statement of cash flow for the year ended 31 December 2011 (continued)

	Notes	Group 2011 HRK millions	Group 2010 HRK millions
Cash flows from investing activities			
Interest received from non-trading financial instruments		191	183
Acquisition of financial assets available for sale		-	(62)
Purchase of property, plant and equipment and intangible assets		(110)	(125)
Purchase of assets under operating leases		(275)	(557)
Proceeds from disposal of assets under operating leases		141	99
Net cash used from investing activities		***(53)***	***(462)***
Cash flows from financing activities			
Increase in borrowings	21	5,833	7,588
Decrease in borrowings	21	(8,412)	(9,613)
Increase of debt securities issued		-	20
Repurchase of debt securities issued		(124)	(15)
Decrease in share capital		(68)	-
Dividend paid		(317)	(158)
Net cash used in financing activities		***(3,088)***	***(2,178)***
Effects of foreign exchange differences on cash and cash equivalents		40	68
Net (decrease) / increase in cash and cash equivalents		**(809)**	**1,111**
Cash and cash equivalents at beginning of the year	39	**4,579**	**3,468**
Cash and cash equivalents at end of the year	39	**3,770**	**4,579**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Unconsolidated statement of financial position as of 31 December 2011

Assets	Notes	Bank 2011 HRK millions	Bank 2010 HRK millions
Cash and amounts due from banks	5	2,320	1,154
Obligatory reserve with the Croatian National Bank	6	2,819	2,544
Financial assets at fair value through profit or loss	7	3,781	5,676
Placements with and loans to other banks	8	1,797	3,627
Financial assets available for sale	9	20	16
Loans and advances to customers	10	25,624	25,437
Financial investments held to maturity	11	604	593
Investments in subsidiaries and associates	12	211	211
Property, plant and equipment	13	474	378
Intangible assets	14	201	226
Deferred tax assets	15	203	187
Other assets	16	406	373
Total assets		**38,460**	**40,422**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Unconsolidated statement of financial position as of 31 December 2011 (continued)

Liabilities	Notes	Bank 2011 HRK millions	Bank 2010 HRK millions
Financial liabilities at fair value through profit or loss	17	744	689
Deposits from banks	18	766	761
Deposits from companies and other similar entities	19	9,070	9,360
Deposits from individuals	20	14,285	13,457
Borrowings	21	7,200	9,455
Debt securities issued	22	-	124
Provisions for liabilities and charges	23	147	164
Current tax liability		-	72
Other liabilities	24	616	669
Total liabilities		**32,828**	**34,751**
Equity			
Share capital	34	3,621	3,699
Treasury shares		-	(10)
Share premium	35	12	15
Capital reserve		1	1
Legal reserve	35	173	173
Reserve for general banking risks	35	-	288
Treasury shares reserve		-	10
Fair value reserve	35	17	13
Retained earnings		1,808	1,482
Total equity		**5,632**	**5,671**
Total liabilities and equity		**38,460**	**40,422**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Unconsolidated statement of comprehensive income for the year ended 31 December 2011

	Notes	Bank 2011 HRK millions	Bank 2010 HRK millions
Interest and similar income	25	2,262	2,259
Interest expense and similar charges	26	(944)	(999)
Net interest income		**1,318**	**1,260**
Fee and commission income	27	471	458
Fee and commission expense	28	(161)	(117)
Net fee and commission income		**310**	**341**
Net trading (expense)/income	29	(62)	126
Other operating income	30	122	76
Dealing and other income		**60**	**202**
Operating income		**1,688**	**1,803**
Operating expenses	31	(897)	(920)
Impairment losses on loans and advances to customers and other assets	32	(425)	(380)
Impairment gains/(losses) on provisions for liabilities and charges	23	17	(53)
Profit before tax		**383**	**450**
Income tax expense	33	(56)	(74)
Profit for the year		**327**	**376**
Other comprehensive income			
Net revaluation available for sale financial instruments		4	6
Other comprehensive income for the year, net of tax		**4**	**6**
Total comprehensive income for the year		**331**	**382**
Earnings per share attributable to the equity holders of the parent	38	**HRK 90**	**HRK 104**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Unconsolidated statement of changes in equity for the year ended 31 December 2011

	Share capital HRK millions	Treasury shares HRK millions	Share premium HRK millions	Capital reserve HRK millions	Legal reserve HRK millions	Reserve for general banking risks HRK millions	Treasury shares reserve HRK millions	Fair value reserve HRK millions	Retained earnings HRK millions	Total HRK millions
At 1 January 2010	**3,699**	**(9)**	**15**	**1**	**173**	**361**	**9**	**7**	**1,188**	**5,444**
Other comprehensive income for the year, net of tax	-	-	-	-	-	-	-	6	-	6
Profit for the year	-	-	-	-	-	-	-	-	376	376
Acquisition of preference shares	-	(1)	-	-	-	-	-	-	-	(1)
Transfer of reserve for general banking risks to retained earnings	-	-	-	-	-	(73)	-	-	73	-
Share premium	-	-	-	-	-	-	1	-	(1)	-
Dividend paid for 2009	-	-	-	-	-	-	-	-	(154)	(154)
At 31 December 2010	**3,699**	**(10)**	**15**	**1**	**173**	**288**	**10**	**13**	**1,482**	**5,671**
Other comprehensive income for the year, net of tax	-	-	-	-	-	-	-	4	-	4
Profit for the year	-	-	-	-	-	-	-	-	327	327
Cancelation of preference shares	(78)	10	(3)	-	-	-	(10)	-	13	(68)
Transfer of reserve for general banking risks to retained earnings	-	-	-	-	-	(288)	-	-	288	-
Dividend paid for 2010	-	-	-	-	-	-	-	-	(302)	(302)
At 31 December 2011	**3,621**	**-**	**12**	**1**	**173**	**-**	**-**	**17**	**1,808**	**5,632**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Unconsolidated statement of cash flow for the year ended 31 December 2011

	Notes	Bank 2011 HRK millions	Bank 2010 HRK millions
Cash flows from operating activities			
Profit before tax		383	450
Adjustments for:			
- Amortisation and depreciation	31	127	127
- Foreign exchange differences	29	(93)	(871)
- Impairment losses	23,32	408	433
- Net interest income on trading and non-trading financial instruments	25,26	(245)	(227)
- Dividend income from investment in subsidiaries		(114)	(53)
Changes in operating assets and liabilities			
Net decrease in financial assets at fair value through profit or loss		1,965	1,498
Net increase in placements with banks, with original maturity more than three months		(119)	(231)
Net (increase) / decrease in obligatory reserve with the Croatian National bank		(247)	321
Net increase in loans and advances to customers		(148)	(657)
Net decrease in financial investments held to maturity		-	195
Net decrease in other assets		90	202
Net increase in financial liabilities at fair value through profit or loss		55	521
Net (decrease) / increase in deposits from banks		(7)	180
Net (decrease) / increase in deposits from companies and other similar entities		(378)	1,109
Net increase / (decrease) in deposits from individuals		538	(126)
Net decrease in other liabilities		(71)	(57)
Net cash from operating activities before tax		***2,144***	***2,814***
Income tax paid		(208)	(34)
Net cash from operating activities		***1,936***	***2,780***

Unconsolidated statement of cash flow for the year ended 31 December 2011 (continued)

Cash flows from investing activities	**Notes**	**Bank 2011 HRK millions**	**Bank 2010 HRK millions**
Interest received from trading and non-trading financial instruments		187	157
Dividend received		114	53
Proceeds from selling of property, plant and equipment and intangible asset		-	2
Purchase of property, plant and equipment and intangible assets		(198)	(123)
Net cash from investing activities		***103***	***89***
Cash flows from financing activities			
Increase of borrowings	21	4,645	6,254
Repayment of borrowings	21	(7,009)	(7,685)
Increase of debt securities issued		-	20
Repayment of debt securities issued		(124)	(15)
Decrease in share capital		(68)	
Dividend paid		(302)	(154)
Net cash used in financing activities		***(2,858)***	***(1,580)***
Effects of foreign exchange differences on cash and cash equivalents		40	70
Net (decrease) / increase in cash and cash equivalents		**(779)**	**1,359**
Cash and cash equivalents at beginning of the year	39	**4,549**	**3,190**
Cash and cash equivalents at end of the year	39	**3,770**	**4,549**

The accounting policies and other notes on pages 19 to 120 form an integral part of these financial statements.

Notes to the financial statements

1. General information

Raiffeisenbank Austria d.d. Zagreb ("the Bank" or "the Parent") is a joint stock company incorporated and domiciled in Croatia. The Bank is the parent of the Raiffeisenbank Austria Zagreb d.d. Group ("the Group"). These financial statements are the financial statements of the Bank and the Group as defined in International Accounting Standard 27: "Consolidated and Separate Financial Statements".

These financial statements were authorised by the Management Board on 29 March 2012 for issue to the Supervisory Board.

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

Statement of compliance

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

The accounting regulations of the CNB are based on International Financial Reporting Standards. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- The CNB requires banks to recognise impairment losses, in statement of comprehensive income, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value). The Bank has made portfolio based provisions of HRK 402 million (2010: HRK 408 million) carried in the statement of financial position in compliance with these regulations, and has recognised income of HRK 12 million in relation to these provisions within the amounts reversed during the year (2010: expense of HRK 63 million). The Bank is in the process of compiling the observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at date of reporting, 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 date of reporting on the basis required by International Financial Reporting Standards.

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

- In accordance with CNB requirements the Group and Bank have classified leasehold improvements in total amount of HRK 92 million (2010: HRK 106 million) as intangible assets rather than tangible assets as prescribed by International Financial Reporting Standards.

Notes to the financial statements (continued)

1. General information (continued)

Basis of preparation

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

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

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 date of reporting, as well as amounts of income and expenses 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 results of which form the basis of making 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both 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 material adjustment in the next year are discussed in note 3.

The accounting policies have been consistently applied to all periods presented in these financial statements.

Notes to the financial statements (continued)

1. General information (continued)

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

Standards and Interpretations effective in the current period

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

- **Amendments to IFRS 1 "First-time Adoption of IFRS"**- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),

- **Amendments to IAS 24 "Related Party Disclosures" -** Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),

- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),

- **Amendments to various standards and interpretations "Improvements to IFRSs (2010)"** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),

- **Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" -** Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),

- **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"** (effective for annual periods beginning on or after 1 July 2010).

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

Notes to the financial statements (continued)

1. General information (continued)

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 2015),
- **IFRS 10 “Consolidated Financial Statements”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 “Joint Arrangements”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 “Disclosures of Involvement with Other Entities”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 “Fair Value Measurement”** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) “Separate Financial Statements”** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures” -** Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures”** – Mandatory Effective Date and Transition Disclosures,
- **Amendments to IAS 1 “Presentation of financial statements”** -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 “Income Taxes”** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- **Amendments to IAS 19 “Employee Benefits”** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 “Financial instruments: presentation”** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”** (effective for annual periods beginning on or after 1 January 2013).

Notes to the financial statements (continued)

1. General information (continued)

Standards and Interpretations in issue not yet adopted (continued)

The Management has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Management anticipates that the adoption of standards 7 and 9 will have 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 Group in the period of initial application.

Functional and presentation currency

These financial statements are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest million (unless otherwise stated).
The effective exchange rate as at 31 December 2011 was HRK 7.530420 to EUR 1 (2010: HRK 7.385173); HRK 5.819940 to USD 1 (2010: HRK 5.568252) and HRK 6.194817 to CHF 1 (2010: HRK 5.929961).

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

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

Basis of consolidation

a) Consolidated and separate financial statements

Financial statements are presented for the Bank and the Group. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiary entities (disclosed in Note 12). The separate, unconsolidated financial statements of the Bank are also presented. As set out in Note 12 “Investment in subsidiaries” the Parent has classified its 50% investment in Raiffeisen leasing d.o.o. as a subsidiary, whose financial statements are included in the consolidated financial statements of the Group, even though the Parent does not have a majority of the equity of the investee, in accordance with CNB regulations.

b) Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

c) Transactions with non controlling interest

The Group applies a policy of treating transactions with non controlling interests as transactions with parties external to the Group. Disposals to non controlling interests result in gains and losses for the Group that are recorded in the statement of comprehensive income. Purchases from non controlling interests may result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

d) Associates

Associates are all entities over which the Group has significant influence but not control. In the Group financial statements investments in associates are accounted for using the equity method .The Group’s investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

Notes to the financial statements (continued)

1. General information (continued)

Associates (continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

e) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. Significant accounting policies

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income as they accrue, for all interest bearing financial instruments including those measured at amortised cost, at fair value through profit or loss, available for sale, and the interest income component of finance lease receivables, using the effective interest rate method except for financial instruments at fair value through profit or loss, where interest is accrued at the coupon rate. Such income and expense is presented as interest and similar income or interest expense and similar charges in the statement of comprehensive income. Interest expense also includes deposit insurance costs. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortisation, and other differences between the initial carrying amount of an interest bearing financial instrument and its value at maturity, recognised on an effective interest basis. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2. Significant accounting policies (continued)

Fee and commission income and expense

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

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

Dividend income

Dividend income from equity securities or, in the case of the Parent's separate financial statements, investments in subsidiaries, is recognised in the statement of comprehensive income when the rights to receive the dividend are established.

Gains less losses from dealing and investment financial instruments

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

Gains less losses arising from dealing in foreign currencies

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

Foreign currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at date of reporting are translated into HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. 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 date of reporting.

2. Significant accounting policies (continued)

Foreign currencies (continued)

Changes in the fair value of financial assets 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. The translation differences are recognised in the statement of comprehensive income as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within other operating income in the statement of comprehensive income. Translation differences on non-monetary financial assets, such as equity instruments classified as available for sale, are included in the fair value reserve in equity.

Financial instruments: classification

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

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

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

b) Loans and receivables

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

c) Financial instruments held to maturity

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

d) Financial assets available for sale

This category comprises non-derivative financial assets which are designated as available for sale or are not designated as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss. 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 certain debt and equity securities.

e) Other financial liabilities

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

2. Significant accounting policies (continued)

Financial instruments: recognition and derecognition

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

The Group derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial assets. It 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.

Financial instruments: 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 that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost, less impairment if needed.

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

Financial instruments: gains and losses

Gains or 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 statement of comprehensive income.

Gains or 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 equity. 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 statement of comprehensive income. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in equity. Dividend income is recognised in the statement of comprehensive income. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the statement of comprehensive income.

Gains or losses arising from financial assets and financial liabilities carried at amortised cost are recognised as interest in the statement of comprehensive income over the period of amortisation. Gains or losses may also be recognised in the statement of comprehensive income when a financial instrument is derecognised or when its value is impaired.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

Fair value measurement principles

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

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

Impairment of financial assets

a) Impairment of assets identified as impaired

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.
The Group estimates and performs impairment of all financial assets, except financial assets at fair value through profit or loss.

If any evidence of impairment exists for available-for- sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. 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 statement of comprehensive income.

The recoverable amount of financial instruments measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Allowances for uncollectibility are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts (or lower amount if required by applicable CNB regulations). The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the impairment losses account are recognised in the statement of comprehensive income. When a loan is known to be uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the statement of comprehensive income.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

Financial instruments: gains and losses (continued)

b) Impairment of assets not identified as impaired

In addition to the above described impairment losses on assets identified as impaired, the Bank recognises impairment losses, in income statement, 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 carried at fair value were excluded from the basis of such calculation at date of reporting.

Raiffeisen Leasing ("the Leasing") reviews its portfolios of non-current loans and receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Leasing makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables before the decrease can be identified with an individual loan or receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with parameters relevant to assets in the group. Receivables from finance lease and loans that are individually assessed for impairment and found not to be impaired are included in groups of similar financial assets that are assessed for impairment on portfolio basis.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience.

Specific financial instruments

a) Cash and cash equivalents

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

b) Derivative financial instruments

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

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

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

Specific financial instruments (continued)

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

c) Treasury bills and debt securities

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

d) Equity securities and investments in open ended investment funds

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

e) Placements with banks

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

f) Loans and advances to customers

Loans and advances are presented net of impairment losses.
In accordance with CNB requirements, the amortisation of any discounts included within impairment losses is included in impairment losses.

g) Investments in subsidiaries

In the Bank's separate financial statements investments in subsidiaries are accounted for at cost less impairment losses.
Other equity securities are classified as at fair value through profit and loss or available-for-sale financial assets and measured at fair value.

h) Borrowings

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

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

Specific financial instruments(continued)

i) Repurchase and sale buy-back agreements

The Group enters into purchases/(sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.
The Group also enters into linked sale and buy-back transactions. In accordance with their substance, these are similarly accounted for as transactions under repurchase or resale agreements, as described above.

j) Bonds issued

Bonds issued by the Bank are classified as other liabilities and are initially recorded at the fair value of the consideration received, net of transaction costs. Subsequent to initial recognition bonds issued by the Bank are stated at amortised cost, net of the nominal value of any repurchased bonds. Any premium or discount on issue is debited or credited to interest expense on an effective interest rate basis.

Income tax

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at date of reporting, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at date of reporting.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at date of reporting, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each statement of financial position date, the Group reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost or deemed cost, less accumulated depreciation and, if any, impairment losses.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure on repairs and maintenance is expensed as incurred.

Leases in terms of which the Group as a lessor assumes substantially all the risks and rewards of ownership are classified as operating leases. Plant and equipment acquired in connection with such leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the leases, less accumulated depreciation and impairment losses. Assets under operating leases are depreciated on a straight line basis so as to write down the cost of the assets over the estimated lease period to their recoverable residual values.

Depreciation is provided on a straight-line basis to allocate the costs of assets to their residual values over their estimated economic useful life. Land and assets under construction or developed are not depreciated. The estimated useful lives are as follows:

	2011	**2010**
Buildings	30 years	30 years
Equipment	4 years	4 years
Office furniture	4 years	4 years
Assets under operating leases	2 – 20 years	2 – 20 years

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are included in the statement of comprehensive income.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Expenditure on development activities are capitalised if all of the features required by IAS 38 "Intangible assets" are satisfied. Amortisation is provided on a straight-line basis over the estimated useful lives of intangible assets. Costs associated with developing or maintaining intangible assets are recognised as an expense as incurred. In accordance with CNB regulations, intangible assets include leasehold improvements.

Intangible assets are amortised on a linear basis over their estimated useful economic lives as follows:

	2011	**2010**
Leasehold improvements	1 -20 years	1 -20 years
Software	5 years	5 years

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

Non-current assets held for sale

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

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

Non-current assets held for sale include foreclosed assets acquired in settlement of impaired collateralized receivables.

Impairment of non-financial assets

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 are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each date of reporting. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Provisions for liabilities and charges

The Group recognises a provision when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation.

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 determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.
Provisions are released only for such expenditure in respect of which provision are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

Leases – Group as lessor

a) Finance leases

Leases where the Group as lessor transfers substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognised. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest rate method. Finance lease receivables are included in loans and advances to customers.

2. Significant accounting policies (continued)

Leases – Group as lessor(continued)

b) Operating leases

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

Employee benefits

a) Defined pension contributions

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

b) Share based compensation

The Bank operates share-based compensation plan allowing the Bank's employees to purchase its preference shares, at the market price at the date of the purchase. As the shares are sold to the employees at a price equalling the fair value of the shares at the grant date, the fair value of the service equals zero and the Bank has not recognised any expense in respect of the share based payments.

c) Long-term service benefits

The Bank 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.

d) Pension insurance

Pension insurance provisions have been computed by the Group's licensed actuary, in accordance with the method prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings.

Dividends

Dividends are recognised when declared by shareholders in general meeting.

Share capital

Share capital represents the nominal value of paid-in ordinary and non-redeemable noncumulative preference shares classified as equity, on which dividends are payable at the discretion of the ordinary shareholders, and are stated in HRK at nominal value.

