KREDITNA BANKA ZAGREB d.d.

Financial statements as at 31 December 2011 together with the Independent Auditor's Report

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Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (Official Gazette 109/07), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with statutory accounting regulations applicable to banks in Croatia which give a true and fair view of the financial position and results of the Bank for that period.

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

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

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

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law (Official Gazette 109/07). The Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board

Emil Mihalina
President of the Board

KREDITNA BANKA ZAGREB d.d. 1 Zagreb

Ivan Dropulić
Vice President of the Board

Kreditna banka Zagreb d.d.
Ulica grada Vukovara 74
10000 Zagreb
Republic of Croatia

27 April 2012

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Independent Auditor's Report

To the Management Board and Shareholders of Kreditna banka Zagreb d.d.

We have audited the accompanying financial statements of Kreditna banka Zagreb d.d. (herein below the Bank), which comprise of the statement of the financial position as at 31 December 2011, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as presented on pages 4 to 64.

Management Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable to 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 Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's 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 financial statements presented on pages 4 to 64 give a true and fair view of the financial positions of the Bank as at 31 December 2011 and the results of its operations, changes in equity and cash flows for the year then ended in accordance with statutory accounting regulations applicable to banks in Croatia.

Grant Thornton revizija d.o.o.
Koranska 16, Zagreb

Zagreb, 27 April 2012

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ZAGREB

Ivica Smiljan
Certified auditor

ZGOMBIĆ & PARTNERI GRUPA

Grant Thornton revizija d.o.o. Koranska 16, Zagreb, Trgovački sud u Zagrebu; MBS: 080642448; Žiro-račun 2500009-1101268790 kod Hypo Alpe-Adria-Bank d.d., Zagreb;
Temeljni kapital: 20.000,00 kuna uplaćen u cijelosti; članovi uprave: M. Butković, S. Dušić, I. Smiljan
Član mreže Grant Thornton International Ltd

Statement of comprehensive income
For the year ended 31 December 2011
(All amounts are expressed in thousand HRK)

	Note	2011	2010
Interest and similar income	4	161,954	120,689
Interest and similar expense	5	(86,428)	(61,245)
Net interest income		**75,526**	**59,444**
Fee and commission income	6	23,805	24,430
Fee and commission expense	6	(9,408)	(11,243)
Net fee and commission income		**14,397**	**13,187**
Net foreign exchange gains	7	11,295	8,546
Net gain / (loss) from financial assets at fair value through profit and loss		2,219	-
Net gain / (loss) from financial assets available for sale		3,321	1,029
Other operating income		4,541	18,597
Operating income		**111,299**	**100,803**
Operating expenses	8	(72,398)	(66,492)
Impairment losses and provisions	9	(23,797)	(29,209)
Profit before tax		**15,104**	**5,101**
Income tax expense	10	3,153	1,468
Net profit for the year		**11,951**	**3,633**
Unrealized gain (loss) from financial assets available for sale		(3,858)	(790)
Other comprehensive income		**(3,858)**	**(790)**
Total comprehensive income		**8,093**	**2,843**

Statement of financial position

As at 31 December 2011

(All amounts are expressed in thousand HRK)

	Note	31.12.2011	31.12.2010
ASSETS			
Cash and balances with Croatian National Bank	11	354,080	321,419
Placements with other banks	12	178,802	206,102
Financial assets at fair value through profit or loss	13	61,076	-
Loans to customers	14	1,615,028	1,356,832
Financial assets held to maturity	15	64,357	6,198
Financial assets available for sale	16	320,326	100,952
Intangible assets	17	22,631	18,537
Tangible assets	18	32,935	33,498
Other assets	19	56,215	65,280
Total assets		**2,705,450**	**2,108,818**
LIABILITIES			
Deposits from banks	20	41,608	14,775
Deposits from customers	20	2,032,229	1,544,992
Borrowings	21	243,874	239,663
Subordinated instruments	23	50,500	-
Other liabilities	22	55,423	35,174
Provisions	27	1,542	1,417
Total liabilities		**2,425,176**	**1,836,021**
SHAREHOLDERS' EQUITY			
Share capital	24	186,554	186,554
Share premium	24	44,763	44,763
Unrealized (loss) / gain from financial assets available for sale		(3,858)	616
Retained earnings and reserves	25	40,864	37,232
Profit for the year		11,951	3,633
Total shareholders' equity		**280,274**	**272,797**
Total shareholders' equity and liabilities		**2,705,450**	**2,108,818**

	Note	Share capital	Share premium	Unrealized (loss)/gain from financial assets available for sale	Retained earnings and reserves	Profit for the year	Total
Balance as at 31 December 2009		**186,554**	**44,763**	**1,406**	**31,144**	**12,187**	**276,054**
Net profit for the year		-	-	-	-	3,633	3,633
Unrealized gain/(loss) from financial assets available for sale		-	-	(790)	-	-	(790)
Total comprehensive income		**-**	**-**	***(790)***	**-**	***3,633***	***2,843***
Transfer to reserves		-	-	-	609	(609)	-
Dividend payment	24	-	-	-	-	(6,100)	(6,100)
Transfer of profit to retained earnings		-	-	-	5,478	(5,478)	-
Balance as at 31 December 2010		**186,554**	**44,763**	**616**	**37,231**	**3,633**	**272,797**
Net profit for the year		-	-	-	-	11,951	-
Unrealized gain/(loss) from financial assets available for sale		-	-	(4,474)	-	-	(4,474)
Total comprehensive income		**-**	**-**	***(3,858)***	**-**	***11,951***	***7,477***
Transfer to reserves	25	-	-	-	181	(181)	-
Transfer of profit to retained earnings	25	-	-	-	3,451	(3,451)	-
Balance as at 31 December 2011		**186,554**	**44,763**	**(3,858)**	**40,864**	**11,951**	**280,274**

	Note	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		15,104	5,101
Depreciation and amortisation		3,368	3,444
Increase / (decrease) in impairment allowance for other assets		3,510	9,617
Increase / (decrease) in impairment allowance for loans given		19,657	19,350
Net gain / (loss) on fair value adjustments of financial assets available for sale		505	347
(Decrease) / increase in provisions		125	(105)
Other gains / losses		(29,857)	-
Total items not affecting cash		**12,412**	**37,754**
Decrease / (increase) in receivables from Croatian National Bank and other banks		20,773	(137,721)
Increase in loans and advances to customers		(239,400)	(301,745)
Increase / (decrease) in deposits from other banks		26,833	14,770
(Decrease) / increase in deposits from customers		483,536	400,097
Increase in other assets		(1,222)	(23,207)
Increase / (decrease) in other liabilities		24,075	4,158
Corporate income tax paid		(869)	(4,944)
Net cash flow (used in) / generated from operating activities		**313,726**	**(48,592)**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase / sale of tangible and intangible assets		(2,692)	(9,564)
Purchase / sale of assets available for sale		(218,822)	(22,330)
Proceeds from sale of assets at fair value through profit or loss		(55,873)	2,580
Increase / decrease of assets held to maturity		(58,750)	(1,594)
Net cash flow from investing activities		**(336,137)**	**(30,908)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds / repayments of borrowings		4,211	46,149
Subordinated instruments issued		50,500	-
Dividend paid		-	(6,100)
Other gains / losses		-	2,688
Net cash flow from / (used in) financing activities		**54,711**	**42,737**
Net (decrease)/increase in cash and cash equivalents		**44,712**	**991**
Cash and cash equivalents at the beginning of the year	29	277,084	276,093
Cash and cash equivalents at the end of the year	29	**321,796**	**277,084**

1. General information

Kreditna banka Zagreb d.d. ("the Bank") is incorporated as a joint stock company in accordance with applicable laws of the Republic of Croatia. It was registered at the Commercial Court in Zagreb in 1994. The Bank's headquarters is in Zagreb, Ulica grada Vukovara 74.

The principal activities of the Bank include all types of corporate and retail deposit and lending operations, domestic and foreign payment transactions, issuance of guarantees, bills of exchange and other forms of guarantees, securities trading and other banking services. The Bank operates only in banking sector and on the Croatian market.

The Bank performs insurance agency business in accordance with the insurance laws, in the part that relates to the bank insurance, based on the license dated 14 February 2007.

Management Board

Mirjana Krile	President of the Management Board from 1 January 2011 until 9 February 2012
Ivan Dropulić	Vice president of the Management Board
Stjepan Anić	Member of the Management Board from 1 January 2011
Emil Mihalina	Procurator from 31 January 2011
	President of the Management Board from 9 February 2012

Supervisory Board

Nadira Eror	President of the Supervisory Board from 1 January 2011
Ankica Čeko	Vice president of the Supervisory Board
Gordana Letica	Member of the Supervisory Board
Irena Severin	Member of the Supervisory Board

Audit Committee

Nadira Eror	President of the Supervisory Board from 1 January 2011
Ankica Čeko	Vice president of the Supervisory Board
Gordana Letica	Member of the Supervisory Board
Irena Severin	Member of the Supervisory Board

2. Basis of presentation of the financial statements

The principal accounting policies applied in preparation of these financial statements are summarized below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards ("IFRS"), reference may be made to certain Standards in describing the accounting policies of the Bank. Unless otherwise stated, these references are to Standards applicable as at 31 December 2011.

