Annual Report 2011

2011

General information

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Content

Report on the Supervision Performed in 2011

Pursuant to Article 263, Paragraph 3 and Article 300c, Paragraph 2 of the Companies Act, and Article 8, Paragraph 1 of Articles of Association of Erste&Steiermärkische Bank d.d. (hereinafter: the Bank), on March 16, 2012 the Bank's Supervisory Board adopted the following

REPORT On the Supervision Performed in 2011

I. During 2011 the Supervisory Board fulfilled its tasks and made decisions pursuant to its authorities set by relevant laws.

The Management Board regularly informed the Supervisory Board through written and oral reports on the state of the Bank, business politics issues, development plans and the Bank's financial results.

The activities of the Supervisory Board related to the supervision of the Bank's operations in 2011 were conducted in meetings; respectively by the Supervisory Board members' written declarations.

In 2011 the Supervisory Board held four meetings. A number of issues related to the Bank's condition and business operations were addressed. Pursuant to the provisions of the Articles of Association and the Supervisory Board Rules of Procedure, the Supervisory Board also made decisions without convening meetings, by the Supervisory Board members' written declarations. In that manner the Supervisory Board made decisions forty two times. Such decisions were made in writing and were subsequently verified in the first meeting of the Supervisory Board that followed.

The Supervisory Board paid great attention to the Management Board Reports on the Bank's operations and gave approval to the Bank Management Board to make decisions and regulations for which the Supervisory Board approval is required, pursuant to the Credit Institutions Act and the Bank's Articles of Association.

The Credit Committee and the Audit Committee helped the Supervisory Board in its work. In 2011 the Credit Committee made seventy five decisions in writing and the Audit Committee held four meetings. These Committees discussed and made decisions according to their authorities and responsibilities provided by the Supervisory Board Rules of Procedure and the Audit Committee Charter. The committees submitted quarterly reports on their work to the Supervisory Board.

II. In accordance with its legal obligations, the Supervisory Board carried out the supervision of the Bank's operations and found that the Bank operates in compliance with the law, the Bank's Articles of Association and other by-laws, and in line with the General Meeting's decisions.

III. Having inspected the financial statements of the Bank and the Group submitted by the Bank's Management Board, the Supervisory Board found that the annual financial statements of the Bank and the Group for the year 2011 complied with the records in the business books of the Bank and the Group, that they reflected the state of the assets and operations of the Bank and the Group accurately, and therefore the Supervisory Board granted its consent, whereby pursuant to Article 300.d of the Company Act, those financial statements are considered to be defined.

The Supervisory Board reviewed the Report of the independent auditor Ernst & Young d.o.o., Milana Sachsa 1, 10000 Zagreb, which had audited the Bank's annual financial statements for 2011, as well as the consolidated annual financial statements of the Bank's Group, and accepts the Auditor's report without any objections.

The Supervisory Board granted consent to the Management Board's Report on the good standing of the Bank and affiliated companies.

IV. The Supervisory Board received the Management Board's proposal for the profit distribution earned in 2011, whereby it was determined that in 2011 the Bank realised net profit in the amount of HRK 650,568,019.44, which is to be distributed as follows:

- **Retained earnings in the amount of HRK 468,837,346.94,**
- **Shareholders' dividend in the amount of HRK 181,730,672.50.**

The shareholders' dividend amounts to 10.70% of the nominal value of a share, which is HRK 10.70 per share.

The Supervisory Board gives its consent to the Management Board's proposal for the profit distribution.

V. The Supervisory Board shall submit this report to the General Meeting with the proposal to accept the Management Board's proposal for the profit distribution realised in 2011.

President of the Supervisory Board
Herbert Juranek

Report of the President of the Management Board

In this report, we are glad to present business results of Erste&Steiermärkische Bank d.d. (Bank) in 2011, since we once again confirmed the soundness and long-term sustainability of our business models. In 2011, the Bank maintained the trend of recording solid financial results and increasing market shares in all the key business segments, despite highly demanding market conditions.

The Bank's total assets as of 31.12.2011 stood at HRK 57.0 billion, which is 12.9% more compared with HRK 50.5 at the end of 2010. By harmonizing its operation to the market context, implementing adequate business models and continuously improving its internal efficiency, the Bank improved its operating income by 7.4% year-on-year to HRK 2.3 billion (year-end 2010: HRK 2.1 billion). The Bank managed to keep a stable profitability level with a net profit in 2011 of HRK 651.0 million, up 6.7% on the year before. RoA was 1.22%, while RoE reached 10.47%. The Bank continued cutting costs, which resulted in a further improvement of the Cost/Income ratio, from 38.2% in 2010 to 37.5% in 2011.

At the end of 2011, the Bank's total loans amounted to HRK 39.4 billion, which is 12.6% up compared with year end 2010, when they reached HRK 35.0 billion. This way the Bank successfully continued last year's trend, when total lending volume rose by 7.9%. According to the Croatian National Bank (HNB), in 2011 Erste Bank credit growth rate was twice as high as the market average. Thus the Bank increased its market share in total lending to 14.1% at year-end 2011 from 13.3% at year end 2010. In the corporate segment, the Bank also improved its market share to 14.3% (year-end 2010:13.1%). The same trend was seen in the retail segment, where the Bank's market share rose to 13.9% at year-end 2011 (year-end 2010: 13.5%). The Bank's total deposits at the end of December 2011 amounted to HRK 31.8 billion, up 4.8% on HRK 30.3 billion at the end of 2010. According to the HNB, in 2011 the Bank doubled the market average growth in deposits as well, so its market share in total deposits grew from 13.1% at 2010 end to 13.5% at the end of December 2011. In the corporate segment, the market share was up from 14.7% to 15.0%, while in the retail segment it rose from 12.6% at the 2010 end to 13.0% at the end 2011.

The successful business year for the Bank was confirmed by the awards presented by the Croatian Chamber of Economy to Croatia's most successful companies in 2011. For the fifth time in the past seven years Erste Bank was chosen as the Bank of the Year in Croatia, this time based on the 2011 performance.

To track residents' financial needs, focus intensively on the SME segment and support quality projects driving development of the real economy and employment will remain the basic strategic guidelines in Erste Bank's operation. The Bank's long-term business policies are always aimed at achieving above-average market growth, increasing internal and cost efficiency. Special attention will continue to be paid to improving the quality of services and communication with the customers, understanding their specific needs in existing market conditions.

Finally, I would like to thank all our clients, business partners and employees.

Petar Radaković
President of the Management Board

Management Board

PETAR RADAKOVIĆ, Chairman of the Board

– responsible for Property Management Division, Internal Audit Department, Economic Research Department and Communication Department

TOMISLAV VUIĆ, Deputy Chairman of the Board

– responsible for Retail Division, Multi Channel Management Department, Human Resources Department and Marketing Department

BORISLAV CENTNER, Member of the Board

– responsible for Corporate Division and Financial Markets Division

SLAĐANA JAGAR, Member of the Board

– responsible for Accounting Division, Processing Division, IT Division, Controlling Department, Organization Department and Asset and Liability Management Department

CHRISTOPH SCHÖFBÖCK, Member of the Board

– responsible for Risk Management Division, Legal Department and Compliance Department

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2011

Macroeconomic indicators

In 2011, economic performance was mixed but poor overall. After the first quarter of 2011 brought a GDP contraction of 1% y/y, second and third quarters brought some rebound with growth rates of 0.4% and 0.7% y/y, respectively. However, in the last quarter of the year the GDP rate slipped back into the negative zone again, contracting by 0.4/ y/y. Both private and public spending had a broadly neutral effect on the GDP, while the contribution of net exports was only slightly better. Investments, as expected, remained the heaviest growth burden (-7.2% y/y). Economy thus stagnated in 2011, posting zero growth. Outlook for 2012 remains gloomy, given uncertainties over the exports and investments projection. We expect the economy to slow down by 1% in 2012. Looking at other macroeconomic variables, 2011 brought better results in retail trade, seeing growth by 0.9% y/y and indicating modest recovery at the annual level. Industrial production remained at levels similar to the ones in 2010, and decreased by 1.5% in 2011 overall.

As far as the balance of payments is concerned, current account deficit remained in a comfortable region at 1% of the GDP and flat compared to 2010. A similar pattern is expected in 2012, looking assuring for external position stability. The total external debt decreased slightly with the corporate sector deleveraging, while banks and the state worked in the opposite direction.

Labour market trends indicate further growth of the unemployment rate, given that the ILO methodology unemployment rate of 13.5% in 2011 was up from 11.8% in 2010. So far in 2012 registered unemployment rate points towards additional deterioration during 1Q, while weak economic outlooks for 2012 suggest continued unfavourable trends in the labour market. Salary ranges were in line with situation in the labour market, so only marginal increase was seen in the nominal wages, while the real wages are still stagnant.

Inflationary pressures were moderate throughout 2011, mainly due to slow recovery and subdued pressures on the side of demand. The average inflation rate, measured by the Consumer Price Index, was 2.3% in 2011. As far as 2012 is concerned, we expect inflation to accelerate due to the one-off effect of VAT rate increase by 2 percentage points and growing prices of energy and raw materials. We see the average inflation rate around 3% in 2012.

Exchange rate stability remains the primary monetary policy anchor, so the Croatian National Bank was balancing between a stable currency and adequate level of liquidity in the system. However, the central bank also had to become more restrictive in order to hold the FX volatility and the exchange rate in check. CNB thus drained excess kuna liquidity via FX interventions and by raising the reserve requirement by 2 pp to 15% (in two

	2008	2009	2010	2011	2012(e)
Nominal GDP (HRK, bn)	345.0	335.2	334.6	341.2	346.4
Nominal GDP (EUR, bn)	47.8	45.7	46.0	45.9	45.9
GDP per capita (in 000 EUR)	10.9	10.4	10.4	10.7	10.7
GDP – real growth rate (%)	2.2	-6.0	-1.2	0.0	-1.0
Annual inflation rate (%)	6.1	2.4	1.1	2.3	3.2
BoP current account (EUR, bn)	-4.2	-2.4	-0.5	-0.4	-0.7
BoP current account as % of GDP	-8.8	-5.2	-1.2	-1.0	-1.5
Foreign debt (EUR, bn)	40.6	45.3	46.5	45.7	46.5
Foreign debt to GDP (%)	85.0	99.1	101.2	99.6	101.0
HRK/EUR rate year-end	7.32	7.31	7.4	7.53	7.55
HRK/EUR rate annual average	7.22	7.34	7.28	7.43	7.54
ILO unemployment (%)	8.4	9.1	11.8	13.5	14.5

Source: CNB, The Bank

iterations). The course of monetary policy in Croatia is not expected to change, so we see keeping the currency stable as the key target, with potential adjustments in prudential regulation to support the economy.

Fiscal policy entered a consolidation phase in 2012 as the new government took over. Fiscal targets look encouraging aiming to meet the Maastricht budget criteria by 2014. *Positive reaction also came from international rating agencies, as investment credit rating has been affirmed by Fitch and S&P's in 2012. The FX market also demonstrated positive trends in the past period. With exchange rate at more comfortable levels, the money market outlook appears less uncertain, meaning that the likelihood of the CNB restricting the kuna liquidity further is significantly lower.*

Croatia closed the EU accession negotiations successfully in June 2011. Following a positive referendum vote on EU accession in January 2012, and without significant delays expected in the ratifications process, Croatia will become a member country on 1 July 2013.

Lending operations in 2011

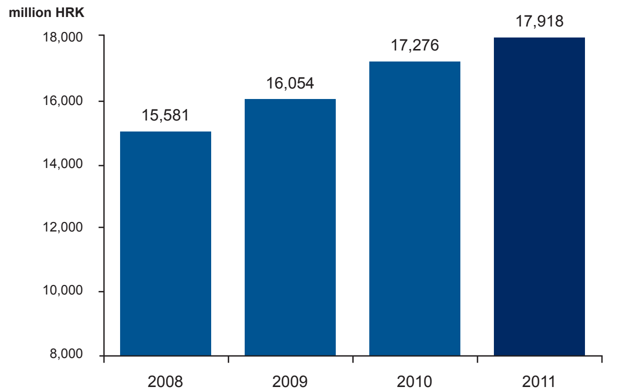
Last year was primarily marked by continuation of negative economic trends and additional worsening of external factors that directly or indirectly influenced the Bank's business, thus requiring constant adjustments in operation.

In the segment of retail loans, the trend of decreasing lending activity continued for both consumer and housing loans, while the housing loan market was to a certain degree under a favourable influence of a special program of state subsidies and guarantees, although within limited duration and lending volume. Unfavourable trends in the labour market had a negative impact on demand for new loans and clients' ability to service debts, resulting in a growing number of requests to refinance existing loans and implement new measures to facilitate loan repayment. During 2011, we continued to pay particular attention to collection activities which were aimed at improving control and preserving the quality level of our loan portfolio.

In the corporate segment, two main trends maintained: increase of insolvency and predominant demand for short-term loans, liquidity financing and restructuring of liabilities. During 2011, lending to the corporate segment recovered slightly; companies in the public sector maintained a stabile demand, while demand by the private sector picked up. Although financing for working capital still predominates the Bank's loan structure, we are happy to see a slight recovery lately in demand for investment loans in certain segments of industry (renewable energy, for example). Of course, a comparison with the pre-crisis number and volume of loans shows the change was not significant, but there was an improvement on 2010, nevertheless. Overall, it is still too early to speak about the recovery of investment activity, although some improvement is visible. Since the beginning of 2011, the Bank has focused more on the segment of small and medium-sized enterprises and backing quality projects that further the development of the real sector and the level of employment in this segment. Therefore, the Bank financially backs all projects that are well- prepared and cost-effective, and pays special attention, among other things, to projects in tourism, renewable energy and those that support production for export. These were also the areas where a relative increase in demand for financing was registered.

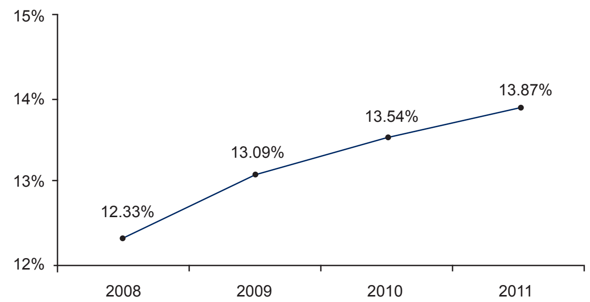
In 2011, retail loans grew by HRK 642 million or 3.72%, and amounted to HRK 17.92 billion as of 31 December 2011.

Chart 1. Retail loans (gross loans and advances due to customers)



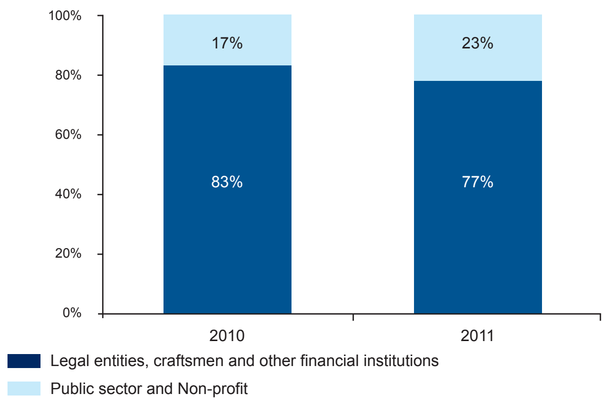
In the course of 2011, loans to privates saw a 0.83% increase, while in the same segment the Bank grew significantly more. Consequently, the market share increased from 13.54% to 13.87%.

Chart 2. Retail loans to privates – market share



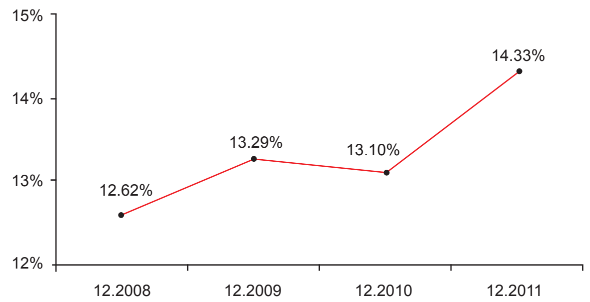
The total gross loan portfolio of the corporate division as of 31 December 2011 stood at HRK 24.4 billion, which was an increase by 22.5% or HRK 4.5 billion y/y.

Chart 3. Corporate division – gross loan structure



The total corporate loans market share increased from 13.10% (31 December 2010) to 14.33% (31 December 2011). The share of loans granted to companies showed an increase from 14.35% at the end of 2010, to 14.61% at the end of 2011.

Chart 4. Corporate Division loans – market share

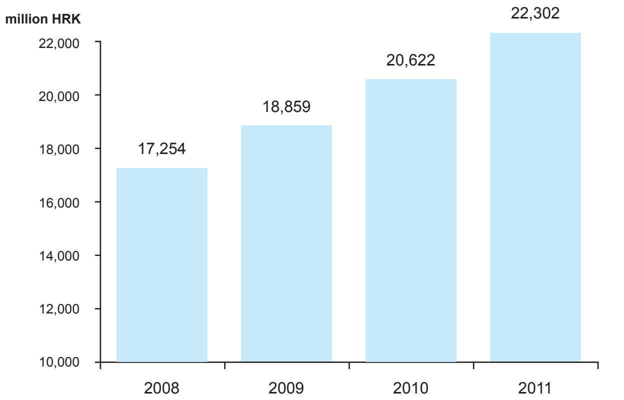


The Bank is still one of the most active commercial banks in administering HBOR credit lines (the Croatian Bank for Reconstruction and Development). As of 31 December 2011, loans from this source amounted to HRK 2,249 million, which was by 33% higher more y/y.

Deposits in 2011

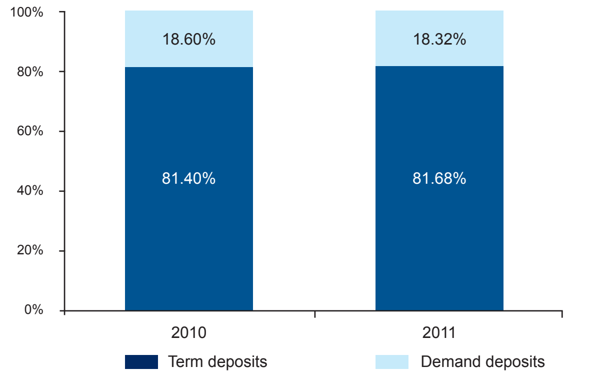
In 2011, privates' savings continued to grow despite a trend of decreasing interest payable, indicating that individuals prefer saving over spending when faced with increased uncertainty. This is particularly true of standard savings deposits in banks which are regarded as safer investment. The Bank saw a stable growth of its depositors' base in 2011, where retail deposits increased by HRK 1.68 billion or 8.15%, to HRK 22.30 billion as of 31 December 2011.