2. Significant accounting policies (continued)

Treasury shares

When the Bank repurchases ordinary or preference shares, the consideration paid is deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed of. When such shares, which are classified as treasury shares, are subsequently sold or reissued, any consideration received, net of transaction costs, is included in equity attributable to the Bank's equity holders.

Retained earnings

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

Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Reserve for general banking risks

The Bank recognises within equity, a reserve for general banking risks, which represents a reserve for potential losses from the loan portfolio that are in excess of those expected and provided for through impairment losses. The reserve is calculated in accordance with the regulations of the CNB which require a certain percentage of net profit for the year to be set aside if the growth of risk assets (as defined by the CNB) on an annual basis exceeds a specific level. The reserve for general banking risks is created as a transfer within equity from retained earnings, and cannot be transferred back to retain earnings or other reserves or be otherwise distributed until the expiry of a consecutive three year period in which the Bank has recorded annual growth not exceeding 15%.

Off-balance-sheet commitments and contingent liabilities

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.

Managed funds for and on behalf of third parties

The Group manages assets on behalf of other companies and individuals for which a fee is charged. As these assets do not represent assets of the Group, they are excluded from the statement of financial position.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amount and the transactions are intended to be settled on a net basis, or to release the assets and settle the liabilities simultaneously.

2. Significant accounting policies (continued)

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group has identified five primary segments: corporate banking (including leasing activities), retail banking, treasury, asset management and shared services.

3. Significant accounting estimates and judgements

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the 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 material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Significant judgements made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value, and other significant judgements affecting how items and transactions are accounted for, are also described below.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Bank'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 and advances to corporate and retail customers (summarised in Note 10), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of guarantees and documentary letters of credits (summarised in Notes 23 and 42). 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.

Summary of impairment losses for customers	**Notes**	**Group 2011 HRK millions**	**Group 2010 HRK millions**	**Bank 2011 HRK millions**	**Bank 2010 HRK millions**
Impairment losses on balance sheet exposure	10(a),16	1,716	1,329	1,659	1,254
Provision for off-balance-sheet exposure	23	115	148	115	148
		1,831	**1,477**	**1,774**	**1,402**

Notes to the financial statements (continued)

3. Significant accounting estimates and judgements

Financial assets carried at amortised cost

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

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

The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced 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 uses a flow rate model for retail loan portfolio developed by the Bank's parent bank in Austria, and also has regard to the ranges of impairment loss prescribed by the CNB based on the age of overdue amounts. In estimating impairment losses on items individually assessed as impaired for non retail portfolio the Group uses discounted cash flow model.

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

	2011			2010		
	Corporate	**Retail**	**Total**	**Corporate**	**Retail**	**Total**
The Group						
Gross value of exposure (in HRK millions)	2,613	877	3,490	2,160	824	2,984
Impairment rate (in %)	36%	56%	41%	30%	49%	35%
The Bank						
Gross value of exposure (in HRK millions)	2,452	877	3,329	2,060	824	2,884
Impairment rate (in %)	36%	56%	41%	29%	49%	34%

Each additional increase of one percentage point in the impairment rate on the gross portfolio of specifically identified impaired loans at 31 December 2011 would lead to the recognition of an additional impairment loss of HRK 33 million (2010: HRK 28.8 million) at the Bank level and an additional impairment loss of HRK 34.9 million (2010: HRK 29.8 million) at the Group level.

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

The amount of impairment losses at 31 December 2011 estimated on a portfolio basis amounted to HRK 402 million (2010: HRK 408 million) of the relevant on-and off-balance-sheet exposure. The total of these portfolio based impairment losses amounted to 1.01% (2010: 0.99%) of loans and advances to customers and to 0.97% (2010: 1.19%) on off-balance-sheet exposure, in both cases net of amounts individually assessed as impaired.

3. Significant accounting estimates and judgements (continued)

Fair value of derivatives

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

Fair value of treasury bills

The Bank determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia, using an internal model which considers their remaining maturity and the latest available auction prices of equivalent instruments. As at 31 December 2011, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss was HRK 980 million (2010: HRK 741 million).

Provisions for severance payments and jubilee awards

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

Provisions for court cases

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

Pension insurance

The Group undertakes to provide pensions to savers in specially regulated obligatory and voluntary private pension funds in accordance with specific legal requirements. Once savers become pensionable, their savings in regulated pension funds are transferred to a regulated pension insurance company selected by the member. The pension insurance company thereby undertakes to provide pensions to the former members of compulsory pension funds during their lifetime in accordance with the funds transferred. Pension benefits to former members of voluntary pension funds will be paid over their lifetime or for a predetermined fixed period in accordance with contracted arrangements. Currently, Raiffeisen mirovinsko osiguravajuce društvo d.o.o. is the only such regulated pension insurance company in Croatia.

Technical reserves have been computed by the Group's licensed actuary, in accordance with methods prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings, and in accordance with formulae pre-approved by the Croatian Financial Services Supervisory Agency.

The actual liability is necessarily uncertain. The principal assumptions underlying the calculation of the technical reserves are the use of newer Republic of Croatia mortality tables from 2000-2002 and of technical interest rates at 2.5%-4% per annum.

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.

Notes to the financial statements (continued)

4. Segment reporting

Limited segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Bank's management and internal reporting structure.

Business segments

The Group comprises the following main business segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers, and leasing activities at Group level;
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers;
Treasury	Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities;
Asset management	Includes management of investment and pension funds under Group management;
Shared services	Undertakes Group property management activities and centralised advertising and marketing services.

Notes to the financial statements (continued)

4. Segment reporting (continued)

2011 **Group** **HRK millions**	**Corporate**	**Retail**	**Treasury**	**Asset management**	**Shared services**	**Unallocated**	**Total 2011**
Net interest income	429	608	284	20	-	-	1,341
Net fee and commission income	173	124	1	115	-	-	413
Dealing and other income	313	33	(170)	132	19	-	327
Operating income	**915**	**765**	**115**	**267**	**19**	**-**	**2,081**
Operating expenses	(509)	(476)	(70)	(170)	(62)	-	(1,287)
Impairment losses on loans and advances to customers and other assets	(311)	(102)	(4)	-	-	-	(4177)
Provisions for liabilities and charges	(10)	20	-	-	-	-	10
Operating expenses	**(830)**	**(558)**	**(74)**	**(170)**	**(62)**	**-**	**(1,694)**
Profit before tax	**85**	**207**	**41**	**97**	**(43)**	**-**	**387**
Income tax expense	-	-	-	-	-	(82)	(82)
Profit for the year	**85**	**207**	**41**	**97**	**(43)**	**(82)**	**305**
Segment assets	14,069	12,171	12,263	345	50	-	38,898
Unallocated assets	-	-	-	-	-	2,286	2,286
Total assets	**14,069**	**12,171**	**12,263**	**345**	**50**	**2,286**	**41,184**
Segment liabilities	11,799	14,598	8,747	202	18	-	35,364
Unallocated equity	-	-	-	-	-	5,820	5,820
Total equity and liabilities	**11,799**	**14,598**	**8,747**	**202**	**18**	**5,820**	**41,184**

Notes to the financial statements (continued)

4. Segment reporting (continued)

2010 Group HRK millions	**Corporate**	**Retail**	**Treasury**	**Asset management**	**Shared services**	**Unallocated**	**Total 2010**
Net interest income	473	645	178	14	-	-	1,310
Net fee and commission income	178	132	14	117	-	-	441
Dealing and other income	280	33	70	96	227	-	706
Operating income	**931**	**810**	**262**	**227**	**227**	**-**	**2,457**
Operating expenses	(533)	(483)	(75)	(125)	(259)	-	(1,475)
Impairment losses on loans and advances to customers and other assets	(231)	(167)	-	-	-	-	(398)
Provisions for liabilities and charges	(54)	-	-	-	-	-	(54)
Operating expenses	**(818)**	**(650)**	**(75)**	**(125)**	**(259)**	**-**	**(1,927)**
Profit before tax	**113**	**160**	**187**	**102**	**(32)**	**-**	**530**
Income tax expense	-	-	-	-	-	(100)	(100)
Profit for the year	**113**	**160**	**187**	**102**	**(32)**	**(100)**	**430**
Segment assets	14,779	12,149	13,422	343	52	-	40,745
Unallocated assets	-	-	-	-	-	2,264	2,264
Total assets	**14,779**	**12,149**	**13,422**	**343**	**52**	**2,264**	**43,009**
Segment liabilities	9,630	13,800	13,259	178	160	-	37,027
Unallocated equity	-	-	-	-	-	5,982	5,982
Total equity and liabilities	**9,630**	**13,800**	**13,259**	**178**	**160**	**5,982**	**43,009**

Notes to the financial statements (continued)

4. Segment reporting (continued)

2011 **Bank** **HRK millions**	**Corporate**	**Retail**	**Treasury**	**Unallocated**	**Total 2011**
Net interest income	426	608	284	-	1,318
Net fee and commission income	185	124	1	-	310
Dealing and other income	83	33	(56)	-	60
Operating income	**694**	**765**	**229**	**-**	**1,688**
Operating expenses	(351)	(476)	(70)	-	(897)
Impairment losses on loans and advances to customers and other assets	(319)	(102)	(4)	-	(425)
Provisions for liabilities and charges	(3)	20	-	-	17
Operating expenses	**(673)**	**(558)**	**(74)**	**-**	**(1,305)**
Profit before tax	**21**	**207**	**155**	**-**	**383**
Income tax expense	-	-	-	(56)	(56)
Profit for the year	**21**	**207**	**155**	**(56)**	**327**
Segment assets	12,860	12,171	12,263	-	37,294
Unallocated assets	-	-	-	1,166	1,166
Total assets	**12,860**	**12,171**	**12,263**	**1,166**	**38,460**
Segment liabilities	9,484	14,598	8,747	-	32,829
Unallocated equity	-	-	-	5,631	5,631
Total equity and liabilities	**9,484**	**14,598**	**8,747**	**5,631**	**38,460**

2010 **Bank** **HRK millions**	**Corporate**	**Retail**	**Treasury**	**Unallocated**	**Total 2010**
Net interest income	438	644	178	-	1,260
Net fee and commission income	195	132	14	-	341
Dealing and other income	99	33	70	-	202
Operating income	**732**	**809**	**262**	**-**	**1,803**
Operating expenses	(362)	(483)	(75)	-	(920)
Impairment losses on loans and advances to customers and other assets	(213)	(167)	-	-	(380)
Provisions for liabilities and charges	(53)	-	-	-	(53)
Operating expenses	**(628)**	**(650)**	**(75)**	**-**	**(1,353)**
Profit before tax	**104**	**159**	**187**	**-**	**450**
Income tax expense	-	-	-	(74)	(74)
Profit for the year	**104**	**159**	**187**	**(74)**	**376**
Segment assets	13,847	12,139	13,422	-	39,408
Unallocated assets	-	-	-	1,014	1,014
Total assets	**13,847**	**12,139**	**13,422**	**1,014**	**40,422**
Segment liabilities	7,622	13,798	13,259	-	34,679
Unallocated equity	-	-	-	5,743	5,743
Total equity and liabilities	**7,622**	**13,798**	**13,259**	**5,743**	**40,422**

Notes to the financial statements (continued)

5. Cash and amounts due from banks

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Cash in hand	515	454	515	454
Items in the course of collection	1	1	1	1
Giro account with the Croatian National Bank	1,622	614	1,622	614
Current accounts with other banks				
- with parent bank	15	15	15	15
- with other Raiffeisen Bank International AG (“the RBI”) group banks	9	4	9	4
- with other banks	158	81	158	66
	2,320	**1,169**	**2,320**	**1,154**

6. Obligatory reserve with the Croatian National Bank

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Obligatory reserve in domestic currency	2,286	2,114	2,286	2,114
Obligatory reserve in foreign currency	533	430	533	430
	2,819	**2,544**	**2,819**	**2,544**

The obligatory reserve represents amounts required to be deposited with the Croatian National Bank (“the CNB”).

The HRK obligatory reserve requirement at 31 December 2011 represented 14% of the relevant HRK deposits (2010: 13%). At least 70% (2010: 70%) of the total obligatory reserve requirement must be deposited on a special account with the CNB and the remainder may be held in cash and/or on giro accounts. At year end the Bank held 100% (2010: 70%) of the total requirement in a special obligatory reserve deposit account with the CNB. Interest is received on a monthly basis. The interest rate for obligatory reserve funds at year-end was 0.25% per annum (2010: 0.25%).

The foreign currency obligatory reserve requirement at 31 December 2011 represented 14% (2010: 13%) of both foreign currency personal and corporate deposits and foreign currency borrowings.
At 31 December 2011 100% (2010: 60%) of this foreign currency obligatory reserve was deposited with the CNB in accordance with requirements and the remainder was placed with foreign banks in accordance with CNB selection criteria. In accordance with requirements 75% (2010: 75%) of the total foreign currency obligatory reserve is included in the HRK obligatory reserve and is maintained in HRK in accordance with CNB regulations.

7. Financial assets at fair value through profit or loss

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Trading instruments				
Debt securities:				
- Domestic government bonds, listed	662	405	662	405
- Foreign government bonds, listed	755	1,229	755	1,229
- Treasury bills issued by the Ministry of Finance	109	-	109	-
- Treasury bills issued by the foreign government, quoted	-	2,470	-	2,470
- Bonds issued by banks, listed	38	264	38	264
- Securities issued by companies, listed	39	34	39	34
	1,603	**4,402**	**1,603**	**4,402**
Equity instruments, listed	22	40	22	40
Positive fair value of OTC derivative instruments	59	45	59	45
Gain on unsettled OTC foreign exchange spot transactions	2	1	2	1
	83	**86**	**83**	**86**
Total trading instruments	**1,686**	**4,488**	**1,686**	**4,488**
Financial assets designated at fair value through profit or loss				
Debt securities:				
- Domestic government bonds, listed	8	5	-	-
- Bonds issued by banks, listed	1	-	1	-
- Securities issued by companies, listed	357	397	357	389
- Treasury bills issued by the Ministry of Finance	871	741	868	734
- Treasury bills issued by the foreign government, quoted	869	51	869	51
	2,106	**1,194**	**2,095**	**1,174**
Investments in investment funds managed by related and third parties	14	27	-	14
Total financial assets designated at fair value through profit or loss	**2,120**	**1,221**	**2,095**	**1,188**
TOTAL	**3,806**	**5,709**	**3,781**	**5,676**

The fair value of securities included in trading instruments pledged as collateral for repo transactions amounted at the year end to HRK 965 million of trading instruments (2010: HRK 3,020 million) and HRK 384 million of financial assets designated at fair value through profit and loss (2010: HRK 567 million).

Notes to the financial statements (continued)

8. Placements with and loans to other banks

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Loans	513	400	513	400
Deposits	1,342	3,292	1,288	3,227
	1,855	**3,692**	**1,801**	**3,627**
Impairment losses	(4)	-	(4)	-
	1,851	**3,692**	**1,797**	**3,627**

Group deposits include guarantee deposit of HRK 54 million (2010: HRK 51 million) placed by Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d. with custodian bank in accordance with the Law on Mandatory and Voluntary Pension Funds. These deposits, which are in the form of rolling short term deposits, are not available for the Group's liquidity requirements and their use is restricted.

9. Financial assets available for sale

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Debt securities				
- Domestic government bonds, listed on stock exchange	111	98	-	-
- Securities issued by companies, listed on stock exchange	9	4	-	-
Equity securities, not listed on stock exchange	20	16	20	16
	140	**118**	**20**	**16**

Notes to the financial statements (continued)

10. Loans and advances to customers

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Loans to companies and similar entities				
- denominated in domestic currency	3,965	3,473	3,936	3,526
- denominated in or linked to foreign currency	11,541	11,077	11,075	10,900
Loans to individuals				
- denominated in domestic currency	4,524	4,528	4,524	4,528
- denominated in or linked to foreign currency	7,669	7,673	7,669	7,673
Finance lease receivables, denominated in or linked to foreign currency	978	1,059	-	-
	28,677	**27,810**	**27,204**	**26,627**
Impairment losses	(1,628)	(1,254)	(1,580)	(1,190)
	27,049	**26,556**	**25,624**	**25,437**

Loans and advances to customers include loans with one way currency clause which gives the Bank the option to revalue the loans at the current foreign exchange rate. This represents an embedded derivative, which is included in contracts in the amount of HRK 14 million (2010: HRK 19 million). These embedded derivatives are valued using the valuation model prescribed by the Croatian National Bank, rather than an option pricing model. In accordance with CNB rules these embedded derivatives are not separated.

Notes to the financial statements (continued)

10. Loans and advances to customers (continued)

a) Movement in impairment losses for loans and advances to customers (including finance lease receivables):

Group			**2011**			**2010**
	Identified losses HRK millions	**Unidentified losses HRK millions**	**Total HRK millions**	**Identified losses HRK millions**	**Unidentified losses HRK millions**	**Total HRK millions**
At 1 January	**935**	**319**	**1,254**	**611**	**278**	**889**
Increase in impairment losses	457	-	457	424	41	465
Amounts recovered during the year	(61)	-	(61)	(96)	-	(96)
Net charge to income statement	396	-	396	328	41	369
Net foreign exchange gain	10	-	10	18	-	18
Write offs	(32)	-	(32)	(22)	-	(22)
At 31 December	**1,309**	**319**	**1,628**	**935**	**319**	**1,254**
Hereof Bank	*1,264*	*316*	*1,580*	*877*	*313*	*1,190*
Hereof of Raiffeisen Leasing	*40*	*3*	*43*	*57*	*6*	*63*
Hereof other members of Group	*5*	*-*	*5*	*1*	*-*	*1*
	1,309	***319***	***1,628***	***935***	***319***	***1,254***

Bank			**2011**			**2010**
	Identified losses HRK millions	**Unidentified losses HRK millions**	**Total HRK millions**	**Identifie d losses HRK millions**	**Unidentified losses HRK millions**	**Total HRK millions**
At 1 January	**877**	**313**	**1,190**	**560**	**277**	**837**
Increase in impairment losses	438	3	441	350	36	386
Amounts recovered during the year	(36)	-	(36)	(32)	-	(32)
Net charge to income statement	402	3	405	318	36	354
Net foreign exchange gain	10	-	10	18	-	18
Write offs	(25)	-	(25)	(19)	-	(19)
At 31 December	**1,264**	**316**	**1,580**	**877**	**313**	**1,190**

Notes to the financial statements (continued)

10. Loans and advances to customers (continued)

b) Finance lease receivables

The Group acts as a lessor under finance leases, mainly of plant and equipment. The leases typically run for a period of one to seven years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on market related interest rates. The receivables are secured by the underlying assets. Loans and advances to customers include the following finance lease receivables.

	Group 2011 HRK millions	Group 2010 HRK millions
Gross investment in finance leases	1,135	1,222
Unearned finance income	(157)	(163)
Net investment in finance leases	**978**	**1,059**
Less impairment losses	(41)	(54)
Net investment in finance leases	**937**	**1,005**
Gross investment in finance leases, with remaining maturities		
Less than one year	454	523
More than one and less than five years	477	490
More than five years	204	209
	1,135	**1,222**

Notes to the financial statements (continued)

10. Loans and advances to customers (continued)

c) Concentration of credit risk by industry

The Group and Bank have a diversified portfolio within Croatia covering all sectors of the economy. The majority of commercial lending is to companies and individuals domiciled in Croatia. The Group and Bank have the following gross credit risk concentration by industry in respect of the commercial loan portfolio (including finance leases):

	Group 2011 %	Group 2010 %	Bank 2011 %	Bank 2010 %
Individuals	34	37	36	37
Trade	17	15	16	14
Central and local government	9	10	9	12
Construction	11	9	12	10
Food and drink industry	7	5	5	5
Non-metal industry	7	2	7	2
Electronics	3	2	3	3
Wood and paper industry	1	1	1	1
Craft and services	8	13	8	11
Other business activities	3	6	3	5
Total loans and advances to customers	**100**	**100**	**100**	**100**

Notes to the financial statements (continued)

10. Loans and advances to customers (continued)

d) Ageing of past due but not impaired

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Up to 30 days	11,233	10,439	10,611	10,241
Up to 31 - 90 days	689	589	534	345
Up to 91 - 180 days	193	258	178	256
Up to 181 – 360 days	201	145	146	141
Over 365 days	124	130	124	130
	12,440	**11,561**	**11,593**	**11,113**

11. Financial investments held to maturity

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Debt securities				
- Government bonds, listed on stock exchange	727	715	604	593
- Corporate bonds, listed on stock exchange	9	14	-	-
	736	**729**	**604**	**593**

Financial investments held to maturity comprise bonds issued by Government of Republic Croatia in HRK and EUR, with interest rates from 4.125% to 10 % and maturity from year 2012 to 2020.