2.1. Compliance of statutory requirements for accounting of banks in Croatia and IFRS

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

The main difference between the requirements of the International Financial Reporting Standards („IFRS") and the accounting regulations of the CNB relates to the recognition of the impairment losses of financial assets calculated on the portfolio basis. In accordance with the regulations of the CNB, banks with registered seat in Croatia should recognize impairment on the portfolio basis by the prescribed rates from 0.85% to 1.20% on the balance sheet and off-balance sheet exposure exposed to credit risk of the debtors for which impairment on individual basis is not determined, while IFRS requires that the provision on portfolio basis should be determined for existing, but unidentified losses on the basis of valuation models taking into account individual characteristics of the Bank and debtors in the portfolio (i.e. collaterals, type and rating of a debtor and similar).

Additionally, the CNB prescribes minimal levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognized in accordance with IFRS.

2.2. Basis of preparation

The financial statements are presented in thousands of kuna („HRK"), unless otherwise stated.

The financial statements have been prepared on the accrual basis, under the going concern assumption.

2. Basis of presentation of financial statements (continued)

2.2. Basis of preparation (continued)

Standards, amendments and interpretations adopted by the European Union and the Croatian Board and effective

The Bank has applied in the year ended 31 December 2011 the following amendments and interpretations issued which are or have become effective during the year and presented, in accordance with the requirements, comparative data. The application of new standards had no effect on the equity as at 1 January 2011:

- 2010 Annual Improvements to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13 – effective for annual periods beginning on or after 1 January 2011,
- 2010 Annual improvements to IFRS – amendments of transitional requirements to IAS 21, IAS 28, IAS 31, IAS 32 and IAS 39 – effective for annual periods beginning on or after 1 January 2011,
- IAS 24 Related parties (amended) – effective for annual periods beginning on or after 1 January 2011,
- IFRS 1 First time adoption of IFRS – limited exemption from comparative IFRS 7 disclosures for first-time adopters (amended) – effective for annual periods beginning on or after 1 January 2011,
- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - amendments effective for annual period beginning on or after 1 January 2011,
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 January 2011).

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

On the date of the Financial Statements' approval the following new and revised standards, amendments and interpretations have been issued but were not effective yet for the year ended 31 December 2011:

- IFRS 9 Financial Instruments – new standard effective for annual periods beginning on or after 1 January 2015,
- IFRS 10 Consolidated financial statements – new standard effective for annual periods beginning on or after 1 January 2013,
- IFRS 11 Joint arrangements – new standard effective for annual periods beginning on or after 1 January 2013,
- IFRS 12 Disclosure of interests in other entities – new standard effective for annual periods beginning on or after 1 January 2013,

2. Basis of presentation of financial statements (continued)

2.2. Basis of preparation (continued)

- IAS 27 and IAS 28 – consequential amendments due to above mentioned new consolidation standards - effective for annual periods beginning on or after 1 January 2013,
- IFRS 13 – Fair value measurement - new standard effective for annual periods beginning on or after 1 January 2013,
- IAS 1 Presentation of Financial Statements (revised) - amendments effective for annual periods beginning on or after 1 July 2012,
- IAS 19 Employee benefits (revised) – amendments effective for annual periods beginning on or after 1 January 2013,
- IAS 32 – Financial instruments: Presentation – amendments to application guidance on the offsetting of financial assets and financial liabilities – effective for annual periods beginning on or after 1 January 2014,
- IFRS 1 First time adoption of IFRS – replacement of fixed dates for certain exceptions – effective for annual periods beginning on or after 1 July 2011,
- IFRS 1 First time adoption of IFRS – additional exemptions for entities ceasing to suffer from severe hyperinflation – effective for annual periods beginning on or after 1 July 2011,
- IFRS 7 Financial instruments: Disclosures – amendments effective for annual periods beginning on or after 1 July 2011 or 1 January 2013,
- IFRS 7 Financial instruments: Disclosures – amendments requiring disclosures about the initial application of IFRS 9 effective for annual periods beginning on or after 1 January 2015,
- IAS 12 Income taxes (revised) – limited scope amendment effective for annual periods beginning on or after 1 January 2012.

The Management anticipates that the application of the above mentioned standards and interpretations will be applied in the Bank's Financial Statements for the periods for which they become effective, and that this application will have no material impact on the Bank's Financial Statements in the periods for which they are applied.

2. Basis of presentation of the financial statements (continued)

2.3. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Bank's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

While it is possible that in particular periods the Bank may sustain losses, which are substantially relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

There are several legal actions against the Bank, which have arisen from the regular course of its operations. The managements estimates that the probable outcome will have no significant negative effects on the Banks' financial position or its results.

Economic crisis

The on-going global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. Indeed the full extent of the impact of the on-going economic crisis is proving to be impossible to anticipate or completely guard against.

Management estimates the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1. Interest and similar income and expenses

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

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

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter is recognized based on the interest rate used for discounting future cash flows for the purpose of measuring the recoverable amount. Other fees receivable are recognized when earned. Dividend income is recognized when the right to receive payment is established.

3.2. Fee and commission income

Fee and commission income is comprised mainly of fees receivable from enterprises for loans and guarantees granted and other services provided by the Bank, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions.

Fees and commissions are recognized on an accrual basis. Loan origination fees for loans which are likely of being drawn down, are deferred and recognized as an adjustment to the effective yield on the loan

3.3. Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realized gains on securities classified as assets available for sale, foreign exchange revaluation, gains from disposal of fixed assets, dividends received and other income.

3.4. Foreign currencies

Income and expenses arising from transactions in foreign currencies are translated to HRK at the official rates of exchange on the transaction date. Assets and liabilities denominated in foreign currencies are translated to HRK at the mid exchange rate of the CNB on the last day of the accounting period. Gains and losses resulting from the foreign currency translation are included in the income statement for the year

3. Summary of significant accounting policies (continued)

3.4 Foreign currencies (continued)

The Bank has receivables and liabilities originated in HRK, which are linked to foreign currencies with one-way currency clause. Due to this clause the Bank has an option to revalue the asset by the higher of: foreign exchange rate valid as of the due date or foreign exchange rate valid as of the date of origination of the financial instrument. In case of the liability linked to this clause, the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option cannot be calculated as the forward rates for HRK for periods over 6 months are generally not available. As such the Bank revalue its receivables and liabilities linked to this clause by the agreed reference rate valid at the date of the balance sheet or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

3.5. Personnel social contributions

According to the local legislation the Bank is obliged to pay contributions to the Pension Funds and the State Health Fund. This obligation relates to all employees and provides for paying contributions in the amount of certain percentages determined on the basis of the gross salary as follows:

	2011	**2010**
Contributions for Pension Fund	20%	20%
Contributions for State Health Fund	15%	15%
Contributions for Unemployment Fund	1.7%	1.7%
Occupational injury	0.5%	0.5%

The contributions on behalf of employees and on behalf of employer are charged to expenses in the period in which they are incurred.

3.6. Corporate income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Current tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable based on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, calculated using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available on the possible use of deductible temporary differences.

3. Summary of significant accounting policies (continued)

3.6 Corporate income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is not likely to be available a sufficient amount of taxable income for the refund of all or part of the asset.

Deferred tax is calculated at the tax rates that are expected to be applicable in the period in which the liability will be settled or the asset realized. Deferred tax is charged or credited to the income statement, except when it relates to items recorded directly in equity, when the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes charged by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

The Bank is liable to pay various indirect taxes which have been presented under administrative expenses.

3.7. Cash and cash equivalents

For the purposes of reporting cash flows, cash and cash equivalents include cash, balances with the CNB, balances per gyro accounts and term deposits with banks with maturity of less than 90 days.

Cash and cash equivalents excludes the statutory reserves with the CNB, as the reserve funds are not available to the Bank's day to day operations. Obligatory reserves with the CNB is the amount required by all commercial banks licensed to operate in the Republic of Croatia.

3.8. Financial assets and liabilities

The Bank’s financial assets and financial liabilities recorded on the balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term loans, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies.

The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities held by the Bank are categorized into portfolios in accordance with the Bank’s intent on the acquisition and pursuant to the Bank’s investment strategy. Financial assets and liabilities are classified as „At fair value through profit or loss“, "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.

3. Summary of significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

Financial assets and liabilities are offset and the net amount is recognised in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.
Routine financial instruments transactions are recognised at the date when the instruments are transferred (settlement date). Under settlement date accounting, the underlying asset or liability is not recognized until the settlement date, with the changes in fair value on the underlying asset or liability are recognized starting from trade date.
When a financial asset or financial liability is recognized initially, the Bank measures it at its fair value plus, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Assets at fair value through profit or loss

Upon initial recognition designated by the Bank as at fair value through profit or loss in accordance with the Bank's investment policy any financial asset within the scope of IAS 39 can be classified as designated at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Measurement:
Subsequent to initial recognition, financial assets at fair value through profit or loss are accounted for and stated at fair value which approximates the price quoted on recognized stock exchanges or acceptable valuation models. The Bank includes unrealized gains and losses in 'Net profit/(loss) on financial operations'. Interest earned on assets at fair value through profit or loss is accrued on a daily basis and reported as 'Interest income' in the profit and loss statement.

Held to maturity investments

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. This portfolio comprises debt securities. Held to maturity investments are carried at amortized cost using the effective interest rate method, less any allowance for impairment. The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Bank recognizes allowances through the profit and loss statement line 'Allowance for impairment losses on securities'.

3. Summary of significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

Assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.
This portfolio comprises equity securities, as well as receivables under factoring and forfeiting arrangements. Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices. In circumstances where the quoted market prices are not readily available, the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

For available-for-sale assets, gains and losses arising from changes in fair value are recognized directly in equity under the caption "Reserves and retained earnings", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period.

Dividends on securities available for sale are recorded as declared and included as a receivable in the balance sheet line ‘Other assets’.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale. This portfolio comprises loans granted to customers.