Chart 5. Retail deposits



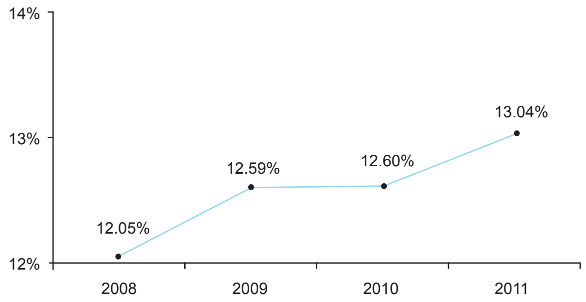
The retail deposit structure remained almost unchanged in comparison to the previous year with term deposits taking up a share of 81.68% and demand deposits accounting for 18.32%.

Chart 6. Retail deposits – deposit structure



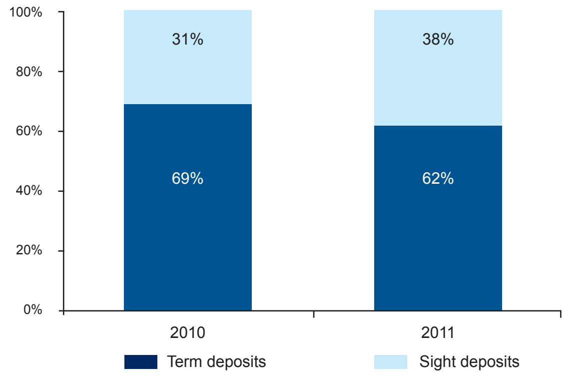
In 2011, the retail privates' deposits market increased by 4.79%, while in the same segment operation the Bank grew almost twice as much. This resulted in a market share growth from 12.60% to 13.04%.

Chart 7. Retail privates' deposits - market share



As of 31 December 2011, total deposits in Corporate Division amounted to HRK 9.5 billion, down from HRK 9.7 billion by the end of 2010. Term deposits totalled HRK 5.9 billion, and were down by 11.7% y/y from HRK 6.7 billion. Demand deposits amounted to HRK 3.6 billion, up by 18.3% y/y.

Chart 8. Corporate Division – deposit structure



The Bank's total market share in corporate deposits increased from 14.71% by 31 December 2010 to 14.96% on 31 December 2011. The corporate deposit market overall shrunk by 2.6% in 2011, whereas the Bank saw a smaller decrease, in comparison with the market's average (0.96%).

Chart 9. Corporate deposits – market share

Retail and corporate products and services of the Bank in 2011

Customer care with adequate financial support, flexibility and innovativeness were the basic traits of the Bank's operation in the previous year. We were guided by these principles as we were introducing new and changing the existing products and services.

In the retail segment of operation, the Bank participated in a project of state subsidies and guarantees by providing a special model of housing loans. A special credit line was developed simultaneously to purchase homes from those developers that had been financed by the Bank. In order to facilitate the repayment of CHF housing loans, the Bank lowered interest rates for existing loans twice during 2011. As a result, a majority of clients with this type of loan saw their interest rates return to levels from the time the loans were granted. In addition, the Bank was also involved in the preparation and implementation of a special package of measures to ease CHF housing loans repayment, in cooperation with the Government of Croatia. Measures included extended loan maturity and arranging a so-called deferred claim whereby the HRK/CHF rate was fixed at 5.8.

In the small business segment, the Bank launched a Microfinance pilot project in the city of Osijek and the surrounding area, and it is being implemented in partnership with the Osijek Business Enterprise Centre and the Croatian employment agency, with support from good.bee Holding. The main goal of the project was to encourage self-employment and implement good business ideas through specially-designed credit lines which provide not only financing, but also enable free education, consultancy and monitoring throughout the project duration.

In the course of 2011, the Bank continued to redeem farmers' claims from the Croatian Ministry of Agriculture, and total HRK 42 million was redeemed from 648 clients. The Bank also maintained active cooperation with government ministries, regional and local (self)-governments and development agencies through different programs of lending to SMEs.

In the corporate segment, the Bank was in the group of commercial banks that were involved in modifications of the economic recovery financing programme by the Croatian Bank for Reconstruction and Development (HBOR), and in upgrading support Model A into Model A+. The funds from this programme are intended for financing of working capital, including payments to suppliers, financial institutions, the state and other creditors. From total five auctions that were held for Model A+, the Bank was awarded a portion of the quota in four of them. Clients have been showing considerable interest in these working capital loans, due to the Model A+ interest rates which are the most favourable interest rates in the market at the moment. In the course of 2011, the Bank and HBOR granted 101 loans altogether, amounting to HRK 453 million (the Bank's share was HRK 272 million). Moreover, the first tranche disbursed by HBOR under the new Model A+ loan program was for a client of the Bank, in April 2011.

In early 2011, the full amount of the European Investment Bank's (EIB) credit line from 2010 was disbursed. Due to the increased client interest and the period in which the credit line from 2010 was disbursed, the total amount of the credit line was increased and an agreement was signed with the EIB on 27 October 2011. Projects that are acceptable for funding through the EIB credit line are divided into three components: a) SME and priority lending component; b) Mid-CAP component; c) energy efficiency component.

Among other products, we should highlight investment loans for encouraging employment, energy efficiency loans and renewable energy financing. Investment loans for encouraging employment are intended exclusively for mid-term and long-term financing of investment projects for the purpose of building, modernizing and expanding production capacities, always involving the creation of new jobs. Energy efficiency loans are intended for investments in the construction of new or renovation of existing buildings to achieve higher levels of energy efficiency. Renewable energy financing is aimed primarily at the power of wind (wind farms), water (small hydros) and sun (solar power plants), while secondary targets include biogas and cogeneration.

In the course of 2011 the Bank bid in a number of public tenders and won 20 of them, amounting to HRK 1.1 billion.

Direct banking services

As of 31 December 2011, the Bank had a total of 724,036 debit cards, which was by 5.90% more y/y. The number of debit card transactions increased by 8.19%, while their volume increased by 7.33% in comparison to the previous year.

Chart 10. Number of debit cards transactions

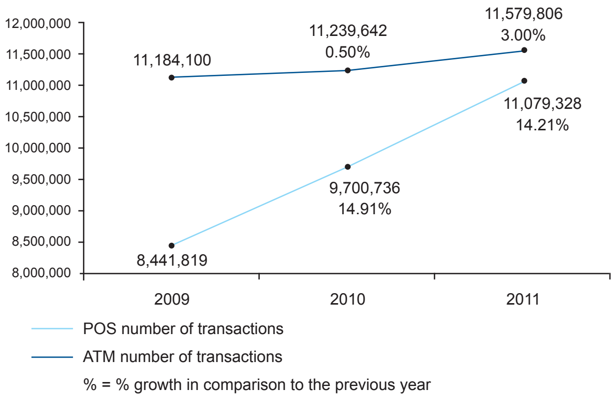
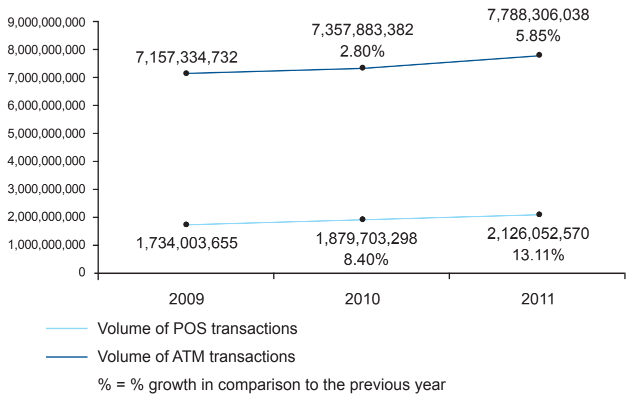


Chart 11. Volume of debit card transactions



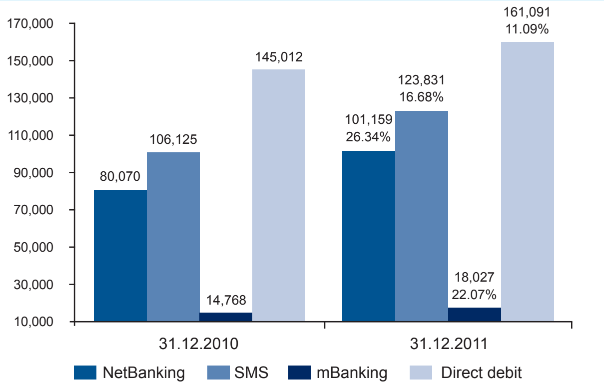
The Bank closed the year with 571 ATMs installed, which was an increase of 7.53% in comparison to the previous year. Throughout the year the Bank expanded its ATM network by 40 machines, so its ATM market share on 31 December 2011 stood at 14.36%.[1] Total turnover on our ATMs rose by 6.39% y/y to HRK 9.81 billion, while the number of transactions increased by 3.8% to 13.66 million.

In 2011 the Bank confirmed the status of a leader by innovation in the banking market by presenting a new service - Dynamic Currency Conversion (DCC). The service which is particularly interesting during the tourist season provides withdrawals at Bank's ATMs in a simpler and more transparent way to foreign holders of MasterCard and Maestro card. The user immediately receives information about how much their account will be charged in the original currency - the euro, U.S. dollar or the Swiss franc, depending on which account the card in use is linked to. By the end of December, 259,699 transactions were carried out in the total amount of HRK 303.7 million.

[1] Source: HGK 4Q2011

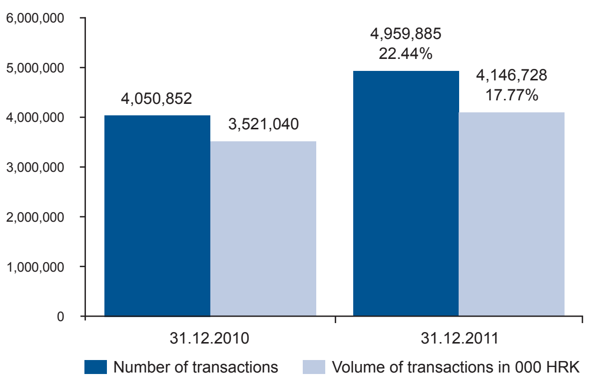
The number of NetBanking users in the retail segment increased to 101,159 – up by 26.34% on 2010. There were 123,831 retail users of the Erste SMS service, which was a 16.68% increase in comparison to 2010. The number of Erste mBanking service users during 2011 increased to 18,027 – by 22.07% more in comparison to 2010. The number of open direct debits increased by 11.09% in comparison to 2010, and now amounts 161,091.

Chart 12. Number of users - Retail



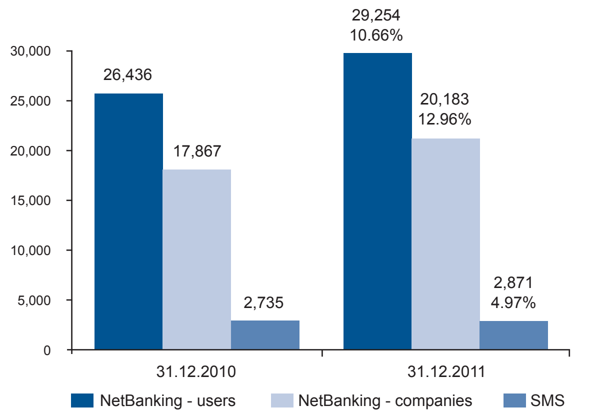
Retail clients carried out 4.95 billion electronic banking transactions through NetBanking, mBanking, direct debits, Erste Kiosk and NetPay, which was an increase of 22.44%. Total volume increased by 17.77% and it amounted HRK 4.14 billion.

Chart 13. Electronic banking transactions - Retail



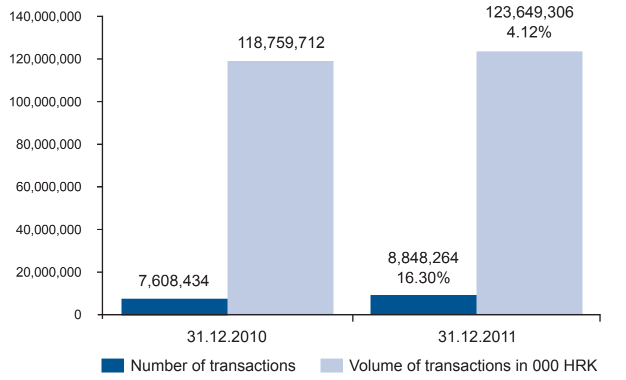
The number of Erste NetBanking corporate users increased from 26,436 to 29,254 (there can be more than one user in single company), which was an increase of 10.66% in comparison to 2010. The number of companies increased from 17,867 to 20,183, which was an increase of 12.96%. The number of Erste SMS service users in the corporate segment increased from 2,735 to 2,871 which was an increase of 4.97%.

Chart 14. Number of users - Corporate



Companies carried out 8.84 million transactions through NetBanking and MultiCash services (which includes HRK transactions, FX transactions and transactions in the HSVP (Croatian Real Time Gross Settlement System)) through Erste NetBanking, which is an increase of 16.30% in comparison to 2010. The transactions volume reached HRK 123.64 billion, which was an increase by 4.12%.

Chart 15. Number of transactions - Corporate



The number of FonBanking (telephone banking) service users increased by 18% in comparison to 2010. By the end of 2011, there were 24,273 users of FonBanking and 97% of them were retail clients.

Average of 25,129 clients visited the Bank's website daily, which is 10.32% increase in comparison to the previous year, and the website was accessed almost 72 million times, which is by 6.84% more times than in 2010.

We want to highlight two developments in our effort to upgrade existing and develop new electronic channels:

a) **Erste mBanking for smart phones** – upgraded mobile banking application for iPhone and Android clients along with an accompanying novelty on the Croatian market – a service offering customers an opportunity to pay bills using the "Photopay" service.

b) **Virtual Erste Bank branch office** – the first virtual branch office in the market which is located on the Bank's webpage and Facebook page. It offers visitors an interactive space through which they can manoeuvre in a fun way, and where they can access all information on Bank's products and services.

Financial markets and investment banking

Money market

In the course of 2011, the kuna money market was characterized by a sufficient liquidity in the interbank market, the stability of interest rates in the first half of the year and rising interest rates in the second half. ZIBOR O/N interest rates ranged from 0.57% to 3.93% with an average interest rate of 1.04%, while ZIBOR 1M interest rates were at somewhat higher levels ranging from 0.77% to 4.93% with an average interest rate of 2.11%. Throughout the year, the Croatian National Bank maintained a satisfactory level of liquidity in the market. Such monetary policy was aimed at encouraging lending activity of the bank system at lower interest rates in order to speed up coming out of recession and stimulate economic recovery. Average excess liquidity in 2011, including banks' overnight deposits with the Croatian National Bank, was HRK 5.3 billion.

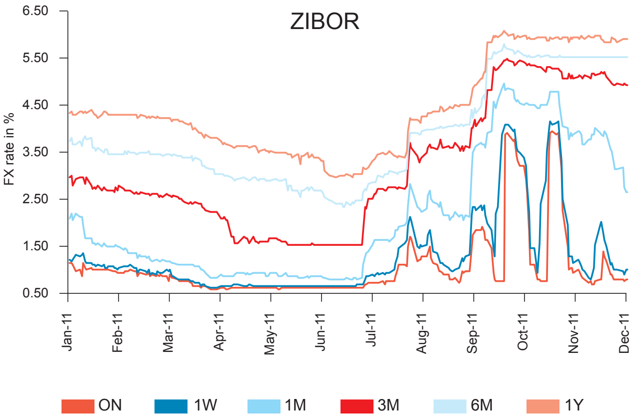
Since liquidity level in the interbank market was satisfactory, there was no need for reverse repo auctions (the last auction was held on 21 October 2009) and for releasing additional liquidity on the market. On 8 March 2011 the Croatian National Bank lowered banks' minimally required amount of FX claims ratio from 20% to 17% for the purpose of stimulating economic recovery and new investments. As a result, EUR 850 million of additional liquidity was released to commercial banks. With the start of depreciation pressures after the tourist season, the Croatian National Bank decided on 20 September 2011 to raise the reserve requirement from 13% to 14%, sterilizing HRK 3.1 billion of liquidity (about HRK 2.6 billion in the kuna and HRK 0.5 billion in the FX portion of the reserve).

During 2011 the government continued to issue both kuna and foreign-currency-denominated treasury bills owing to its considerable needs for financing. Yields for all maturities were falling in the first half of the year, and started rising again in the second half. The yield of HRK treasury bills with 91-day maturity ranged from 1.28% to 4.6% and the year closed at 4.55%. The yield of HRK treasury bills with 182-day maturity ranged from

2.15% to 5.3% and the year closed at 5.3%. The yield of HRK treasury bills with 364-day maturity ranged from 2.60% to 5.5%, and at the last auction it was 5.5%. The yield of foreign-currency-denominated treasury bills with 91-day maturity ranged from 2.95% to 4.5% and the year closed at 4.5%. The yield of foreign-currency-denominated treasury bills with 364-day maturity ranged from 2.45% to 4.98%, and the year closed at 4.98%.

In 2011 the Bank managed its liquidity efficiently. Throughout the year the Bank had no problem meeting its obligations to clients and to the Croatian National Bank. All clients' requests and regulatory requirements, such as the reserve requirement and minimally required amount of FX claims were met.