Notes to the financial statements (continued)

12. Investments in subsidiaries and associates

The Group and the Bank had the following investments in subsidiaries and associates, all incorporated in Croatia, as at 31 December 2011 and 31 December 2010:

	Nature of business	Ownership 2011 %	Ownership 2010 %	Investments 2011 HRK millions	Investments 2010 HRK millions
Investment in subsidiaries					
Direct holding					
Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.	Pension fund management	100	100	110	110
Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	Pension fund management	100	100	34	34
Raiffeisen consulting d.o.o.	Financial and consulting services	100	100	15	15
Raiffeisen leasing d.o.o.	Leasing	50	50	15	15
Raiffeisen mirovinsko osiguravajuće društvo d.o.o.	Pension insurance	100	100	14	14
Raiffeisen invest d.o.o.	Investment fund management	100	100	8	8
Raiffeisen factoring d.o.o.	Factoring	100	100	15	15
Indirect holding					
Raiffeisen Bonus d.o.o.	Insurance and re-insurance	75	-	-	-
Investment in associates					
RaIffeisen training centar d.o.o.	Training services to Group companies and their affiliates	20	20	-	-
				211	**211**

During the July 2010 Raiffeisen leasing d.o.o. and Raiffeisen consulting d.o.o. founded company Raiffeisen Bonus d.o.o. for insurance and re-insurance business with the share capital of HRK 200 thousands.

The Parent has classified its 50% investment in Raiffeisen leasing d.o.o. as a subsidiary, whose financial statements are included in the consolidated financial statements of the Group, even though the Parent does not have a majority of the equity of the investee, in accordance with CNB regulations. The remaining 50% of Raiffeisen leasing d.o.o. is held by affiliates of RBI, the Banks's ultimate parent company.

Notes to the financial statements (continued)

13. Property, plant and equipment

Group

2011	Land and buildings HRK millions	Equipment HRK millions	Office furniture HRK millions	Assets under operating leases HRK millions	Assets under construction HRK millions	Total HRK millions
Gross carrying amount						
1 January 2011	443	426	80	1,547	3	2,499
Additions	-	-	-	-	324	324
Reclassification (note 14)	-	-	-	-	15	15
Disposals	-	(9)	-	(360)	-	(369)
Transfers	23	39	2	275	(339)	-
Transfer from asset under operating leases	69	-	-	(69)	-	-
At 31 December 2011	**535**	**456**	**82**	**1,393**	**3**	**2,469**
Accumulated depreciation and impairment losses						
1 January 2011	118	330	66	363	-	877
Charge for the year	15	42	7	155	-	219
Disposals	-	(9)	-	(210)	-	(219)
Transfer from asset under operating leases	4	-	-	(4)	-	-
At 31 December 2011	**137**	**363**	**73**	**304**	**-**	**877**
Carrying amount						
At 1 January 2011	**325**	**96**	**14**	**1,184**	**3**	**1,622**
At 31 December 2011	**398**	**93**	**9**	**1,089**	**3**	**1,592**

Notes to the financial statements (continued)

13. Property, plant and equipment (continued)

Group

2010	**Land and buildings HRK millions**	**Equipm ent HRK millions**	**Office furniture HRK millions**	**Assets under operating leases HRK millions**	**Assets under construction HRK millions**	**Total HRK millions**
Gross carrying amount						
1 January 2010	430	419	76	1,229	1	2,155
Additions	-	-	-	-	611	611
Disposals	-	(26)	(2)	(239)	-	(267)
Transfers	13	33	6	557	(609)	-
At 31 December 2010	**443**	**426**	**80**	**1,547**	**3**	**2,499**
Accumulated depreciation and impairment losses						
1 January 2010	103	307	60	332	-	802
Charge for the year	15	48	8	165	-	236
Disposals	-	(25)	(2)	(134)	-	(161)
At 31 December 2010	**118**	**330**	**66**	**363**	**-**	**877**
Carrying amount						
At 1 January 2010	**327**	**112**	**16**	**897**	**1**	**1,353**
At 31 December 2010	**325**	**96**	**14**	**1,184**	**3**	**1,622**

Notes to the financial statements (continued)

13. Property, plant and equipment (continued)

Operating lease receivables, gross of unearned future income

The Group acts as a lessor under operating leases, mainly of plant and equipment. The leases typically run for a period of two to twenty years. The total gross investment in operating leases at 31 December 2011 is as follows:

	Group 2011 HRK millions	**Group 2010 HRK millions**
Up to one year	205	248
More than one and less than five years	401	402
Over five years	483	534
	1,089	**1,184**

Notes to the financial statements (continued)

13. Property, plant and equipment (continued)

Bank

2011	**Land and buildings HRK millions**	**Equipment HRK millions**	**Office furniture HRK millions**	**Assets under construction HRK millions**	**Total HRK millions**
Gross carrying amount					
1 January 2011	319	415	76	25	835
Additions	-	-	-	139	139
Reclassification (note 14)	-	-	-	15	15
Disposals	-	(9)	-	-	(9)
Transfers	115	37	2	(154)	-
At 31 December 2011	**434**	**443**	**78**	**25**	**980**
Accumulated depreciation					
1 January 2011	71	324	62	-	457
Charge for the year	11	40	7	-	58
Disposals	-	(9)	-	-	(9)
At 31 December 2011	**82**	**355**	**69**	**-**	**506**
Carrying amount					
At 1 January 2011	**248**	**91**	**14**	**25**	**378**
At 31 December 2011	**352**	**88**	**9**	**25**	**474**

Assets under construction comprise buildings at cost of HRK 21 million (2010: HRK 8 million) and equipment and office furniture at cost of HRK 4 million (2010: HRK 17 million), which are being prepared for use by the Bank.

Notes to the financial statements (continued)

13. Property, plant and equipment (continued)

Bank

2010	**Buildings HRK millions**	**Equipment HRK millions**	**Office furniture HRK millions**	**Assets under construction HRK millions**	**Total HRK millions**
Gross carrying amount					
1 January 2010	306	409	73	23	811
Additions	-	-	-	52	52
Disposals	-	(26)	(2)	-	(28)
Transfers	13	32	5	(50)	-
At 31 December 2010	**319**	**415**	**76**	**25**	**835**
Accumulated depreciation					
1 January 2010	61	301	56	-	418
Charge for the year	10	47	8	-	65
Disposals	-	(24)	(2)	-	(26)
At 31 December 2010	**71**	**324**	**62**	**-**	**457**
Carrying amount					
At 1 January 2010	**245**	**108**	**17**	**23**	**393**
At 31 December 2010	**248**	**91**	**14**	**25**	**378**

Notes to the financial statements (continued)

14. Intangible assets

Group

2011	**Leasehold improvement HRK millions**	**Software HRK millions**	**Assets under construction HRK millions**	**Total HRK millions**
Gross carrying amount				
1 January 2011	207	354	16	577
Additions	-	-	61	61
Reclassification (note 13)	(23)	-	-	(23)
Transfers	18	58	(76)	-
At 31 December 2011	**202**	**412**	**1**	**615**
Accumulated amortisation				
1 January 2011	101	246	-	347
Charge for the year	18	53	-	71
Reclassification (note 13)	(9)	-	-	(9)
At 31 December 2011	**110**	**299**	**-**	**409**
Carrying amount				
At 1 January 2011	**106**	**108**	**16**	**230**
At 31 December 2011	**92**	**113**	**1**	**206**

Assets under construction comprise software in the process of installation in the amount of HRK 1 million (2010: HRK 15 million) and leasehold improvements (2010: HRK 1 million).

14. Intangible assets (continued)

Group

2010	Leasehold improvement HRK millions	Software HRK millions	Assets under construction HRK millions	Total HRK millions
Gross carrying amount				
1 January 2010	188	302	17	507
Additions	-	-	72	72
Disposal	(1)	(1)	-	(2)
Transfers	20	53	(73)	-
At 31 December 2010	**207**	**354**	**16**	**577**
Accumulated amortisation				
1 January 2010	84	201	-	285
Charge for the year	18	46	-	64
Disposal	(1)	(1)	-	(2)
At 31 December 2010	**101**	**246**	**-**	**347**
Carrying amount				
At 1 January 2010	**104**	**101**	**17**	**222**
At 31 December 2010	**106**	**108**	**16**	**230**

14. Intangible assets (continued)

Bank

2011	Leasehold improvement HRK millions	Software HRK millions	Assets under construction HRK millions	Total HRK millions
Gross carrying amount				
1 January 2011	197	345	16	558
Additions	-	-	59	59
Reclassification (note 13)	(23)	-	-	(23)
Transfers	17	57	(74)	-
At 31 December 2011	**191**	**402**	**1**	**594**
Accumulated amortisation				
1 January 2011	92	240	-	332
Charge for the year	17	52	-	69
Reclassification (note 13)	(8)	-	-	(8)
At 31 December 2011	**101**	**292**	**-**	**393**
Carrying amount				
At 1 January 2011	**105**	**105**	**16**	**226**
At 31 December 2011	**90**	**110**	**1**	**201**

Assets under construction comprise software in the process of installation in the amount of HRK 1 million (2010: HRK 15 million) and leasehold improvements (2010: HRK 1 million).

Notes to the financial statements (continued)

14. Intangible assets (continued)

Bank

2010	**Leasehold improvement HRK millions**	**Software HRK millions**	**Assets under construction HRK millions**	**Total HRK millions**
Gross carrying amount				
1 January 2010	178	293	17	488
Additions	-	-	71	71
Disposals	(1)	-	-	(1)
Transfers	20	52	(72)	-
At 31 December 2010	**197**	**345**	**16**	**558**
Accumulated amortisation				
1 January 2010	76	195	-	271
Charge for the year	17	45	-	62
Disposal	(1)	-	-	(1)
At 31 December 2010	**92**	**240**	**-**	**332**
Carrying amount				
At 1 January 2010	**102**	**98**	**17**	**217**
At 31 December 2010	**105**	**105**	**16**	**226**

Notes to the financial statements (continued)

15. Deferred tax assets

Recognised deferred tax assets and liabilities

Movements in temporary differences and components of deferred tax assets and deferred tax liabilities are as follows:

Group	Assets		Liabilities		Net credit / (charge) to statement of comprehensive income	
	2011 HRK millions	2010 HRK millions	2011 HRK millions	2010 HRK millions	2011 HRK millions	2010 HRK millions
Property, plant and equipment	-	-	(4)	(4)	-	-
Benefits of tax losses recognised	-	-			-	(1)
Deferred fee and commission expense	-	-	(4)	(3)	-	-
Deferred fee and commission income	34	33	-	-	(1)	5
Unrealised losses on financial instruments with fair value through profit and loss	176	160	-	-	16	105
Other provisions	4	3	-	-	1	(2)
Deferred tax assets / (liabilities)	**214**	**196**	**(8)**	**(7)**	**16**	**107**
Set off	(8)	(7)	8	7	-	-
Net deferred tax assets	**206**	**189**	**-**	**-**	**-**	**-**

Notes to the financial statements (continued)

15. Deferred tax assets (continued)

Recognised deferred tax assets and liabilities (continued)

Movements in temporary differences and components of deferred tax assets and deferred tax liabilities are as follows:

Bank

	Assets		Liabilities		Net credit / (charge) to statement of comprehensive income	
	2011 HRK millions	**2010 HRK millions**	**2011 HRK millions**	**2010 HRK millions**	**2011 HRK millions**	**2010 HRK millions**
Deferred fee and commission expense	-	-	(3)	(2)	-	-
Deferred fee and commission income	28	28	-	-	(1)	2
Unrealised losses on financial instruments with fair value through profit and loss	176	160	-	-	16	105
Other provisions	2	1	-	-	1	(1)
Deferred tax assets / (liabilities)	**206**	**189**	**(3)**	**(2)**	**16**	**106**
Set off	(3)	(2)	3	2	-	-
Net deferred tax assets	**203**	**187**	**-**	**-**	**-**	**-**

Notes to the financial statements (continued)

16. Other assets

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Accrued interest	268	263	256	253
Accrued fee and commission receivables	33	32	24	22
Deferred fee and commission expenses	47	59	47	56
Non current asset held for sale	13	1	13	1
Prepayments	22	30	30	20
Receivables from credit and debit card business	27	14	27	14
Receivables in respect of operating leases	16	17	-	-
Current tax asset	61	-	64	-
Other receivables and other assets	60	110	24	71
	547	**526**	**485**	**437**
Impairment losses	(88)	(75)	(79)	(64)
- hereof Bank	*(79)*	*(64)*	*(79)*	*(64)*
- hereof Leasing	*(8)*	*(9)*	-	-
- hereof other Group members	*(1)*	*(2)*	-	-
	459	**451**	**406**	**373**

Movement in impairment losses

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
At 1 January	**75**	**47**	**64**	**39**
Increase in impairment losses	19	37	16	26
Recovery	(2)	(8)	-	-
Net change to statement of comprehensive income	17	29	16	26
Write offs	(4)	(1)	(1)	(1)
At 31 December	**88**	**75**	**79**	**64**

17. Financial liabilities at fair value through profit or loss

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Trading instruments				
Negative fair value of OTC derivative instruments	741	685	742	688
Loss on unsettled OTC foreign exchange spot transactions	2	1	2	1
	743	**686**	**744**	**689**

18. Deposits from banks

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Current accounts and demand deposits				
- from ultimate parent bank	1	1	1	1
- from RBI group banks other than ultimate parent bank	32	19	32	19
- from other banks	119	77	119	77
Term deposits				
- from ultimate parent bank	279	-	279	-
- from other RBI group banks	75	148	75	148
- from other banks	260	516	260	516
	766	**761**	**766**	**761**

19. Deposits from companies and other similar entities

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Current accounts and demand deposits	5,163	4,535	5,255	4,680
Time deposits	3,797	4,423	3,815	4,680
	8,960	**8,958**	**9,070**	**9,360**

20. Deposits from individuals

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Current accounts and demand deposits	2,544	2,462	2,544	2,462
Time deposits	11,741	10,995	11,741	10,995
	14,285	**13,457**	**14,285**	**13,457**

21. Borrowings

	Group 2011 HRKmillions	Group 2010 HRKmillions	Bank 2011 HRK millions	Bank 2010 HRKmillions
From ultimate parent bank	3,946	5,366	2,820	3,201
From other banks	5,616	6,561	4,380	6,207
From companies and other financial institutions	-	47	-	47
	9,562	**11,974**	**7,200**	**9,455**

Movements of outstanding borrowings

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
At 1 January	11,974	13,943	9,455	10,859
New borrowings	5,833	7,588	4,645	6,254
Repayment of borrowings	(8,412)	(9,613)	(7,009)	(7,685)
Foreign exchange differences	167	56	109	27
At 31 December	**9,562**	**11,974**	**7,200**	**9,455**

In accordance with their terms, borrowings from other banks include borrowings from the Croatian Bank for Reconstruction and Development ("HBOR") used to fund loans to customers for eligible construction and development projects at preferential interest rates, and include a one-way foreign currency clause which gives HBOR the option to revalue the borrowing at the current foreign exchange rate. This represents an embedded derivative which is included in contracts in the amount HRK 14 million (2010: HRK 19 million) which the Bank has not separated and which has been valued using the valuation model prescribed by CNB, rather than an option pricing model.

Borrowings from companies and other financial institutions relate to repurchase agreements.

Notes to the financial statements (continued)

22. Debt securities issued

On 10 February 2006 the Bank issued bonds with a nominal value of HRK 600 million at par, bearing fixed interest at a rate of 4.125% per annum. The bonds matured on 10 February 2011 and were repaid by the Bank.

23. Provisions for liabilities and charges

Group

	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Employee retirement provisions	Unused employee vacations	Provision for court cases
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 1 January 2011	**170**	**53**	**95**	**5**	**8**	**9**
Provision reversed during the year	(121)	(53)	(59)	(8)	-	(1)
Provision charged during the year	111	32	47	5	-	27
At 31 December 2011	**160**	**32**	**83**	**2**	**8**	**35**

Group

	Total	Off balance sheet items Identified	Off balance sheet items Unidentified	Employee retirement provisions	Unused employee vacations	Provision for court cases
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
At 1 January 2010	**116**	**22**	**73**	**4**	**8**	**9**
Provision reversed during the year	(131)	(41)	(86)	-	-	(4)
Provision charged during the year	185	72	108	1	-	4
At 31 December 2010	**170**	**53**	**95**	**5**	**8**	**9**

Notes to the financial statements (continued)

23. Provisions for liabilities and charges (continued)

Bank

	Total HRK millions	Off balance sheet items Identified HRK millions	Off balance sheet items Unidentified HRK millions	Employee retirement provisions HRK millions	Unused employee vacations HRK millions	Provision for court cases HRK millions
At 1 January 2011	**164**	**53**	**95**	**5**	**7**	**4**
Provision reversed during the year	(121)	(53)	(59)	(8)	-	(1)
Provision created during the year	104	32	47	5	-	20
At 31 December 2011	**147**	**32**	**83**	**2**	**7**	**23**

Bank

	Total HRK millions	Off balance sheet items Identified HRK millions	Off balance sheet items Unidentified HRK millions	Employee retirement provisions HRK millions	Unused employee vacations HRK millions	Provision for court cases HRK millions
At 1 January 2010	**111**	**22**	**73**	**4**	**6**	**6**
Provision reversed during the year	(131)	(41)	(86)	-	-	(4)
Provision created during the year	184	72	108	1	1	2
At 31 December 2010	**164**	**53**	**95**	**5**	**7**	**4**

Notes to the financial statements (continued)

24. Other liabilities

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Accrued interest	277	333	261	316
Deferred fee and commission income	159	165	144	149
Prepaid loans and advances collected from individuals	20	24	20	24
Technical reserves for pension insurance	179	140	-	-
Liabilities to employees	70	59	51	49
Liabilities to suppliers	72	45	63	39
Liabilities in respect of credit and debit card business	64	49	64	49
Other liabilities	47	82	13	43
	888	**897**	**616**	**669**

Technical reserves for pension insurance provisions have been computed by the Group's licensed actuary, in accordance with the method prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings.

The management believes that the current level of technical reserves is sufficient to meet all liabilities which may arise from the pension insurance contracts concluded by 31 December 2011.