Loans originated by the Bank by providing money directly to the borrower are categorized as loans granted by the Bank and are carried at amortized cost, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income. All loans and advances are recognized when loans are issued, or cash is advanced to borrowers.

3. Summary of significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

The allowance for potential loan losses is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is determined as the difference between book value and recoverable value, which represents the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at original effective interest rate for a loan

The loan loss allowance also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

When a loan is uncollectible, it is fully written off. Subsequent recoveries are credited to income from collection of bad and doubtful debts in the income statement.

Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of net carrying value of the loan and the current fair value of such assets. Gains or losses on disposal are recognized in the income statement. Real estate used as collateral for loans given to customers can be sold only by distrait.

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements and the counterparty is included in due to banks or customers as appropriate. Securities purchased under agreements to resell (reverse repo) are recorded as due from banks and loans and advances to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements.

3. Summary of significant accounting policies (continued)

3.9. Tangible and intangible assets

Property and equipment are started at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Items of tangible and intangible assets with a unit value less than HRK 2,000 are expensed when put into use.

Depreciation and amortization are computed under the straight-line method over the estimated useful life of the assets according to the following annual rates:

Description	**%**
Buildings	3.03
Computer hardware	15
Furniture and equipment	10
Motor vehicles	20
Computer software	10
Leasehold improvements	10

Land is not depreciated.

The Bank periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposal of assets are determined by reference to their carrying amount and are recognized in the income statement line 'Other income/(expense)' in the year of disposal. Repairs and maintenance are charged to the income statement when the expenditure is incurred.

3.10. Foreign currency translation

The financial statements are presented in Croatian Kuna ("HRK") and rounded to the nearest thousand. The year-end exchange rates were as follows:

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

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and monetary liabilities in foreign currencies and linked to foreign currencies are translated at the mid exchange rates of the Croatian National Bank valid on the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement.

3. Summary of significant accounting policies (continued)

3.11. Off-balance sheet financial instruments

In the ordinary course of business, the Bank enters into arrangements and commitments, comprising primarily guarantees, letters of credit and undrawn loan commitments. Such financial instruments are recognised in the Bank's balance sheet if and when they become payable.

3.12. Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be measured reliably.
Management determines the allowance based upon reviews of individual items and experiences with past event experience, current economic conditions, risk characteristics of the transactions and other relevant factors at the balance sheet. If the effect is material, provisions are discounted to present value.

3.13. Derivative financial instruments

Derivative financial instruments include foreign exchange rate forward contracts and are initially recognised in the balance sheet at fair value and subsequently re-measured at their fair value. Fair values are obtained from quoted market prices or pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivative financial instruments include contracts with one-way currency clause. The contracted value is initially recognised in the off-balance sheet records and as a loan given with a one-way currency clause in the balance sheet. They are subsequently measured at amortised cost as for all other placements that carry credit risk in the balance sheet. Increase in exchange rates (fair value of the embedded derivative) above the contracted, is recorded in the balance sheet as an embedded derivative and recognised within profit or loss from embedded derivatives in the income statement.

The Bank's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement under net trading income. However, the gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net income from financial instruments designated at fair value'

3.14. Cash flow statement

For the purpose of reporting cash flows, cash and cash equivalents include cash and balances with banks, placements with other banks with maturity of less than 90 days.

3. Summary of significant accounting policies (continued)

3.15. Managed funds

The Bank manages funds on behalf of legal entities and individuals, for which it charges a fee. As these amounts do not represent the Bank's assets and liabilities, they are excluded from the accompanying balance sheet (Note 27).

3.16. Sale and repurchase agreements

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

3.17. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

3.18. Accounting for financial guarantee contracts

The IASB has also amended IAS 39 Financial Instruments: Recognition and Measurement to require certain financial guarantee contracts issued by the Bank to be accounted for in accordance with that Standard. Financial guarantee contracts that are accounted for in accordance with IAS 39 are measured initially at their fair values, and subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

The management of the Bank has assessed that adoption of this amendment to IAS 39 does not materially impact the amounts reported in the previous periods

3. Summary of significant accounting policies (continued)

3.19. Significant accounting judgments and estimates

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Held to maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep this investments to maturity other than for the specific circumstances (such as selling an insignificant amount close to maturity) it will be required to reclassify the entire class as available for sale and measure it at fair value instead of at amortized cost.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Allowances for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the 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 defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

4. Interest and similar income

	2011	2010
Loans to corporate clients	117,446	86,168
Loans to retail clients	26,436	28,471
Placements with other banks	1,574	1,018
Croatian National Bank	90	825
Debt securities	9,410	2,671
Other companies	6,998	1,536
	161,954	**120,689**

a) Analysis by product

	2011	2010
Loans to customers	150,880	116,175
Placements with banks	1,664	1,843
Debt securities	9,410	2,671
	161,954	**120,689**

5. Interest and similar expenses

	2011	2010
Retail clients	46,721	38,583
Corporate clients	10,569	9,547
Banks	4,108	2,194
Other companies	21,092	9,777
Other borrowed funds	3,938	1,144
	86,428	**61,245**

a) Analysis by product

	2011	2010
Deposits	81,094	57,868
Borrowings	5,334	3,377
	86,428	**61,245**

6. Fee and commission income and expenses

	2011	2010
Fee and commission income		
Commission income from corporate clients	14,778	15,282
Commission income from retail clients	4,692	5,215
Commission income from banks	4,335	3,933
	23,805	**24,430**
Fee and commission expense		
Commission for domestic payments	6,796	7,575
Other fees and commissions	2,612	3,668
	9,408	**11,243**

7. Net foreign exchange gains

	2011	2010
Income from foreign currency trading	12,576	11,039
Translation losses	(1,281)	(2,493)
	11,295	**8,546**

8. Operating expenses

	2011	2010
Personnel expenses (Note 8.1)	29,322	28,658
Material and services	33,695	29,141
Depreciation and amortization (Note 17 and 18)	3,368	2,844
Marketing and administration expenses	1,576	1,593
Insurance premiums	2,066	1,594
Taxes and contributions	520	614
Other expenses	1,851	2,048
	72,398	**66,492**

8.1. Personnel expenses

	2011	2010
Net salaries	15,773	15,303
Taxes and contributions from salaries	8,207	8,294
Contributions on salaries	4,120	3,879
Other personnel expenses	1,222	1,182
	29,322	**28,658**

The number of employees as at 31 December 2011 was 188 (31 December 2010: 179).

9. Impairment losses and allowances

	Note	2011	2010
Loans to customers	14	(31,472)	(31,196)
Interest	19	(5,173)	(14,926)
Investments in debt securities		(525)	-
Other assets	19	(3,183)	(6,955)
Provisions for legal cases		(333)	(429)
Commitments	27	(58)	(194)
		(40,744)	**(53,700)**
Less: amounts collected and reversed			
Loans to customers	14	11,815	9,753
Interest	19	3,150	9,691
Investments in debt securities		20	-
Other assets	19	1,754	4,748
Commitments	27	208	299
Total		**(23,797)**	**(29,209)**

10. Corporate income tax

Income tax is determined by applying the rate of 20% to taxable profits (in 2010: 20%).

Reconciliation of corporate income tax:

	2011	2010
Current tax	2,829	1,174
Deferred tax	324	294
	3,153	**1,468**

Tax returns remain open and subject to tax audit at least over a three-year period. The management is confident that the Bank has made adequate provisions for tax obligations in the accompanying financial statements. However, the risk remains that the relevant authorities could take a different view with regard to the interpretation of the applicable provisions.

Reconciliation between accounting profit and taxable profit is as follows:

	2011	2010
Accounting profit before tax	15,104	5,101
Expected tax rate of 20%	3,021	1,020
Tax effect of non-taxable income	(336)	(67)
Tax effect of tax deductible costs	468	515
Income tax expense	**3,153**	**1,468**
Effective tax rate	**20.87%**	**28.78%**

11. Cash and balances with Croatian National Bank

	31.12.2011	31.12.2010
Cash in hand	56,250	44,522
Instruments in the course of collection	6	16
Total cash	**56,256**	**44,538**
Cash account with the Croatian National Bank	89,935	29,503
Obligatory reserve in HRK	182,941	112,061
Obligatory reserve in foreign currency	24,948	15,317
Other deposits with the Croatian National Bank	-	120,000
Total assets with the Croatian National Bank	**297,824**	**276,881**
Total cash and balances with the Croatian National Bank	**354,080**	**321,419**

The CNB determines the requirement for banks to calculate an obligatory reserve, which is required to be deposited with the CNB and held in the form of other liquid receivables

In the period from 10 February 2010 until 12 October 2011 the obligatory reserve in HRK and foreign currencies has been accrued at a unique regulatory rate of 13%. From 12 October 2011 regulatory rate has been increased to 14%.

As at 31 December 2011, the required rate for the kuna part of the obligatory reserve to be deposited with the CNB amounted to 70% (2010: 70%), while the remaining 30% (2010: 30%) had to be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

60% of the foreign currency part of the obligatory reserve (2010: 60%) is deposited with the CNB, while the remaining 40% (2010: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). From 14 January 2009, 75% of the foreign currency obligatory reserve is required to be held in HRK and is added to the HRK part of the obligatory reserve (see above).

12. Placements with other banks

	31.12.2011	31.12.2010
Current accounts with other banks		
- denominated in foreign currency	35,047	25,241
Loans and time deposits with other banks		
- denominated in foreign currency	139,255	180,861
- denominated in HRK	4,500	-
Total placements with other banks	**178,802**	**206,102**
Impairment allowances	-	-
Total placements with other banks, net	**178,802**	**206,102**

Of the total amount of placements with other banks, 3,197 thousand HRK relates to guarantee deposits at Erste Bank with original maturity longer than 3 months.