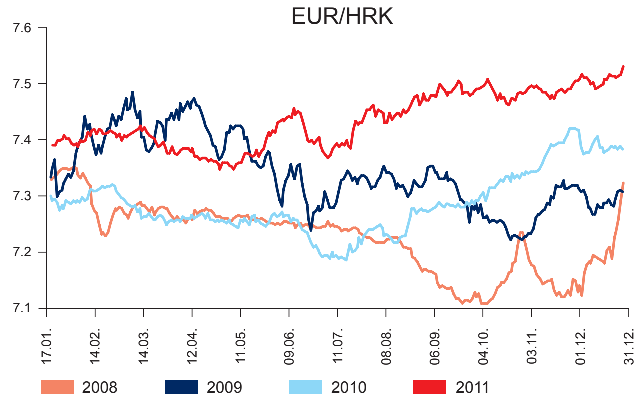
Chart 16. ZIBOR 2011



FX market

At the beginning of 2011, the EUR/HRK rate was very stabile, around 7.4. Very low volatility in the exchange rate was a result of very good liquidity in the money market and a balance in foreign currencies' supply and demand. In March, appreciation pressures on HRK increased, and continued into April. The kuna strengthened against the euro to the level of 7.35. In July through August 2011, the EUR/HRK nominal exchange rate was in an upper trend to the level of 7.48. This HRK depreciation pressures came about as the risk premium increased and foreign investors withdrew a portion of their deposits from the treasury bills market. The central bank intervened on the FX market by selling total 238.9 million EUR. After the FX intervention, the EUR/HRK exchange rate stabilized around 7.45. In the last quarter of 2011, the kuna was mostly weakening against the euro, and it closed the year above 7.5.

Chart 17. EUR/HRK exchange rate flows



During the first five months of 2011, the US dollar was mainly on the back foot against the euro. Nonetheless, in the second half of the year appreciation pressures became very strong on the USD under the influence of unfavourable fiscal developments in some members of the EMU. Strengthening of the US dollar against the euro had an effect on the USD/HRK rate which was falling in the first half of the year, reaching the year's record low price of 5.00 kunas for one dollar. Escalation of eurozone debt crisis together with depreciation of the kuna against the euro pushed the USD/HRK rate upwards toward the end of the year, closing at 5.83.

The EUR/CHF rate was also largely driven by appreciation pressures having to do with problems in the eurozone and increasing uncertainty in global financial markets. The negative impact of a strengthening Swiss currency on trends in the Swiss economy motivated the Swiss National Bank to intervene in the FX market and eventually set the lower limit for the EUR/CHF exchange rate at 1.2. CHF/HRK movements throughout the year were very similar to the EUR/CHF movements. For the first time, one Swiss franc was traded for more than 7 kunas, but stabilization followed after SNB's intervention, and the CHF/HRK rate was within a very narrow range of 6 - 6.2. The 6.2 level was where the rate was at the end of the year.

Capital markets

Debt securities market

In 2011 the Bank was a joint agent and underwriter for the issue of two government bonds in nominal amounts of EUR 600 million (maturity 2022) and HRK 1.5 billion (maturity 2016). Besides arrangement and underwriting services, the Bank provided financing for the state with two short-term bilateral loans nominally worth EUR 150 million that have matured in the meantime, and one long-term bilateral loan in the amount of EUR 130 million with five-year maturity which will be repaid in equal yearly instalments.

In July 2011, the Bank was very successful in issuing its own subordinated bond which is included in additional own funds. The issue was nominally worth EUR 80 million, bearing 6.5% coupon and maturing in six years. These are some interesting points about the issue:

- the largest domestic issue of debt securities offered primarily to retail investors
- over 370 accounts, mainly retail investors
- positive perception of the Bank as an innovative provider of financial services
- strengthening of the capital base through borrowing in the local market
- status of the Bank as a quality debtor reaffirmed by interest of investors

Activity on the primary market of non-government bonds was at the 2010 level, which means quite low. A total of two corporate and three bank bonds were issued through public offering. The corporate bonds served to refinance an existing maturing debt, while other banks followed the Bank's example in beefing up the capital base. The primary market for commercial papers saw a significant drop in 2011, and activity was predominantly limited to refinancing of maturing debts. Securities were mainly subscribed by the same investors who had invested in maturing securities. There are two main reasons behind investors' lack of interest in this type of financial asset, the first being extreme illiquidity in the segment of corporate securities and the second being risk aversion stemming from investments in unsecured corporate debt.

Equity market

The year 2011 had been announced as a year of recovery that might even see some IPOs, but in the end there was none, and the year was difficult with reduced trading volumes. After suspended trading in INA share in the second quarter, liquidity decreased, while funds released from selling of INA shares by domestic investment funds and individual investors poured back to the market into other stocks, so the CROBEX index experienced 8.5% rate of return in the first three months, while in the first six months it hovered around solid 2,230 points, growing by 5.68%. In mid July a sudden slump happened on the global capital market, caused by debt crisis in Europe and instability of Greece and the euro. The negative sentiment took over the Croatian market, as well. The last quarter brought to the market overall stagnation with minimal liquidity that recovered to some extent after the INA trading suspension was cancelled in mid December. The market was also affected by the forthcoming parliamentary election later in the year.

Crobex closed the year at 1,740 points, down by 17.56%. Turnover on the Zagreb Stock Exchange was by 7% smaller in comparison with 2010 (HRK 5.36 billion compared to HRK 5.78 billion in 2010).

The Securities Trading Group started operating in 2011, covering Croatian (and regional) equity trading and becoming a competitive centre for trading Croatian and regional government bonds for Erste Group. As the result of integration of Erste vrijednosni papiri d.o.o. Zagreb and the Bank, a new Brokerage Group unit was set up on 13 June 2011 which provides the following investment services: acceptance and transmission of orders for one or more financial instruments, and execution of orders on behalf of clients.

Custody

During 2011, the market value of assets under custody was constantly growing in the first half of the year, and by 31 July 2011 it reached HRK 7.15 billion, which was an increase by 4% since 31 December 2010. From August 2011 until the end of the year, the market value of assets declined, and on 31 December 2011 it stood at HRK 5.87 billion – up by 1% y/y. Such significant fluctuation in the market value of assets under custody was caused by high volatility in capital markets, where the first half-year increase in the index value (e.g. CROBEX +5.7%) was cancelled by a fall in the second half of the year (CROBEX -17.6%, CROBIS -4.5%), as a result of global political and economic instability, debt crisis spreading and allocation to safer assets. In 2011 there was a slight decline by 8% in the number of client transactions with securities, compared to 2010, which is in correlation with a lower level of liquidity and smaller turnover on the Zagreb Stock Exchange. The total number of client transactions in 2011 was 7,182. Compared to 2010, the number of clients increased by 10%, to 487.

Branch network expansion and slight increase in employee count

In 2011 the Bank opened four new branches, increasing their total number to 130. Two of them were opened in Zagreb and one in Split and Komiža each. Additionally, the Bank opened a new Regional Business Center in Split (Gundulićeva Street), having moved there the entire operation from previous location at Hrvatske bratske zajednice Square.

In the face of highly demanding market conditions and predominant trends in the labour market, the Bank slightly increased its number of employees as full-time equivalents, so their number reached 2,001 at the end of 2011, and it was up by 3.6% from 1,930 at 2010 end. At the same time, the Group had 2,536 employees as full-time equivalents – by 10.8% more compared with 2,288 at the end of 2010.

Acquisition of Erste vrijednosni papiri, purchase of interest in Erste Card Club and Erste Factoring, MBU sale

In 2011 the Bank acquired a majority stake and then integrated investment company Erste vrijednosni papiri d.o.o. Zagreb (EVPZ). Furthermore, the Bank acquired all the shares in Erste Card Club d.d. (ECC) and a majority stake in Erste Factoring d.o.o. (EF). The basic goal of acquiring shares and mergers was to maximize synergy effects, optimize further the expenditure side of operation, and consequently improve the Bank's market position. In October 2011, the Bank sold its majority interest in MBU d.o.o.

Business results of Erste Bank A.D., Podgorica, Montenegro – the subsidiary of Erste&Steiermärkische Bank d.d.

In 2011 Erste Bank AD Podgorica (EBM) grew significantly above the industry growth rate, and managed to increase its market share with respect to all relevant parameters. EBM's market share in total assets increased from 8.2% in 2010 to 10.7% in 2011. At the same time, the market share in total loans rose from 8.8% to 12.2%, while the share in total deposits increased from 7.3% to 9.0%. EBM is the winner of the prestigious Bank of the Year award in Montenegro, presented by renowned financial magazine The Banker, member of Financial Times Group.

Owing to particular focus on increasing lending, on the bank's risk management and operative efficiency, in 2011 EBM achieved profit before income tax in amount of EUR 4.13 million that was by 63.75% higher in comparison to 2010. Net profit amounted to EUR 3.67 million with return on equity (ROE) of 13.6% and return on assets (ROA) of 1.4%. Total operating income was generated in amount of EUR 22.4 million, and by 2.22 million or 11% up on 2010. Net interest income amounted to EUR 20.01 million and was by 7.66% higher than in the previous reporting period, although net interest margin decreased from 9.9% at the end of 2010 to 8.5% at the end of 2011. Net fee and commission income was increased by 47.02% amounting to EUR 2.12 million. Provisioning costs were by 11.3% lower compare to 2010 and were 5.5% bellow projected for year end. Risk cost coverage of 2.27% is significantly lower than at the end of 2010 when it was 3.36%. NPL coverage rate was a high 71.3% by the end of 2011. Operating expenses amounted to EUR 11.61 million and compared to 2010 they have increased by 9.39%, while Cost/Income ratio dropped from 52.6% to 51.8% in comparison to the previous year. At the end of the year, total assets reached EUR 299.38 million and increased by 25.34% in comparison to 2010. Net loans to customers amounted to EUR 242.68 million and they were by 31.12% higher on 2010, thereof EUR 121.49 million refers to retail loans and EUR 121.19 million to corporate loans.

In the year when providing advisory and financial assistance to retail and corporate clients was more important than before, EBM affirmed its commitment by increasing market share in granted loans and advances. In Retail Division, EUR 60.08 million was granted through 12,154 loan arrangements (by 11% more y/y), by introducing new and replacing the existing products and services. Cash loans (50.27%), housing (16.32%), micro/agriculture loans and loans for their refinancing (15.21%), mortgage and house improvement loans (12.15%) had the largest share in total disbursements. The interest of clients remained focused on standard retail products is noticeable, which is in line with the Bank's strategy in that field, so that core retail products accounted for 82.27% of total lending in 2011. The retail loan portfolio increased by 15.37% last year, and growth rate in the SME/corporate segment loan portfolio was a significant 53.04%. A lot of effort was invested in bringing new clients, particularly market leaders, and 58.79% growth on 2010 in payment transactions income was a result of this. Furthermore, along with supporting SMEs and large companies in Montenegro, EBM considerably raised the level of operations with the public sector.

During 2011 total deposits from customers increased by EUR 34.47 million (an increase of 24.56%) and amounted to EUR 174.81 million at the end of 2011, out of which EUR 114.28 million referred to retail deposits and EUR 60.53 million to corporate deposits. The increase in both retail and corporate deposits is indicative of the growing trust of clients in the youngest member of banking market in Montenegro – EBM, and in the banking sector overall.

EBM's significant achievements were a result of growing business with clients; improvements in operating efficiency and stability; product development and new staff recruitment. The results which were achieved are even more impressive taking into account that they came in a period of very difficult conditions for doing business at the local level. EBM worked simultaneously on remodelling of branch offices to meet Erste Group's standards and expand its client base. EBM operates a network of 15 offices throughout Montenegro, and by the end of 2011 it was providing services to more than 82,000 clients.

EBM will continue developing target products and services by analysing market needs in order to provide its clients with quality support. It will develop further existing products and services and continue providing a high level of professional service to a growing number of clients. At the same time, it will aim to raise their level of satisfaction, while taking into account the interests of its stakeholders.

Business results of Erste Card Club d.d. – the subsidiary of Erste&Steiermärkische Bank d.d.

Total operating income of Erste Card Club (ECC) in Y2011 amounted to HRK 382.8 million and decreased by 1% compared to Y2010. The majority of the share in the structure of operating income in Y2011 was held by net fee and commission income with share of 52% and net interest income with share of 47%, which is a shift in the structure compared to Y2010, when the share of operating income was held by net fee and commission income of 44% and net interest income of 55%. Net interest income amounted to HRK 179.9 million, decreasing by 15.8% from HRK 213.7 million in 2010, mostly as a result of regulatory and market changes in 2011. In line with regulatory adjustment required by the Croatian Ministry of Finance, ECC stopped disbursing cash loans to individual clients. Furthermore, the Croatian National Bank limited the discount rate to 12%. Net fee and commission income amounted to HRK 200.1 million, representing a growth of 17.8% compared to Y2010. The increase of income from merchants is a direct result of growth credit card volumes of 5.7%. The significantly more new credit cards sold last year in comparison with 2010 generated increased revenue from membership fees, which also contributed to improvement of net fee and commission income. Risk provisions in Y2011 amounted to HRK 70.2 million, and they decreased by 39% y/y, while NPL coverage rate of 82.5% in Y2011 compared to 78.65% in Y2010. Net trading result in Y2011 amounted to HRK 2.7 million which represents a decrease of 0.38% in comparison with Y2010. Total administrative expenses in Y2011 amounted to HRK 205.4 million and increased by 6% in comparison with Y2010 due to implementation of new legislative requirements, the operating cycle and the activities undertaken in the course of 2011. Depreciation expenses amounted to HRK 7.5 million and increased by 16% compared to Y2010, largely having to do with investments in the EFT POS network. The result of financial assets in Y2011 amounted to loss of HRK 1.7 million and mostly refers to impairment of financial assets (DC Russia). As of 31 December 2011, the consolidated ECC and Diners Club BiH d.o.o. Sarajevo (DCBH) net profit amounted to HRK 82.2 million and increased by 36% in comparison with 2010 and having brought improvement to profitability. This was in line with planned figures.

ECC had HRK 3.286 million in total assets as of 31 December 2011 – by 5% less y/y. Loans and advances to customers and financial institutions amounted to HRK 3.080 million, having 94% share in total assets, which is a decrease of 5% compared to Y2010. Loans to customers amounted to HRK 1.674 million, accounting for 51% of the total assets and growing by 5.8% primarily due to growth of revolving products and non-interest bearing instalments. Charge receivables amounted to HRK 650 million accounting for 20% of the total assets and growing by 2% compared to 2010. Risk provisions amounted to HRK 421 million, with a share of 12.81% of the total assets and an increase by 21% compared to 2010 in accordance with the growth of provisions costs and collection income, simultaneous increase in the NPL coverage rate to 82.5%. Financial assets - held to maturity amounted to HRK 188 million (6% of the total assets), and was 20% lower compared to 2010. Trading assets amounted to HRK 220 million (7% of the total assets), refers to investment funds and was 0.4% lower compared to 2010. Financial assets available for sale related to investments in bonds since July 2011 amounted to HRK 74 million (2% of the total assets). Liabilities to credit institutions at 31 December 2011 amounted to HRK 2.424 million and took 74% of total liabilities. They were lower by 8% compared to 2010. Liabilities to customers amounted to HRK 414 million (13% of total liabilities), which refers to service establishments incurred from acquiring business and the contract terms and conditions of payment. They are decreased by 10% when compared to previous year. Total equity amounted to HRK 386 million in 2011 and accounted to 12% in total equity and liabilities, which is an increase of 17% compared to 2010 by which the goal of raising the equity adequacy level was met.

Profitability indicators show an increase compared to 2010. Realized return on equity (ROE) in 2011 was 23.21%, and up by 18% on 2010. Return on assets (ROA) was 2.55%, and up by 51% on 2010. Return on investment (ROI) was 7.54%, and up by 36% on 2010. Cost income ratio increased by 4% compared with 2010, to 53.67%, as a result of implementation of new legislative requirements that have had a negative effect on both, income and cost side, operating cycles, DCBH consolidation, undertaken in the course of 2011 (strengthening of the acquiring position and expanding the EFT POS network). NPL Coverage rate reached 82.47% following continuous growth since 2007 when it stood at 59.7%.

The total number of cards (CIF) issued by Erste Card Club (ECC) as of 31 December 2011 reached 501,045 (DC 432,205; V/MC 68,840), which was an increase by 4% in comparison with the previous year. The sale of new credit cards increased considerably, from 45,793 in 2010 to 64,851 in 2011. In 2011, POS turnover was up by 5.7% on 2010. The total ECC issuing turnover increased by 7.9% and acquiring turnover grew by 7.6% y/y. The number of transactions in 2011 amounted to 20,122,024, and it was up by 9% on 2010. Total number of ECC-installed EFT POS devices was 11,195 by the end of 2011 - up by 13% on 2010.

Business results of Erste Factoring d.o.o. – the subsidiary of Erste&Steiermärkische Bank d.d.

Despite the difficult year of recession, Erste Factoring d.o.o. (EF) ended the financial year of 2011 very successfully. Net profit of EF was HRK 22.4 million. Return on assets (ROA) was 0.88% while return on equity (ROE) 19.73%. As planned, EF has kept its leading position on the factoring market. According to Croatian Agency for Supervision of Financial Institutions, as of December 31 2011

EF's market share in total asset stood at 46% among all factoring companies in the country. Year 2011 was particularly challenging for the business of factoring. Strong competition from banks and factoring companies combined with increasing interest rates made it a challenge to achieve the best possible result eventually.

In comparison to 2010, 2011 saw a significant increase in lending to customers. As of 31 December 2011, exposure to clients was higher by HRK 385 million, or 29% y/y. Realized turnover in 2011 was HRK 3.555 million and up by 17.5% on 2010. Growth in demand for factoring was most considerable in the segment of large corporate clients because of the longest payment deadlines, while SME clients use this type of financing comparatively less.

In 2011 there was a decrease in net interest income due to a decline in net interest margins on loans to customers, a decrease in the volume of bank deposits and falling net interest margins on deposits and the growth rates of sources. Despite such a trend in interest rates, net interest margin increased from 2.3% to 2.9% as a result of restructuring of the portfolio from less profitable to more profitable investments (decrease in deposits with banks, credit growth to customers). Total provision costs in 2011 amounted to HRK 38.8 million, and they were down by 10.6% in comparison with the previous year and HRK 43.4 million. In 2011, there was a further reduction in income from exchange rates differences due to increasing share of the portfolio (loans to customers) contracted with an FX clause (the Bank's middle rate). Yield on shares in investment funds was significantly lower than the year before, and this also reflected on the reduction of income. Savings measures had an impact on the position of administrative costs that were lowered by 3% in comparison with the year before.