Notes to the financial statements (continued)

25. Interest and similar income

a) Interest and similar income - analysis by product

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Placements with the Croatian National Bank	3	16	3	16
Financial assets at fair value through profit or loss	209	188	209	188
Derivative financial instruments	92	83	93	84
Financial assets available for sale	8	6	-	-
Placements with banks	24	23	20	16
Loans and advances to customers and similar entities	1,015	983	923	876
Loans and advances to individuals	987	1,052	982	1,046
Financial instruments held to maturity	41	41	32	33
	2,379	**2,392**	**2,262**	**2,259**

b) Interest and similar income - analysis by source

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Companies	883	863	790	757
Individuals	987	1,052	982	1,046
State and the public sector	395	356	381	344
Banks and other financial institutions	111	120	106	111
Other organisations	3	1	3	1
	2,379	**2,392**	**2,262**	**2,259**

Notes to the financial statements (continued)

26. Interest expense and similar charges

a) Interest expense and similar charges - analysis by product

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Derivative financial instruments	87	72	88	73
Issued debt securities	1	5	1	5
Deposits from banks	21	14	21	14
Deposits from companies and other similar entities	149	130	155	139
Deposits from individuals	453	543	453	543
Borrowings	327	318	226	225
	1,038	**1,082**	**944**	**999**

b) Interest expense and similar charges - analysis by recipient

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Companies	149	127	156	137
Individuals	453	543	453	543
State and public sector	4	2	4	2
Banks and other financial institutions	427	407	326	314
Other organisations	5	3	5	3
	1,038	**1,082**	**944**	**999**

Notes to the financial statements (continued)

27. Fee and commission income

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Domestic payment transactions	89	91	90	91
Investment management, custody and consultancy fees	155	138	27	14
Credit cards	109	96	109	96
Foreign payment transactions	63	61	63	61
Recharge of credit insurance costs (note 28)	37	22	37	22
Guarantees and letter of credits	45	48	45	48
Loans and accounts administration fee	38	43	36	43
Other fees and commission income	51	69	64	83
	587	**568**	**471**	**458**

28. Fee and commission expense

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Credit card related charges	67	43	67	43
Domestic payment transactions	23	26	24	26
Rechargeable credit insurance costs (note 27)	39	22	39	22
Other fees and commission expense	45	36	31	26
	174	**127**	**161**	**117**

Based on loan insurance contracts the Bank pays premium to insurance companies, which is recharged to customers.

Notes to the financial statements (continued)

29. Net trading (expense) / income

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Gains less losses from trading financial instruments				
Debt securities	(22)	71	(22)	71
Treasury bills	(23)	-	(23)	-
Equity securities	(14)	-	(14)	-
Derivative financial instruments	(135)	(880)	(135)	(879)
	(194)	**(809)**	**(194)**	**(808)**
Gains less losses from financial assets designated at fair value through profit or loss				
Realised (loss)/gain on disposal of:				
- debt securities	(6)	9	(6)	6
- treasury bills	(11)	(7)	(11)	(8)
- equity securities	-	-	-	-
- investment funds	(2)	1	(2)	-
Unrealised loss on:				
- debt securities	(29)	(23)	(29)	(23)
- treasury bills	(15)	(9)	(15)	(9)
	(63)	**(29)**	**(63)**	**(34)**
Gains less losses arising from dealing in foreign currencies	102	97	102	97
Gains less losses arising from revaluation of monetary assets and liabilities, other than dealing securities				
- exchange loss on foreign currency assets and liabilities	(298)	(95)	(256)	(74)
- exchange gain on valuation clause assets and liabilities	389	974	349	945
	193	**976**	**195**	**968**
	(64)	**138**	**(62)**	**126**

Net losses from derivative instruments include net trading losses from interest rate and currency swaps, futures, forwards and forward rate agreements.

Notes to the financial statements (continued)

30. Other operating income

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Rental income from operating leases	234	225	-	-
Service contract revenue	9	15	-	-
Revenue from construction contracts	-	207	-	-
Gross written premium on pension insurance contracts	127	88	-	-
Dividend income from investments in subsidiaries	-	-	114	53
Other income	21	33	8	23
	391	**568**	**122**	**76**

31. Operating expenses

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Personnel expenses	436	441	385	390
Depreciation	219	236	58	65
Amortisation	71	64	69	62
Increase in technical reserve for pension insurance	77	55	-	-
Loss on disposal of assets under operating lease	7	6	-	-
Service contract expenses	16	16	-	-
Construction contract expenses	-	202	-	-
Administrative expenses	461	455	385	403
	1,287	**1,475**	**897**	**920**

Personnel expenses of the Group include HRK 68 million (2010: HRK 70 million) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries. The Group had 2,393 employees at 31 December 2011 (2010: 2,518 employees).

Personnel expenses of the Bank include HRK 60 million (2010: HRK 62 million) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries. The Bank had 2,192 employees at 31 December 2011 (2010: 2,318 employees).

Notes to the financial statements (continued)

32. Impairment losses on loans and advances to customers and other assets

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Identified losses				
- Placements with and loans to other banks	4	-	4	-
- loans and advances to customers	396	328	402	318
- other assets	17	29	16	26
	417	**357**	**422**	**344**
Unidentified losses				
- loans and advances to customers	-	41	3	36
	-	**41**	**3**	**36**
	417	**398**	**425**	**380**
Placements with and loans to other banks	4	-	4	-
Loans and advances to customers	396	369	405	354
Other assets	17	29	16	26
	417	**398**	**425**	**380**

33. Income tax expense

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Recognised in statement of comprehensive income				
- Current tax expense	(98)	(207)	(72)	(180)
- Deferred tax benefit	16	107	16	106
Income tax expense	**(82)**	**(100)**	**(56)**	**(74)**

Reconciliation of income tax expense

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Profit before tax	**387**	**530**	**383**	**450**
Income tax at 20%	(78)	(106)	(77)	(90)
Adjustment of income tax from the previous year in current year	(1)	7	(1)	7
Non-deductible expenses	(4)	(5)	(3)	(5)
Tax incentives and tax exempt income	2	2	25	14
Effects of previously unrecognised deferred tax benefit from tax losses available for future periods	(1)	2	-	-
Income tax expense	**(82)**	**(100)**	**(56)**	**(74)**
Effective income tax rate	**21.19%**	**18.87%**	**14.62%**	**16.44%**

Unrecognised deferred tax assets

As at 31 December 2011, the subsidiaries and associates of the Bank have unused gross tax losses amounting to HRK 12 million (2010: HRK 8 million). Such tax losses may only be used by the company that incurred the loss to reduce taxable profits of the following five years. No deferred tax asset has been recognised in respect of the losses as the ability of the Group to utilise the losses before they expire is not probable. The expiry dates for unused tax losses are as follows:

	Group Gross tax losses 2011 HRK millions	Group Tax benefit 2011 HRK millions	Group Gross tax losses 2010 HRK millions	Group Tax benefit 2010 HRK millions
31 December 2013	5	1	5	1
31 December 2014	2	1	2	1
31 December 2015	1	-	1	-
31 December 2016	4	1	-	-
	12	**3**	**8**	**2**

34. Share capital

Group and Bank	Total of ordinary shares HRK millions	Total of preference shares HRK millions	2011 Total share HRK millions
Share capital	**3,621**	**-**	**3,621**
Nominal value per share	HRK 1,000	-	-
Number of shares	**3,621,432**	**-**	**3,621,432**

Group and Bank	Total of ordinary shares HRK millions	Total of preference shares HRK millions	2010 Total share HRK millions
Share capital	**3,621**	**78**	**3,699**
Nominal value per share	HRK 1,000	HRK 10,000	-
Number of shares	**3,621,432**	**7,750**	**3,698,932**

The parent bank of the Group is Raiffeisen International Bank AG, a company founded in Austria. The shareholders at the year-end were as follows:

	2011 Ordinary Shares %	2011 Preference Shares %	2010 Ordinary Shares %	2010 Preference Shares %
Raiffeisen International Bank-Holding AG	75	-	75	-
Raiffeisen Zagreb Beteiligungsgesellschaft mbh, Graz	25	-	25	-
Management of Raiffeisenbank Austria d.d. Zagreb	-	-	-	100
	100	**-**	**100**	**100**

During 2005, the Bank established a share-based scheme under which key management personnel are entitled to purchase the Bank’s preference shares, without further vesting conditions.
The preference shares were granted, vested and sold to eligible employees in 2005 and in 2008.
Following the decisions of Management Board and General Assembly, during 2011 the Bank has exercised, at its discretion, the call option and redeemed all preference shares of Raiffeisenbank Austria d.d at their call price. Subsequently, the redeemed preference shares were cancelled and decrease of share capital by HRK 78 million was registered with Commercial Court in Zagreb.

35. Other reserves

Share premium

The share premium represents the accumulated positive difference between the nominal value and amount received upon issue of share capital.

Legal reserve

The legal reserve represents accumulated transfers from retained earnings in accordance with the Croatian Companies Act, which requires a minimum of 5% of the Group's net profit to be transferred to a non-distributable statutory reserve until the reserve (including share premium) reaches 5% of the Group's registered share capital. The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

Reserve for general banking risks

The reserve for general banking risks represents a reserve for potential losses in excess of those expected and provided for through impairment losses. In accordance with legislation the Bank is required to set aside a certain percentage of its net profit for the year dependant on asset growth above specified thresholds. During 2011 the Bank transferred the amount of HRK 288 million reserves for general banking risks made in 2005 to retained earnings.

Fair value reserve

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

36. Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Meeting of Shareholders. At a meeting to be held on 19 April 2012, a dividend of HRK 90 per ordinary share (2010: HRK 83 per ordinary share), totalling HRK 325 million (2010: HRK 302 million) is to be proposed. In 2011 the Bank exercised its call option and redeemed all preferential shares, with no dividends on those shares to be distributed in respect of the previous year. The dividends will be distributed out of the retained earnings at 31 December 2011.

During 2011 some of the Group companies declared payment of HRK 114 million of dividends from retained earnings (2010: HRK 53 million).

Notes to the financial statements (continued)

37. Non controlling interest

	Group 2011 HRK millions	Group 2010 HRK millions
At 1 January	89	88
Share of retained profit for the year	3	5
Distribution of dividend	(15)	(4)
At 31 December	**77**	**89**

38. Earnings per share attributable to equity holders of the parent

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Net profit for the year attributable to equity holders of the parent net of proposed dividend on preference shares	302	425	327	376
Weighted average number of ordinary shares outstanding during the year	3,621,432	3,621,432	3,621,432	3,621,432
Earnings per share attributable to equity holders of the parent	**HRK 83**	**HRK 117**	**HRK 90**	**HRK 104**

39. Cash and cash equivalents

	Notes	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Cash in hand	5	515	454	515	454
Items in the course of collection	5	1	1	1	1
Giro account with the Croatian National Bank	5	1,622	614	1,622	614
Current accounts with other banks	5	182	100	182	85
Placements with and loans to other banks with original maturity up to three months		1,450	3,410	1,450	3,395
		3,770	**4,579**	**3,770**	**4,549**

40. Concentration of assets and liabilities

The Group's and Bank's assets are significantly concentrated on amounts due from the Republic of Croatia, as follows:

	Notes	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Giro account with the Croatian National Bank	5	1,622	614	1,622	614
Obligatory reserve with the Croatian National Bank	6	2,819	2,544	2,819	2,544
Government bonds, direct exposure	7, 9,11	1,508	1,237	1,266	998
Treasury bills issued by the Ministry of Finance	7	980	741	977	734
Loans and advances to customers		3,304	4,264	3,304	4,264
Accrued interest and other assets		59	50	55	47
Deposits from the Republic of Croatia		(86)	(87)	(86)	(87)
		10,206	**9,363**	**9,957**	**9,114**

In addition, the Bank had indirect exposure to the Croatian state in respect of loans and advances to public funds and off-balance-sheet exposures as follows:

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Loans to customers guaranteed by the State	2,113	1,867	2,113	1,867
Guarantees, letters of credit and undrawn lending facilities	209	214	209	214
	2,322	**2,081**	**2,322**	**2,081**

The total net direct and indirect on and off-balance-sheet exposure to Croatian state risk represents 25% of the total assets and off-balance-sheet exposure of the Group (2010: 22%) and 26% of the total assets and off-balance-sheet exposure of the Bank (2010: 23%).

Notes to the financial statements (continued)

41. Repurchase and resale agreements

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

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

Group and Bank	Fair value of underlying assets HRK millions	Carrying amount of corresponding liabilities HRK millions	Repurchase date	Repurchase price HRK millions
Securities at fair value through profit or loss				
2011	2,367	1,874	January-February 2012	1,885
2010	4,193	4,047	January-March 2011	4,194

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

Group and Bank	Carrying amount of receivable HRK millions	Fair value of assets held as collateral HRK millions	Repurchase date	Repurchase price HRK millions
Loans and advances to customers				
2011	245	272	January 2011	246
2010	152	162	January 2011	162

42. Commitments and contingent liabilities

The aggregate amounts of outstanding guarantees, letters of credit and undrawn loan commitments at 31 December 2011 were:

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Guarantees	4,093	3,660	4,157	3,662
Letters of credit	124	127	124	127
Undrawn loan commitments	4,391	4,367	4,402	4,418
	8,608	**8,154**	**8,683**	**8,207**

At 31 December 2011, the Group and the Bank recognised portfolio based provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credits and undrawn lending commitments, in the amount of HRK 83 million (2010: HRK 95 million), which are included in provisions for liabilities and charges (see note 23).

Group as a lessee

The Group leases certain business premises and other assets under operating lease arrangements. Lease payments are originally denominated in EUR. In accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, such lease commitments should be accounted for as an embedded derivative. Since market rates for forward EUR currency agreements in excess of six months are currently not easily available in Croatia, the Group is not able to calculate the fair value of the embedded option. Accordingly, gains and losses will be recognised in the statement of comprehensive income upon payment of the lease instalment.

43. Assets and liabilities managed on behalf of third parties

The Group provides trust and custody services to companies, banks, individuals, and investment and pension funds (all non-Group) whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2011, the total assets under custody held by the Group on behalf of customers were HRK 4,676 million (2010: HRK 4,689 million).

In addition, at 31 December 2011, total assets of investment and pension funds under Group management amounted to HRK 14,101 million (2010: HRK 13,736 million).

During 2011 the Group made income in amount of the HRK 127 million (2010: HRK 123 million) of fees on trust activities provided to companies, banks and individuals, and management of investment and pension funds.

As at 31 December 2011 the Group and the Bank managed loans on behalf of third parties as follows:

	2011 HRK millions	2010 HRK millions
Assets		
- Loans to companies	94	109
Total assets	**94**	**109**
Liabilities		
- Financial institutions	94	109
Total liabilities	**94**	**109**

Notes to the financial statements (continued)

44. Derivative instruments and dealings in foreign currencies

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

Group	**Notional amount, remaining life**					**Fair values**	
	Up to 3 months	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
2011	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
- Forward foreign exchange contracts – OTC							
- CHF	10	51	311	-	372	2	1
- EUR	2,826	724	80	-	3,630	-	-
- USD	230	44	-	-	274	9	12
- other fx	39	8	-	-	47	7	1
- HRK	1,470	590	-	-	2,060	11	26
- Forward rate agreement	-	1,886	-	-	1,886	1	1
- Cross currency swap-OTC	46	8	4,089	118	4,261	5	631
- Interest rate swap – OTC	57	241	3,134	738	4,170	24	69
- Options purchased	8	-	-	-	8	-	-
- Options sold	8	-	-	-	8	-	-
	4,694	**3,552**	**7,614**	**856**	**16,716**	**59**	**741**
Unsettled foreign currency spot transactions - OTC	906	-	-	-	906	2	2

Group	**Notional amount, remaining life**					**Fair values**	
	Up to 3 months	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
2010	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
- Forward foreign exchange contracts – OTC							
- CHF	766	356	-	-	1,122	-	84
- EUR	3,239	1,308	-	-	4,547	-	-
- USD	249	7	-	-	256	-	-
- other fx	46	-	-	-	46	-	-
- HRK	1.085	515	-	-	1,600	16	8
- Cross currency swap-OTC	8	302	3,375	131	3,816	2	555
Interest rate swap – OTC	255	284	2,145	349	3,033	26	38
- Futures	28	-	-	-	28	1	-
	5,676	**2,772**	**5,520**	**480**	**14,448**	**45**	**685**
Unsettled foreign currency spot transactions – OTC	1,541	-	-	-	1,541	1	1

Notes to the financial statements (continued)

44. Derivative instruments and dealings in foreign currencies (continued)

At the Group and the Bank level unsettled foreign currency spot transactions are denominated in EUR in the amount of HRK 318 million (2010: HRK 682 million), in USD in the amount of HRK 320 million (2010: HRK 30 million) in other currencies in the amount of HRK 94 million (2010: HRK 30 million) and in HRK in the amount of HRK 174 million (2010: HRK 799 million).

Bank	**Notional amount, remaining life**					**Fair values**	
	Up to 3 months	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
2011	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
- Forward foreign exchange contracts – OTC							
- CHF	10	51	311	-	372	2	1
- EUR	2,858	724	80	-	3,662	-	-
- USD	230	44	-	-	274	9	12
- other fx	39	8	-	-	47	7	1
- HRK	1,477	590	-	-	2,067	11	26
- Forward rate agreement	-	1,886	-	-	1,886	1	1
- Cross currency swap-OTC	46	8	4,089	118	4,261	5	631
- Interest rate swap – OTC	57	243	3,144	741	4,185	24	70
- Options purchased	8	-	-	-	8	-	-
- Options sold	8	-	-	-	8	-	-
	4,733	**3,554**	**7,624**	**859**	**16,770**	**59**	**742**
Unsettled foreign currency spot transactions - OTC	906	-	-	-	906	2	2

Notes to the financial statements (continued)

44. Derivative instruments and dealings in foreign currencies (continued)

Bank	**Notional amount, remaining life**					**Fair values**	
	Up to 3 months	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
2010	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
- Forward foreign exchange contracts – OTC							
- CHF	771	356	-	-	1,127	-	84
- EUR	3,388	1,308	-	-	4,696	-	-
- USD	249	7	-	-	256	-	-
- other fx	46	-	-	-	46	-	-
- HRK	1,107	515	-	-	1,622	16	10
- Cross currency swap-OTC	8	302	3,375	131	3,816	2	555
- Interest rate swap – OTC	255	286	2,155	354	3,050	26	39
- Futures	28	-	-	-	28	1	-
	5,852	**2,774**	**5,530**	**485**	**14,641**	**45**	**688**
Unsettled foreign currency spot transactions - OTC	1,541	-	-	-	1,541	1	1

44. Derivative instruments and dealings in foreign currencies (continued)

Interest rate related contracts

The Group has economically hedged its exposure to interest rate risk on borrowings and government bonds, entering into interest rate swaps, denominated in EUR under which the Group pays a fixed rate and receives a floating rate or pays a floating rate and receives a fixed rate. Other interest rate swaps are customer driven.

The following table indicates the swaps and their weighted average interest rates. Average floating rates are based on rates implied in the yield curve at 31 December. These may change significantly, affecting future cash flows.