Geographical analysis:

	31.12.2011	31.12.2010
Belgium	452	733
Germany	10,084	6,910
Italy	375	984
Croatia	9,972	7,842
Switzerland	7,050	42,043
Sweden	36	328
Denmark	775	15,118
The Netherlands	448	772
Austria	69,832	68,265
USA	33,936	25,786
Spain	45,841	35,982
Canada	-	1,312
Norway	1	27
	178,802	**206,102**

All placements are kept with first-class international banks.

13. Financial assets at fair value through profit and loss

	31.12.2011	31.12.2010
Instruments held for trading		
Shares in investment funds	55,873	-
Positive fair value of the derivative instruments		
- currency forward agreements	61	-
- currency swap agreements	5,142	-
Total	**5,203**	-
Total financial assets at fair value through profit and loss	**61,076**	-

As at 31 December 2011, in the portfolio "held for trading" valued at fair value through profit and loss, the Bank values forward and swap agreements, and shares in investment funds. As at 31 December 2010, the Bank did not have securities valued at fair value through profit and loss.

14. Loans to customers

a) Analysis of lending portfolio

	31.12.2011	31.12.2010
Retail clients	298,903	293,108
Corporate clients	1,325,178	1,072,266
Other companies	2,421	3,476
Financial institutions	52,677	34,100
Gross loans and advances	**1,679,179**	**1,402,950**
Less: impairment allowance	(64,151)	(46,118)
Total loans to customers	**1,615,028**	**1,356,832**

Loans are secured by specific pledges on properties, deposits, guarantees, securities and other types of collaterals.

In the period from 1 January to 31 December 2011, the interest rates on loans to corporate clients were set at 9% to 12.9% (2010: 9% to 12.9%) and in the same period, loans to retail clients were set at 5 % to 11.99% (2010: 6% to 13.99%).

14. Loans to customers (continued)

b) Changes in the principal of partially and fully recoverable loans

	2011		2010	
	Partially recoverable loans	**Fully unrecoverable loans**	**Partially recoverable loans**	**Fully unrecoverable loans**
As at 1 January	**75,150**	**20,802**	**35,915**	**7,821**
Transfer from performing loans	42,977	1,264	81,204	5,876
Transfer from fully unrecoverable loans	462	-	2,200	-
Transfer from partially recoverable loans	-	14,618	-	20,071
Transfer to performing loans	(10,929)	(1,145)	(19,019)	(5,269)
Transfer to fully unrecoverable loans	(14,618)	-	(20,071)	-
Transfer to partially recoverable loans	-	(462)	-	(2,200)
Amounts collected	(22,579)	(3,668)	(5,077)	(380)
Amounts written off	(14)	(284)	(17)	(5,170)
Other increases	746	209	135	69
Other decreases	(69)	(11)	(120)	(16)
As at 31 December	**71,126**	**31,323**	**75,150**	**20,802**

14. Loans to customers (continued)

c) Movements in impairment allowances

	Specific impairment allowances	Impairment allowance on collective assessment basis	Total
Balance as at 31 December 2009	**21,053**	**9,016**	**30,069**
New impairment losses (Note 9)	29,103	2,093	31,196
Amounts collected (Note 9)	(9,753)	-	(9,753)
Amounts written off	(5,589)	-	(5,589)
Foreign exchange differences	194	-	194
Balance as at 31 December 2010	**35,008**	**11,109**	**46,117**
New impairment losses (Note 9)	29,124	2,314	31,438
Amounts collected (Note 9)	(11,798)	17	(11,781)
Amounts written off	(288)	-	(288)
Foreign exchange differences	(1,335)	-	(1,335)
Balance as at 31 December 2011	**50,711**	**13,440**	**64,151**

d) Deferred fee income recognized as an adjustment to the effective yield

	31.12.2011	31.12.2010
As at 1 January	**7,934**	**6,270**
Collected and deferred fees	(11,758)	(7,298)
Fees recognized	11,819	8,962
As at 31 December	**7,995**	**7,934**

15. Financial assets held to maturity

	31.12.2011	31.12.2010
Investments held to maturity		
Corporate bills of exchange	65,426	6,779
Allowance for impairment losses	(1,069)	(581)
Total investments held to maturity	**64,357**	**6,198**

Bills of exchange were issued by different corporate entities, with an interest rate from 8.9% to 10.5% and are due over the period up to 26 September 2012.

Bills of exchange are carried at amortized cost less any allowance for impairment. As at 31 December 2011, of the total amount of bills of exchange, HRK 517 thousand were overdue (2010: HRK 1,718 thousand). Impairment of financial assets held to maturity in 2011 amounted to HRK 1,069 thousand, out of which HRK 552 thousand relates to group based allowances, and the other HRK 517 thousand relates to individual allowances.

16. Financial assets available for sale

	31.12.2011	31.12.2010
Debt securities available for sale	275,159	47,315
Equity securities available for sale	45,167	53,637
	320,326	**100,952**

Debt securities available for sale

	31.12.2011	31.12.2010
Treasury bills from Ministry of Finance	55,843	24,505
Bonds	64,886	15,514
Other debt securities (factoring and forfaiting)	127,794	113
Commercial paper	26,636	7,183
	275,159	**47,315**
Listed	147,365	47,202
Unlisted	127,794	113

During 2011, the Bank has placed a certain amount of assets through factoring and forfaiting agreements. The agreements were signed with companies in the Republic of Croatia with satisfactory credit worthiness according to Bank's estimates, and for which no problems with payment of contractual agreements are expected.

16. Financial assets available for sale (continued)

Equity securities available for sale

	31.12.2011	31.12.2010
Shares in investment funds	44,771	53,174
Securities listed on stock exchange	48	64
Securities unlisted on stock exchange	348	399
	45,167	**53,637**

Unlisted equity securities comprise a certain number of small individual investments presented at cost less impairment. There is no market for these investments and they account for less than 1% of the share capital of those entities. In the opinion of the Bank's management, the fair values do not differ substantially from their carrying amounts.

Bonds issued by the Ministry of Finance serve as collateral for repo loans from Locusta Invest and Agram Invest and the loan from the Fund for Financing and Degradation of Nuclear Waste.

Movement in equity securities balances during the year:

	2011	2010
As at 1 January	**53,637**	**46,649**
Change in fair value of shares	(15)	2
Investment fund share purchase	153,156	10,000
Investment fund share sale	(158,341)	(2,000)
Decrease in fair value of shares	(4,154)	(1,073)
Value adjustment	-	(347)
Foreign exchange differences	884	407
As at 31 December	**45,167**	**53,637**

17. Intangible assets

	Software and other rights	Assets acquired but not brought into use	Total
Cost			
At 31 December 2009	**11,079**	**10,020**	**21,099**
Additions	6,177	6,600	12,777
Brought into use	(56)	(6,179)	(6,235)
At 31 December 2010	**17,201**	**10,441**	**27,641**
Additions	173	5,178	5,351
Brought into use	(25)	(148)	(173)
At 31 December 2011	**17,349**	**15,471**	**32,819**
Accumulated depreciation			
At 31 December 2009	**8,465**	**-**	**8,465**
Charge for the year	694	-	694
Expense	(56)	-	(56)
At 31 December 2010	**9,104**	**-**	**9,104**
Charge for the year	1,085	-	1,085
Expense	-	-	-
At 31 December 2011	**10,189**	**-**	**10,189**
Net book value			
At 31 December 2010	**8,097**	**10,441**	**18,537**
At 31 December 2011	**7,160**	**15,471**	**22,631**

18. Tangible assets

	Buildings	Computers	Furniture and equipment	Vehicles	Assets under construction	Total
Cost						
At 31 December 2009	**49,057**	**5,649**	**14,943**	**669**	**47**	**70,365**
Additions	-	-	-	-	2,365	2,365
Transfers	1,195	242	824	-	(2,261)	-
Expenses	-	(3,285)	(3,245)	-	-	(6,530)
At 31 December 2010	**50,252**	**2,605**	**12,522**	**669**	**151**	**66,200**
Additions	-	-	-	-	1,722	1,722
Transfers	259	374	1,212	-	(1,846)	-
Expenses	-	-	-	-	-	-
At 31 December 2011	**50,511**	**2,979**	**13,734**	**669**	**27**	**67,922**
Accumulated depreciation						
At 31 December 2009	**18,712**	**4,802**	**12,915**	**655**	**-**	**37,084**
Charge for the year	1,495	222	429	3	-	2,149
Disposals	-	(3,285)	(3,245)	-	-	(6,530)
At 31 December 2010	**20,207**	**1,739**	**10,099**	**658**	**-**	**32,703**
Charge for the year	1,526	249	504	3	-	2,282
Disposals	-	-	-	-	-	-
At 31 December 2011	**21,733**	**1,988**	**10,603**	**661**	**-**	**34,985**
Net book value						
At 31 December 2010	**30,045**	**867**	**2,423**	**11**	**151**	**33,497**
At 31 December 2011	**28,778**	**991**	**3,131**	**8**	**27**	**32,935**

There are no pledges on property for borrowings as at 31 December 2011.

19. Other assets

	31.12.2011	31.12.2010
Accrued interest	19,005	16,121
Repossessed assets	13,159	13,145
Fees and commissions	1,575	1,687
Receivables from card operations	2,299	1,423
Prepaid expenses	6,850	4,137
Guarantee funds	5,311	5,311
Other receivables	10,592	24,575
	58,791	**66,400**
Less impairment allowance:		
- other assets	(2,576)	(1,119)
Total other assets	**56,215**	**65,280**

All assets mature within one year.