The Bank as corporate citizen in 2011

The Bank pays much attention to corporate social responsibility, continuously investing work and effort to contribute to adequate development and permanent improvement of the quality of living in the communities it operates in. Bank's activities in the CSR segment are aimed at the four basic stakeholder groups: customers, employees, society and community and environment.

I. Customers

In the customer segment, the Bank has been constantly launching new products on terms that are somewhat more favourable than the regular commercial terms, and undertaking other activities in order to get as close as possible to existing and potential customers, as well as to the wider community in which it operates. The Bank also offers special microfinance lines for people with good business ideas and job investment loans. It organizes special educational models and workshops that have been designed for all its customers. Additionally, when remodelling its offices the Bank pays special attention to its customers with special needs, to make sure they are able to use financial products and services under equal conditions.

a) *Job investment loans*
The Bank is aware that unemployment is one of the burning issues in Croatia today. In order to try and give an adequate contribution to tackling this issue, by helping increase the number of new jobs and stimulating new projects, late in 2011 the Bank presented a special line of investment loans for boosting employment. What makes this credit line special is a reduced interest rate for businesses that hire a certain number of new employees. Furthermore, exporters who hire new workers get a special stimulation through an additional 0.2 pp reduction in interest rate. This way, when taking out EUR 200,000 investment loan in the Bank, a company will get a 0.2 pp interest rate discount for one person hired and a full 1 pp discount if it hires more than five people. In the case of exporters, the interest rate will be reduced by 0.4 and 1.2 pp.

b) *Microfinance*
Late in 2011 the Bank presented its microfinance project for jobless persons who have good business ideas in the area of Osijek and nearby towns, whose specific status makes it difficult for them to meet the standard lending terms and conditions. The project is implemented in partnership with the Osijek Enterprise Centre and Croatian employment agency (HZZ), with support from good.bee Holding, a member of international Erste Group, which aims to provide financial services to those who do not have access to standard financing. The Bank is the first bank in the Croatian market to enter such a favourable micro-financing project on its own, without the involvement of other lenders.

Through successful realization of this project, the Bank hopes to lay grounds for a further development in the business segment focused on micro-loans.

II. Employees

The Bank is trying to create a quality environment and working conditions for all its employees by enabling education and professional training, as well as additional healthcare protection to help keep its employees healthy. Apart from numerous education and training programmes, all employees can also use additional health services and preventive vaccination, such as flu vaccination, at the Bank's expense.

Furthermore, the Bank organizes certain types of corporate volunteering in order to additionally stimulate social awareness and empathy among its employees. In 2011, corporate volunteering became an integral part of the "Manager Development Programme" through one-day volunteering activities. In 2012, corporate volunteering activities were added to the "Talent Development Programme". In late September last year, five groups of participants in the Bank's "Manager Development Programme" spent a day working on a house at Vukomerec, Zagreb, where the Zagreb Archdiocese Caritas offers free accommodation to parents who have children undergoing long-lasting medical treatment in Zagreb, but lack financial resources to pay for accommodation in the city. This way, last autumn the Bank managers helped paint sleeping rooms, halls, stairways and doors all over the house. Employees showed great interest from the very beginning, when the idea was first announced. After the actual work started, everyone joined in with a lot of good will, enthusiasm and effort. Apart from the noble deed and charity work in helping others - which does well to those who give and those who receive - through volunteering the participants together achieved a noble goal, in an environment that is different from their everyday routine.

III. Society & Community

In the segment of society and community, the Bank has been continuously providing financial support through donations and sponsor activities in the community, taking into account local needs and specific features. The Bank rendered the total of HRK 7.32 million through sponsorships and donations programmes in 2011.

From a number of cultural initiatives supported by the Bank in the course of 2011, we will highlight the Julian Rachlin Festival, the Vallamar Jazz Festival in Poreč, the Rijeka Carnival, BOK Fest and Terezijana in Bjelovar, the Burgtheater Performance in Zagreb ("Dorian Grey" by Oscar Wilde) and others.

In the area of welfare and charity, the Bank extended support to a number of institutions and initiatives last year, from among which we will mention the SOS Children's Village Croatia, the Hrabri telefon helpline, the Homo si teć charity race, the Zagreb Children's Clinic, the Bjelovar General Hospital, the Zagreb Archdiocese Caritas, the Split Association for Multiple Sclerosis, the Zagreb Rehabilitation Centre, the Zagreb Autism Centre, the County League Against Cancer and the Home for Disabled and elderly in Bjelovar, along with a number of elementary and secondary schools across the country.

2011 was also a year in which the Bank provided support to many sport clubs: Water Polo Club Primorje Erste banka, Sand Volleyball Club Erste Zagreb, Ice Hockey Club Medveščak, FC Rijeka, Basketball Club Zadar, Handball Club Bjelovar, the Croatian Shooting Federation, the Zagreb Sport Federation, Equestrian Club Jarun and others.

a) *Erste Fragments: the link between art and the Bank*
   Last year the project of purchasing works by young and unknown artists – Erste Fragments - was carried out for the eighth time. Erste Fragments has become a tradition by now and the Bank's way to help young artists by the age of 30 who have not made a name for themselves yet. The Bank buys their works of art and financially rewards the top three. Furthermore, exhibitions organized to showcase this art are a good opportunity for the young authors to get artistic affirmation, while their audience and art critics get to see the latest of contemporary art by domestic authors and an overview of artistic creation by young generation.
   In the eighth year of this project, the Erste Grand Prix special award by the jury (10,000 kunas) was given to Martina Grlić for her painting titled "There is a light". The visitors of the Bank's Facebook page, on the other hand, liked Nikola Zelmanović's photograph "Animals02" the most, so he won the special award in the amount of 3,000 kunas. A one-year scholarship of 1,000

kunas a month was earned by Maja Šimunović. The eleven works of art purchased in 2011 cost HRK 77,500. The names of other authors are: Ines Matijević Ćakić, Petar Popijač, Elvis Krstulović, Josip Brandis, Goran Novaković, Vanja Trobić, Alma Trtovac, Ivona Mrčela and Ivona Jurić.

b) *PET Project*
One of the most significant projects initiated by the employees is the "PET Project". The Bank has a developed internal programme for encouraging innovation by employees, called Balthazar and PET Project is its offspring. This is a project of organized collection of plastic (PET) packaging in Erste Business Centre in Zagreb, conducted in partnership with the Association for Promoting Inclusion. Bank's employees collect empty soda and water PET bottles, which are then taken to recycling by Association's users, who use proceeds to finance a part of their needs. By organizing this PET bottles collection, the Bank helps the community in two ways – apart from recycling a large number of plastic bottles, which is an environmentally-friendly act to begin with, the Bank also helps encourage entrepreneurship activity by the socially sensitive population – mentally challenged people who have a hard time finding employment.

c) *Stepping into Life*
One of the projects the Bank joined, together with other Group members, is the campaign by Rotary Club Zagreb – "Korak u zivot" (Stepping into Life). This refers to scholarships for children without proper parent care, which help these young people get university education. The Bank, together with other Group members, has provided a total of 8 five-year scholarships to support 8 students until graduation.

IV. Environment

a) *Interior designs of business premises*
In the segment of environment and interior design, the Bank is trying to establish as good business processes as possible and to achieve environmentally sustainable operation. In its everyday operation, it uses energy-saving light bulbs and LED advertising panels, tries to recycle most of its paper waste, make the heating and cooling of its buildings as efficient as possible by using eco-friendly gas in AC devices, and regularly maintains equipment in order to increase its lifespan.

b) *Financing energy efficiency*
Along with all the environmentally-friendly activities it implements, the Bank has also designed several products aimed at financing energy efficiency - the so-called eco-loans, for households and businesses alike – thus promoting the use of environmentally-friendly energy, alternative energy resources, etc. Additionally, the Bank has financed construction of the first cogeneration plant in Croatia for producing electrical and heating energy from wood biomass, developed by Strizivojna Hrast. The project of building the cogeneration plant was launched with an aim of producing electrical and heating energy from the resources generated from existing production (forest and wood biomass). Apart from cutting down energy costs, the company will also increase its revenues, since surplus power will be sold to the Croatian energy market operator HROTE.

Corporate Governance Principles implementation

Erste&Steiermärkische Bank d.d. (hereinafter: the Bank) pays special attention to corporate governance as the most significant determinant of its operations, which gives an impetus to the Management Board, the managers and the Supervisory Board in achieving interests and protecting both its shareholders and the Bank as a whole.

In order to establish high standards and achieve good rate governance, transparency in operations as the basis for the protection of shareholders, investors and other holders of interest, as well as to take care of employees and to support sustainable development and environment protection, the Bank applies Corporate Governance Principles (hereinafter: the Principles) adopted in 2009 to its business. The Principles are based on positive regulations of the Republic of Croatia and they ensure strategic governance of the Bank, efficient supervision over management and responsibilities of the Management Board and the Supervisory Board towards the Bank, its employees, clients and other interested parties; the Principles are published on the Bank's official website.

In its operations the Bank particularly complies with the following corporate governance principles:

- Transparency in operations;
- Protection of shareholders' rights;
- Clearly defined authorizations and responsibilities of the Bank's bodies;
- Cooperation between the Management Board and the Supervisory Board, transparent relationships among all the Bank's bodies, employees, shareholders, Bank's clients and the public as a whole;
- Efficient internal control system.

The Bank has ensured the integrity of the accounting system and financial reporting, adequate internal control systems, risk management system and the reliability of the information system covering all the major Bank's activities. In addition, the Bank hired an external auditor (one of the Big 4 audit firms) and has applied previous, current and subsequent financial supervision of the financial reporting and decision making process.

The accounting system, based on the International Accounting Standards and the International Financial Reporting Standards, is regulated by the Accounting Rules that define rights, obligations and responsibilities of all the participants, including the obligation of ongoing monitoring, while the functioning of the other systems is governed by special standard regulations.

The Bank's internal control system includes efficient direct monitoring through integrated procedures and processes set for monitoring the efficiency of the Bank's operations, reliability of financial reports and compliance with the legal and sub-legal rules, as well as through fair business practice. The Bank's internal control system is established through parallel operating of three mutually independent functions: (a) risks monitoring function, (b) compliance monitoring function, and (c) internal audit function.

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16.984.175 ordinary shares issued in dematerialized form, each in the nominal amount of HRK 100.00, registered with the Central Depositary and Clearing Company under »RIBA-R-A.« mark. The company EBC Holding GmbH holds all the Bank's shares.

The nominal value of each share amounts to HRK 100.00. Each share entitles the holder to one vote at the Bank's General Meeting.

The rules on the appointment and recall of the members of the Management Board and the Supervisory Board and their authorizations, as well as the data on the composition and operations of the Management Board, the Supervisory Board and relevant assistant bodies have been regulated by the Principles. The Bank's General Meeting decides on amendments to the Articles of Association by the majority of votes representing at least three quarters of the equity capital represented at the General Meeting.

On June 17, 2011 the Bank held its regular General Meeting at which a decision was made on the use of the Bank's profit achieved in 2010. A part of net profit in the amount of HRK 446,742,293.51 that is, 73.28% was allocated to the retained earnings. The remaining amount of HRK 162,878,238.25 or 26.72% was allocated for shareholders' dividend or 9.59% of share's nominal value, which amounts to HRK 9.59 per share. The shareholders were paid dividend on 15 July 2011.

Besides this decision, decisions on granting discharge to the members of the Management Board and the Supervisory Board of the Bank for their work in 2010 were also made.

As like as in previous years, Ernst & Young d.o.o. was appointed as the Bank's auditor for 2011.

Besides abovementioned regular General Meeting, in 2011 two irregular General Meetings were held, first on May 16, 2011 and second on July 29, 2011.

At first one, held on May 16, decisions on amendments of the activities within the scope of Bank's business, as well as amendments to the Articles of association of the Bank were made, while on second one, held on July 29, 2011, decision on abatement of the remuneration to the member of the Supervisory Board was made.

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board which give a true and fair view of the state of affairs and results of Erste&Steiermärkische Bank d.d. (the 'Bank') and its subsidiaries (the 'Group') for that period.

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

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

- suitable accounting policies are selected and then applied consistently;
- 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
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and 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 Group and the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Group and 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

Petar Radaković Slađana Jagar

Erste&Steiermärkische Bank d.d.
Jadranski trg 3a
51 000 Rijeka
Republic of Croatia

13 March 2012

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Račun / Account: 2402006-1100280716
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Independent Auditor's Report

Report on the financial statements

We have audited the accompanying consolidated and separate financial statements ('the financial statements') of Erste & Steiermärkische Bank d.d. (the 'Bank') and its subsidiaries (together, the 'Group'), which comprise Consolidated and Separate statement of financial position as at 31 December 2011 and Consolidated and Separate income statement, Consolidated and Separate statement of comprehensive income, Consolidated and Separate statement of changes of equity and Consolidated and Separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (as set out on pages 28 to 119).

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and of the Group as at 31 December 2011, their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal Reporting Requirements

In accordance with the Bylaw on the structure and content of the annual financial statements (National Gazette no 62/08) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 120 to 137, and which contain a balance sheet as at 31 December 2011, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the primary financial statements of the Bank and the Group. This financial information is the responsibility of the Bank's management and is, pursuant to International Financial Reporting Standards, not a required part of the financial statements, but is required by the Bylaw.

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements of the Bank and the Group which were prepared in accordance with International Financial Reporting Standards as presented on pages 28 to 119 and are based on underlying accounting records of the Bank.

Ernst & Young d.o.o.

Ernst & Young d.o.o.

Zagreb, 13 March 2012

Income statement

For the year ended 31 December 2011 (All amounts are expressed in HRK million)

			GROUP		BANK
	Notes	2011	2010	2011	2010
Interest income	5	3,815	3,109	3,265	2,921
Interest expense	6	(1,683)	(1,376)	(1,525)	(1,315)
Net interest income		**2,132**	**1,733**	**1,740**	**1,606**
Fee and commission income	7	729	520	432	451
Fee and commission expense	8	(135)	(101)	(123)	(117)
Net fee and commission income		**594**	**419**	**309**	**334**
Net trading income	9	146	119	144	120
Other operating income	10	46	37	58	35
Operating income		**2,918**	**2,308**	**2,251**	**2,095**
Personnel expenses	11	(568)	(468)	(412)	(386)
Other operating expenses	12	(548)	(389)	(381)	(360)
Depreciation of property and equipment	28	(56)	(56)	(34)	(41)
Amortization of intangible assets	29	(72)	(18)	(16)	(13)
Operating expense		**(1,244)**	**(931)**	**(843)**	**(800)**
PROFIT BEFORE PROVISION FOR IMPAIRMENT LOSSES, SHARE OF RESULTS OF ASSOCIATES AND INCOME TAX		**1,674**	**1,377**	**1,408**	**1,295**
Provision for impairment losses on loans and advances	13	(728)	(585)	(578)	(537)
Provision for impairment losses on financial investments	14	(13)	(2)	(15)	(2)
Other provisions	15	(16)	1	(12)	2
PROVISION FOR LOAN AND FINANCIAL INVESTMENT LOSSES AND OTHER PROVISIONS		**(757)**	**(586)**	**(605)**	**(537)**
Share of profit of associates	27	**4**	**16**	**-**	**-**
PROFIT BEFORE INCOME TAX		**921**	**807**	**803**	**758**
Income taxes	16	(176)	(155)	(152)	(148)
NET PROFIT FOR THE YEAR		**745**	**652**	**651**	**610**
Net profit attributable to:					
Equity holders of the Bank		**739**	**652**		
Non controlling interest		**6**	**-**		
EARNINGS PER SHARE					
Basic and diluted (HRK)	39	**43.51**	**38.42**		

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

Statement of comprehensive income

For the year ended 31 December 2011 (All amounts are expressed in HRK million)

		GROUP		BANK	
	Notes	**2011**	**2010**	**2011**	**2010**
NET PROFIT FOR THE YEAR		**745**	**652**	**651**	**610**
Other comprehensive income					
Net gain on financial investments available for sale		(118)	17	(115)	15
Exchange differences on translation of foreign operations		4	2	-	-
Other		(3)	2	1	2
Income tax on other comprehensive income	17	23	(4)	23	(4)
Total other comprehensive income for the year, net of tax:	18	**(94)**	**17**	**(91)**	**13**
Total comprehensive income for the year, net of tax		**651**	**669**	**560**	**623**
Total comprehensive income attributable to:					
Equity holders of the Bank		**645**	**669**	**-**	**-**
Non controlling interest		**6**	**-**	**-**	**-**

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

Statement of financial position

For the year ended 31 December 2011 (All amounts are expressed in HRK million)

		GROUP		BANK	
	Notes	2011	2010	2011	2010
ASSETS					
Cash and balances with central banks	19	7,230	6,562	7,054	6,425
Amounts due from other banks	20	1,524	3,285	1,438	3,209
Reverse repurchase agreements	21	26	128	157	202
Receivables on financial derivative transactions	22	93	38	92	38
Financial assets held for trading	23	417	52	122	52
Financial assets at fair value through profit or loss	23	50	80	50	80
Loans and advances to customers	24	44,677	36,398	39,425	35,019
Financial investments available for sale	25	6,425	4,359	6,315	4,270
Financial investments held to maturity	26	602	424	366	406
Investments in subsidiaries and associates	27	69	88	1,300	167
Property and equipment	28	729	699	407	396
Intangible assets	29	792	56	50	44
Investment property	28	1	20	-	18
Deferred tax assets	16	206	95	93	95
Other assets	30	204	99	166	88
Total assets		**63,045**	**52,383**	**57,035**	**50,509**
LIABILITIES					
Amounts due to other banks	31	22,285	13,320	16,882	12,536
Repurchase agreements	21	609	835	500	835
Payables on financial derivative transactions	22	136	238	136	238
Financial liabilities at fair value through profit or loss	23	40	80	40	80
Amounts due to customers	32	31,812	31,139	31,787	30,328
Other borrowed funds	33	79	79	3	5
Current tax liabilities	16	5	67	-	66
Deferred tax liabilities	16	27	1	-	-
Other liabilities	34	448	335	330	318
Provisions	35	108	90	98	86
Subordinated debt	36	877	30	846	-
Total liabilities		**56,426**	**46,214**	**50,622**	**44,492**

Statement of financial position (continued)

For the year ended 31 December 2011 (All amounts are expressed in HRK million)