Group	2011 HRK millions	2010 HRK millions
Pay fixed swaps – notional amount	3,183	2,367
Pay variable swaps – notional amount	987	665
Average pay fixed rate	2.13%	2.63%
Average receive variable rate	1.37%	0.89%
Average pay variable rate	1.38%	0.83%
Average receive fixed rate	2.24%	2.30%

Bank	2011 HRK millions	2010 HRK millions
Pay fixed swaps – notional amount	3,198	2,384
Pay variable swaps – notional amount	987	665
Average pay fixed rate	2.21%	2.73%
Average receive variable rate	1.37%	0.90%
Average pay variable rate	1.38%	0.83%
Average receive fixed rate	2.24%	2.30%

Notes to the financial statements (continued)

45. Related party transactions

Raiffeisenbank Austria d.d. and its subsidiaries are immediately owned by Raiffeisen International Bank AG "the RBI"), a Company founded in Austria. The ultimate parent bank is RBI, incorporated in Austria, to whom and to whose affiliates (collectively "the RBI Group") the Group provides banking services. The Bank considers that it has an immediate related party relationship with its subsidiaries and associates ("the Group"), and the Group considers that it has an immediate related relationship with the RBI Group, the Supervisory and Management Board members and other executive management of the Bank and its subsidiaries (together "key management personnel"), close family members of key management personnel, and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members.

a) Key transactions with related parties

Assets and liabilities and off balance sheet exposures and income and expenses as at and for the year ended 31 December 2010 and 2011, arising from transactions with related parties were as follows:

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Statement of comprehensive income				
Interest, fee and commission income				
- Raiffeisen Leasing d.o.o.	-	-	26	8
- Raiffeisen consulting d.o.o.	-	-	2	12
- Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	-	-	-	1
- Raiffeisen mirovinsko osiguravajuće društvo d.o.o.	-	-	1	-
- Raiffeisen factoring d.o.o.	-	-	11	10
- Raiffeisen Invest d.o.o.	-	-	8	7
- RBI	73	44	73	44
Total	**73**	**44**	**121**	**82**
Interest, fee and commission expense				
- Raiffeisen Leasing d.o.o.	-	-	(2)	(5)
- Raiffeisen consulting d.o.o.	-	-	(3)	(4)
- Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondom d.d.	-	-	(1)	-
- Raiffeisen mirovinsko osiguravajuće društvo d.o.o.	-	-	(1)	(1)
- Raiffeisen factoring d.o.o.	-	-	(2)	(1)
- RBI	(216)	(264)	(197)	(181)
- RBI Group	(39)	(18)	(14)	(14)
Total	**(255)**	**(282)**	**(220)**	**(206)**
Dealing and other income				
- Raiffeisen Leasing d.o.o.	-	-	15	5
- Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.	-	-	64	50
- Raiffeisen Invest d.o.o.	-	-	21	1
- Raiffeisen consulting d.o.o.	-	-	1	1
- Raiffeisen factoring d.o.o.	-	-	20	3
- RBI	91	558	91	558
Total	**91**	**558**	**212**	**618**

45. Related party transactions (continued)

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Operating expenses				
- Raiffeisen Leasing d.o.o.	-	-	(11)	(11)
- Raiffeisen consulting d.o.o.	-	-	(37)	(34)
-Raiffeisen factoring d.o.o.	-	-	(7)	(2)
- RBI	(40)	(36)	(40)	(36)
- RBI Group	(2)	(1)	(2)	(1)
Total	**(42)**	**(37)**	**(97)**	**(84)**
Assets				
Current accounts and placements with banks				
- RBI	28	16	28	16
- RBI Group	14	5	14	5
Total	**42**	**21**	**42**	**21**
Financial assets at fair value through profit or loss				
Investments in investment funds managed by Raiffeisen Invest d.o.o., quoted	-	14	-	14
Loans to customers				
- Raiffeisen consulting d.o.o.	-	-	28	52
- Raiffeisen Leasing d.o.o.	-	-	413	417
- Raiffeisen factoring d.o.o.	-	-	152	153
- Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.	-	-	1	-
Total	**-**	**-**	**594**	**622**
Accrued income and other assets				
- Raiffeisen Leasing d.o.o.	-	-	11	9
- Raiffeisen consulting d.o.o.	-	-	2	2
- Raiffeisen Invest d.o.o.	-	-	1	1
- Raiffeisen factoring d.o.o.	-	-	2	1
- RBI		13	20	13
Total		**13**	**36**	**26**

Notes to the financial statements (continued)

45. Related party transactions (continued)

	Group 2011 HRK millions	Group 2010 HRK millions	Bank 2011 HRK millions	Bank 2010 HRK millions
Liabilities				
Deposits				
- Raiffeisen Leasing d.o.o.	-	-	136	174
- Raiffeisen consulting d.o.o.	-	-	1	150
- Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.d.	-	-	11	15
- Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o.	-	-	27	21
- Raiffeisen mirovinsko osiguravajuće društvo d.o.o.	-	-	32	20
- Raiffeisen factoring d.o.o.	-	-	33	150
- Raiffeisen Invest d.o.o.	-	-	4	18
- RBI	280	1	280	1
- RBI Group	107	167	107	167
Total	**387**	**168**	**631**	**716**
Borrowings				
- RBI	3,947	5,367	2,820	3,201
- RBI Group	1,059	148	-	-
Total	**5,006**	**5,515**	**2,820**	**3,201**
Debt securities issued				
- RBI	-	77	-	77
Total	**-**	**77**	**-**	**77**
Accruals and other liabilities				
- Raiffeisen consulting d.o.o.	-	-	3	7
- Raiffeisen factoring d.o.o.	-	-	-	1
- RBI	46	103	33	85
- RBI Group	5	-	1	-
Total	**51**	**103**	**37**	**93**
Off balance sheet exposure				
Derivative instruments				
- Raiffeisen Leasing d.o.o.	-	-	47	45
- Raiffeisen consulting d.o.o.	-	-	-	149
- Raiffeisen Invest d.o.o.	-	-	8	-
- RBI	8,478	7,521	8,478	7,521
- RBI Group	8	4	8	4
Total	**8,486**	**7,525**	**8,541**	**7,719**

Notes to the financial statements (continued)

45. Related party transactions (continued)

2011	Exposure HRK millions	Liabilities HRK millions	Income HRK millions	Expense HRK millions
Group				
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	-	13	-	42
Loans and advances	46	-	2	-
Deposits	-	21	-	1
Total	**46**	**34**	**2**	**43**
Bank				
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	-	7	-	26
Loans and advances	22	-	1	-
Deposits	-	8	-	1
Total	**22**	**15**	**1**	**27**

2010	Exposure HRK millions	Liabilities HRK millions	Income HRK millions	Expense HRK millions
Group				
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	-	10	-	52
Loans and advances	77	-	2	-
Deposits	-	22	-	1
Preference shares of the Bank	-	38	-	-
Total	**77**	**70**	**2**	**53**
Bank				
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	-	5	-	19
Loans and advances	44	-	1	-
Deposits	-	9	-	1
Preference shares of the Bank	-	25	-	-
Total	**44**	**39**	**1**	**20**

46. Risk management disclosures

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

An integrated system of risk management is being established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group. The limits are set according to the amount of regulatory capital and apply to all types of risk. Methodologies and models for managing operational risk have been developed.

Credit risk

The Group is exposed to credit risk through its trading, lending, economic hedging and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counterparties to derivative or other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deal with counterparties of good credit standing, and when appropriate, obtains collateral.

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Group is exposed to off-balance-sheet credit risk through unutilised part of loans granted and guarantees issued – refer to note 42.

Exposure to credit risk is managed in accordance with the Group's policies. Credit exposures to portfolios and individual risk groups are reviewed on a regular basis. Breaches of set limits are reported to appropriate authority level. Any substantial increases in credit exposure are authorised by the Credit Committee. The Credit Committee and Problem Loan Committee monitors changes in the creditworthiness of borrowers.
In case the analysis of borrower's creditworthiness prove to be inadequate a workout officer calculates and recommend creation of individual loan loss provisions. Problem loan committee decides upon individual loan loss provisions. Credit risk assessment is an ongoing process designed to facilitate the early identification of impairment of credit exposures.

The Group applies a prudent approach to credit risk assessment. When credit exposure is classified as a default for the first time i.e. the business unit determines that it is probable that it will be unable to collect all interest and principal, it is reported to the Problem Loan Committee. The Problem Loan Committee has the authority to decide whether the case has to be transferred to the Work-out Department or the relationship can remain and be handled by the Account Manager and when should the next review of the client be submitted to the Problem Loan Committee for approval. However, in case default is recognised the client has to be evidenced in Default Data Base (DDB) and immediately transferred to Work-out Department.

In late 2009, the Bank introduced an early warning system for identifying potentially doubtful accounts among its non-retail customers. This is a kind of support to identify timely any changes in the risk level of a particular customer. Monitoring is performed on a monthly basis. Once an early warning is provided, it is acted upon by analysing its value and root cause. Depending on the risk level rating of a customer (1-4), the customer remains within the Corporate Division (1 - regular customer and 2 - pre-workout customer) or is transferred to the Loan Workout Division (3 - Early workout stage or 4 - Late workout stage or legal action).
Early Warning System for Micro segment was introduced at the beginning of 2011. The EWS output is mainly based on an evaluation of the customer's behavior and the monitoring is performed on a monthly basis. Customers are classified according to their risk profile (low, medium, high) and appropriate actions are taken as per their category.

The Credit Committee has the authority to approve new limit to the clients of risk status 1 and 2. The decision of the Credit Committee can be reversed only by the Supervisory Board. The Problem Loan Committee has the authority for credit reviews of the clients with risk status 3 and 4, and is in charge of determination of individual loan loss provisions.

Notes to the financial statements (continued)

46. Risk management disclosures (continued)

Credit risk (continued)

The Group's credit policies contain retail and corporate customer lending guidelines. The credit policies define the criteria for providing funds to e.g. target industries, structuring portfolios in line with customer ratings, by type of collateral, and similar. The Group has internal policies in place that regulate acceptable types of collateral and their valuation. Most frequently furnished security instruments comprise real estate, cash deposits, movable property, inventories, listed securities and other assets.

Liquidity risk

The liquidity risk is inherently connected to Group’s regular business activities and is primarily manifested due to maturity or currency mismatch between inflows and outflows of funds. The liquidity risk includes the risk of not being able to finance own business under acceptable terms (price or maturity) and the risk of being unable to liquidate owned assets at acceptable price and in acceptable timeframe.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings, and share capital. The Group continually assesses liquidity risk by identifying and monitoring changes in the level of mismatch between inflows and outflows and changes in the availability of funds needed for achieving defined business and strategic goals. In addition to this, the Group maintains a portfolio of liquid assets which can, if needed, be used as a source of fresh funds.

The liquidity risk management is delegated to Treasury and Investment Banking Division while management activities are operatively divided between Money Market Desk and ALM Desk. These units continuously manage liquidity reserves taking into account planned business activities and the needs of the customers.

The Group adjusts its business activities in compliance with liquidity risk legislation and internal policies related to various liquidity risk management aspects, such as the maintenance of liquidity reserves, the matching of liabilities and assets, the setup of position limits and compliance with prescribed regulatory ratios and limits.

One of the more important liquidity ratios is certainly CNB prescribed minimum liquidity coefficient. Measuring the ratio of inflows to outflows, with appropriate haircuts applied, this ratio displays Bank’s ability to service its short term liabilities with short term inflow of funds. Aside the minimum liquidity coefficient, reserve requirements and minimum required amount of foreign currency claims ratio are additional tools CNB uses to stimulate active liquidity risk management.

Additional level of liquidity risk management is defined through numerous internal policies which are used to define, on a more operational level, various methods and techniques of liquidity risk management. These include models used to estimate effective maturity date on-balance and off-balance sheet items which do not have contractual maturity dates defined (estimations are based on historical behavioural observations while keeping the conservative stance on models results), methods used to define stress testing activities and methods used to calculate maturity gaps between asset and liability items of the balance sheet. Furthermore, continuously monitored is the availability and cost of different sources of funding and their concentration. Marketability of assets held as liquidity reserve is also continuously monitored.

One of the main liquidity indicators is the deposits (retail/corporate) to total assets ratio which is monitored on a monthly basis. The annual indicators, based on management accounting information, are set out below.

		2011		2010
	Retail	Corporate	Retail	Corporate
	(%)	(%)	(%)	(%)
31 Dec	41.22%	19.51%	37.11%	19.41%
Average	39.58%	18.34%	37.75%	18.49%
Minimum	36.60%	15.74%	35.67%	15.02%
Maximum	41.39%	20.42%	40.04%	20.73%

46. Risk management disclosures (continued)

Liquidity risk (continued)

In addition to activities described above, the Bank is preparing and regularly revising the liquidity crisis contingency plan. This plan clearly defines responsibilities of key liquidity management personnel in crisis situations and presents a plan to be followed in order to get the funds needed to maintain the ability to service own liabilities.

Apart from complying with all currently defined regulatory rules and internal policies related to liquidity risk, the Bank is actively involved in implementation of new ratios regulators are planning to introduce in liquidity risk management over the next couple of years. Focus is primarily paid to Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The efforts invested into implementation of these ratios are coordinated on a RZB Group level and this allows for sharing and transfer of liquidity risk management know-how which will certainly have positive effects on increase of liquidity risk management proficiency in the Bank.

The Bank's calculation and analyses of asset and liability maturity mismatch is based upon cash inflows and outflows arising from transactions which are assigned to the various timebands in accordance with their residual contractual maturity. Assets are included according to their latest possible date of receipt and liabilities on the basis of the earliest occurrence of the obligation. For cash flows arising from financial instruments which do not have contractually specified repayment date or their behavior significantly differs from contractual, the bank uses behavior assumptions (stickiness & salability ratios) based on the historic analyses.

Market risk

All trading instruments are subject to market risk, that is, the risk that future changes in market conditions may make an instrument less valuable or more onerous. Trading financial instruments are recognised at fair value, and all changes in market conditions directly affect net trading income. The Group manages its use of trading instruments in response to changing market conditions.

Market risk management of the Group and the Bank is conducted in accordance with legislative requirements and directives of domestic and foreign regulators, which is defined in internal policies and procedures which are regularly revised by Risk division. In line with the internal policies, the Bank actively measures, manages and monitors market risk exposure arising from:

- trading book positions (comprising trading book interest rate risk and trading book equity price risk)
- non-trading book positions
- total position of the Bank

Measuring Market Risk (Value at Risk)

The Bank measures and manages its market risk using VaR analysis through its internal policies and established control systems. Value at Risk (VaR) is the maximum expected loss that is acceptable for the Bank at a certain point of time. The VaR risk measure is a statistically defined estimate of the worst potential loss of a current portfolio, for a specified confidence level, over a given period during which positions can be closed. Since the 2010, the Bank has been using a combination of a hybrid Monte Carlo and historical methods for VaR calculation. This methodology has been developed internally in the RBI Group to monitor the interest rate risk, foreign exchange risk and price risk, the credit spread risk on the basis of a one-day holding period and a confidence level of 99%.

HRK millions	December 2010	December 2011	Average	Min	Max
Interest rate risk					
- trading book	4.0	4.1	7.3	3.7	16.6
- banking book	5.1	5.9	13.4	5.9	20.1
Currency risk	0.6	0.9	1.8	0.2	7.1
Price risk	0.9	1.3	2.2	0.8	3.3
Total VaR	6.9	7.5	18.2	7.5	28.2

46. Risk management disclosures (continued)

Market risk (continued)

Value at risk number provides the maximum losses that will not be exceeded at a certain confidence level under normal market conditions, but does not provide additional information on potential effects in the case of extreme market movements. In order to take these events into account as well, Group carries out weekly stress tests with an emphasis on market movements over the past five years. In this way the Bank simulates possible crisis situations and their impact on the current positions. The stress tests consequently deliver important results for the management of risks, for all risk categories monitored and for various risk factors.

Interest rate risk

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

Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Group's business strategies. To achieve its risk management objectives, the Group also uses interest rate swaps.

The majority of loans and receivables to companies and individuals and deposits from companies and individuals are initially contracted with an interest rate type which allows the Bank to vary its interest rate level at the Management Board's decision. These financial instruments are classified as instruments that bear variable interest rates, subject to semiannual repricing.

In its transactions with retail sector, the Bank has the option to change the level of interest rates applied on loans and/or deposits, if these instruments are contracted with an interest rate type subject to Management Board's decision. The methodology used to determine the need for change and the size of interest rate changes has been published in January 2011 as a response to regulatory requests, with the goal of customer protection. The need for change of these interest rates is determined by the movement of various external parameters, and once the decision for change of interest rates has been reached, level of interest rates is changed on a portfolio level, and not on a level of single line or placement. Even if external parameters move unfavourably for the Bank, the Bank has the option to decide not to change the level of interest rates if it expects that change of interest rates will deteriorate its competitive position. The Bank can decide on interest rate change two times a year while potential interest rate changes can be applied on 1 June and 1 December. For individual contracts, interest rates can change also due to customers' behaviour. Timely compliance with their obligations might earn customers some bonus in terms of decrease of interest rates and vice versa. These changes are applied at dates of their compliance (non-compliance) with their contractual obligations.

Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. Exposure to interest rate risk is monitored and measured using sensitivity analysis tolls such Basis Point Value, VaR, stop loss limits and other methods for measuring sensitivity.

Trading book

With its internal policies the Bank also prescribed and implemented sensitivity analysis tools such Basis Point Value for monitoring interest rate risk within trading book positions.

“Basis Point Value“ is the indicator of the sensitivity of the Bank's portfolio to a 1bp parallel shift in the referent yield curve. The Bank has established individual BPV limits per each currency and a total BPV limit.

Utilisation monitoring of trading book limits is done on a daily basis.

46. Risk management disclosures (continued)

***Interest rate risk* (continued)**

Trading book BPV per currencies for 2011 and 2010 and as follows:

BPV / Currency	EUR	USD	HRK
31.12.2011	(9,809.3)	(177.8)	(13,869.0)
Average	(21,751.8)	(457.9)	(10,200.9)
Minimum	(50,840.9)	(5,796.3)	(20,823.5)
Maximum	7,491.9	3,448.6	(992.1)

BPV / Currency	EUR	USD	HRK
31.12. 2010	47,163.3	261,777.4	7,493.8
Average	120,614.0	37,332.4	37,485.0
Minimum	1,913.3	3,225.7	54,894.0
Maximum	270,623.4	2,135.4	47,092.9

Non trading book

The Bank measures and monitors interest rate risk exposure of non trading book by:

- basis point value limits
- analyses of effect on market value of own funds

Interest rate risk analyses are done for every significant currency and interest rate type.

For the purpose of managing and monitoring of interest rate risk exposures via basis point value methodology, which started to use 2008 for banking book positions, the Bank has prescribed internal policies defining:

- limits on particular timebands per significant currency
- total limits per significant currency
- total limit per non-trading book.

BPV / Currency	HRK	EUR	USD	CHF
31.12.2011	(15,800.4)	28,458.4	3,760.2	4,851.9
Average	(30,993.0)	18,561.7	4,576.3	(2,693.8)
Minimum	(44,066.8)	(14,745.6)	228.7	(17,427.1)
Maximum	(13,328.0)	36,237.1	8,461.8	5,056.4

BPV / Currency	HRK	EUR	USD	CHF
31.12.2010	85,214.4	323,297.4	5,737.2	34,079.4
Average	122,818.4	331,823.7	13,738.7	35,248.1
Minimum	157,914.6	196,930.5	20,275.2	31,584.2
Maximum	204,096.2	415,567.8	9,698.5	27,665.3

Notes to the financial statements (continued)

46. Risk management disclosures (continued)

Interest rate risk (continued)

For the purpose of managing and monitoring of interest rate risk exposures via analyses of the effect on the market value of own funds, the Bank applies an externally defined Basel II methodology (Directive 48/2006 EEC), which implies measuring the effects of a standard stress test of a 200bp parallel shift in the referent yield curve. In 2010, the Group introduced a monitoring of standard interest-rate shock of 200 basis points, following the new CNB regulations and methodology, with the following implications:

	31.12.2011	31.12.2010
CHF	17,666	25,437
EUR	118,874	64,074
HRK	44,777	31,304
OTHER	(20,352)	(13,163)
TOTAL	160,966	107,651
%	2.97%	2.09%

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities at fair value through profit and loss.

Equity Delta is the indicator of the Bank's exposure to equity price risk arising from positions in equity securities and equity derivatives held for trading. The Bank has established equity delta and VaR limits per position in a single instrument and a total equity delta limit.

The Group's and the Bank's portfolio of equity investments comprises equities issued by domestic entities. The total value of the maximum exposure toward equities is determined by the risk management group of the Bank's ultimate parent bank. For the monitoring of its equity portfolio the Bank analyses the equity portfolio's sensitivity through Equity delta limits and VaR limits.

Currency risk

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

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

The Group manages its currency risk by setting principles and limits for foreign currency exposures and by monitoring these limits (including stop-loss limits). The Group directs its business activities towards trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency, and maintaining daily business activities within daily allowed open limits per currency.