Changes in allowances

	Interest	Other assets
Balance as at 31 December 2009	**-**	**1,539**
Allowance based on collective assessment	-	4,048
Suspended interest	8,633	-
New allowances (Note 9)	14,926	6,955
Amounts collected (Note 9)	(9,691)	(4,748)
Amounts written off	(211)	(62)
Balance as at 31 December 2010	**13,657**	**7,732**
Allowance based on collective assessment	-	(4,328)
New allowances (Note 9)	5,173	3,183
Amounts collected (Note 9)	(3,149)	(1,754)
Amounts written off	(2,052)	(946)
Balance as at 31 December 2011	**13,630**	**3,887**

Allowance based on collective assessment includes all other weighted average assets.

20. Deposits from customers

	31.12.2011	31.12.2010
Demand deposits		
Retail clients	84,570	97,414
Corporate clients	121,862	164,509
Other companies	129,819	62,189
Total demand deposits	**336,251**	**324,112**
Term deposits		
Retail clients	1,164,482	690,205
Corporate clients	235,234	223,732
Other companies	337,870	321,718
Total term deposits	**1,737,586**	**1,235,655**
Total deposits from customers	**2,073,837**	**1,559,767**

Interest rate on demand deposits varied from 0.10% to 0.20% during the year 2011 (2010: from 0.10% to 0.75%).

Interest rate on term retail deposits varied from 1.50 % to 8.61 % during 2011 and from 1,50% to 8.75% during 2010, respectively while the interest rate for term corporate deposits varied from 1.0% to 7.0% during 2011 and from 2% to 10% during 2010.

21. Borrowings

	31.12.2011	31.12.2010
Denominated in HRK	206,222	202,737
Denominated in foreign currency	37,652	36,926
Total borrowed funds	**243,874**	**239,663**

Interest rate on loans from the Croatian Bank for Reconstruction and Development denominated in HRK varied from 2% to 5%, while for the end user the interest rate varied from 4% to 7% during 2011.

21. Borrowings (continued)

Loans received comprise of borrowings as follows:

	31.12.2011	31.12.2010
PRIVREDNA BANKA ZAGREB d.d.	52,200	23,300
HBOR	39,131	33,937
ADRIA BANK AG WIEN	37,652	36,926
ZAGREBAČKA BANKA d.d.	32,000	-
HRVATSKA POŠTANSKA BANKA d.d.	22,800	25,000
ŠTED BANKA d.d.	20,000	-
FUND FOR FINANCING AND DEGRADATION OF NUCLEAR WASTE	8,250	15,000
HYPO ALPE ADRIA BANK d.d.	7,530	7,000
BKS BANK d.d.	7,000	5,000
LOCUSTA INVEST	5,011	-
SLATINSKA BANKA d.d.	5,000	5,000
PRIMORSKA BANKA d.d.	3,000	-
AGRAM INVEST d.d.	2,500	-
TESLA ŠTEDNA BANKA d.d.	1,800	-
PODRAVSKA BANKA d.d.	-	42,000
JADRANSKA BANKA d.d.	-	15,000
CROATIA BANKA d.d.	-	10,000
ERSTE&STEIERMÄRKISCHE BANK d.d.	-	7,000
OTP BANKA d.d.	-	5,000
VENETO BANKA d.d.	-	5,000
VARAŽDINSKA BANKA d.d.	-	4,500
	243,874	**239,663**

The loans from the Croatian Bank for Reconstruction and Development (HBOR) relate to loans placed by HBOR through the Bank in accordance with its financing programs. The relationship between the Bank and HBOR is subject to a separate agreement.

Collateral

Loans from Zagrebačka banka d.d. and Privredna banka Zagreb d.d. are repo loans secured by the Treasury bills from Ministry of Finance, while the repo loans from the companies Locusta Invest and Agram Invest are secured by the Bonds of the Republic of Croatia, and issued commercial papers.

For the other loans mentioned there is no collateral, since these are overnight loans.

22. Other liabilities

	31.12.2011	31.12.2010
Accrued interest	33,619	19,115
Liabilities to suppliers	1,535	1,051
Deferred income	9,883	9,484
Liabilities for card operations	447	806
Other liabilities	9,939	4,718
Total other liabilities	**55,423**	**35,174**

23. Subordinated instruments issued

In the third quarter of 2011, the emission of the subordinate instrument was successfully implemented, by the sign of trust from the financial specialists from the broad investor community, and the inclusion of the same into the Supplementary capital I of the Regulatory capital of the Bank. Supplementary capital I was paid in the amount of 50.5 million HRK, and the Regulatory capital was increased by 20%, from 272.1 million HRK to 318.8 million HRK. The aim of the emission is strengthen the capital base of the further business development of the Bank. Subordinated bonds were issued at a fixed annual interest rate of 7.5% and maturity date on 31 July 2017. Payment of interest is on semi-annual basis.

24. Share capital

Based on decision from General Assembly held on 30 June 2008 and HANFA's Resolution on approval of prospect for issuing shares with an private offer dated 11 December 2008, capital increase has been made during January 2009. The share capital was increased by issuing of 545,587 new ordinary shares (KBZ-R-A) with nominal value of HRK 100. The share capital was thus increased from HRK 131,994,500 to HRK 186,553,200 and comprises of 1,865,532 ordinary shares (KBZ-R-A) with nominal value of HRK 100.

24. Share capital (continued)

The following shareholders each held over 5% of the Bank's share capital at 31 December 2011 and 31 December 2010:

Shareholders	**Percentage of share capital held (%)**	
	31.12.2011	**31.12.2010**
Euroherc osiguranje d.d.	16.99	18.43
Jadransko osiguranje d.d.	16.24	17.48
Agram životno osiguranje d.d.	17.87	17.60
Euroleasing d.o.o.	14.39	11.79
Agram Euro Cash	5.33	-
Euro Daus d.d.	4.99	4.99
Others	24.19	29.71
Total share capital	**100.00**	**100.00**

The Bank's shares are listed on Zagreb Stock Exchange. At 31 December 2011 the share price of the Bank's ordinary shares quoted on the Zagreb Stock Exchange was HRK 189 (31 December 2010: HRK 180).

Share premium

As a result of the share issue in January 2009, the Bank recognized share premium in the amount of HRK 43,647 thousand representing the excess of the paid-in amount over the nominal value of the issued shares.

Dividend

In 2011, General Assembly did not vote on dividend payout to the shareholders. Profit after tax for the year 2010 has been allocated into retained earnings and reserves. In 2010, by the decision of the General Assembly, stated dividend was 3.27 HRK per share, from the allocation of profit for the year 2009.

24. Share capital (continued)

Regulatory capital

Regulatory capital, according to CNB requirements, is as follows:

	31.12.2011 HRK`000	31.12.2010 HRK`000
Basic capital		
Issued share capital	230,200	230,200
Legal, statutory and other reserves, retained earnings prior the current year result	41,981	38,348
Unrealized loss from value adjustments of financial assets available for sale	(3,858)	-
Total basic capital	**268,323**	**268,548**
Supplementary capital		
Subordinated instruments	50,500	-
Specific reserves for unidentified losses	-	15,708
Gross supplementary capital	**50,500**	**15,708**
Deductions		
Specific reserves for unidentified losses that are not included in supplementary capital	-	(15,708)
Total deductions from supplementary capital	**-**	**(15,708)**
Total supplementary capital (gross supplementary capital less deductions)		
Gross regulatory capital	**318,823**	**268,548**
Risk weighted assets		
Credit risk weighted exposure	1,792,574	1,464,668
Other weighted assets	264,647	146,769
Total risk weighted assets	**2,057,221**	**1,611,437**
Capital adequacy ratio	**15.50%**	**16.67%**

25. Retained earnings and reserves

Retained earnings include accumulated profits from prior years.

In accordance with the local legislation 5 percent of the net profit of the Bank is required to be transferred to a non-distributable legal reserve to equal 5 percent of the share capital of the Bank. The legal reserve, in the amount of up to 5% of issued share capital, can be used for covering current and prior years losses.

Based on General Assembly's decision from 11 June 2011, total profit after tax from 2010 in the amount of 3,633 thousand HRK, the Bank allocated into retained earnings (3,452 thousand HRK), and into legal reserves (181 thousand HRK).

26. Earnings per share

Basic

For the purposes of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the Bank. For the reconciliation of profit after tax which is distributed to ordinary shareholders please see below:

	2011	2010
Profit for the year in HRK	11,951,113	3,633,293
Profit attributable to equity holders of the Bank	11,951,113	3,633,293
Weighted average number of ordinary shares in issue	1,865,532	1,865,532
Earnings per share in HRK	**6.41**	**1.95**

Diluted

Given that there is no effect of options, convertible bonds or similar effect, the weighted average number of ordinary shares used for diluted earnings per share in 2011 and 2010 was the same as used to calculate basic earnings per share.