		GROUP		BANK	
	Notes	2011	2010	2011	2010
Shareholders' equity					
Share capital	37	1,698	1,698	1,698	1,698
Share premium	37	1,802	1,802	1,802	1,802
Retained earnings		3,082	2,440	2,905	2,292
Other reserves		(83)	11	(83)	8
Other capital reserves	38	91	217	91	217
Equity attributable to equity holders of the Bank		**6,590**	**6,168**	**6,413**	**6,017**
Non controlling interest		29	1	-	-
Total equity		**6,619**	**6,169**	**6,413**	**6,017**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**63,045**	**52,383**	**57,035**	**50,509**

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

Signed on behalf of Erste&Steiermärkische Bank d.d. on 13 March 2012:

President of the Management Board

Petar Radaković

Member of the Management Board

Slađana Jagar

Statement of changes in equity

For the year ended 31 December 2011 (All amounts are expressed in HRK million)

GROUP	Attributable to the equity holders of the Bank							
	Share capital	Share premium	Retained earnings	Other reserves	Statutory and legal reserves	Total	Non controlling interest	Total equity
Balance as at 1 January 2011	**1,698**	**1,802**	**2,440**	**11**	**217**	**6,168**	**1**	**6,169**
Total comprehensive income	-	-	739	(94)	-	645	6	651
Profit distribution for 2010:								
Transfer	-	-	126	-	(126)	-	-	-
Dividends	-	-	(193)	-	-	(193)	-	(193)
Acquisition and disposal of subsidiaries	-	-	(30)	-	-	(30)	22	(8)
Balance as at 31 December 2011	**1,698**	**1,802**	**3,082**	**(83)**	**91**	**6,590**	**29**	**6,619**
Balance as at 1 January 2010	**1,698**	**1,802**	**1,941**	**(6)**	**217**	**5,652**	**1**	**5,653**
Total comprehensive income	-	-	652	17	-	669	-	669
Profit distribution for 2009:								
Dividends	-	-	(153)	-	-	(153)	-	(153)
Balance as at 31 December 2010	**1,698**	**1,802**	**2,440**	**11**	**217**	**6,168**	**1**	**6,169**

BANK	Attributable to the equity holders of the Bank							
	Share capital	Share premium	Retained earnings	Other reserves	Statutory and legal reserves	Total	Non controlling interest	Total equity
Balance as at 1 January 2011	**1,698**	**1,802**	**2,292**	**8**	**217**	**6,017**	**-**	**6,017**
Total comprehensive income	-	-	651	(91)	-	560	-	560
Profit distribution for 2010:								
Transfer	-	-	126	-	(126)	-	-	-
Dividends			(164)	-	-	(164)	-	(164)
Balance as at 31 December 2011	**1,698**	**1,802**	**2,905**	**(83)**	**91**	**6,413**	**-**	**6,413**
Balance as at 1 January 2010	**1,698**	**1,802**	**1,835**	**(5)**	**217**	**5,547**	**-**	**5,547**
Total comprehensive income	-	-	610	13	-	623	-	623
Profit distribution for 2009:								
Dividends	-	-	(153)	-	-	(153)	-	(153)
Balance as at 31 December 2010	**1,698**	**1,802**	**2,292**	**8**	**217**	**6,017**	**-**	**6,017**

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

Statement of cash flow

For the year ended 31 December 2011 (All amounts are expressed in HRK million)

			GROUP		BANK
	Notes	2011	2010	2011	2010
Operating Activities					
Loss from operating activities before changes in operating assets and liabilities	42	(533)	(128)	(492)	(101)
Changes in operating assets and liabilities:					
Obligatory reserves with central banks		(928)	159	(937)	197
Amounts due from other banks		570	(186)	33	(234)
Reverse repurchase agreements		102	103	45	29
Net decrease in financial assets held for trading		(366)	(42)	(72)	(52)
Net increase in assets at fair value through profit and loss		30	-	30	-
Loans and advances to customers, net of write-offs		(8,926)	(3,508)	(4,923)	(3,111)
Other assets		(99)	67	(59)	69
Amounts due to other banks		8,848	271	4,248	283
Repurchase agreements		(226)	174	(335)	174
Financial liabilities at fair value through profit or loss		(40)	-	(40)	-
Amounts due to customers		654	737	1,438	402
Other liabilities		114	(19)	15	(24)
Cash used in operations		*(800)*	*(2,372)*	*(1,049)*	*(2,368)*
Interest paid		(1,529)	(1,411)	(1,390)	(1,351)
Interest received		3,693	3,091	3,161	2,915
Income taxes paid		(270)	(121)	(213)	(117)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**1,094**	**(813)**	**509**	**(921)**
Investing Activities					
Purchase of property and equipment		(76)	(78)	(38)	(60)
Disposal of property and equipment		10	3	10	3
Purchase of intangible assets		(844)	(18)	(22)	(13)
Purchase of investments available for sale		(2,553)	(88)	(2,515)	(45)
Increase/(decrease) in investments in associates		23	2	(1,133)	-
Sales of investments in subsidiaries		8	-	-	-
Acquisition of subsidiaries, net of cash acquired		(602)	-	-	-
Purchase/redemption of investments held to maturity		(179)	(105)	40	(105)
Dividends received		31	5	41	5
NET CASH USED IN INVESTING ACTIVITIES		**(4,182)**	**(279)**	**(3,617)**	**(215)**
Financing Activities					
Subordinated borrowings		829	-	828	-
Dividends paid		(193)	(153)	(163)	(153)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**636**	**(153)**	**665**	**(153)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,452)**	**(1,245)**	**(2,443)**	**(1,289)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**42**	**6,751**	**7,996**	**6,636**	**7,925**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**42**	**4,299**	**6,751**	**4,193**	**6,636**

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

Notes to the financial statements

Year ended 31 December 2011 (All amounts are expressed in HRK million)

1. GENERAL

History and incorporation

Erste&Steiermärkische Bank d.d. (the 'Bank') was established in 1954 and was entered into the Court Register as a joint stock company on 24 January 1990. The Bank's registered head office is at Jadranski trg 3a, Rijeka, the Republic of Croatia.

Principal activities of the Bank

The Bank is licensed to conduct commercial banking activities in the Republic of Croatia. The Bank's main operations are as follows:

- accepting deposits from the clients and deposits placement,
- granting loans, issuing guarantees and letters of credit to the individuals, companies, public and other clients,
- treasury operations in the interbank market,
- trust management and investment banking services,
- performing domestic and international payments,
- providing banking services through an extensive branch network in the Republic of Croatia.

Supervisory Board

Herbert Juranek	President
Sava Ivanov Dalbokov	Deputy President as of 1 October 2010
Mag. Franz Kerber	Member (Deputy President until 1 October 2010)
Mag. Reinhard Ortner	Member
Mag. Peter Nemschak	Member
Dr. Kristijan Schellander	Member
Dr. Ernst Gideon Loudon	Member

Management Board

The Bank is represented jointly by two members of the Management Board or by one member of the Management Board together with the procurator.

Petar Radaković	President
Tomislav Vuić	Deputy President
Borislav Centner	Member
Slađana Jagar	Member
Christoph Schoefboeck	Member as of 3 February 2011

Procurators

Zdenko Matak	Procurator as of 30 June 2010
Vladimir Kristijan	Procurator as of 30 June 2010

The only shareholder of the Bank is ESB Holding GmbH with 16,984,175 shares as at 31 December 2011 and 2010.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

1. GENERAL (CONTINUED)

Definition of the consolidated group

The Bank is a parent company of the banking group (the 'Group') which includes the following subsidiaries consolidated in the financial statements:

Name of subsidiary	Note	Ownership interest	Principal activity	Audited by	Registered office
Erste DMD d.o.o. za upravljanje dobrovoljnim mirovinskim fondom	27	100%	Management company for voluntary pension fund	Ernst & Young d.o.o.	Ivana Lučića 2a, Zagreb
Erste nekretnine d.o.o.	27	100%	Real estate business	-	Ivana Lučića 2a, Zagreb
MBU d.o.o. za informatički inženjering i međubankarske usluge	3	-	IT engineering and interbank services	Ernst & Young d.o.o.	Andrije Žaje 61, Zagreb
Erste Delta d.o.o.	3	100%	Real estate business	-	Ivana Lučića 2, Zagreb
Erste Bank a.d. Podgorica, Montenegro	27	100%	Credit institution	Ernst & Young Montenegro d.o.o, Podgorica	Marka Miljanova 46, Podgorica, Montenegro
ERSTE CARD CLUB d.d. za financijsko posredovanje i usluge	3	100%	Financial intermediation and services	Ernst & Young d.o.o.	Praška 5, Zagreb
Diners Club BIH d.o.o. Sarajevo	3	100%	Other financial intermediation	-	Fra Anđela Zvizdovića 1, Sarajevo, Bosnia and Herzegovina
ERSTE FACTORING d.o.o. za factoring	3	74.996%	Factoring	Ernst & Young d.o.o.	Ivana Lučića 2, Zagreb

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of presentation

The financial statements are presented for the Group ('consolidated financial statements') and the Bank only ('separate financial statements').

The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') and International Accounting Standards ('IAS') as published by the International Accounting Standards Board ('IASB'), under the historical cost convention, as modified by the revaluation of appropriate financial assets and liabilities.

The financial statements are presented in millions of Local Currency – Croatian Kuna ('HRK'), unless otherwise indicated.

The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the statement of financial position date and actual results could differ from those estimates.

The Bank maintains its books of accounts in accordance with the regulations of the Croatian National Bank ('CNB'). The accompanying financial statements are based on the accounting records of the Bank and its subsidiaries, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

2.2. Basis of consolidation

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

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

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

Non controlling interest represents the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank. Non controlling interest is presented separately in the Group's Income statement and within equity in the Group's Statement of financial position, separately from parent shareholders' equity. Any losses applicable to the non controlling interest in excess of the non controlling interest are allocated against the interests of the non controlling interest even if this results in the non controlling interest having a deficit balance.

Accounting for investments in subsidiaries in the separate financial statements of the Bank

Investments in subsidiaries are accounted at cost in the separate financial statements of the Bank.

2.3. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. For business combinations from 1 January 2010, acquisition costs incurred are expensed and included in administrative expenses. For business combinations prior to 1 January 2010, acquisition costs were included in cost of business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized in income statement in the period of acquisition.

Subsequent acquisition of a non controlling interest is not a business combination and before introduction of IFRS 3 Revised there was no specific accounting prescribed in IFRS for such a transaction. Therefore, in periods prior to 1 January 2010, the Group applied the hierarchy in IAS 8 to develop an appropriate accounting policy for such a transaction. The Group has adopted the 'Parent entity extension method' whereby assets and liabilities of the investee are not remeasured to their fair values and the difference between the cost of acquisition and the non controlling interest acquired is accounted for as goodwill. In periods from 1 January 2010, acquisition of non controlling interest is accounted for as an equity transaction due to change in IFRS.

2.3. Business combinations (continued)

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. As IFRS 3 does not apply to business combinations involving entities under common control, the Group has, in line with IAS 8, adopted an accounting policy whereby such transactions are accounted for using the pooling of interest method.

Application of this method is as follows:

- The assets and liabilities of the combining entities are reflected at their carrying amounts as previously presented in the consolidated financial statements of the ultimate parent entity of the Group;
- No adjustments are made to reflect fair values, or recognise any new assets or liabilities, that would otherwise be done under the purchase method. The only adjustments that are made are to harmonise accounting policies;
- No 'new' goodwill is recognised as a result of the combination;
- The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within equity;
- The income statement reflects the results of the combining entities for the full year, irrespective of when the combination took place;
- Comparatives are not restated.

2.4. Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in income statement.

Accounting for investments in associates in the separate financial statements of the Bank

Investments in associates are accounted at cost in the separate financial statements of the Bank.

2.5. Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

2.6. Adoption of new and revised International Financial Reporting Standards

Standards, interpretations and amendments to existing standards adopted by the Group during the year

The accounting policies adopted are consistent with those of the previous financial year. The Group adopted new and amended IFRS and IFRIC interpretations during the year. The impact of these standards and interpretations is described below:

Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In additions, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation – Amendment (effective for the financial years beginning from 1 February 2010)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rate to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of investments.

2.6. Adoption of new and revised International Financial Reporting Standards (continued)

IFRIC 14 *Prepayments of a Minimum Funding Requirement – Amendment (effective for the financial years from 1 January 2011)*
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments (effective for the periods beginning on or after 1 July 2010)*
On 26 November 2009, the IASB issued IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* which clarifies the requirements of International Financial Reporting Standards (IFRS) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The amendment has had no effect on the financial position or performance of the Group.

Changes in accounting policies and disclosures
Improvements to IFRS

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the below listed amendments resulting from Improvements to IFRS did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 1 *Presentation of Financial Statements* (possibility that entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements)
- IFRS 3 *Business Combinations* (contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (un-replaced and voluntary replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)

Standards issued but not yet effective

The following IFRS standards, IAS/IFRS amendments and interpretations to existing standards have been issued, but are not yet effective up to the date of issuance of the Group financial statements. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosure, financial position or performance when applied at a future date.

IFRS 9 *Financial instruments: Classification and Measurement (effective from 1 January 2015)*
On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied from 1 January 2015 with early adoption permitted. On 28 October 2010 the IASB issued amendments to IFRS 9 to address the requirements for classifying and measuring financial liabilities. Most of the requirements were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the problem of own credit risk. This completed the first phase of the Board's project to replace IAS 39. In the subsequent phases, the IASB will address impairment methodology and hedge accounting. The Group will quantify the effect of the first and other phases in the upcoming periods. The Group plans to adopt this new standard on its effective date.

IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point of time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment required disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IAS 19 *Employee Benefits (Amendment)*
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

2.7. Leasing

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

The Group and the Bank as lessee

Assets held under finance leases are recognized as assets of the Group and the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged to income statement. Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease.

2.8. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuous use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

2.9. Interest income and expense

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

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

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Interest income and expenses include interest from derivatives held for economic hedges for closing 'Bank book' position, while for derivatives in 'Trading book' fair value gains and losses are recognised in income statement line 'Net trading income'.

2.10. Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, guarantees issued, letters of credit, card business and other credit instruments issued by the Group and the Bank. Such fees and commissions are generally recognized as income when due.

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

2.11. Taxation

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

The 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 Group's and the Bank's liability for current tax is calculated using tax rates that have been enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet 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 taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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

The Bank and its subsidiaries are subject to various indirect taxes which are included in 'Other operating expenses'.

2.12. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash, balances with the central banks, current accounts with other banks and term placements with other banks with residual maturity up to 3 months, and treasury bills with residual maturity up to 3 months.

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

2.13. Financial assets

Financial assets held by the Group and the Bank are categorized into portfolios in accordance with the Group's and the Bank's intent on the acquisition and pursuant to the 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.

All financial assets and liabilities are recognized and derecognized on a settlement date basis where the purchase or sale of financial asset or liability is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

When a financial asset or financial liability is initially recognized, the Group and the Bank measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

a) Assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss if the financial assets are held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale or repurchase in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group and the Bank manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Measurement:
Subsequent to the 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 Group and the Bank include realized and unrealized gains and losses in 'Net trading income'. Interest earned on assets at fair value through profit or loss representing coupons on debt securities is accrued on a daily basis and reported within 'Net trading income' in the Income statement.

Dividends on trading securities are recorded when declared and included as a receivable in the statement of financial position line 'Other assets' and in 'Net trading income' in the Income statement.

All purchases and sales of securities held for trading that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognized as spot transactions. Transactions that do not meet the 'regular way' settlement criterion are treated as financial derivatives.

b) Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group and the Bank have the positive intent and ability to hold to maturity. This portfolio comprises fixed income debt securities. Held to maturity investments are carried at amortized cost using the effective interest rate method, less any allowances for impairment.

The Group and the Bank assess 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 Group and the Bank recognize allowances through the profit and loss statement line 'Provision for impairment losses on financial investments'.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognized.

c) Assets available for sale

Available for sale financial investments 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 and debt securities. Subsequent to initial recognition, available for sale financial investments are re-measured at fair value based on quoted prices or amounts derived from cash flow models.

In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and 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.

2.13. Financial assets (continued)

For available for sale investments, gains and losses arising from changes in fair value are recognized directly in 'Other comprehensive income', until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in 'Other comprehensive income' is included in the income statement for the period. Impairment losses recognized in income statement for equity investments classified as available for sale are not subsequently reversed through income statement. Impairment losses recognized in income statement for debt instruments classified as available for sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Generally for all equity instruments held in available for sale portfolio in Group indicators of impairment are significant or prolonged decline in fair value below a cost of equity. The definition for significant is the decline of market price below 80% of the acquisition cost. The decline in fair value is prolonged when market price is continuously below acquisition cost during a period of 9 months before the reporting date.

Interest earned whilst holding available for sale securities is accrued on a daily basis using the effective interest rate method and reported as 'Interest income' in the income statement.

Foreign exchange differences related to available for sale equity instruments held in foreign currency are reported together with fair value gains and losses in 'Other comprehensive income' until the financial asset is sold. Foreign exchange differences related to available for sale debt instruments held in foreign currency are reported in the income statement.

Dividends on securities available for sale are recorded as declared and included as a receivable in the statement of financial position line 'Other assets' and in 'Other operating income' in the income statement. Upon payment of the dividend, the receivable is offset against the collected cash.

d) 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 Group and the Bank intend 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 Group and the Bank upon initial recognition designate as available for sale or (c) those for which the Group and 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 provided to customers.

Loans and receivables are carried at amortized cost using the effective interest method, less any allowances for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers. 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.

An allowances for loan impairment is established if there is objective evidence that the Group and the Bank will not be able to collect all amounts due. The amount of the allowances is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Loan loss allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Group and the Bank include the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Loans together with the associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. Subsequent recoveries are credited to the 'Impairment losses on loans and advances' line in the income statement.

Penalty interest is charged to borrowers when a portion of the loan falls overdue. Penalty interest is accounted for on a cash received basis in the caption 'Interest income'.

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2.14. Financial liabilities

Financial liabilities of the Group and the Bank such as ‘Amounts due to other banks’, ‘Amounts due to customers’, ‘Other borrowed funds’ are stated at amortized cost using the effective interest rate method. Interest expense arising on the issue of certificated debts is included in the income statement line ‘Interest expense’.