The Group is primarily exposed to EUR. Further currency exposure arises from financial instruments denominated in CHF and USD. In order to protect itself against currency risk, Group uses derivative financial instruments.

Assets and liabilities denominated in domestic currency include HRK 28 million (2010: HRK 38 million) of loans and advances to customers and borrowings, which the Group and the Bank have the option to revalue in line with HRK movements against EUR, if HRK depreciates against to EUR beyond a certain level.

46. Risk management disclosures (continued)

Operational risk

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. Operational risk differs from other risks attributed to the Bank's activities in a way that it is not directly taken in exchange for the expected future profit, but is embedded in the process of the Bank's and Group daily activities and inherent to all activities, processes, products and systems.

With the aim of efficient operational risk management, the Group built system based on standards and principles defined in Credit Institutions Act, Basel Committee documents and RBI Group Directives.
Whereas due to characteristics of operational risk, the Group has been exposed to operational risk in all its activities, with its internal procedures the Group established framework for system of identification, measuring, assessment and monitoring operational risk exposures with objective of successfull operational risk management.

Within established operational risk management system, Group uses methods which include risk assessments, collecting operational risk events data, monitoring key risk indicators and performing scenario analysis.
With the aim of regular monitoring of operational risk profile and material exposure to losses, the Bank implemented regular reporting of operational risk information that supports the proactive management of operational risk.

Whilst ultimate responsibility for risk resides with the Management Board, system of responsibilities for managing operational risk is based on responsibilities of Operational Risk Managers, which are in charge of operational enforcement of risk strategy and identification and managing of operational risk within its business areas, and on responsibility of Operational Risk Unit for establishment of operational risk management system through development of rules, processes, methods and system of measuring, control, monitoring and reporting on operational risk exposure.

Risk Coordination has been established as Committee responsible also for discussing operational risk issues, suggesting procedures and risk mitigation actions to the Board when necessary, whilst Operational Risk Managers are finally responsible for their implementation.

The capital requirement for operational risk is determined using the standardised approach.

46. Risk management disclosures (continued)

Derivative financial instruments

The Group enters into derivative financial instruments mostly for risk management purposes and on behalf of customers. Derivative financial instruments used by the Group include swaps and forwards whose value changes in response to changes in interest rates and foreign exchange rates. Derivatives are either standardised contracts transacted through regulated exchanges or individually negotiated over-the-counter contracts. Interest rate swaps are mainly used for economically hedging interest rate exposures.

Swaps

Swaps are over-the-counter agreements between the Group and other parties to exchange future cash flows based upon agreed notional amounts. The swaps most commonly used by the Group are interest rate swaps, whereby the Group agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Group is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavourable movements in interest rates relative to the contractual rates of the contract.

Forwards

Forward contracts are commitments either to purchase or sell a designated financial instrument or currency at a specified future date for a specified price and may be settled in cash or with another financial instrument. Forwards are individually traded over-the-counter contracts. Forward contracts result in credit exposure to the counterparty and exposure to market risk based on changes in market prices relative to the contracted amounts.

Futures

Futures contracts are commitments either to purchase or sell a designated financial instrument or currency, at a specified future date for a specified price and may be settled in cash or with another financial instrument. Futures are standardised exchange-traded contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in future contract value are settled daily. Futures contracts have limited credit risk because the counterparties are futures exchanges.

Forward rate agreements

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the writer a specified underlying instrument at a specified price on or before a specified date. The Group enters into exchange-traded and over-the-counter option contracts to meet the requirements of its risk management and trading activities.
The risk in writing a call option is that the Group may incur a loss if the market price of the security increases and the option is exercised. The risk in writing a put option is that the Group may incur a loss if the market price of the security decreases and the option is exercised. The risk in buying an option is that the Group pays a premium whether or not the option is exercised. The Group also has the additional risk of not being able to enter into a closing transaction if a liquid secondary market does not exist.

Notes to the financial statements (continued)

47. Maturity analysis

The remaining contractual maturity of the Group's assets and liabilities as at 31 December 2011 and 31 December 2010 is presented in the tables below:

The items with undefined maturity are included in terms over 5 years:

Group **2011**	**Less than 1 month HRK millions**	**1-3 months HRK millions**	**3-12 months HRK millions**	**1-5 years HRK millions**	**Over 5 years HRK millions**	**Total HRK millions**
Assets						
Cash and amounts due from banks	2,320	-	-	-	-	2,320
Obligatory reserve with the Croatian National Bank	2,819	-	-	-	-	2,819
Financial assets at fair value through profit or loss	2,464	468	874	-	-	3,806
Placements with and loans to other banks	1,469	20	152	210	-	1,851
Financial assets available for sale	-	16	2	18	104	140
Loans and advances to customers	3,005	1,605	4,505	11,601	6,333	27,049
Financial investments held to maturity	-	-	4	696	36	736
Property, plant and equipment	-	-	-	-	1,592	1,592
Intangible assets	-	-	-	-	206	206
Deferred tax assets	-	-	-	205	1	206
Other assets	246	31	127	51	4	459
Total assets	**12,323**	**2,140**	**5,664**	**12,781**	**8,276**	**41,184**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	743	-	-	-	-	743
Deposits from banks	666	60	40	-	-	766
Deposits from companies and other similar entities	6,548	1,114	910	337	51	8,960
Deposits from individuals	4,404	2,893	6,044	849	95	14,285
Borrowings	1,718	1,171	2,453	4,035	185	9,562
Provisions for liabilities and charges	-	-	39	118	2	159
Other liabilities	693	23	54	96	23	889
Equity attributable to the equity holders of the parent	-	-	-	-	5,743	5,743
Non controlling interest	-	-	-	-	77	77
Total equity and liabilities	**14,772**	**5,261**	**9,540**	**5,435**	**6,176**	**41,184**
Maturity gap	**(2,449)**	**(3,121)**	**(3,876)**	**7,346**	**2,100**	**-**
Maturity gap (2010)	**(1,814)**	**(4,233)**	**(5,417)**	**7,814**	**3,650**	**-**

Notes to the financial statements (continued)

47. Maturity analysis (continued)

Group **2010**	**Less than 1 month HRK millions**	**1-3 months HRK millions**	**3-12 months HRK millions**	**1-5 years HRK millions**	**Over 5 years HRK millions**	**Total HRK millions**
Assets						
Cash and amounts due from banks	1,169	-	-	-	-	1,169
Obligatory reserve with the Croatian National Bank	2,544	-	-	-	-	2,544
Financial assets at fair value through profit or loss	4,551	416	742	-	-	5,709
Placements with and loans to other banks	3,410	-	50	232	-	3,692
Financial assets available for sale	-	-	-	13	105	118
Loans and advances to customers	2,320	1,855	2,650	11,683	8,048	26,556
Financial investments held to maturity	-	-	7	686	36	729
Property, plant and equipment	-	-	-	-	1,622	1,622
Intangible assets	-	-	-	-	230	230
Deferred tax assets	-	-	-	188	1	189
Other assets	316	46	36	48	5	451
Total assets	**14,310**	**2,317**	**3,485**	**12,850**	**10,047**	**43,009**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	686	-	-	-	-	686
Deposits from banks	342	299	120	-	-	761
Deposits from companies and other similar entities	6,116	1,511	992	290	49	8,958
Deposits from individuals	4,444	2,501	5,683	733	96	13,457
Borrowings	4,019	2,052	1,908	3,814	181	11,974
Debt securities issued	-	124	-	-	-	124
Provisions for liabilities and charges	-	-	62	100	8	170
Current tax liability	-	-	78	-	-	78
Other liabilities	517	63	59	99	159	897
Equity attributable to the equity holders of the parent	-	-	-	-	5,815	5,815
Non controlling interest	-	-	-	-	89	89
Total equity and liabilities	**16,124**	**6,550**	**8,902**	**5,036**	**6,397**	**43,009**
Maturity gap	**(1,814)**	**(4,233)**	**(5,417)**	**7,814**	**3,650**	**-**
Maturity gap (2009)	**(3,274)**	**(209)**	**(4,464)**	**4,652**	**3,295**	**-**

47. Maturity analysis (continued)

The remaining contractual maturity of the Bank's assets and liabilities as at 31 December 2011 and 31 December 2010 is presented in the tables below:

The items with undefined maturity are included in terms over 5 years.

Bank **2011**	**Less than 1 month HRK millions**	**1-3 months HRK millions**	**3-12 months HRK millions**	**1-5 years HRK millions**	**Over 5 years HRK millions**	**Total HRK millions**
Assets						
Cash and amounts due from banks	2,320	-	-	-	-	2,320
Obligatory reserve with the Croatian National Bank	2,819	-	-	-	-	2,819
Financial assets at fair value through profit or loss	2,464	463	854	-	-	3,781
Placements with and loans to other banks	1,469	20	98	210	-	1,797
Financial assets available for sale	-	16	-	-	4	20
Loans and advances to customers	2,833	1,127	3,994	11,199	6,471	25,624
Financial investments held to maturity	-	-	-	604	-	604
Investment in subsidiaries	-	-	-	-	211	211
Property, plant and equipment	-	-	-	-	474	474
Intangible assets	-	-	-	-	201	201
Deferred tax assets	-	-	-	203	-	203
Other assets	212	23	119	49	3	406
Total assets	**12,117**	**1,649**	**5,065**	**12,265**	**7,364**	**38,460**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	744	-	-	-	-	744
Deposits from banks	666	60	40	-	-	766
Deposits from companies and other similar entities	6,634	1,231	920	266	19	9,070
Deposits from individuals	4,404	2,893	6,044	849	95	14,285
Borrowings	1,364	625	1,914	3,115	182	7,200
Provisions for liabilities and charges	-	-	38	107	2	147
Other liabilities	450	8	47	91	20	616
Equity	-	-	-	-	5,632	5,632
Total liabilities and equity	**14,262**	**4,817**	**9,003**	**4,428**	**5,950**	**38,460**
Maturity gap	**(2,145)**	**(3,168)**	**(3,938)**	**7,837**	**1,414**	**-**
Maturity gap (2010)	**(2,068)**	**(4,526)**	**(5,057)**	**8,589**	**3,062**	**-**

Notes to the financial statements (continued)

47. Maturity analysis (continued)

Bank **2010**	**Less than 1 month HRK millions**	**1-3 months HRK millions**	**3-12 months HRK millions**	**1-5 years HRK millions**	**Over 5 years HRK millions**	**Total HRK millions**
Assets						
Cash and amounts due from banks	1,154	-	-	-	-	1,154
Obligatory reserve with the Croatian National Bank	2,544	-	-	-	-	2,544
Financial assets at fair value through profit or loss	4,550	410	716	-	-	5,676
Placements with and loans to other banks	3,395	-	-	232	-	3,627
Financial assets available for sale	-	-	-	-	16	16
Loans and advances to customers	2,241	1,417	2,256	11,315	8,208	25,437
Financial investments held to maturity	-	-	-	593	-	593
Investment in subsidiaries	-	-	-	-	211	211
Property, plant and equipment	-	-	-	-	378	378
Intangible assets	-	-	-	-	226	226
Deferred tax assets	-	-	-	187	-	187
Other assets	253	37	32	46	5	373
Total assets	**14,137**	**1,864**	**3,004**	**12,373**	**9,044**	**40,422**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	689	-	-	-	-	689
Deposits from banks	342	299	120	-	-	761
Deposits from companies and other similar entities	6,437	1,673	1,014	217	19	9,360
Deposits from individuals	4,444	2,501	5,683	733	96	13,457
Borrowings	3,832	1,748	1,059	2,640	176	9,455
Debt securities issued	-	124	-	-	-	124
Provisions for liabilities and charges	-	-	60	100	4	164
Current tax liability	-	-	72	-	-	72
Other liabilities	461	45	53	94	16	669
Equity	-	-	-	-	5,671	5,671
Total liabilities and equity	**16,205**	**6,390**	**8,061**	**3,784**	**5,982**	**40,422**
Maturity gap	**(2,068)**	**(4,526)**	**(5,057)**	**8,589**	**3,062**	**-**
Maturity gap (2009)	**(3,679)**	**(535)**	**(3,658)**	**5,292**	**2,580**	**-**

Notes to the financial statements (continued)

48. Currency analysis

Assets and liabilities denominated in domestic currency include HRK 28 million (2010: HRK 38 million) of loans and advances to customers and borrowings, which the Group and the Bank, and lenders of the Group and the Bank, have the option to revalue in line with HRK movements against EUR, if HRK depreciates against to EUR beyond a certain level.

Group **2011**	**EUR HRK millions**	**EUR linked HRK millions**	**Other foreign currencies HRK millions**	**Total foreign currencies HRK millions**	**Domestic currency HRK millions**	**Total currencies HRK millions**
Assets						
Cash and amounts due from banks	106	-	179	285	2,035	2,320
Obligatory reserve with the Croatian National Bank	533	-	-	533	2,286	2,819
Financial assets at fair value through profit or loss	1,780	1,056	92	2,928	878	3,806
Placements with and loans to other banks	911	-	416	1,327	524	1,851
Financial assets available for sale	16	68	18	102	38	140
Loans and advances to customers	5,303	10,850	3,686	19,839	7,210	27,049
Financial investments held to maturity	15	658	-	673	63	736
Property, plant and equipment	-	-	-	-	1,592	1,592
Intangible assets	-	-	-	-	206	206
Deferred tax assets	-	-	-	-	206	206
Other assets	113	39	4	156	303	459
Total assets	**8,777**	**12,671**	**4,395**	**25,843**	**15,341**	**41,184**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	69	-	636	705	38	743
Deposits from banks	361	-	-	361	405	766
Deposits from companies and other similar entities	2,230	233	717	3,180	5,780	8,960
Deposits from individuals	10,705	14	1,808	12,527	1,758	14,285
Borrowings	7,393	783	69	8,245	1,317	9,562
Provisions for liabilities and charges	-	4	-	4	155	159
Other liabilities	218	197	30	445	444	889
Total equity attributable to the equity holders of the parent	-	-	-	-	5,743	5,743
Non controlling interest	-	-	-	-	77	77
Total equity and liabilities	**20,976**	**1,231**	**3,260**	**25,467**	**15,717**	**41,184**
Currency gap	**(12,199)**	**11,440**	**1,135**	**376**	**(376)**	**-**
Currency gap (2010)	**(11,208)**	**10,104**	**2,754**	**1,650**	**(1,650)**	**-**

48. Currency analysis (continued)

Group 2010	EUR HRK millions	EUR linked HRK millions	Other foreign currencies HRK millions	Total foreign currencies HRK millions	Domestic currency HRK millions	Total currencies HRK millions
Assets						
Cash and amounts due from banks	105	-	82	187	982	1,169
Obligatory reserve with the Croatian National Bank	-	-	430	430	2,114	2,544
Financial assets at fair value through profit or loss	3,954	578	121	4,653	1,056	5,709
Placements with and loans to other banks	2,069	-	168	2,237	1,455	3,692
Financial assets available for sale	1	21	15	37	81	118
Loans and advances to customers	4,582	10,246	4,625	19,453	7,103	26,556
Financial investments held to maturity	15	648	-	663	66	729
Property, plant and equipment	-	-	-	-	1,622	1,622
Intangible assets	-	-	-	-	230	230
Deferred tax assets	-	-	-	-	189	189
Other assets	139	40	7	186	265	451
Total assets	**10,865**	**11,533**	**5,448**	**27,846**	**15,163**	**43,009**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	37	-	635	672	14	686
Deposits from banks	276	-	19	295	466	761
Deposits from companies and other similar entities	2,983	501	570	4,054	4,904	8,958
Deposits from individuals	10,489	88	1,331	11,908	1,549	13,457
Borrowings	7,981	745	106	8,832	3,142	11,974
Debt securities issued	-	-	-	-	124	124
Provisions for liabilities and charges	16	2	-	18	152	170
Current tax liability	-	-	-	-	78	78
Other liabilities	291	93	33	417	480	897
Total equity attributable to the equity holders of the parent	-	-	-	-	5,815	5,815
Non controlling interest	-	-	-	-	89	89
Total equity and liabilities	**22,073**	**1,429**	**2,694**	**26,196**	**16,813**	**43,009**
Currency gap	**(11,208)**	**10,104**	**2,754**	**1,650**	**(1,650)**	**-**
Currency gap (2009)	**(12,803)**	**11,241**	**4,664**	**3,102**	**(3,102)**	**-**

48. Currency analysis (continued)

Bank 2011	EUR HRK millions	EUR linked HRK millions	Other foreign currencies HRK millions	Total foreign currencies HRK millions	Domestic currency HRK millions	Total currencies HRK millions
Assets						
Cash and amounts due from banks	106	-	179	285	2,035	2,320
Obligatory reserve with the Croatian National Bank	533	-	-	533	2,286	2,819
Financial assets at fair value through profit or loss	1,779	1,049	92	2,920	861	3,781
Placements with and loans to other banks	911	-	416	1,327	470	1,797
Financial assets available for sale	-	-	16	16	4	20
Loans and advances to customers	5,424	9,426	3,608	18,458	7,166	25,624
Financial investments held to maturity	-	604	-	604	-	604
Investment in subsidiaries	-	-	-	-	211	211
Property, plant and equipment	-	-	-	-	474	474
Intangible assets	-	-	-	-	201	201
Deferred tax assets	-	-	-	-	203	203
Other assets	112	22	4	138	268	406
Total assets	**8,865**	**11,101**	**4,315**	**24,281**	**14,179**	**38,460**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	70	-	636	706	38	744
Deposits from banks	361	-	-	361	405	766
Deposits from companies and other similar entities	2,253	103	715	3,071	5,999	9,070
Deposits from individuals	10,705	14	1,808	12,527	1,758	14,285
Borrowings	5,129	783	3	5,915	1,285	7,200
Provisions for liabilities and charges	-	5	-	5	142	147
Other liabilities	200	13	29	242	374	616
Equity	-	-	-	-	5,632	5,632
Total liabilities and equity	**18,718**	**918**	**3,191**	**22,827**	**15,633**	**38,460**
Currency gap	**(9,853)**	**10,183**	**1,124**	**1,454**	**(1,454)**	**-**
Currency gap (2010)	**(8,879)**	**9,153**	**2,708**	**2,982**	**(2,982)**	**-**

48. Currency analysis (continued)

Bank 2010	EUR HRK millions	EUR linked HRK millions	Other foreign currencies HRK millions	Total foreign currencies HRK millions	Domestic currency HRK millions	Total currencies HRK millions
Assets						
Cash and amounts due from banks	90	-	82	172	982	1,154
Obligatory reserve with the Croatian National Bank	-	-	430	430	2,114	2,544
Financial assets at fair value through profit or loss	3,954	574	121	4,649	1,027	5,676
Placements with and loans to other banks	2,058	-	168	2,226	1,401	3,627
Financial assets available for sale	-	-	13	13	3	16
Loans and advances to customers	4,663	9,107	4,532	18,302	7,135	25,437
Financial investments held to maturity	-	593	-	593	-	593
Investment in subsidiaries	-	-	-	-	211	211
Property, plant and equipment	-	-	-	-	378	378
Intangible assets	-	-	-	-	226	226
Deferred tax assets	-	-	-	-	187	187
Other assets	137	23	6	166	207	373
Total assets	**10,902**	**10,297**	**5,352**	**26,551**	**13,871**	**40,422**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	38	-	635	673	16	689
Deposits from banks	276	-	19	295	466	761
Deposits from companies and other similar entities	3,120	358	628	4,106	5,254	9,360
Deposits from individuals	10,549	28	1.331	11,908	1,549	13,457
Borrowings	5,568	745	-	6,313	3,142	9,455
Debt securities issued	-	-	-	-	124	124
Provisions for liabilities and charges	16	2	-	18	146	164
Current tax liability	-	-	-	-	72	72
Other liabilities	214	11	31	256	413	669
Equity	-	-	-	-	5,671	5,671
Total liabilities and equity	**19,781**	**1,144**	**2,644**	**23,569**	**16,853**	**40,422**
Currency gap	**(8,879)**	**9,153**	**2,708**	**2,982**	**(2,982)**	**-**
Currency gap (2009)	**(10,471)**	**9,804**	**4,691**	**4,024**	**(4,024)**	**-**

Notes to the financial statements (continued)

49. Interest rate repricing, gap analysis and amounts subject to fixed interest rates

The following tables present the Group's and the Bank's assets and liabilities and equity analysed according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing.