27. Contingencies and commitments

a) Legal proceedings

There are several outstanding legal proceedings against the Bank. The Bank records provisions in accordance with the decision of the National Bank and the obligation to make provisions for legal proceedings outstanding against the Bank, in the total amount of 454 thousand HRK as at 31 December 2011 (31 December 2010: 429 thousand HRK).

b) Guarantees and credit commitments

As at 31 December 2011 and 31 December 2010, the total amount of guarantees, letters of credit and unused revolving loans was as follows:

	31.12.2011	31.12.2010
Guarantees in HRK	74,485	65,345
Guarantees in foreign currency	3,439	2,423
Letters of credit	7,812	12,135
Unused lines of credit	95,619	86,805
Total guarantees and credit commitments	**181,355**	**166,708**

c) Movement in provisions

	2011	2010
Balance as at 1 January	**1,417**	**1,522**
New provisions (Note 9)	333	194
Decreases (Note 9)	(208)	(299)
Balance as at 31 December	**1,542**	**1,417**

28. Managed funds

The Bank manages assets for and on behalf of legal entities and citizens. Related income and expense are charged to the customer, and the Bank does not bear any liabilities.

Net assets and liabilities from operations in the name and on behalf of third parties are as follows:

	31.12.2011	31.12.2010
Assets		
Retail clients	257	89
Corporate clients	48,447	598
Total assets	**48,704**	**687**
Liabilities		
Retail clients	257	53
Corporate clients	48,447	634
Total liabilities	**48,704**	**687**

29. Cash and cash equivalents

Cash and cash equivalents comprise the following items with an original maturity of up to 90 days:

	31.12.2011	31.12.2010
Cash account at Croatian National Bank (Note 11)	89,935	29,503
Cash in hand (Note 11)	56,250	44,522
Instruments in the course of collection (Note 11)	6	16
Placements with other banks (Note 12)	175,605	203,043
Total cash and cash equivalents	**321,796**	**277,084**

30. Risk management

This note provides details of the Bank's exposure to risk and describes the methods used by management to control risk. The most significant types of financial risk to which the Bank 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 by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Bank. Methodology and models for managing operational risk have been developed.

a) Credit risk

The Bank takes on exposure to credit risk which is the risk upon that the counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Letters of credit are secured by collateral in the form of goods to which they relate to.

Loans are classified into the following three main groupings, in accordance with the regulations of the CNB:

- fully recoverable loans – A Risk Group – measured on a collective basis
- partially recoverable loans – B Risk Group – measured on an individual basis, or on a collective basis for a „small loans portfolio" that are not sued, or insured by adequate collateral according to the CNB decisions
- fully unrecoverable loans (bad debt) – C Risk Group – measured on an individual basis, or an a collective basis for a „small loans portfolio" that are not sued, or insured by adequate collateral according to the CNB decisions

All three levels contain sub-categories, which are mandatory for the partially recoverable loans. The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Collateral for loans, guarantees and letters of credit is usually in the form of deposits, pledge, listed investments, bills of exchange, mortgages over residential properties, and mortgages over business properties, promissory notes or other types of assets.

30. Risk management (continued)

a) Credit risk (continued)

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

b) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits and loan drawdown's.
The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest–bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Total amount of commitments to extend credit does not necessarily represent future cash flows, since many of these commitments will expire or terminate without their financing. Liquidity risk is shown in the maturity structure of assets and liabilities as at 31 December 2011 and 31 December 2010 (see Note 32).

c) Market risk

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

The limits are defined following the needs and strategy of the Bank and in accordance with the senior management risk policy indications.

30. Risk management (continued)

The exposure to market risk is formally managed in accordance with the risk limits approved by the senior management and revised at least annually. The exposure figures and limit utilization are delivered to the Treasury Division on a daily basis.

d) Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate gap table summarizes the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re pricing or maturity dates (see Note 33).

e) Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions.

Foreign currency balance sheet and foreign exchange risk table summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2011 and 31 December 2010. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by domestic currency and foreign currency (see Note 34).

f) Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other derivative instruments.
The primary exposure to equity prices arises from the Bank's holding of equity instruments available for sale. The Bank does not actively trade in equity securities.

g) Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. In order to efficiently measure and manage the operational risk exposure at the Bank level, the Bank is developing internal models for the operational risk exposure management in line with the Basel II prescribed framework. The main goals of this internal model are: to implement techniques enabling a detailed insight in the profile of the risk exposure of the Bank such as (quantitative 'ex-post' and qualitative 'ex-ante' risk exposure assessment); to support the management decision making process by developing efficient policies for the management and mitigation of the operational risk at the Bank level; adjustment of the pricing/provisioning policy by incorporating the expected losses and allocating the adequate economic/regulatory capital for unexpected losses.

31. Credit risk

a) Total credit risk exposure – balance sheet and off-balance sheet

As at 31 December 2011	Gross placements	Individually based impairment allowance	Collectively based impairment allowance	Net placements
A. Balance sheet exposure				
Cash and balances with Croatian National Bank	297,824	-	2,532	295,292
Placements with other banks	178,802	-	1,482	177,320
Assets held to maturity	65,426	517	552	64,357
Loans to customers	1,679,179	50,692	13,440	1,615,047
- performing loans	1,576,731	-	13,440	1,563,291
- substandard loans	71,125	19,413	-	51,712
- non-performing loans	31,323	31,279	-	44
Interest, fees and other assets	56,286	17,518	330	38,439
Total balance sheet exposure	**2,277,517**	**68,726**	**18,335**	**2,190,456**
B. Off-balance sheet exposure				
Other banks	-	-	-	-
Customers	181,355	-	1,542	179,813
- fully recoverable	181,355	-	1,542	179,813
- partially recoverable	-	-	-	-
- completely irrecoverable	-	-	-	-
Total off-balance sheet exposure	181,355	-	1,542	179,813
TOTAL EXPOSURE (A+B)	**2,458,872**	**68,726**	**19,876**	**2,370,269**

31. Credit risk (continued)

a) Total credit risk exposure – balance sheet and off-balance sheet (continued)

As at 31 December 2010	Gross placements	Individually based impairment allowance	Collectively based impairment allowance	Net placements
A. Balance sheet exposure				
Cash and balances with Croatian National Bank	276,881	-	2,353	274,527
Placements with other banks	206,102	-	1,752	204,350
Assets held to maturity	6,780	581	58	6,141
Loans to customers	**1,402,949**	**35,008**	**11,109**	**1,356,832**
- performing loans	1,306,998	-	11,109	1,295,888
- substandard loans	75,150	14,206	-	60,944
- non-performing loans	20,802	20,802	-	-
Interest, fees and other assets	68,914	15,863	451	52,600
Total balance sheet exposure	**1,961,625**	**51,452**	**15,723**	**1,894,450**
B. Off-balance sheet exposure				
Other banks	-	-	-	-
Customers	166,708	-	1,417	165,291
- fully recoverable	166,708	-	1,417	165,291
- partially recoverable	-	-	-	-
- completely irrecoverable	-	-	-	-
Total off-balance sheet exposure	**166,708**	**-**	**1,417**	**165,291**
TOTAL EXPOSURE (A+B)	**2,128,334**	**51,452**	**17,140**	**2,059,741**

31. Credit risk (continued)

b) Overdue receivables

Overdue receivables consist from placements for which impairment has not been made for both not due and due principle. They are arranged according to the age based on the individual placement including non-collected and not due interest and other income related to the principle. Item other due claims consist from non-collected interest, not due interest and claims that are written-off for which collection is still in progress. The amount of overall individual receivable is classified in the category of the oldest individual receivable, regardless whether the principal or the interest is due.

As at 31 December 2011	Due up to 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 365 days	Due between 1 and 2 years	Due between 2 and 3 years	Due over 3 years
Placements with other banks	-	-	-	-	-	-	-
Loans to customers	1,048,511	223,720	6,565	10,193	25,536	17,964	36,528
- retail customers	124,278	23,328	3,827	5,332	7,907	6,253	5,088
- corporate customers	924,233	200,392	2,738	4,861	17,630	11,711	31,441
- public and other sectors	-	-	-	-	-	-	-
Other past due claims	109,274	64,998	216	515	4,535	6,540	57,345
Total overdue receivables	**1,157,785**	**288,718**	**6,781**	**10,707**	**30,072**	**24,505**	**93,873**

As at 31 December 2010	Due up to 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 and 365 days	Due between 1 and 2 years	Due between 2 and 3 years	Due over 3 years
Placements with other banks	-	-	-	-	-	-	-
Loans to customers	735,442	163,572	27,810	18,146	28,688	18,680	27,945
- retail customers	101,867	30,842	6,602	8,750	8,026	3,409	2,572
- corporate customers	633,575	132,730	21,208	9,396	20,662	15,271	25,373
- public and other sectors	-	-	-	-	-	-	-
Other past due claims	39,244	3,231	1,608	1,994	7,418	5,156	52,337
Total overdue receivables	**774,864**	**166,803**	**29,418**	**20,140**	**36,106**	**23,838**	**80,282**

31. Credit risk (continued)

c) Placements secured by collateral

As at 31 December 2011	Deposits	Housing mortgages	Commercial mortgages	Other instruments	No collateral
A. Balance sheet exposure					
Cash and balances with Croatian National Bank	-	-	-	-	297,824
Derivative financial assets	-	-	-	-	334
Placements with other banks	-	-	-	-	178,802
Loans to customers	119,935	203,831	625,763	785,602	-
Assets held to maturity	27,000	-	-	-	38,426
Other assets	-	-	-	-	-
Total balance sheet exposure	**146,935**	**203,831**	**625,763**	**785,602**	**515,386**
B. Off-balance sheet exposure					
Other banks	-	-	-	-	-
Clients	5,903	10,743	5,348	18,093	141,269
Total off-balance sheet exposure	**5,903**	**10,743**	**5,348**	**18,093**	**141,269**
Total exposure (A+B)	**152,838**	**214,573**	**631,110**	**803,695**	**656,655**

As at 31 December 2010	Deposits	Housing mortgages	Commercial mortgages	Other instruments	No collateral
A. Balance sheet exposure					
Cash and balances with Croatian National Bank	-	-	-	-	276,881
Derivative financial assets	-	-	-	-	-
Placements with other banks	-	-	-	-	206,102
Loans to customers	79,001	185,810	462,639	744,413	-
Assets available for sale	-	-	-	-	-
Assets held to maturity	-	-	-	-	6,780
Other assets		-	-	-	-
Total balance sheet exposure	**79,001**	**185,810**	**462,639**	**744,413**	**489,763**
B. Off-balance sheet exposure					
Other banks	-	-	-	-	-
Clients	6,243	10,860	17,276	95,865	36,454
Total off-balance sheet exposure	**6,243**	**10,860**	**17,276**	**95,865**	**36,454**
Total exposure (A+B)	**85,244**	**196,670**	**479,915**	**840,278**	**526,217**

d) Allowances ratio in loans to customers

	31.12.2011		31.12.2010	
	Loans to customers (%)	Allowances ratio (%)	Loans to customers (%)	Allowances ratio (%)
Performing loans	93.92	0.85	93.16	0.85
Substandard loans	4.22	27.32	5.36	32.59
Non-performing loans	1.86	100.00	1.48	100.00
Total	**100**		**100**	

32. Liquidity risk

The amount of the total assets and liabilities was analyzed according to the most conservative assumption of remaining maturity from the balance sheet date to the contractual maturity.