2.15. Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are 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.

2.16. Derivative financial instruments

In the normal course of business the Group and the Bank enter into derivative financial instruments to manage currency, liquidity and interest rate risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Group and the Bank includes forwards, foreign currency and equity options and futures.

Derivative financial instruments are initially recorded at cost (including transaction costs) in the Income statement and subsequently re-measured at their fair value. Fair values are principally obtained from discounted cash flow models and option pricing models as appropriate. The results of the valuation of derivatives are reported in assets (aggregate of positive fair values) or liabilities (aggregate of negative fair values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise in the income statement line ‘Net trading income’ for derivatives in ’Trading book‘.

In case of equity options, when the underlying equity instrument is not publicly traded and its fair value cannot be measured reliably, the fair value of the options is not determined and such options are measured in the financial statements at cost.

Certain derivative transactions, while providing effective economic hedges under the Group’s and the Bank’s risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives in ’Bank book‘ with fair value gains and losses reported in the income statement lines ‘Net trading income’, ‘Interest income’ and ‘Interest expenses’. Interest expense accrued on sell notional amount is included in interest expense. Interest income accrued on bought notional amount is included in interest income. Net trading result includes all remaining effects from foreign currency (FX) changes and changes from market interest rates which influence fair value.

2.17. 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 Group and the Bank retain substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements (‘repos’) are recorded as assets in the statement of financial position according to the original classification or the Group and the Bank reclassify the asset on its statement of financial position, as a ‘Repurchase receivable’ if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in ‘Repurchase agreements’.

Securities purchased under agreements to resell (‘reverse repos’) at a specified future date are not recognised in the statement of financial position. The consideration paid, is recorded in the statement of financial position line ‘Reverse repurchase agreements’, reflecting the transaction’s economic substance as a loan. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repurchase agreement using the effective interest rate.

2.18. Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful lives. Land and assets in the course of construction are not depreciated.

The estimated economic useful lives are set out below:

	2011	2010
Buildings	40 years	40 years
Computers	4 years	4 years
Furniture and equipment	3-10 years	3-10 years
Motor vehicles	4 years	4 years
Software	4 years	4 years
Customer relationship	5.5-8 years	5.5-8 years
Other intangible assets	5 years	5 years

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2.18. Tangible and intangible fixed assets (continued)

The carrying amounts of tangible and intangible assets are reviewed at each statement of financial position date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss, the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Investment properties are investments rented to third parties which are accounted for in the same manner as property used in operations of the Group i.e. using the cost model.

2.19. Foreign currency translation

Transactions denominated in foreign currencies are translated into HRK at the prevailing exchange rates on the date of the transaction.

Monetary items denominated in foreign currencies are retranslated into HRK at the appropriate spot rates of exchange prevailing at the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in income statement for the period in 'Net trading income'. Exchange differences arising on the retranslation of non-monetary assets carried at fair value are included in income statement for the period except for exchange differences arising on the retranslation of non-monetary assets available for sale in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

The Bank has assets and liabilities originated in HRK, which are linked to foreign currency with a one-way currency clause. Due to this clause, the Bank has an option to revalue the asset by the higher of the foreign exchange rate valid as of the date of maturity, or the foreign exchange rate valid as of the date of origination of the financial instrument. In case of a 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 not available. As such, the Bank value their assets and liabilities related to this clause by the agreed contract rate valid at the date of the statement of financial position or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher. As at 31 December 2011 one-way currency clause asset is HRK 66 million and liabilities HRK 47 million and as at 31 December 2010 one-way currency clause asset is HRK 88 million and liabilities HRK 63 million.

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

31 December 2011	EUR 1=HRK 7.530420	USD 1=HRK 5.819940	CHF 1=HRK 6.194817
31 December 2010	EUR 1=HRK 7.385173	USD 1=HRK 5.568252	CHF 1=HRK 5.929961

2.20. Off balance sheet commitments

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

2.21. Provisions

Provisions are recognized when the Group and the Bank have a present obligation as a result of a past event and it is probable that the Group and the Bank will be required to settle that obligation. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the statement of financial position date. Provisions are discounted to present value where the effect is material.

2.22. Long-term employee benefits

For defined retirement benefit and jubilees, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Actuarial gains or losses in respect of pension and severance benefit provisions are recognized in full in the period in which they occur. Actuarial gains or losses in provisions for jubilee benefits are recognised in income statement in the period in which they occur.

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation.

2.23. Fiduciary activities

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from the financial statements when the Group and the Bank act in a fiduciary capacity such as nominee, trustee or agent.

2.24. Critical accounting judgments and key sources of estimation uncertainty

In the application of the 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of 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 statement of financial position 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 Group and the Bank may sustain losses, which are substantial, relative to the allowances for impairment losses, it is the judgment of management that the allowances for impairment losses is adequate to absorb losses incurred on the risk assets.

Due to the absence of recently observed market prices for the derivative financial instruments, the management has decided to measure the derivatives using discounted cash flow models. Discount factors used in these models are derived from the smooth interest rates and volatility curves constructed with predefined interpolation methods and market interest rates from Reuters which are valid as at 31 December 2011 for each currency and corresponding maturity dates.

In the ordinary course of business, the Group and the Bank are subject to legal actions and complaints. The management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial situation or the results of future operations of the Group and the Bank. As of 31 December 2011 based on advice of legal counsel, provisions for these risks amounting to HRK 28 million for the Bank, and HRK 29 million for the Group (Note 35). For the rest of the legal cases where the Bank or its subsidiaries act as a defendant, no provisions were created since it is estimated based on the advice of legal counsel, that the Bank's and the subsidiaries' cases will prevail and the probability of an adverse outcome of the litigations is remote.

2.25. Reclassification

Certain reclassifications have been made to the financial statements as at 31 December 2010 and for the year then ended to conform to the presentation as at 31 December 2011 and for the year then ended (Group HRK 12,525 HRK, Bank HRK 11,714 million is reclassified from position Other borrowed funds to Amounts due to other banks).

2.26. Regulatory requirements

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

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3. BUSINESS COMBINATIONS, MERGERS AND GOODWILL

Acquisition of Erste Card Club Group:

On 15 April 2011 the purchase agreement was signed for the acquisition of 100% of Erste Card Club d.d. Croatia, one of the leading Croatian credit card companies. Erste Card Club d.d. Croatia is consolidated in Group's financial statements since 1 January 2011 in amounts which are taken from former owner Erste Group Bank. Erste Card Club d.d. Croatia has 100% ownership in subsidiary Diners BiH d.o.o. Sarajevo, Bosnia and Herzegovina that is also included in consolidated financial statements. The transaction represents a common control transaction and was accounted for in accordance with the Group's policy on accounting for common control transactions.

Taking into account net asset value adjustments, this gave rise to goodwill of HRK 603 million and intangible assets acquired in this business combination (specifically, the value of customer relationships and the merchant relationships) as well as to related deferred taxes. Both the customer relationships and the merchant relationships are recognised separately from goodwill and are recognised based on written down value initially recognized in year 2007 when Erste Group Bank first purchased Erste Card Club d.d. Croatia. Customer relationships, measured on initial acquisition by the Erste Group Bank at HRK 299 million, is amortised on a straight-line basis over the estimated useful life of 8 years; the merchant relationships, measured on initial acquisition by the Erste Group Bank at HRK 70 million is amortised on a straight-line basis over 5.5 years.

The identifiable assets acquired and liabilities assumed, measured at amounts previously reported in the consolidated financial statements of the ultimate parent entity, had following composition at the time of initial consolidation:

	Amounts recognised on initial consolidation 1 January 2011
ASSETS	
Amounts due from other banks	989
Receivables on financial derivative transactions	3
Financial assets held for trading	221
Loans and advances to customers	1,896
Financial investments available for sale	4
Financial investments held to maturity	235
Property and equipment	44
Intangible assets	4
Deferred tax assets	65
Other assets	4
Total assets	**3,465**
LIABILITIES	
Amounts due to other banks	2,408
Repurchase agreements	220
Payables on financial derivative transactions	2
Amounts due to customers	438
Other liabilities	86
Provisions	4
Current tax liabilities	4
Total liabilities	**3,162**
Net assets acquired	**303**
Intangible asset arising on acquisition	181
Goodwill arising on acquisition	603
Adjustment directly in equity	2
Cost of acquisition	**1,089**
Cash outflow on acquisition of the subsidiary:	
Net cash acquired with the subsidiary	989
Cash paid	(1,089)
Net cash outflow	**(100)**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

3. BUSINESS COMBINATIONS, MERGERS AND GOODWILL (CONTINUED)

Acquisition of control of Erste Factoring d.o.o.:

On 21 April 2011 the purchase agreement was signed for the acquisition of additional 30.996% of Erste Factoring d.o.o. increasing its ownership to 74.996%. The transaction represents a common control transaction and was accounted for in accordance with the Group's policy on accounting for common control transactions. Erste Factoring d.o.o. is consolidated in Group's financial statements since 1 January 2011, until which date it was considered as associate and measured at equity method.

The identifiable assets acquired and liabilities assumed, amounts previously reported in the consolidated financial statements of the ultimate parent entity had the following composition at the time of initial consolidation:

	Amounts recognised on initial consolidation 1 January 2011
ASSETS	
Amounts due from other banks	1,332
Financial assets held for trading	129
Loans and advances to customers	1,373
Intangible assets	1
Deferred tax assets	19
Other assets	1
Total assets	**2,855**
LIABILITIES	
Amounts due to other banks	2,697
Other liabilities	64
Current tax liabilities	1
Total liabilities	**2,762**
Net assets acquired	**93**
Non controlling interest (25.004% of net asset)	(23)
Total net asset acquired	**70**
Adjustment directly in equity	(32)
Cost of acquisition	**38**
Cash inflow on acquisition of the subsidiary:	
Net cash acquired with the subsidiary	1,333
Cash paid	(38)
Net cash inflow	**1,295**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

3. BUSINESS COMBINATIONS, MERGERS AND GOODWILL (CONTINUED)

Merger of Erste Securities d.o.o.:

On 2 February 2011 approval for purchase of Erste Securities d.o.o. was obtained from Croatian National Bank. Erste Securities d.o.o. are included in the consolidated financial statements of the Group from 1 January 2011. On 2 March 2011 agreement for merger of Erste Securities d.o.o. with the Bank was signed, and the merger took place in June 2011.

	Amounts recognised on acquisition 1 January 2011
ASSETS	
Amounts due from other banks	1
Financial assets held for trading	14
Loans and advances to customers	1
Financial investments available for sale	1
Property and equipment	1
Intangible assets	1
Total assets	**19**
LIABILITIES	
Amounts due to other banks	7
Financial liabilities held for trading	2
Other liabilities	2
Total liabilities	**11**
Net assets acquired	**8**
Loss on current year merger	13
Cost of acquisition	**21**
Cash outflow on acquisition of the subsidiary:	
Net cash acquired with the subsidiary	1
Cash paid	(21)
Net cash outflow	**(20)**

3. BUSINESS COMBINATIONS, MERGERS AND GOODWILL (CONTINUED)

Disposal of a subsidiary MBU d.o.o.:

At 25 September 2011 the Bank sold its whole investment 99.832% in MBU d.o.o. after obtaining additional 2.562% investments during 2011.

Until the date of disposal MBU d.o.o. had contributed HRK 35 million of revenue and HRK 6 million of net profit before tax to the Group. These figures are consolidated within Group Income statement.

	Assets and liabilities on disposal 25 September 2011
ASSETS	
Amounts due from other banks	19
Loans and advances to customers	1
Property and equipment	28
Intangible assets	10
Other assets	7
Total assets	**65**
LIABILITIES	
Amounts due to other banks	1
Other borrowed funds	10
Other liabilities	31
Current tax liabilities	1
Total liabilities	**43**
Net assets disposed of	**22**
Profit/loss on current year disposal	1
Total disposal consideration	**23**
Cash inflow on disposal of the subsidiary:	
Cash and cash equivalents disposed of	(19)
Consideration receivable	23
Cash inflow on disposal	**4**

3. BUSINESS COMBINATIONS, MERGERS AND GOODWILL (CONTINUED)

3.1. Goodwill and impairment testing

Goodwill acquired through business combinations is not amortised but tested for impairment annually in November with any impairment determined recognised in profit or loss. For reviewing the value of existing goodwill an annual impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. For impairment testing purposes in Group, all business segments distinguished in the segment reporting in the financial statements are defined as CGU's.

Goodwill is tested for impairment by comparing the recoverable amount of each cash-generating unit, to which goodwill has been allocated with its carrying amount. The carrying amount of a cash-generating unit is derived based on the amount of equity allocated to cash-generating unit taking into account any goodwill and unamortised intangible assets recognised for cash-generating unit according to the purchase prices allocation.

The recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. Where available, the fair value less costs to sell is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF-model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for CGU's as agreed by the management taking into account the fulfillment of the respective regulatory capital requirements. The planning period range is five years. After estimating earnings distributable to shareholders for the planning period they are discounted to their present values. Any earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate, which is based on macroeconomic parameters for each CGU. The estimated future earnings beyond the initial planning period are captured in the terminal value. Long-term growth rate applied to estimate future earnings beyond the planning period for the year ended 2011 is 2%.

The discount rates applied to calculate present values have been determined based on the capital asset pricing model (CAPM). According to CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium is considered too. The values used to establish the discount rates are determined using external sources of information. Discount rate applied to determine the value in use of the CGU's in 2011 is 11.76%.

Where the recoverable amount of CGU is less than its carrying amount, the difference is recognized as an impairment loss in the position 'Provisions for impairment losses on financial investments'. The impairment loss is allocated first to writing down of CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other assets, though not to an amount less than their fair value less costs to sell. There is no need to recognize an impairment loss if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

4. SEGMENT INFORMATION

For management purposes, the Bank is organised into eight different operating segments based on products and services as follows:

Retail banking	Individual customers deposits and consumer loans, overdrafts, credit cards facilities within the Bank
Corporate banking	Loans and other credit facilities and deposits and current accounts for corporate clients within the Bank
Financial market	Investment banking activities and trading within the Bank
Central units	Includes Central functions of the Bank
Erste Factoring d.o.o.	Data for Erste Factoring d.o.o.
Erste Card Club Group	Data for Erste Card Club d.o.o. and Diners BiH d.o.o., Sarajevo
Erste Bank a.d. Podgorica	Data for Erste Bank a.d., Podgorica
Other subsidiaries	Data for other subsidiaries

Segment performance is evaluated based on operating result which in certain respects is measured differently from operating result in the consolidated financial statements (operating result + Risk).

'Fund transfer pricing' (FTP) between operating segments are prices for funding in a manner similar to transactions with third parties. Matched-maturity method of calculating funds transfer pricing is in use, applied on the lowest possible granularity level.

No revenue from transactions with a single external customer amounted to 10% or more of the Bank's total revenue.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

4. SEGMENT INFORMATION (CONTINUED)

									GROUP 2011
	Retail banking	**Corporate banking**	**Financial market**	**Central units**	**Erste Card Club Group**	**Erste Factoring d.o.o.**	**Erste Bank Podgorica**	**Other subsi-diaries**	**Total**
Revenue									
Third party	1,003	1,183	24	33	380	72	168	55	2,918
Inter-segment	251	(244)	(117)	110	-	-	-	-	-
Total operating income/(loss)	**1,254**	**939**	**(93)**	**143**	**380**	**72**	**168**	**55**	**2,918**
Impairment losses on financial investments and credit loss expense	(182)	(395)	1	(24)	(70)	(39)	(48)	-	(757)
Net operating income/(expense)	**1,072**	**544**	**(92)**	**119**	**310**	**33**	**120**	**55**	**2,161**
Results									
Net interest income	1,018	794	(181)	110	180	71	149	(9)	2,132
Net fees and commission income	183	122	16	(14)	200	6	16	65	594
Net trading income	53	23	72	(4)	3	2	2	(5)	146
General administrative expenses	(562)	(193)	(63)	(23)	(257)	(13)	(92)	(41)	(1,244)
Other	-	-	-	55	(3)	(7)	1	4	50
Provision for loan and financial investment losses and other provisions	(182)	(395)	1	(24)	(70)	(39)	(48)	-	(757)
Segment profit/(loss)	**510**	**351**	**(155)**	**100**	**53**	**20**	**28**	**14**	**921**
Income tax expense	(100)	(67)	30	(16)	(12)	(6)	(3)	(2)	(176)
Profit for the year	**410**	**284**	**(125)**	**84**	**41**	**14**	**25**	**12**	**745**
Assets									
Capital expenditure on:									
Property and equipment	-	-	-	407	46	-	43	233	729
Other intangible assets	-	-	-	50	737	1	3	1	792
Total assets	**17,904**	**19,694**	**16,968**	**2,469**	**2,033**	**1,694**	**2,038**	**245**	**63,045**
Total liabilities	**22,557**	**7,928**	**19,235**	**902**	**2,029**	**1,616**	**1,919**	**240**	**56,426**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

4. SEGMENT INFORMATION (CONTINUED)

							GROUP 2010
	Retail banking	**Corporate banking**	**Financial market**	**Central units**	**Erste Bank Podgorica**	**Other subsidiaries**	**Total**
Revenue							
Third party	920	920	216	21	148	83	2,308
Inter-segment	88	(44)	(235)	191	-	-	-
Total operating income/(loss)	**1,008**	**876**	**(19)**	**212**	**148**	**83**	**2,308**
Impairment losses on financial investments and credit loss expense	34	(575)	3	2	(50)	-	(586)
Net operating income/(expense)	**1,042**	**301**	**(16)**	**214**	**98**	**83**	**1,722**
Results							
Net interest income	782	716	(100)	193	135	7	1,733
Net fees and commission income	178	136	31	(13)	11	76	419
Net trading income	48	24	50	(3)	1	(1)	119
General administrative expenses	(519)	(177)	(54)	(49)	(81)	(51)	(931)
Other	-	-	-	35	1	17	53
Provision for loan and financial investment losses and other provisions	34	(575)	3	2	(50)	-	(586)
Segment profit/(loss)	**523**	**124**	**(70)**	**165**	**17**	**48**	**807**
Income tax expense	(103)	(27)	13	(32)	(2)	(4)	(155)
Profit for the year	**420**	**97**	**(57)**	**133**	**15**	**44**	**652**
Assets							
Capital expenditure on:							
Property and equipment	-	-	-	395	42	262	699
Other intangible assets	-	-	-	44	3	9	56
Total assets	**17,574**	**16,858**	**15,165**	**912**	**1,562**	**312**	**52,383**
Total liabilities	**20,926**	**9,420**	**13,357**	**790**	**1,475**	**246**	**46,214**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