The tables are management's estimate of the interest rate risk for the Group and the Bank as at 31 December 2011 and are not necessarily indicative of the positions at other times but provide some indication of the sensitivities of the Group's and the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity. The Group and the Bank have a significant proportion of interest-earning assets and interest-bearing liabilities in foreign currency.

Group	**Non interest bearing**	**Less than 1 month**	**1-3 months**	**3-12 months**	**Over 12 months**	**Total**	**Fixed interest rates**
2011	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
Assets							
Cash and amounts due from banks	109	2,211	-	-	-	2,320	-
Obligatory reserve with the Croatian National Bank	533	2,286	-	-	-	2,819	-
Financial assets at fair value through profit or loss	97	2,385	463	861	-	3,806	3,666
Placements with and loans to other banks	-	1,469	43	129	210	1,851	1,851
Financial assets available for sale	20	-	-	3	117	140	121
Loans and advances to customers	24	24,626	485	154	1,760	27,049	2,056
Financial investments held to maturity	-	-	-	4	732	736	736
Property, plant and equipment	1,592	-	-	-	-	1,592	-
Intangible assets	206	-	-	-	-	206	-
Deferred tax assets	206	-	-	-	-	206	-
Other assets	459	-	-	-	-	459	-
Total assets	**3,246**	**32,977**	**991**	**1,151**	**2,819**	**41,184**	**8,430**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	743	-	-	-	-	743	-
Deposits from banks	125	541	60	40	-	766	640
Deposits from companies and other similar entities	1,202	5,564	1,092	872	230	8,960	3,503
Deposits from individuals	-	6,844	2,473	4,777	191	14,285	8,994
Borrowings	7	3,816	4,175	1,202	362	9,562	2,494
Provisions for liabilities and charges	159	-	-	-	-	159	-
Other liabilities	889	-	-	-	-	889	-
Equity attributable to the equity holders of the parent	5,743	-	-	-	-	5,743	-
Non controlling interest	77	-	-	-	-	77	-
Total liabilities and equity	**8,945**	**16,765**	**7,800**	**6,891**	**783**	**41,184**	**15,631**
Interest rate gap	**(5,699)**	**16,212**	**(6,809)**	**(5,740)**	**2,036**	**-**	**(7,201)**
Interest rate gap (2010)	**(5,739)**	**16,259**	**(7,013)**	**(5,191)**	**1,684**	**-**	**(5,783)**

Notes to the financial statements (continued)

49. Interest rate repricing, gap analysis and amounts subject to fixed interest rates (continued)

Group	**Non interest bearing**	**Less than 1 month**	**1-3 months**	**3-12 months**	**Over 12 months**	**Total**	**Fixed interest rates**
2010	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
Assets							
Cash and amounts due from banks	116	1,053	-	-	-	1,169	-
Obligatory reserve with the Croatian National Bank	430	2,114	-	-	-	2,544	-
Financial assets at fair value through profit or loss	114	4,464	416	715	-	5,709	5,357
Placements with and loans to other banks	-	3,410	-	50	232	3,692	3,691
Financial assets available for sale	16	-	-	-	102	118	102
Loans and advances to customers	24	23,833	794	519	1,386	26,556	1,774
Financial investments held to maturity	-	-	-	7	722	729	729
Property, plant and equipment	1,622	-	-	-	-	1,622	-
Intangible assets	230	-	-	-	-	230	-
Deferred tax assets	189	-	-	-	-	189	-
Other assets	451	-	-	-	-	451	-
Total assets	**3,192**	**34,874**	**1,210**	**1,291**	**2,442**	**43,009**	**11,653**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	686	-	-	-	-	686	-
Deposits from banks	60	283	298	120	-	761	701
Deposits from companies and other similar entities	1,125	5,217	1,488	942	186	8,958	4,188
Deposits from individuals	1	7,252	1,933	4,155	116	13,457	7,706
Borrowings	10	5,863	4,380	1,265	456	11,974	4,717
Debt securities issued	-	-	124	-	-	124	124
Provisions for liabilities and charges	170	-	-	-	-	170	-
Current tax liability	78	-	-	-	-	78	-
Other liabilities	897	-	-	-	-	897	-
Equity attributable to the equity holders of the parent	5,815	-	-	-	-	5,815	-
Non controlling interest	89	-	-	-	-	89	-
Total liabilities and equity	**8,931**	**18,615**	**8,223**	**6,482**	**758**	**43,009**	**17,436**
Interest rate gap	**(5,739)**	**16,259**	**(7,013)**	**(5,191)**	**1,684**	**-**	**(5,783)**
Interest rate gap (2009)	**(4,720)**	**9,617**	**(3,326)**	**(2,718)**	**1,147**	**-**	**(3,103)**

Notes to the financial statements (continued)

49. Interest rate repricing, gap analysis and amounts subject to fixed interest rates (continued)

Bank

2011	Non interest bearing HRK millions	Less than 1 month HRK millions	1-3 months HRK millions	3-12 months HRK millions	Over 12 months HRK millions	Total HRK millions	Fixed interest rates HRK millions
Assets							
Cash and amounts due from banks	109	2,211	-	-	-	2,320	-
Obligatory reserve with the Croatian National Bank	533	2,286	-	-	-	2,819	-
Financial assets at fair value through profit or loss	83	2,381	463	854	-	3,781	3,656
Placements with and loans to other banks	-	1,470	20	97	210	1,797	1,797
Financial assets available for sale	20	-	-	-	-	20	-
Loans and advances to customers	-	23,348	73	80	2,123	25,624	2,465
Financial investments held to maturity	-	-	-	-	604	604	604
Investment in subsidiaries	211	-	-	-	-	211	-
Property, plant and equipment	474	-	-	-	-	474	-
Intangible assets	201	-	-	-	-	201	-
Deferred tax assets	203	-	-	-	-	203	-
Other assets	406	-	-	-	-	406	-
Total assets	**2,240**	**31,696**	**556**	**1,031**	**2,937**	**38,460**	**8,522**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	744	-	-	-	-	744	-
Deposits from banks	125	541	60	40	-	766	640
Deposits from companies and other similar entities	1,071	5,655	1,214	900	230	9,070	3,653
Deposits from individuals	-	6,844	2,473	4,777	191	14,285	8,994
Borrowings	7	2,808	3,216	822	347	7,200	2,477
Provisions for liabilities and charges	147	-	-	-	-	147	-
Other liabilities	616	-	-	-	-	616	-
Equity	5,632	-	-	-	-	5,632	-
Total liabilities and equity	**8,342**	**15,848**	**6,963**	**6,539**	**768**	**38,460**	**15,764**
Interest rate gap	**(6,102)**	**15,848**	**(6,407)**	**(5,508)**	**2,169**	**-**	**(7,242)**
Interest rate gap (2010)	**(6,261)**	**15,766**	**(6,301)**	**(5,031)**	**1,827**	**-**	**(6,101)**

Notes to the financial statements (continued)

49. Interest rate repricing, gap analysis and amounts subject to fixed interest rates (continued)

Bank

2010	Non interest bearing HRK millions	Less than 1 month HRK millions	1-3 months HRK millions	3-12 months HRK millions	Over 12 months HRK millions	Total HRK millions	Fixed interest rates HRK millions
Assets							
Cash and amounts due from banks	115	1,039	-	-	-	1,154	-
Obligatory reserve with the Croatian National Bank	430	2,114	-	-	-	2,544	-
Financial assets at fair value through profit or loss	99	4,464	410	703	-	5,676	5,345
Placements with and loans to other banks	-	3,395	-	-	232	3,627	3,626
Financial assets available for sale	16	-	-	-	-	16	-
Loans and advances to customers	-	23,457	71	159	1,750	25,437	2,156
Financial investments held to maturity	-	-	-	-	593	593	593
Investment in subsidiaries	211	-	-	-	-	211	-
Property, plant and equipment	378	-	-	-	-	378	-
Intangible assets	226	-	-	-	-	226	-
Deferred tax assets	187	-	-	-	-	187	-
Other assets	373	-	-	-	-	373	-
Total assets	**2,035**	**34,469**	**481**	**862**	**2,575**	**40,422**	**11,720**
Liabilities and equity							
Financial liabilities at fair value through profit or loss	689	-	-	-	-	689	-
Deposits from banks	60	283	298	120	-	761	701
Deposits from companies and other similar entities	960	5,562	1,658	994	186	9,360	4,590
Deposits from individuals	1	7,252	1,933	4,155	116	13,457	7,706
Borrowings	10	5,606	2,769	624	446	9,455	4,700
Debt securities issued	-	-	124	-	-	124	124
Provisions for liabilities and charges	164	-	-	-	-	164	-
Current tax liability	72	-	-	-	-	72	-
Other liabilities	669	-	-	-	-	669	-
Equity	5,671	-	-	-	-	5,671	-
Total liabilities and equity	**8,296**	**18,703**	**6,782**	**5,893**	**748**	**40,422**	**17,821**
Interest rate gap	**(6,261)**	**15,766**	**(6,301)**	**(5,031)**	**1,827**	**-**	**(6,101)**
Interest rate gap (2009)	**(5,220)**	**8,955**	**(2,584)**	**(2,353)**	**1,202**	**-**	**(3,614)**

Notes to the financial statements (continued)

50. Average interest rates

The average interest rates set out below represent the weighted average yield on financial instruments at the end of the reporting period, and are not necessarily representative of the yield at other times during the year.

The major part of liabilities and interest earning assets are denominated in or linked to foreign currency.

Group 2011	Less than 1 month %	1-3 months %	3-12 months %	Over 12 months %
Assets				
Cash and amounts due from banks	0.34	-	-	-
Obligatory reserve with the Croatian National Bank	0.25	-	-	-
Financial assets at fair value through profit or loss	3.14	2.84	5.96	-
Placements with and loans to other banks	0.58	4.91	3.30	2.77
Financial assets available for sale	-	-	9.00	6.21
Loans and advances to customers	7.44	5.95	6.91	7.15
Financial investments held to maturity	-	-	7.31	5.53
Liabilities				
Deposits from banks	1.21	3.28	2.90	-
Deposits from companies and other similar entities	1.31	4.25	4.01	3.06
Deposits from individuals	2.33	3.53	3.62	4.10
Borrowings	2.55	4.14	3.57	2.38

Notes to the financial statements (continued)

50. Average interest rates (continued)

Group **2010**	**Less than 1 month** **%**	**1-3 months** **%**	**3-12 months** **%**	**Over 12 months** **%**
Assets				
Cash and amounts due from banks	0.34	-	-	-
Obligatory reserve with the Croatian National Bank	0.25	-	-	-
Financial assets at fair value through profit or loss	2.44	2.67	5.51	-
Placements with and loans to other banks	0.52	-	4.40	1.71
Financial assets available for sale	-	-	-	5.96
Loans and advances to customers	7.61	6.60	6.72	7.06
Financial investments held to maturity	-	-	5.66	5.50
Liabilities				
Deposits from banks	1.19	2.37	3.25	-
Deposits from companies and other similar entities	1.06	2.68	3.63	4.02
Deposits from individuals	2.89	4.24	4.16	4.61
Borrowings	1.54	4.22	3.51	2.36
Debt securities issued	-	4.13	-	-

Notes to the financial statements (continued)

50. Average interest rates (continued)

Bank **2010**	**Less than 1 month** **%**	**1-3 months** **%**	**3-12 months** **%**	**Over 12 months** **%**
Assets				
Cash and amounts due from banks	0.34	-	-	-
Obligatory reserve with the Croatian National Bank	0.25	-	-	-
Financial assets at fair value through profit or loss	3.14	2.84	5.97	-
Placements with and loans to other banks	0.58	4.80	2.72	2.77
Loans and advances to customers	7.46	5.65	4.53	6.62
Financial investments held to maturity	-	-	-	5.50
Liabilities				
Deposits from banks	1.21	3.28	2.90	-
Deposits from companies and other similar entities	1.30	4.22	4.03	3.06
Deposits from individuals	2.33	3.53	3.62	4.10
Borrowings	2.20	3.96	3.74	2.25

Notes to the financial statements (continued)

50. Average interest rates (continued)

Bank 2010	Less than 1 month %	1-3 months %	3-12 months %	Over 12 months %
Assets				
Cash and amounts due from banks	0.29	-	-	-
Obligatory reserve with the Croatian National Bank	0.25	-	-	-
Financial assets at fair value through profit or loss	2.44	2.60	5.51	-
Placements with and loans to other banks	0.51	-	-	1.71
Loans and advances to customers	7.61	5.67	5.14	6.71
Financial investments held to maturity	-	-	-	5.50
Liabilities				
Deposits from banks	1.19	2.37	3.25	-
Deposits from companies and other similar entities	1.11	2.70	3.63	4.02
Deposits from individuals	2.89	4.24	4.16	4.61
Borrowings	1.48	4.24	4.38	2.24
Debt securities issued	-	4.13	-	-

51. Fair value of financial instruments

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

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

The carrying amount of cash and amounts due from banks, obligatory reserve with the Croatian National Bank, and placements with banks, deposits from banks and deposits from companies and similar entities, are deemed to reflect their fair value due to the short-term maturity of these financial instruments.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Loans and advances

The fair value of loans and advances is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio based impairment allowances for performing loans calculated at rates prescribed by the CNB. Expected future cash flows for homogeneous categories of loans, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. As the Group has a very limited portfolio of loans and advances with fixed rates and longer-term maturity, the fair value of loans and advances is not significantly different from their carrying value. Differences between the fair value of future losses from currently performing loans in the portfolio and the effect of the portfolio based provisions recognised in accordance with CNB rules, are not taken into account.

Bank and customer deposits

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

Borrowings

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

Notes to the financial statements (continued)

51. Fair value of financial instruments (continued)

The following table summarises fair values of financial instruments held by the Group and the Bank at 31 December 2011 and 2010:

Group	**Carrying amount HRK millions**	**Fair value HRK millions**	**2011 Unrecognised estimated gains / (losses) HRK millions**	**Carrying amount HRK millions**	**Fair value HRK millions**	**2010 Unrecognised estimated gains / (losses) HRK millions**
Cash and amounts due from banks	2,320	2,320	-	1,169	1,169	-
Obligatory reserve with the Croatian National Bank	2,819	2,819	-	2,544	2,544	-
Financial assets at fair value through profit or loss	3,806	3,806	-	5,709	5,709	-
Placements with and loans to other banks	1,851	1,830	(21)	3,692	3,655	(37)
Financial assets available for sale	140	140	-	118	118	-
Loans and advances to customers	27,049	27,034	(15)	26,556	26,022	(534)
Financial investments held to maturity	736	713	(13)	729	741	12
Financial liabilities at fair value through profit or loss	(743)	(743)	-	(686)	(686)	-
Deposits from banks	(766)	(766)	-	(761)	(761)	-
Deposits from companies and other similar entities	(8,960)	(8,944)	16	(8,958)	(8,956)	2
Deposits from individuals	(14,285)	(14,285)	-	(13,457)	(13,457)	-
Borrowings	(9,562)	(9,533)	29	(11,974)	(11,701)	273
Debt securities issued	-	-	-	(124)	(124)	-
Total			**(4)**			**(284)**

51. Fair value of financial instruments (continued)

Bank	Carrying amount HRK millions	Fair value HRK millions	2011 Unrecognised estimated gains / (losses) HRK millions	Carrying amount HRK millions	Fair value HRK millions	2010 Unrecognised estimated gains / (losses) HRK millions
Cash and amounts due from banks	2,320	2,320	-	1,154	1,154	-
Obligatory reserve with the Croatian National Bank	2,819	2,819	-	2,544	2,544	-
Financial assets at fair value through profit or loss	3,781	3,781	-	5,676	5,676	-
Placements with and loans to other banks	1,797	1,776	(21)	3,627	3,590	(37)
Financial assets available for sale	20	20	-	16	16	-
Loans and advances to customers	25,624	25,573	(51)	25,437	24,903	(534)
Financial investments held-to-maturity	604	597	(7)	593	606	13
Financial liabilities at fair value through profit or loss	(744)	(744)	-	(689)	(689)	-
Deposits from banks	(766)	(766)	-	(761)	(761)	-
Deposits from companies and other similar entities	(9,070)	(9,054)	16	(9,360)	(9,358)	2
Deposits from individuals	(14,285)	(14,282)	-	(13,457)	(13,457)	-
Borrowings	(7,200)	(7,229)	29	(9,455)	(9,182)	273
Debt securities issued	-	-	-	(124)	(124)	-
Total			**(34)**			**(283)**

Notes to the financial statements (continued)

51. Fair value of financial instruments (continued)

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).

Group	**Level 1 HRK millions**	**Level 2 HRK millions**	**Level 3 HRK millions**	**2011. Total HRK millions**	**Level 1 HRK millions**	**Level 2 HRK millions**	**Level 3 HRK millions**	**2010. Total HRK millions**
Financial assets at fair value through profit or loss								
Trading instruments								
- Debt securities	1,603	-	-	**1,603**	4,402	-	-	**4,402**
- Equity instruments	22	-	-	**22**	40	-	-	**40**
- Derivative financial assets	-	61	-	**61**	-	46	-	**46**
Financial assets designated at fair value through profit or loss								
- Debt securities	366	1,740	-	**2,106**	402	792	-	**1,194**
- Investments in investments fund managed	14	-	-	**14**	27	-	-	**27**
Financial assets available for sale								
- Debt securities	120	-	-	**120**	102	-	-	**102**
- Equity securities	16	-	4	**20**	13	-	3	**16**
Total	**2,141**	**1,801**	**4**	**3,946**	**4,986**	**838**	**3**	**5,827**
Financial liabilities at fair value through profit or loss								
- Derivataive financial liabilities	-	(743)	-	**(743)**	-	(686)	-	**(686)**
Total	**-**	**(743)**	**-**	**(743)**	**-**	**(686)**	**-**	**(686)**

Notes to the financial statements (continued)

51. Fair value of financial instruments (continued)

Bank	Level 1	Level 2	Level 3	2011 Total	Level 1	Level 2	Level 3	2010. Total
	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions
Financial assets at fair value through profit or loss								
Trading instruments								
-Debt securities	1,603	-	-	**1,603**	4,402	-	-	**4,402**
-Equity instruments	22	-	-	**22**	40	-	-	**40**
-Derivative financial assets	-	61	-	**61**	-	46	-	**46**
Financial assets designated at fair value through profit or loss								
- Debt securities	358	1,737	-	**2,095**	389	785	-	**1,174**
- Investments in investments fund managed	-	-	-	**-**	14	-	-	**14**
Financial assets available for sale								
-Equity securities	16	-	4	**20**	13	-	3	**16**
Total	**1,999**	**1,798**	**4**	**3,801**	**4,858**	**831**	**3**	**5,692**
Financial liabilities at fair value through profit or loss								
- Derivataive financial liabilities	-	(744)	-	**(744)**	-	(689)	-	**(689)**
Total	**-**	**(744)**	**-**	**(744)**	**-**	**(689)**	**-**	**(689)**

52. Capital management

The Group's lead regulator, the CNB, sets and monitors capital requirements for the Group as a whole. The amount of capital allocated by individual activity is based primarily on regulatory requirements. The procedure of capital allocation for specific activities is performed independently from responsible personnel for certain activities.