As at 31 December 2011	0- 30 days	1-3 months	3-12 months	1 - 2 years	2 - 3 years	Over 3 years	Total
Assets							
Cash and balances with Croatian National Bank	202,324	23,525	89,028	17,906	16,381	4,914	354,080
Placements with other banks	141,150	37,652	-	-	-	-	178,802
Assets at FVTPL	61,076	-	-	-	-	-	61,076
Loans to customers	185,915	232,501	687,325	110,329	110,364	288,594	1,615,028
Assets held to maturity	-	-	64,347	-	-	-	64,347
Assets available for sale	61,676	22,184	154,763	43,786	13,086	24,832	320,326
Intangible assets	-	-	-	-	-	22,631	22,631
Tangible assets	284	78	183	111	121	32,158	32,935
Other assets	46,024	1,660	3,215	578	508	4,230	56,215
Total assets	**698,449**	**317,599**	**998,871**	**172,711**	**140,461**	**377,359**	**2,705,450**
Liabilities							
Deposits from banks	41,608	-	-	-	-	-	41,608
Deposits from customers	528,968	201,221	903,990	181,819	166,335	49,896	2,032,230
Borrowings	167,212	45,053	9,367	2,266	2,683	17,293	243,874
Other liabilities	10,601	34,308	6,160	1,229	936	2,190	55,423
Subordinated instruments	-	-	-	-	-	50,500	50,500
Provisions for other liabilities	952	157	289	131	9	4	1,542
Total liabilities	**749,341**	**280,739**	**919,806**	**185,445**	**169,962**	**119,883**	**2,425,176**
Maturity gap	**(50,893)**	**36,860**	**79,065**	**(12,734)**	**(29,501)**	**257,477**	**280,274**

32. Liquidity risk (continued)

As at 31 December 2010	0- 30 days	1-3 months	3-12 months	1 - 2 years	2 - 3 years	Over 3 years	Total
Assets							
Cash and balances with Croatian National Bank	237,271	17,352	43,717	6,979	13,115	2,984	321,419
Placements with other banks	203,276	36,926	-	-	-	-	240,202
Treasury bills from Ministry of finance	-	7,945	16,560	-	-		24,505
Loans to customers	199,931	247,896	403,245	143,015	78,392	245,654	1,318,134
Investments available for sale	53,258	4	7,203	26	24	15,932	76,447
Investments held to maturity	1,263	128	4,808	-	-	-	6,198
Tangible and intangible assets	440	65	112	257	223	32,959	34,057
Repossessed assets	-	11,603	-	1,543	-	-	13,145
Other assets	50,137	3,007	1,006	785	700	19,077	74,712
Total assets	**745,577**	**324,925**	**476,651**	**152,605**	**92,455**	**316,605**	**2,108,818**
Liabilities							
Deposits from banks	14,775	-	-	-	-	-	14,775
Deposits from customers	580,250	133,628	541,556	87,176	164,643	37,739	1,544,992
Borrowings	195,667	10,377	16,538	2,038	1,994	13,049	239,663
Other liabilities	8,734	19,084	2,541	1,608	922	2,285	35,174
Provisions for other liabilities	1,417	-	-	-	-	-	1,417
Total liabilities	**800,843**	**163,089**	**560,634**	**90,822**	**167,558**	**53,073**	**1,836,021**
Maturity gap	**(55,266)**	**161,836**	**(83,984)**	**61,783**	**(75,103)**	**263,532**	**272,798**

33. Interest rate risk

The following table is the Management's estimate of the interest rate risk for the Bank at 31 December 2011 and 31 December 2010 and is not necessarily indicative of the positions at other times. The table provides some indication of the sensitivity of the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities.

As at 31 December 2011	0 - 30 days	1-3 months	3-12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
Assets							
Cash and balances with Croatian National Bank	297,824	-	-	-	-	56,256	354,080
Placements with other banks	141,150	37,652	-	-	-	-	178,802
Assets at FVTPL	61,076	-	-	-	-	-	61,076
Loans to customers	185,915	232,501	687,325	220,693	288,594	-	1,615,028
Investments available for sale	320,326	-	-	-	-	-	320,326
Investments held to maturity	-	-	64,357	-	-	-	64,357
Tangible and intangible assets	-	-	-	-	-	55,566	55,566
Other assets	-	-	-	-	-	-	56,215
Total assets	**1,006,291**	**270,153**	**751,682**	**220,693**	**288,594**	**167,485**	**2,705,450**
Liabilities							
Deposits from banks	41,607	-	-	-	-	-	41,607
Deposits from customers	1,132,921	135,165	545,281	188,568	30,294	-	2,032,229
Borrowings	247,526	-	-	-	-	-	247,526
Subordinated instruments	-	-	-	-	50,500	-	50,500
Provisions for contingent liabilities	952	157	289	140	4	-	1,542
Other liabilities	-	-	-	-	-	51,772	51,772
Of which at fixed interest rate	838,278	135,165	545,281	188,568	30,294	-	1,737,586
Total liabilities	**1,423,005**	**135,321**	**545,571**	**188,708**	**80,798**	**51,772**	**2,425,176**

33. Interest rate risk (continued)

As at 31 December 2010	0 - 30 days	1-3 months	3-12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
Assets							
Cash and balances with Croatian National Bank	276,881	-	-	-		44,538	321,419
Placements with other banks	203,276	36,926	-	-	-	-	240,202
Loans to customers	1,318,134	-	-	-	-	-	1,318,134
Investments available for sale	100,952	-	-	-		-	100,952
Investments held to maturity	-	-	-	-	-	6,198	6,198
Repossessed assets	-	-	-	-	-	13,145	13,145
Tangible and intangible assets	-	-	-	-	-	34,057	34,057
Other assets	-	-	-	-	-	74,712	74,712
Total assets	**1,899,242**	**36,926**	**-**	**-**	**-**	**172,650**	**2,108,818**
Liabilities							
Deposits from banks	-	-	-	-	-	14,775	14,775
Deposits from customers	941,862	132,083	269,268	163,731	32,895	5,152	1,544,992
Borrowings	239,663	-	-	-	-	-	239,663
Provisions for contingent liabilities	1,417	-	-	-	-	-	1,417
Other liabilities	-	-	-	-	-	35,174	35,174
Of which at fixed interest rate	**637,677**	**132,083**	**269,268**	**163,731**	**32,895**	**-**	**1,235,655**
Total liabilities	**1,182,942**	**132,083**	**269,268**	**163,731**	**32,895**	**55,101-**	**1,836,021**

33. Interest rate risk (continued)

The following table summarizes the effective average interest rate by major currencies for monetary financial instruments as follows:

	31.12.2011		31.12.2010	
	HRK %	Foreign currency %	HRK %	Foreign currency %
Assets				
Cash and balances with Croatian National Bank	-	-	0.19	-
Placements with other banks	1.00	0.41	-	0.82
Assets at fair value through profit or loss	-	-	-	-
Loans to customers	8.32	-	8.85	9.50
Investments available for sale	6.84	10.00	-	-
Investments held to maturity	9.10	-	10.49	-
Tangible and intangible assets	-	-	-	-
Other assets	-	-	-	-
Of which at fixed interest rate	7.28	10.00	9.34	-
Total assets	7.44	0.43	7.34	0.90
Liabilities				
Deposits from banks	-	-	-	-
Deposits from customers	3.87	4.54	3.42	4.11
Borrowings	2.80	2.70	6.36	1.00
Provisions for contingent liabilities	-	-	-	-
Other liabilities	7.50	-	-	-
Of which at fixed interest rate	5.26	4.21	4.97	4.45
Total liabilities	3.85	4.47	4.32	3.96

The following table displays sensitivity of interest bearing assets and liabilities on variation of interest rate. For the calculation of the interest rate sensitivity on profit and loss account of the Bank, the assumption used by the Bank was increase of the interest rates by 1% except for cash and balances at Central National Bank. If the interest rates would decrease by the same percentage, the result would be interest income in the same amount.