5. INTEREST INCOME

	GROUP		BANK	
	2011	2010	2011	2010
Interest on loans and advances to customers	3,205	2,678	2,679	2,495
Interest income on financial investments available for sale	180	163	172	158
Interest on financial derivative transactions	271	145	267	145
Interest income on financial investments held to maturity	29	19	22	19
Interest on financial assets designated at fair value through profit or loss	2	-	2	-
Interest on amounts due from other banks	30	22	24	22
Interest income on impaired financial assets - loans and advances to customers	88	51	88	51
Interest on balances due from the central bank	4	24	4	24
Interest on reverse repurchase agreements	4	5	5	5
Investment property	2	2	2	2
	3,815	**3,109**	**3,265**	**2,921**

6. INTEREST EXPENSE

	GROUP		BANK	
	2011	2010	2011	2010
Interest on customer deposits	836	965	855	939
Interest on other borrowed funds	5	7	-	-
Interest on amounts due to other banks	722	368	557	343
Interest on financial derivative transactions	84	30	81	29
Interest on repurchase agreements	9	4	7	4
Interest on subordinated debt	25	2	23	-
Financial liabilities designated at fair value through profit or loss	2	-	2	-
	1,683	**1,376**	**1,525**	**1,315**

7. FEE AND COMMISSION INCOME

	GROUP		BANK	
	2011	2010	2011	2010
Payments and money transfers	217	223	213	216
Bank cards services	339	144	102	100
Credit related fees and commission	76	51	50	50
Investment fund transactions and asset management	19	15	15	11
Insurance business	10	13	10	13
Custodial fees	12	8	12	8
Investment banking business	11	30	11	30
Other fee and commission income	45	36	19	23
	729	**520**	**432**	**451**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

8. FEE AND COMMISSION EXPENSE

		GROUP		BANK
	2011	**2010**	**2011**	**2010**
Bank cards services	73	48	73	68
Payments and money transfers	47	45	43	44
Credit related fees and commission	3	3	4	2
Custodial fees	2	2	1	2
Investment banking business	1	-	1	-
Other fee and commission expense	9	3	1	1
	135	**101**	**123**	**117**

9. NET TRADING INCOME

		GROUP		BANK
	2011	**2010**	**2011**	**2010**
Net foreign exchange gain	115	109	115	110
Gain/(loss) on derivative financial instruments	15	(1)	16	(1)
Net gain on financial assets at fair value through profit or loss	16	11	13	11
	146	**119**	**144**	**120**

10. OTHER OPERATING INCOME

		GROUP		BANK
	2011	**2010**	**2011**	**2010**
Dividend income	25	3	33	3
Income from sale of property and equipment	10	3	10	3
Rental income	2	3	2	2
Realized gains on financial investments available for sale	-	19	-	19
Realized gains on investments held to maturity	2	-	2	-
Gains on investments in associates	1	-	7	2
Other	6	9	4	6
	46	**37**	**58**	**35**

11. PERSONNEL EXPENSES

		GROUP		BANK
	2011	**2010**	**2011**	**2010**
Employee related costs				
- Wages, salaries and compensations	323	266	237	213
- Payroll taxes and other contributions	157	130	106	108
- Pension contributions	84	70	67	63
Long-term employee benefits	4	2	2	2
	568	**468**	**412**	**386**

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11. PERSONNEL EXPENSES (CONTINUED)

The Group and the Bank do not have pension arrangements separate from the State pension system of Croatia. This system requires that current contributions by the employer are calculated as a percentage of current gross salary payments; these expenses are charged to the profit and loss statement in the period the related compensation is earned by the employee.

The number of employees as full time equivalents of the Group was 2,536 and 2,288 as at 31 December 2011 and 2010, respectively. The number of employees as full time equivalents of the Bank was 2,001 and 1,930 as at 31 December 2011 and 2010, respectively.

12. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Materials and services	409	297	288	276
Marketing and advertising costs	70	33	32	29
Savings insurance premiums	55	47	51	45
Other taxes and contributions	9	8	7	7
Other	5	4	3	3
	548	**389**	**381**	**360**

13. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Provisions for impairment losses on loans and advances charge for 2011 and 2010, comprises:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Provision for impairment loss on amounts due from banks	(2)	(1)	(2)	(1)
Provision for impairment loss on loans and advances	728	585	578	537
Provision for impairment loss on other assets	2	1	2	1
	728	**585**	**578**	**537**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

14. PROVISION FOR IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

Provisions for impairment losses on financial investments charge for 2011 and 2010, comprises:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Provision for impairment loss on financial investments available for sale - quoted equities	2	2	2	2
Impairment on investments	11	-	13	-
	13	**2**	**15**	**2**

15. OTHER PROVISIONS

Other provisions charge for 2011 and 2010 comprises:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Provision for litigations	11	(1)	12	(3)
Provision for impairment of guarantees and credit commitments	5	-	-	1
	16	**(1)**	**12**	**(2)**

16. INCOME TAXES

The Group and the Bank provide for taxes based on the tax accounts maintained and prepared in accordance with the local tax regulations and which differ from International Financial Reporting Standards.

The Bank and subsidiaries are subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2011 and 2010 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Relationship between tax expenses and accounting profit for the years ended 31 December 2011 and 2010 are explained as follows:

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

16. INCOME TAXES (CONTINUED)

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Profit before income tax	**921**	**807**	**803**	**758**
Theoretical tax calculated at a tax rate of 20% (2010: 20%)	184	161	161	152
Effect of different tax rates in the Republic Montenegro	(3)	(2)	-	-
Tax effect of permanent differences	(5)	(4)	(9)	(4)
Tax effect of temporary differences	8	33	(25)	34
Current income tax expense	**184**	**188**	**127**	**182**
Current income tax expense	(184)	(188)	(127)	(182)
Change in deferred tax assets recognized in income statement	8	33	(25)	34
Income tax expense reported in the income statement	**(176)**	**(155)**	**(152)**	**(148)**

Deferred tax assets and liabilities are attributable to the following temporary differences:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Basis for deferred tax assets				
Loans origination fees	231	219	226	219
Tax losses from previous years	-	2	-	-
Unrealized losses on investments available for sale	109	1	117	1
Negative valuation of derivative financial instruments	88	222	88	222
Employment benefits provisions	20	18	19	18
Provisions	560	-	-	-
Other temporary differences	21	15	14	15
Total basis	**1,029**	**477**	**464**	**475**
Basis for deferred tax liabilities				
Unrealized gains on investments available for sale	(10)	2	-	-
Value adjustment of receivables	-	1	-	-
Customer and merchant list	131	-	-	-
Employment benefits provisions	1	1	-	-
Property and equipment	10	10	-	-
Other temporary differences	7	-	-	-
Total basis	**139**	**14**	**-**	**-**
Deferred tax asset at the statutory tax rate (20%)	**206**	**95**	**93**	**95**
Deferred tax liabilities at the statutory tax rate (20%)	**26**	**-**	**-**	**-**
Deferred tax liabilities at the statutory tax rate (9%)	**1**	**1**	**-**	**-**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

16. INCOME TAXES (CONTINUED)

The movement in deferred tax balances is as follows:

							GROUP
	Deferred tax assets 2011	**Deferred tax liabilities 2011**	**Acquired on business combination**	**Income statement 2011**	**Deferred tax assets 2010**	**Deferred tax liabilities 2010**	**Income statement 2010**
Deferred loan origination fees	46	-	1	1	44	-	3
Unrealized gains from financial investments available for sale	22	(1)	-	-	-	-	-
Unrealised gain/ (losses) on derivative financial instruments	18	-	1	(26)	44	-	31
Long term employment provisions	4	-	-	-	3	-	-
Tax losses	-	-	-	-	-	-	(2)
Property and equipment	-	1	-	-	-	1	-
Reserves	112	-	87	25	-	-	-
Customer and merchant list	-	26	(36)	10	-	-	-
Other temporary differences	4	1	1	(2)	4	-	1
	206	**27**	**54**	**8**	**95**	**1**	**33**

				BANK
	Deferred tax assets 2011	**Income statement 2011**	**Deferred tax assets 2010**	**Income statement 2010**
Deferred loan origination fees	45	1	44	3
Unrealized (losses)/gains from financial investments available for sale	23	-	-	-
Unrealised (losses)/gains on derivative financial instruments	18	(26)	44	31
Long term employment provisions	4	-	4	-
Other temporary differences	3	-	3	-
	93	**(25)**	**95**	**34**

Income tax assets and liabilities consist of the following:

		GROUP		**BANK**
	2011	**2010**	**2011**	**2010**
Current income tax liabilities	(5)	(67)	-	(66)
Deferred tax assets	206	95	93	95
Deferred tax liabilities	(27)	(1)	-	-
Net tax assets	**174**	**27**	**93**	**29**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

16. INCOME TAXES (CONTINUED)

Croatian tax legislation and practice has changed significantly in recent years. Many parts of the legislation remain untested and there is uncertainty about the interpretation that the tax authorities may apply in a number of areas. Tax positions taken by the Group are subject to examination and could be challenged by the tax authorities. As a result there is uncertainty about the potential impacts should the interpretation of the tax authorities differ from that applied by the Group. However, the Group's Management considers that the tax liability which might arise in connection with this would not be material.

17. INCOME TAX EFFECTS RELATING TO OTHER COMPREHENSIVE INCOME

			GROUP			GROUP
			2011			2010
	Amount before tax	Tax expense	Net of tax	Amount before tax	Tax expense	Net of tax
Net (loss)/gain on financial investments available for sale	(118)	22	(96)	17	(3)	14
Exchange differences on translation of foreign operations	4	-	4	2	-	2
Other	(3)	1	(2)	2	(1)	1
	(117)	**23**	**(94)**	**21**	**(4)**	**17**

			BANK			BANK
			2011			2010
	Amount before tax	Tax expense	Net of tax	Amount before tax	Tax expense	Net of tax
Net (loss)/gain on financial investments available for sale	(115)	23	(92)	15	(3)	12
Other	1	-	1	2	(1)	1
	(114)	**23**	**(91)**	**17**	**(4)**	**13**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

18. COMPONENTS OF OTHER COMPREHENSIVE INCOME

		GROUP
	2011	**2010**
Financial investments available for sale:		
Losses arising during the year	(119)	-
Less: Reclassification adjustment for gains included in the income statement	*1*	*17*
	(118)	17
Exchange differences on translating foreign operations	4	2
Other	(3)	2
Total other comprehensive income	(117)	21
Income tax relating to components of other comprehensive income	23	(4)
Other comprehensive income for the year	**(94)**	**17**

		BANK
	2011	**2010**
Financial investments available for sale:		
Losses arising during the year	(116)	(2)
Less: Reclassification adjustment for gains included in the income statement	*1*	*17*
	(115)	15
Other	1	2
Total other comprehensive income	(114)	17
Income tax relating to components of other comprehensive income	23	(4)
Other comprehensive income for the year	**(91)**	**13**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

19. CASH AND BALANCES WITH THE CENTRAL BANKS

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Cash in hand	816	734	758	691
Cash on clearing account	1,723	2,106	1,691	2,065
Obligatory reserves with the central banks	4,691	3,722	4,605	3,669
	7,230	**6,562**	**7,054**	**6,425**

As at 31 December 2011 and 2010, obligatory reserves with the Croatian National Bank of HRK 4,606 million and HRK 3,669 million, respectively, represent the minimum reserve deposits which the Bank is required to maintain at all times. As at 31 December 2011 and 2010 obligatory reserve with Central Bank of Montenegro is HRK 85 million (original currency EUR 11 million) and HRK 53 million (original currency EUR 7 million).

20. AMOUNTS DUE FROM OTHER BANKS

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Current accounts with other banks	30	108	13	37
Term deposits with banks	1,225	2,911	1,157	2,911
Loans and advances with banks	271	281	270	275
Total amounts due from other banks before allowances for impairment	1,526	3,300	1,440	3,223
Less: Allowances for possible placement losses	*(2)*	*(15)*	*(2)*	*(14)*
	1,524	**3,285**	**1,438**	**3,209**

The movement in the allowances for impairment losses on amounts due from other banks is summarized as follows:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Balance at 1 January	**15**	**16**	**14**	**15**
Release of previously established allowances	(2)	(1)	(2)	(1)
Disposal of subsidiary	(1)	-	-	-
Amounts written off	(10)	-	(10)	-
Balance at 31 December	**2**	**15**	**2**	**14**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

21. REVERSE REPURCHASE / REPURCHASE AGREEMENTS

GROUP

	Cash collateral given on securities borrowed	Reverse repurchase agreements	Cash collateral given on securities borrowed	Reverse repurchase agreements
	2011	**2011**	**2010**	**2010**
Asset				
Due from customers	27	26	129	128
	27	**26**	**129**	**128**

	Cash collateral received on securities lent	Repurchase agreements	Cash collateral received on securities lent	Repurchase agreements
	2011	**2011**	**2010**	**2010**
Liabilities				
Due to banks	709	605	748	730
Due to customers	4	4	105	105
	713	**609**	**853**	**835**

BANK

	Cash collateral given on securities borrowed	Reverse repurchase agreements	Cash collateral given on securities borrowed	Reverse repurchase agreements
	2011	**2011**	**2010**	**2010**
Asset				
Due from banks	-	-	75	74
Due from customers	164	157	129	128
	164	**157**	**204**	**202**

	Cash collateral received on securities lent	Repurchase agreements	Cash collateral received on securities lent	Repurchase agreements
	2011	**2011**	**2010**	**2010**
Liabilities				
Due to banks	521	496	748	730
Due to customers	4	4	105	105
	525	**500**	**853**	**835**

21. REVERSE REPURCHASE / REPURCHASE AGREEMENTS (CONTINUED)

As at 31 December 2011 Group's and Bank's reverse repurchase agreements are secured with debt securities issued by the Croatian Ministry of Finance with a fair value of HRK 164 million and HRK 27 million, respectively. As at 31 December 2010 Group's and Bank's reverse repurchase agreements are secured with debt securities issued by the Croatian Ministry of Finance with a fair value of HRK 129 million, the Bank is additionally secured with debt securities issued by the Montenegro Ministry of Finance with a fair value of HRK 75 million.

As at 31 December 2011 Group's and Bank's repurchase agreements are secured with debt securities issued by the Croatian Ministry of Finance with a fair value of HRK 525 million and HRK 713 million, respectively.

Cash collaterals received on securities lent for the Group are included in 'Financial investments available for sale' (HRK 498 million), 'Financial investments held for trading' (HRK 27 million) and in 'Financial investments held to maturity' (HRK 188 million). As at 31 December 2011 cash collaterals received on securities lent for the Bank are included in 'Financial investments available for sale' (HRK 498 million) and 'Financial investments held for trading' (HRK 27 million).

As at 31 December 2010 Group's and Bank's repurchase agreements are secured with bonds issued by Federal Republic of Germany with a fair value of HRK 370 million and additional debt securities issued by the Croatian Ministry of Finance with a fair value of HRK 483 million. Cash collaterals received on securities lent for the Group are included in 'Financial investments available for sale'.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

22. DERIVATIVE FINANCIAL INSTRUMENTS

			GROUP			GROUP
			2011			2010
	Notional Amount	*Fair Value*		Notional Amount	*Fair Value*	
		Assets	Liabilities		Assets	Liabilities
Interest rate instruments:	*1,389*	*22*	*(18)*	*1,113*	*10*	*(8)*
Interest rate swaps	1,389	22	(18)	1,113	10	(8)
Foreign currency instruments:	*28,463*	*71*	*(118)*	*19,171*	*28*	*(230)*
Currency swaps						
Purchase	1,546	6	-	564	1	-
Sell	1,542	-	(1)	566	-	(2)
Forwards						
Purchase	12,664	65	-	8,922	27	-
Sell	12,711	-	(117)	9,119	-	(228)
Other instruments:	*76*	-	-	*22*	-	-
Call options for stock index	8	-	-	11	-	-
Put options for stock index	8	-	-	11	-	-
Securities purchase	30	-	-	-	-	-
Securities sell	30	-	-	-	-	-
	29,928	**93**	**(136)**	**20,306**	**38**	**(238)**

			BANK			BANK
			2011			2010
	Notional Amount	*Fair Value*		Notional Amount	*Fair Value*	
		Assets	Liabilities		Assets	Liabilities
Interest rate instruments:	*1,389*	*22*	*(18)*	*1,113*	*10*	*(8)*
Interest rate swaps	1,389	22	(18)	1,113	10	(8)
Foreign currency instruments:	*27,377*	*70*	*(118)*	*19,171*	*28*	*(230)*
Currency swaps						
Purchase	1,003	5	-	564	1	-
Sell	999	-	(1)	566	-	(2)
Forwards						
Purchase	12,664	65	-	8,922	27	-
Sell	12,711	-	(117)	9,119	-	(228)
Other instruments:	*60*	-	-	*6*	-	-
Call options for stock index	-	-	-	3	-	-
Put options for stock index	-	-	-	3	-	-
Securities purchase	30	-	-	-	-	-
Securities sell	30	-	-	-	-	-
	28,826	**92**	**(136)**	**20,290**	**38**	**(238)**

The fair value of these transactions reflects the credit risk and other types of economic risks for the Group and the Bank. The fair value of derivative financial instruments is based on valuation techniques where all model inputs are observable in the market.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

23. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Financial assets held for trading:				
Treasury bills	117	52	117	52
Investment in open funds	295	-	-	-
Equity shares	5	-	5	-
	417	**52**	**122**	**52**
Financial assets designated at fair value through profit or loss:				
Amounts due from other banks	50	80	50	80
	50	**80**	**50**	**80**

Financial assets and liabilities held for trading are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of those securities is estimated using the present value of future cash flows.

As of 31 December 2011 financial assets held for trading are Treasury bills of the Croatian Ministry of Finance with maturity in 2012, and with interest rate from 2.900% to 4.000% and shares from Croatian and Serbian issuers. As of 31 December 2010 financial assets held for trading were Treasury bills of the Croatian Ministry of Finance with maturity in 2011, and with interest rate from 2.899% to 3.799%.