Even though the maximisation of yield on risk weighted capital represents the most important basis used for determining capital allocation within the Group to individual activities, it is not the sole basis used for decision-making. Consideration is given to synergy with other activities, availability of the Management Board and other resources, and reconciliation of activities with the long-term strategic goals of the Group. The policies related to capital management and capital allocation are regularly reviewed by management.

Law of credit institutions prescribes capital adequacy rate to be at least 12%. Ratio is calculated between guarantee capital and the sum of the credit weighted assets and other risk exposures. The capital requirement for operational risk is determined using the standardised approach.

The computation of capital adequacy ratio in accordance with CNB regulations is presented in the following table.

	Group 2011	Group 2010	Bank 2011	Bank 2010
	HRK millions	HRK millions	HRK millions	HRK millions
Guarantee capital				
Core capital	5,481	5,622	5,290	5,387
Supplementary share capital	-	-		-
Deductions	(61)	(52)	(233)	(230)
Total guarantee capital	**5,420**	**5,570**	**5,057**	**5,157**
Credit-risk-weighted assets	27,244	27,464	24,612	24,846
Currency risk exposure	325	1,232	312	90
Position risk exposure	1,022	955	1,028	964
Settlement and counterparty risk exposure	-	-		-
Operational risk exposure	3,798	3,704	3,090	3,017
Credit-risk-weighted assets and other risk exposures	**32,389**	**33,355**	**29,042**	**28,917**
Capital adequacy ratio %	**16.73**	**16.70**	**17.41**	**17.84**

Officers of the Bank

The Bank's operations are controlled by the Supervisory Board and the Management Board. The officers of the Bank serving during the 2011 year, were as follows:

Members of the Supervisory Board

Mag. Peter Lennkh (Chairman)
Mag Razvan Muntenau (Member from 22 April 2011)
Mag. Franz Rogi (Member)
Aris Bogdaneris (Member until 22 April 2011)
Lovorka Penavić (Member)
Mag Paul Alan Kocher (Member)
Mag Joseph Eberle (Member until 10 January 2011)
Mag Peter Bazil (Member from 10 January 2011)
František Ježek (Member)

Members of the Management Board

Zdenko Adrović (Chairman)
Vesna Ciganek-Vuković (Member)
Vlasta Žubrinić-Pick (Member)
Jasna Širola (Member)
Zoran Košćak (Member)
Mario Žižek (Member)

Chief executives

Vesna Muratović	Financial Institution Division and Transaction Service Division
Ivan Žižić	Treasury and Investment Banking Division
Ivan Jandrić	Corporate and SME Sales Division
Dubravko Ante Mlikotić	Credit Risk Management Division
Ivan Vidaković	Retail Banking Division
Robert Kuzmanić	Accounting and Tax Advisory Division
Mladen Gregović	IT Division
Zoran Vučićević	Legal Division
Zorica Vujčić-Predovan	Human Resource Division (until 1 October 2011)
Irena Bašić-Štefanić	Human Resource Division (from 1 October 2011)
Gordana Šaban	Internal Audit Division
Boris Vuksan	Financial Control Division
Vesna Ćebetarević	Support Division
Srđan Šverko	Corporate and SME Products and Development Division
Toni Jurčić	Corporate and SME Network Division

Appendix I – Regulatory forms requested by the Croatian National Bank

Pursuant to the Croatian Accounting Law (Official Gazette 109/07) Croatian National Bank issued the Decision on structure and contents of annual financial statement of the banks (Official Gazette 62/08). The following tables present financial statements in accordance to the above mentioned decision:

Consolidated Income Statement

	2011 HRK millions Unaudited	2010 HRK millions Unaudited
1. Interest income	2,373	2,382
2. (Interest expenses)	(1,043)	(1,087)
3. Net interest income	**1,330**	**1,295**
4. Commission and fee income	587	568
5. (Commission and fee expenses)	(135)	(102)
6. Net commission and fee income	**452**	**466**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	(91)	(726)
9. Gain/(loss) from embedded derivatives	-	-
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	(63)	(17)
11. Gain/(loss) from financial assets available for sale	1	2
12. Gain/(loss) from financial assets held to maturity	(1)	-
13. Gain/(loss) from hedging transactions	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	2	1
16. Gain/(loss) from foreign exchange differences	101	896
17. Other income	405	581
18. Other expenses	(67)	(44)
19. General and administrative expenses, depreciation and amortization	(1,298)	(1,464)
20. Net income before value adjustments and provisions for losses	**771**	**990**
21. Expenses from value adjustments and provisions for losses	(384)	(460)
22. Profit/(loss) before tax	**387**	**530**
23. Income tax	(82)	(100)
24. Current year profit/(loss)	**305**	**430**
25. Earnings per share	HRK 83	HRK 117

Appendix to the Income Statement

	2011	2010
Current year profit/(loss)	305	430
Distributable to the parent company shareholders	302	425
Minority participation	3	5

Appendix I – Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Balance Sheet	2011	2010
	HRK millions Unaudited	HRK millions Unaudited
Assets		
1. Cash and deposits with CNB	*4,956*	*4,611*
1.1. Cash	515	454
1.2. Deposits with CNB	4,441	4,157
2. Deposits with banking institutions	*1,520*	*2,392*
3. Treasury bills of Ministry of Finance and treasury bills of CNB	981	741
4. Securities and other financial instruments held for trading	1,516	4,442
5. Securities and other financial instruments available for sale	140	118
6. Securities and other financial instruments held to maturity	736	729
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	1,249	480
8. Derivative financial assets	59	46
9. Loans to financial institutions	694	513
10. Loans to other clients	26,866	26,443
11. Investments in subsidiaries, affiliated companies and joint ventures	-	-
12. Repossessed assets	13	1
13. Tangible and intangible assets (minus depreciation and amortisation)	1,811	1,866
14. Interests, fees and other assets	992	748
A. Total assets	**41,533**	**43,130**
Liabilities and equity		
1. Borrowings from financial institutions	*2,213*	*2,953*
1.1. Short-term borrowings	1,237	1,963
1.2. Long-term borrowings	976	990
2. Deposits	*23,901*	*22,886*
2.1. Deposits on giro-accounts and current accounts	4,832	4,044
2.2. Savings deposits	3,012	2,890
2.3. Term deposits	16,057	15,892
3. Other borrowings	*7,349*	*9,020*
3.1. Short-term borrowings	300	3,807
3.2. Long-term borrowings	7,049	5,213
4. Derivative financial liabilities and other trading financial liabilities	741	686
5. Issued debt securities	-	*124*
5.1. Issued short-term debt securities	-	-
5.2. Issued long-term debt securities	-	124
6. Issued subordinated instruments	-	-
7. Issued subordinated debt	-	-
8. Interests, fees and other liabilities	1,509	1,617
B. Total liabilities	**35,713**	**37,226**
Equity		
1. Share capital	3,633	3,701
2.Minority participation	77	89
3 Current year gain/loss	302	425
4. Retained earnings/(loss)	1,619	1,195
5. Legal reserves	178	178
6. Statutory and other capital reserves	1	302
7. Unrealised gain /(loss) from available for sale fair value adjustment	10	14
C. Total equity	**5,820**	**5,904**
D. Total liabilities and equity	**41,533**	**43,130**

Appendix to the Balance Sheet

	2011	2010
Total equity	5,820	5,904
Equity distributable to parent company shareholders	5,743	5,815
Minority participation	77	89

Appendix I – Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Cash Flow Statement

	2011 HRK millions Unaudited	2010 HRK millions Unaudited
Operating activities		
1.1. Gain/(loss) before tax	387	530
1.2. Value adjustments and provisions for losses	407	452
1.3. Depreciation and amortization	290	300
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	16	105
1.5. Gain/(loss) from tangible assets sale	-	-
1.6. Other (gains)/losses	(348)	(1,128)
1. Operating cash flow before operating assets movements	**752**	**259**
2.1. Deposits with CNB	(247)	321
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	(239)	620
2.3. Deposits with banking institutions and loans to financial institutions	(187)	(281)
2.4. Loans to other clients	(307)	(124)
2.5. Securities and other financial instruments held for trading	2,996	241
2.6. Securities and other financial instruments available for sale	(20)	(70)
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	(769)	588
2.8. Other operating assets	(74)	205
2. Net (increase)/decrease in operating assets	**1,153**	**1,500**
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	636	(65)
3.2. Savings and term deposits	(159)	1,040
3.3. Derivative financial liabilities and other trading liabilities	55	520
3.4. Other liabilities	113	326
3. Net increase/(decrease) in operating liabilities	**645**	**1,821**
4. Net cash flow form operating activities before profit tax paying	**2,550**	**3,580**
5. Paid profit tax	(264)	(61)
6. Net inflows/(outflows) of cash from operating activities	**2,286**	**3,519**
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(244)	(583)
7.2. Receipts from sale /(payments for buying) investments in subsidiaries, affiliated companies and joint ventures	-	-
7.3. Receipts from collection/(payments for buying) securities and other financial instruments held to maturity	6	164
7.4. Received dividends	-	-
7.5. Other receipts/(payments) form investment activities	191	114
7. Net cash flow from investing activities	**(47)**	**(305)**
Financial activities		
8.1. Net increase/(decrease) in borrowings	(2,579)	(2,025)
8.2. Net increase/(decrease) in issued debt securities	(124)	5
8.3. Net increase/(decrease) in subordinated and subordinated debt	-	-
8.4. Receipts from issued share capital	-	-
8.5. (Dividends paid)	(317)	(158)
8.6. Other receipts/(payments) from financial activities	(68)	-
8. Net cash flow from financial activities	**(3,088)**	**(2,178)**
9. Net increase/(decrease) in cash and cash equivalents	**(849)**	**1,036**
10. Effects from foreign exchange rates changes on cash and cash equivalents	**40**	**75**
11. Net increase/(decrease) in cash and cash equivalents	**(809)**	**1,111**
12. Cash and cash equivalents at the beginning of the year	**4,579**	**3,468**
13. Cash and cash equivalents at the end of the year	**3,770**	**4,579**

Appendix I – Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Statement of Changes in Equity

(All amounts in HRK million)	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Current year profit/loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority participation	Total capital and reserves
Unaudited								
1. Balance at 1 January 2011	**3,711**	**(10)**	**480**	**1,620**	**-**	**14**	**89**	**5,904**
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-	-	-
3. Restated current year balance	**3,711**	**(10)**	**480**	**1,620**	**-**	**14**	**89**	**5,904**
4. Sale of financial assets available for sale	-	-	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	-	-	-	-
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	-	-	-
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9. Current year gain/(loss)	-	-	-	-	302	-	3	305
10. Total income and expenses recognised for the current year	-	-	-	-	**302**	**-**	**3**	**305**
11. Increase/ (decrease) in share capital	(78)	10	-	-	-	-	-	(68)
12. Buying/(sale) of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	(13)	13	-	(4)	-	(4)
14. Transfer to reserves	-	-	(288)	288	-	-	-	-
15. Dividends paid	-	-	-	(302)	-	-	(15)	(317)
16. Distribution of profit	**(78)**	**10**	**(301)**	**(1)**	**-**	**(4)**	**(15)**	**(389)**
17. Balance at 31 December 2011	**3,633**	**-**	**179**	**1,619**	**302**	**10**	**77**	**5,820**

Appendix I – Regulatory forms requested by the Croatian National Bank (continued)

Consolidated Statement of Changes in Equity (continued)

(All amounts in HRK million)	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Current year profit/loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority participation	Total capital and reserves
Unaudited								
1. Balance at 1 January 2010	**3,711**	**(9)**	**552**	**1,277**	**-**	**7**	**88**	**5,626**
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-	-	-
3. Restated current year balance	**3,711**	**(9)**	**552**	**899**	**-**	**7**	**88**	**5,626**
4. Sale of financial assets available for sale	-	-	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	-	-	-	-
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	-	-	-
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9. Current year gain/(loss)	-	-	-	-	425	-	5	430
10. Total income and expenses recognised for the current year	-	-	-	-	**425**	**-**	**5**	**430**
11. Increase/ (decrease) in share capital	-	-	-	-	-	-	-	
12. Buying/(sale) of treasury shares	-	(1)	-	-	-	-	-	(1)
13. Other changes	-	-	(73)	73	-	7	-	7
14. Transfer to reserves	-	-	1	(1)	-	-	-	-
15. Dividends paid	-	-	-	(154)	-	-	(4)	(158)
16. Distribution of profit		**(1)**	**(72)**	**(82)**		**7**	**(4)**	**(152)**
17. Balance at 31 December 2010	**3,711**	**(10)**	**480**	**1,195**	**425**	**14**	**89**	**5,904**

Appendix I – Regulatory forms requested by the Croatian National Bank (continued)

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.

Comparatives for the income statement for years ended 31 December 2011 and 2010:

	2011 Croatian National Bank Decision HRK millions	2011 Accounting Requirements for banks in Croatia HRK millions	2011 Difference HRK millions	2010 Croatian National Bank Decision HRK millions	2010 Accounting Requirements for banks in Croatia HRK millions	2010 Difference HRK millions
Interest and interest similar income	2,373	2,379	(6)	2,382	2,392	(10)
Interest and interest similar expenses	(1,043)	(1,038)	(5)	(1,087)	(1,082)	(5)
Net interest income	**1,330**	**1,341**	**(11)**	**1,295**	**1,310**	**(15)**
Commission and fee income	587	587	-	568	568	-
Commission and fee expenses	(135)	(174)	39	(102)	(127)	25
Net commission and fee income	**452**	**413**	**39**	**466**	**441**	**25**
Net trading gain	(154)	(64)	(90)	(743)	138	(881)
Gain/(loss) from financial assets available for sale	1	-	1	2	-	2
Gain/(loss) from financial investments held to maturity	(1)	-	(1)			
Income from other equity investments	2	-	2	1	-	1
Net foreign exchange differences	101	-	101	896	-	896
Other operating income	405	391	14	581	568	13
Total other income	**357**	**327**	**27**	**737**	**706**	**31**
General and administrative expenses, depreciation and amortization	(1,298)	(1,287)	11	(1,464)	(1,475)	11
Expenses from value adjustments and provisions for losses	(384)	(407)	23	(460)	(398)	(62)
Other operating expenses	(67)	-	(67)	(44)	(54)	10
Total other expenses	**(1,749)**	**(1,694)**	**(55)**	**(1,968)**	**(1,927)**	**(41)**
Profit before tax	**387**	**387**	**-**	**530**	**530**	**-**
Income tax	(82)	(82)	-	(100)	(100)	-
Net profit for the year	**305**	**305**	**-**	**430**	**430**	**-**
Earnings per share (in HRK)	**HRK 83**	**HRK 83**	**-**	**HRK 117**	**HRK 117**	**-**

Appendix I – Regulatory forms requested by the Croatian National Bank (continued)

- Interest and similar income is higher in the annual report prepared according to the accounting requirements for banks in Croatia by the amount of interest income of previously write offs. According to CNB methodology this income is represented in value adjustments.
- According to CNB methodology net foreign exchange differences are classified in positions net interest income, net commission income and expenses from value adjustments. In annual report all foreign exchange differences are classified in net trading gain.
- In the income statement presented in accordance with statutory accounting requirements for banks in Croatia rechargable credit insurance costs increased the position fee and commissions expenses while according to CNB methodology those expenses are recognised as general and administrative expenses.
- In the income statement presented in accordance with statutory accounting requirements for banks in Croatia position provision for employee retirement, unused vacations and for court cases are recognised as impairment losses on provisions for liabilities and charges while in CNB report they are part of other operating expenses.
- Expenses for donations, advertising, promotions and representations are also reclassified from other expenses to administrative expenses in the income statement presented in accordance with statutory accounting requirements for banks in Croatia
- Income from other equity investments are recognized as other operating income in the annual report prepared according to the accoounting requirements for banks in Croatia.

Appendix I – Regulatory forms requested by the Croatian National Bank (continued)

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

	2011 Croatian National Bank Decision HRK millions	2011 Accounting Requirements for banks in Croatia HRK millions	2011 Difference HRK millions	2010 Croatian National Bank Decision HRK millions	2010 Accounting Requirements for banks in Croatia HRK millions	2010 Difference HRK millions
Assets						
Cash and deposits with CNB	4,956	5,139	(183)	4,611	3,713	898
Treasury bills of Ministry of Finance and CNB	981	-	981	741	-	741
Financial assets at FVTPL	2,765	3,806	(1,041)	4,922	5,709	(787)
Financial investments held to maturity	736	736	-	729	729	-
Placements with and loans to other banks	1,520	1,851	(331)	2,392	3,692	(1,300)
Loans and receivables	27,560	27,049	511	26,956	26,556	400
Available for sale financial assets	140	140	-	118	118	-
Repossessed assets	13	-	13	1	-	1
PPE and intangible assets	1,811	1,798	13	1,866	1,852	14
Derivative financial assets	59	-	59	46	-	46
Deferred tax assets	-	206	(206)	-	189	(189)
Other assets	992	459	533	748	451	297
Total assets	**41,533**	**41,184**	**349**	**43,130**	**43,009**	**121**
Liabilities						
Due to other banks and deposits from customers	33,463	33,573	(110)	34,859	35,150	(291)
Long-term issued debt securities	-	-	-	124	124	-
Provisions for liabilities and charges	-	160	(160)	-	170	(170)
Derivative financial liabilities and other trading financial liabilities	741	743	(2)	686	686	-
Other liabilities	1,509	888	621	1,557	975	582
Total liabilities	**35,713**	**35,364**	**349**	**37,226**	**37,105**	**121**
Subordinated debt						
Equity						
Share capital	3,633	3,633	-	3,701	3,701	-
Net profit for the year	302	302	-	424	424	-
Retained earnings/(loss carried forward)	1,619	1,619	-	1,197	1,197	-
Hedging reserve	-	-	-	-	-	-
Unrealised gain /(loss) from available for sale fair value adjustment	10	10	-	14	14	-
Reserves	179	179	-	479	479	-
Total equity	**5,743**	**5,743**	**-**	**5,815**	**5,815**	**-**
Total liabilities and equity	**41,456**	**41,377**	**349**	**43,041**	**42,920**	**121**

Appendix I – Regulatory forms requested by the Croatian National Bank (continued)

The difference in total assets and total liabilities of HRK 349 million as of 31 December 2011 (2010: HRK 121 millions) between the balance sheet presented according to the CNB decision and the balance sheet presented in accordance with statutory accounting requirements for banks in Croatia arises from deferred tax liabilities and also from portion of other participators in syndicated loans in the other assets or other liabilities presented in accordance with statutory accounting requirements for banks in Croatia.

- Cash and balances with the CNB – balances on accounts with other banks in the amount of HRK 102 million (2009: HRK 124 million) have been reclassified from placements with other banks

- Financial assets at fair value through profit or loss – the difference in the amount of HRK 981 million relates to the Treasury bills of the Ministry of Finance (2010: HRK 741 million) and the difference of HRK 59 million (2010: HRK 46 million) relates to the fair value of derivatives.

- Loans and receivables – comprise loans and advances to credit institutions that have been reclassified to loans to other banks

- Deferred tax assets have been presented in the balance sheet under the bank accounting requirements in Croatia as a separate line item, whereas in the balance sheet as per the CNB Decision they are included in other assets.

- Prepaid rents in the total amount of HRK 12 million (2010: HRK 13 million), repossessed assets in the amount od HRK 13 million and small inventory in the amount of HRK 1 million (2010: HRK 1 million) have been reclassified in the Annual Report in other assets.

- In the Annual Report, operating lease guarantee deposits in the amount of HRK 141 million (2010: HRK 146 million), restricted deposits in the amount of HRK 98 million (2010: HRK 133 million) and other liabilities (deposits on the escrow account, investments in equity instruments of domestic corporate issuers) in the amount of HRK 21 million (2010: HRK 71 million) have been reclassified from other liabilities (under the CNB methodology) into deposits from other banks and customers.

- Provisions for risks and charges are presented separately in the Annual Report. Under the CNB methodology, they are presented within other liabilities.