	Assumed interest rate growth	Impact on 2011 profit and loss	Impact on 2010 profit and loss
Assets			
Cash and balances with Croatian National Bank	-%	-	-
Placements with other banks	1.00%	2,315	2,402
Loans to customers	1.00%	15,571	13,337
Other assets	-%	-	-
Liabilities			
Due to banks	1.00%	339	222
Due to customers	1.00%	12,981	13,135
Other borrowed funds	1.00%	2,439	2,397
Impact on net interest income		**2,127**	**985**

34. Currency risk

As at 31 December 2011, the Bank had following foreign exchange position:

	EUR	USD	Other foreign currencies	Total foreign currencies	HRK	Total
Assets						
Cash and balances with Croatian National Bank	24,948	-	-	24,948	329,132	354,080
Placements with other banks	131,065	37,602	10,134	178,802	-	178,802
Assets at FVTPL	4,091	-	-	4,091	56,985	61,076
Loans to customers	835,594	226	-	835,821	779,207	1,615,028
Assets available for sale	-	-	-	-	64,347	64,347
Assets held to maturity	226,768	-	-	226,768	93,558	320,326
Intangible assets	-	-	-	-	22,631	22,631
Tangible assets	-	-	-	-	32,935	32,935
Other assets	19,604	1,189	548	21,340	34,323	56,215
Total assets	**1,242,071**	**39,017**	**10,682**	**1,291,770**	**1,413,680**	**2,705,450**
Liabilities						
Deposits from banks	41,608	-	-	41,608	1	41,608
Deposits from customers	1,072,132	75,019	10,315	1,157,466	874,763	2,032,229
Borrowings	71,524	-	-	71,524	172,350	243,874
Subordinated instruments	-	-	-	-	50,500	50,500
Other liabilities	24,686	1,953	57	26,696	28,727	55,423
Provisions for potential liabilities	-	-	-	-	1,542	1,542
Total liabilities	**1,209,949**	**76,972**	**10,372**	**1,297,293**	**1,127,883**	**2,425,176**
Net foreign exchange position	**32,121**	**(37,955)**	**310**	**(5,523)**	**266,021**	**280,274**
Potential liabilities and commitments	21,634	4,638	-	26,272	155,083	181,355

34. Currency risk (continued)

As at 31 December 2010, the Bank had following foreign exchange position:

	EUR	USD	Other foreign currencies	Total foreign currencies	HRK	Total
Assets						
Cash and balances with Croatian National Bank	19,979	-	-	19,979	301,440	321,419
Placements with other banks	168,033	30,075	7,994	206,102	-	206,102
Loans to customers	654,349	-	-	654,349	702,483	1,356,832
Investments available for sale	38,495	-	-	38,495	62,457	100,952
Investments held to maturity	-	-	-	-	6,198	6,198
Tangible and intangible assets	-	-	-	-	52,035	52,035
Repossessed property	-	-	-	-	13,145	13,145
Other assets	5,668	367	516	6,552	45,583	52,135
Total assets	**886,524**	**30,443**	**8,510**	**925,477**	**1,183,341**	**2,108,818**
Liabilities						
Deposits from banks	14,771	4	-	14,775	-	14,775
Deposits from customers	792,486	31,220	4,833	828,540	716,452	1,544,992
Borrowings	56,063	-	-	56,063	183,600	239,663
Other liabilities	14,598	1,361	31	15,989	19,184	35,174
Provisions for potential liabilities	-	-	-	-	1,417	1,417
Total liabilities	**877,918**	**32,585**	**4,864**	**915,367**	**920,653**	**1,836,021**
Net foreign exchange position	**8,606**	**(2,142)**	**3,646**	**10,110**	**262,688**	**272,797**
Potential liabilities and commitments	8,195	9,483	-	17,678	149,030	166,708

34. Currency risk (continued)

The table below presents the sensitivity of the Bank's net assets and profit or loss to fluctuations in the CNB's middle exchange rate. If the same assumed per cent change would be applied to the decrease in the middle exchange rate of the CNB, the impact on profit or loss by individual currency on a net basis would be equal and opposite, that is, the total impact on all currencies would be a charge to the 2011. The result of the exchange rate changes is reflected in the income statement as foreign exchange gains or losses.

Currency as at 31 December 2011	Assumed increase of CNB's middle exchange rate	Impact on profit and loss	Impact on profit and loss	Impact on profit and loss
		Assets	Liabilities	Net
EUR	0.38%	4,673	4,630	43
USD	2.07%	836	1,561	(725)
Other currencies	1,80%	192	199	(7)

Currency as at 31 December 2010	Assumed increase of CNB's middle exchange rate	Impact on profit and loss	Impact on profit and loss	Impact on profit and loss
		Assets	Liabilities	Net
EUR	0.42%	37	44	(7)
USD	2.36%	8	4	4
Other currencies	1,80%	1	4	(3)

35. Fair value of financial assets and liabilities

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

Financial instruments designated at fair value through profit or loss and available for sale are measured at fair value. Originated loans and receivables and held to maturity assets are measured at amortized cost less impairment. Management believes that the carrying amounts of these instruments do not significantly differ from their fair values.

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

Loans

Fair value of loans 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 with no fixed repayment dates, 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. 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 originated and changes in interest rates in the case of fixed rate loans. As the Bank has a very limited portfolio of loans and advances with fixed rates and longer maturity, the fair values of loans and advances are not significantly different from their carrying amounts.

Deposits from banks and customers

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The length of relationship with depositors is not taken into account in estimating the fair value. As most of the Bank’s deposits are given with variable rate, being market rate, there is no significant difference between the fair value of these deposits and their carrying amount.

Borrowings

As majority of the Bank’s borrowings are given with variable interest rate, there is no significant difference between their carrying and fair values.

36. Related party transactions

In selecting methodology for separation of transactions with related parties, while respecting the provisions of the IFRS and the Law on Credit Institutions, the table below shows transactions of persons in a special relation to the Bank, of which the Bank regularly reports the CNB by the means of statistical – solvency reporting:

	Management Board		Related parties	
Type of transaction	**2011**	**2010**	**2011**	**2010**
Loans				
Opening balance	**3,076**	**1,654**	**50,490**	**32,835**
New loans granted	914	2,095	-	29,514
Loans repaid	(1,235)	(673)	(50,490)	(11,859)
Closing balance	**2,755**	**3,076**	**-**	**50,490**
Interest income	177	108	184	1,874
Opening balance				
New deposits and loans received	**1,600**	**2,188**	**170,023**	**100,982**
Deposits and loans repaid	131	117	543,930	204,329
Closing balance	(1,608)	(705)	(528,238)	(135,288)
	123	**1,600**	**185,715**	**170,023**
Interest expense	31	-	11,302	5,583
Fee and rental income	2	-	4,799	4,774
Fee and other expenses	-	-	(69)	(9,650)
Personnel and fee expenses	(1,580)	(828)	-	-
Total income	**179**	**108**	**4,983**	**6,648**
Total expenses	**(31)**	**-**	**(11,371)**	**(15,233)**
Dividends paid		**-**	**-**	**4,540**
Fees and other receivables				
Interest and fees receivables	-	-	329	310
Factoring receivables	-	-	19,767	-
Other receivables	-	-	9,336	7,015
Liabilities				
Interest payable	-	-	807	637
Liabilities to suppliers	**-**	**-**	17	170
Liabilities for credit cards operations	**-**	**-**	-	726
Off-balance sheet items				
Guarantees issued	-	-	6,330	5,075
Unused lines of credit	37	35	3,546	49

In the year 2011, remunerations to the Supervisory Board members amounted to HRK 389 thousand (2010.: HRK 486 thousand).

37. Commitments for operating lease of vehicles and equipment

As at 31 December 2011 the Bank has 81 operating lease agreements for vehicles and equipment (31 December 2010: 83 lease agreements). Contracted annual operating lease liabilities are as follows:

	2011	2010
Within one year	3,031	4,018
From two to five years	1,731	4,513
	4,762	**8,531**

38. Commitments for business premises leases

As at 31 December 2011 the Bank has 21 lease agreements for business premises (31 December 2010: 16 lease agreements). Contracted annual lease liabilities for business premises are as follows:

	2011	2010
Within a year	9,614	6,802
From two to five years	38,453	27,209
From five to ten years	46,067	34,012
	94,134	**68,023**

39. Events after the reporting period

From 27 January 2012, Croatian National Bank has increased the rate of obligatory reserves in HRK and foreign currencies from 14% to 15%. Bank maintains obligatory reserves based on the applicable legislation requirements.

At the meeting of the Supervisory Board, held on 8 February 2012, Mr. Emil Mihalina was appointed as the new President of the Management Board, effective from 9 February 2012. Mr. Mihalina has previously held the position of the procurator of the Bank.

In the last quarter of 2011, direct supervision by the CNB was carried out over the part of the business activities of Kreditna banka Zagreb d.d. Subject of the direct supervision were the assessment of capital adequacy, asset quality and credit risk management, and the profitability of the Bank. The CNB report stated that the Bank's business model was based on such concentration of the loan portfolio, from which arises the necessity of the loan portfolio restructuring, taking into account the possible difficulties for attracting new customers considering the Bank's environment and market trends. The report also stated the further need for improvement of the credit process for the purpose of better identification and management of the credit risk. After the reporting date, the Bank has adopted the plan for de-concentration of the loan portfolio, has started to apply it and by the end of the first quarter of 2012 has informed the regulator of significant reduction of the concentration in the short period as a result of activities and efforts undertaken.

40. Approval of the financial statements

These financial statements were approved by the Management Board on 27 April 2012.

Signed on the behalf of the Management Board

President of the Board

Emil Mihalina

KREDITNA BANKA ZAGREB d.d. 1 Zagreb

Vice President of the Board

Ivan Dropulić