	GROUP AND BANK	GROUP AND BANK
	2011	**2010**
Financial liabilities designated at fair value through profit or loss:		
Amounts due to other Banks	40	80
	40	**80**

24. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December 2011 and 2010 are summarized as follows:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Companies	21,032	16,925	18,675	16,403
Individuals	20,930	18,132	17,918	17,276
Public sector	6,106	3,468	5,543	3,375
Other institutions	173	133	171	133
Total loans before allowances for impairment	48,241	38,658	42,307	37,187
Less: Allowances for loan impairment	*(3,564)*	*(2,260)*	*(2,882)*	*(2,168)*
	44,677	**36,398**	**39,425**	**35,019**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

24. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans and advances to customers are made principally within Republic of Croatia and a lesser degree within Montenegro.

The movement in the allowances for impairment losses on loans and advances to customers is summarized as follows:

		GROUP		BANK
	2011	**2010**	**2011**	**2010**
Balance at 1 January	**2,260**	**1,628**	**2,168**	**1,569**
Release of previously established allowances	(495)	(679)	(389)	(637)
Additional allowances	1,223	1,264	967	1,174
Allowances acquired on business combination	450	-	-	-
Amounts written off	(17)	(50)	(4)	(32)
Suspended interest	199	121	198	121
Exchange-rate changes	32	27	30	24
Interest accrued on impaired loans and advances	(88)	(51)	(88)	(51)
Balance at 31 December	**3,564**	**2,260**	**2,882**	**2,168**

25. FINANCIAL INVESTMENTS AVAILABLE FOR SALE

		GROUP		BANK
	2011	**2010**	**2011**	**2010**
Equity shares and participations:	91	43	89	43
Investments in companies	*70*	*21*	*70*	*21*
Investments in financial institutions	*21*	*22*	*19*	*22*
Debt securities:	6,305	4,284	6,197	4,195
Treasury bills	*1,366*	*1,397*	*1,366*	*1,395*
Listed bonds	*4,925*	*2,856*	*4,718*	*2,769*
Listed commercial bills	*14*	*31*	*14*	*31*
Unlisted bonds	*-*	*-*	*99*	*-*
Investment in open funds	29	32	29	32
	6,425	**4,359**	**6,315**	**4,270**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

25. FINANCIAL INVESTMENTS AVAILABLE FOR SALE (CONTINUED)

Debt securities available for sale allocated by the issuer comprise:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Debt securities available for sale issued by:				
Republic of Croatia	3,203	1,959	3,118	1,945
Foreign banks	-	-	99	-
Local government of Republic of Croatia	2	-	2	-
Companies in Republic of Croatia	164	194	164	194
Foreign states	2,936	2,131	2,814	2,056
	6,305	**4,284**	**6,197**	**4,195**

Debt securities include bonds issued by the Republic of Croatia and treasury bills issued by the Croatian Ministry of Finance.

Treasury bills of the Croatian Ministry of Finance are HRK and EUR denominated debt securities issued at a discount to nominal. These securities are issued with original maturities of 91, 181, 364 and 728 days.

During 2011, the average interest yields on HRK denominated treasury bills were 2.99% for treasury bills with a maturity of 91 days, 3.87% for treasury bills with a maturity of 181 days and 3.97% for treasury bills with a maturity of 364 days. The average interest yields on the EUR denominated treasury bills were 3.99% for treasury bills with a maturity of 91 days and 3.49% for treasury bills with a maturity of 364 days.

During 2010, the average interest yields on the HRK denominated treasury bills were 2.91% for treasury bills with a maturity of 91 days, 3.86% for treasury bills with a maturity of 181 days, 5.69% for treasury bills with a maturity of 364 days and 8.50% for treasury bills with a maturity of 728 days. The average interest yields on the EUR denominated treasury bills were 5.07% for treasury bills with a maturity of 364 days.

Bonds of the Republic of Croatia are HRK and EUR denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2012 to 2022 and bear coupon interest from 4.250% to 6.875% p.a.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

25. FINANCIAL INVESTMENTS AVAILABLE FOR SALE (CONTINUED)

Bonds of foreign states (Germany and Austria) are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2012 till 2015 and bear coupon interest from 3.500% to 5.000% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2015 and in 2016 and bear coupon interest of 7.875% and 7.250% p.a. Bonds of Republic of Slovakia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2012 to 2015 and bear coupon interest from 0.00% p.a. (zero coupon bonds) to 5.00% p.a. Bonds of Republic of Slovenia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2014 and in 2016 and bear coupon interest 4.375% and 4.000% p.a.

Financial investments available for sale are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of these securities is estimated using the present value of future cash flows.

26. FINANCIAL INVESTMENTS HELD TO MATURITY

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Fixed income debt securities:				
Listed debt securities – Bonds issued by the Republic of Croatia	360	356	360	356
Unlisted debt securities – Bonds issued by the Republic of Croatia	6	50	6	50
Treasury bills of Ministry of Finance	188	-	-	-
Treasury bills of Republic of Montenegro	48	18	-	-
	602	**424**	**366**	**406**

Listed and unlisted bonds issued by the Republic of Croatia are fixed income debt securities denominated in EUR and HRK. These bonds have maturities from 2012 to 2020 and bear coupon interest from 5.500% to 7.200% p.a.

The fair value of financial investments held to maturity for the Group and the Bank is approximately HRK 4.7 million lower than their value as at 31 December 2011 (2010: HRK 8.9 million).

There was no movement in the allowances for impairment losses on financial assets held to maturity.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

27. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Ownership Interest 2011	Ownership Interest 2010	Note	Activity	Group's Share of net assets		Investment at cost	
					2011	2010	2011	2010
Associates								
S Immorent Zeta d.o.o.	49.00%	49.00%		Real estate business	-	-	-	-
Erste securities d.o.o.	-	49.00%	3	Financial markets intermediation	-	14	-	18
Erste Factoring d.o.o.	-	44.00%	3	Other credit intermediation	-	49	-	2
Erste d.o.o.	37.94%	27.88%		Management company for obligatory pension fund	35	25	23	12
Immokor Buzin d.o.o.	49.00%	-		Real estate business	34	-	34	-
S IT Solutions HR d.o.o.	20.00%	20.00%		IT engineering	-	-	-	-
Total associates:					**69**	**88**	**57**	**32**
Subsidiaries								
Erste nekretnine d.o.o.	100.00%	100.00%		Real estate business	2	1	1	1
Erste DMD d.o.o.	100.00%	100.00%		Management company for voluntary pension fund	15	14	15	15
MBU d.o.o.	-	97.27%		IT engineering and interbank services	-	39	-	19
Erste Factoring d.o.o.	74.996%	-	3	Other credit intermediation	87	-	38	-
Erste Card Club d.d.	100.00%	-	3	Financial intermediation and services	388	-	1,089	-
Diners Club BIH d.o.o. Sarajevo	100.00%	-	3	Other financial intermediation	(3)	-	-	-
Erste Delta d.o.o.	100.00%	100.00%		Real estate business	(8)	(11)	-	-
Erste bank a.d., Podgorica	100.00%	100.00%		Credit institution	208	188	100	100
Total subsidiaries:					**689**	**231**	**1,243**	**135**
Total:					**758**	**319**	**1,300**	**167**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

27. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (CONTINUED)

In December 2011, the Bank completed acquisition of 49% part of ownership of Immokor Buzin d.o.o. The carrying value of net assets of Immokor Buzin d.o.o. at the date of acquisition was HRK 31 million.

In August 2011, the Bank completed additional acquisition of 10.06% part of ownership of Erste d.o.o. increasing its ownership to 37.94%. The carrying value of net assets of Erste d.o.o. at this date was HRK 83 million.

The following table illustrates summarised financial information of the Group's investment in associates:

	GROUP	
	2011	**2010**
Current assets	27	1,275
Non current assets	127	48
Current liabilities	(7)	(1,200)
Non current liabilities	(78)	(35)
Net asset, carrying amount of associates	**69**	**88**
Share of associates revenue and profit		
Revenue	28	103
Expenses	(24)	(87)
Net profit	**4**	**16**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

28. PROPERTY AND EQUIPMENT

						GROUP 2011
	Land and buildings	Computers	Furniture and other equipment	Investment property	Construction in progress	Total
COST						
At 1 January 2011	714	172	235	29	48	1,198
Additions	-	-	-	-	65	65
Acquisition of subsidiaries	6	1	1	-	4	12
Transfer	89	12	21	(27)	(95)	-
Disposals	(25)	(29)	(5)	-	-	(59)
At 31 December 2011	**784**	**156**	**252**	**2**	**22**	**1,216**
ACCUMULATED DEPRECIATION						
At 1 January 2011	165	156	149	9	-	479
Acquisition of subsidiaries	(3)	(8)	1	-	-	(10)
Depreciation	17	13	25	1	-	56
Transfer	9	-	-	(9)	-	-
Disposals	(4)	(30)	(5)	-	-	(39)
At 31 December 2011	**184**	**131**	**170**	**1**	**-**	**486**
NET BOOK VALUE						
31 December 2011	**600**	**25**	**82**	**1**	**22**	**730**
31 December 2010	**549**	**16**	**86**	**20**	**48**	**719**

						GROUP 2010
	Land and buildings	Computers	Furniture and other equipment	Investment property	Construction in progress	Total
COST						
At 1 January 2010	706	177	204	29	30	1,146
Additions	-	-	-	-	75	75
Transfer	14	7	36	-	(57)	-
Disposals	(6)	(12)	(5)	-	-	(23)
At 31 December 2010	**714**	**172**	**235**	**29**	**48**	**1,198**
ACCUMULATED DEPRECIATION						
At 1 January 2010	152	151	134	8	-	445
Depreciation	16	17	22	1	-	56
Transfer	-	-	-	-	-	-
Disposals	(3)	(12)	(7)	-	-	(22)
At 31 December 2010	**165**	**156**	**149**	**9**	**-**	**479**
NET BOOK VALUE						
31 December 2010	**549**	**16**	**86**	**20**	**48**	**719**
31 December 2009	**554**	**26**	**70**	**21**	**30**	**701**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

28. PROPERTY AND EQUIPMENT (CONTINUED)

BANK 2011

	Land and buildings	Computers	Furniture and other equipment	Investment property	Construction in progress	Total
COST						
At 1 January 2011	413	156	196	27	48	840
Additions	-	-	-	-	50	50
Merger of associate	-	-	1	-	-	1
Transfer	88	4	16	(26)	(82)	-
Disposals	(25)	(30)	(6)	-	-	(61)
At 31 December 2011	**476**	**130**	**207**	**1**	**16**	**830**
ACCUMULATED DEPRECIATION						
At 1 January 2011	138	148	131	9	-	426
Depreciation	9	5	19	1	-	34
Transfer	9	-	-	(9)	-	-
Disposals	(3)	(30)	(4)	-	-	(37)
At 31 December 2011	**153**	**123**	**146**	**1**	**-**	**423**
NET BOOK VALUE						
31 December 2011	**323**	**7**	**61**	**-**	**16**	**407**
31 December 2010	**275**	**8**	**65**	**18**	**48**	**414**

BANK 2010

	Land and buildings	Computers	Furniture and other equipment	Investment property	Construction in progress	Total
COST						
At 1 January 2010	407	163	171	31	29	801
Additions	-	-	-	-	60	60
Transfer	9	4	28	-	(41)	-
Disposals	(3)	(11)	(3)	(4)	-	(21)
At 31 December 2010	**413**	**156**	**196**	**27**	**48**	**840**
ACCUMULATED DEPRECIATION						
At 1 January 2010	132	144	118	9	-	403
Depreciation	8	14	18	1	-	41
Transfer	-	-	-	-	-	-
Disposals	(2)	(10)	(5)	(1)	-	(18)
At 31 December 2010	**138**	**148**	**131**	**9**	**-**	**426**
NET BOOK VALUE						
31 December 2010	**275**	**8**	**65**	**18**	**48**	**414**
31 December 2009	**275**	**19**	**53**	**22**	**29**	**398**

As at 31 December 2011, the Group and the Bank had contractual capital commitments of HRK 11 million (HRK 12 million as at 31 December 2010) in respect of current capital investment projects.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

29. INTANGIBLE ASSETS

					GROUP 2011
	Other intangible assets	Goodwill	Customer and merchant relationships	Construction in progress	Total
COST					
At 1 January 2011	122	-	-	2	124
Additions	-	-	-	24	24
Transfer	12	-	-	(12)	-
(Disposal)/Acquisition of subsidiaries	(24)	603	181	-	760
Disposals	(1)	-	-	-	(1)
At 31 December 2011	**109**	**603**	**181**	**14**	**907**
ACCUMULATED AMORTIZATION					
At 1 January 2011	68	-	-	-	68
(Disposal)/Acquisition of subsidiaries	(23)	-	-	-	(23)
Depreciation	22	-	50	-	72
Disposals	(2)	-	-	-	(2)
At 31 December 2011	**65**	**-**	**50**	**-**	**115**
NET BOOK VALUE					
31 December 2011	**44**	**603**	**131**	**14**	**792**
31 December 2010	**54**	**-**	**-**	**2**	**56**

			BANK 2011
	Intangible assets	Construction in progress	Total
COST			
At 1 January 2011	105	2	107
Additions	-	21	21
Transfer	10	(10)	-
Merger of associate	1	-	1
Disposals	(1)	-	(1)
At 31 December 2011	**115**	**13**	**128**
ACCUMULATED AMORTIZATION			
At 1 January 2011	63	-	63
Merger of associate	1	-	1
Depreciation	16	-	16
Disposals	(2)	-	(2)
At 31 December 2011	**78**	**-**	**78**
NET BOOK VALUE			
31 December 2011	**37**	**13**	**50**
31 December 2010	**42**	**2**	**44**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

29. INTANGIBLE ASSETS (CONTINUED)

	GROUP 2010			BANK 2010		
	Intangible assets	**Construction in progress**	**Total**	**Intangible assets**	**Construction in progress**	**Total**
COST						
At 1 January 2010	102	12	114	84	12	96
Additions	-	23	23	-	16	16
Transfer	33	(33)	-	26	(26)	-
Disposals	(13)	-	(13)	(5)	-	(5)
At 31 December 2010	**122**	**2**	**124**	**105**	**2**	**107**
ACCUMULATED AMORTIZATION						
At 1 January 2010	58	-	58	52	-	52
Amortization	18	-	18	13	-	13
Disposals	(8)	-	(8)	(2)	-	(2)
At 31 December 2010	**68**	**-**	**68**	**63**	**-**	**63**
NET BOOK VALUE						
31 December 2010	**54**	**2**	**56**	**42**	**2**	**44**
31 December 2009	**44**	**12**	**56**	**32**	**12**	**44**

30. OTHER ASSETS

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Assets acquired in lieu of uncollected receivables	113	55	109	51
Receivables from fees and commissions	35	37	35	36
Checks	1	2	1	2
Prepaid expenses	7	14	4	10
Income tax prepayments	22	2	20	-
Other	40	2	11	2
Total other assets before allowances for impairment	218	112	180	101
Less: Allowances for impairment of other asset	*(14)*	*(13)*	*(14)*	*(13)*
	204	**99**	**166**	**88**

The movement in the allowances for impairment on other assets is summarized as follows:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Balance at 1 January	**13**	**12**	**13**	**12**
Release of previously established allowances	(1)	(3)	(1)	(3)
Additional allowances	3	4	3	4
Amounts written off	(1)	-	(1)	-
Balance at 31 December	**14**	**13**	**14**	**13**

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31. AMOUNTS DUE TO OTHER BANKS

	GROUP		BANK	
	2011	2010	2011	2010
Demand deposits:	*93*	*102*	*107*	*129*
In HRK	51	69	51	68
In foreign currencies	42	33	56	61
Borrowings in HRK – short-term:	*597*	*568*	*594*	*568*
Domestic borrowings	367	568	364	568
Foreign borrowings	230	-	230	-
Borrowings in HRK – long-term:	*12,969*	*8,755*	*12,969*	*8,755*
Domestic borrowings	674	126	674	126
Foreign borrowings	12,295	8,629	12,295	8,629
Total borrowings in HRK	*13,566*	*9,323*	*13,563*	*9,323*
Borrowings in foreign currencies – short-term:	*4,639*	*488*	*155*	*477*
Domestic borrowings	155	108	155	108
Foreign borrowings	4,484	380	-	369
Borrowings in foreign currencies – long-term:	*3,987*	*3,407*	*3,057*	*2,607*
Domestic borrowings	1,613	1,296	1,613	1,296
Foreign borrowings	2,374	2,111	1,444	1,311
Total borrowings in foreign currencies	*8,626*	*3,895*	*3,212*	*3,084*
	22,285	**13,320**	**16,882**	**12,536**

32. AMOUNTS DUE TO CUSTOMERS

	GROUP		BANK	
	2011	2010	2011	2010
Demand deposits from:	*8,505*	*7,272*	*7,684*	*6,876*
Individuals	4,443	4,140	4,086	3,835
Companies	3,788	2,904	3,339	2,829
Public sector	138	98	129	88
Other institutions	136	130	130	124
Term deposits from:	*23,307*	*23,867*	*24,103*	*23,452*
Individuals	18,721	17,238	18,216	16,787
Companies	4,394	6,377	5,732	6,440
Public sector	73	149	36	123
Other institutions	119	103	119	102
	31,812	**31,139**	**31,787**	**30,328**

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33. OTHER BORROWED FUNDS

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Borrowings in foreign currencies – short-term:	16	14	-	-
Foreign borrowings	*16*	*14*	-	-
Borrowings in foreign currencies – long-term:	63	65	3	5
Foreign borrowings	*63*	*65*	*3*	*5*
	79	**79**	**3**	**5**

34. OTHER LIABILITIES

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Prepayments received from borrowers	171	178	171	178
Salaries and bonuses payable	117	88	101	81
Amounts due to suppliers	59	43	30	37
Other amounts due to customers	45	-	-	-
Payables to State Agency for deposit insurance	13	12	13	12
Other	43	14	15	10
	448	**335**	**330**	**318**

35. PROVISIONS

	GROUP				BANK			
	Litigations	**Guarantees and credit commitments**	**Long-term employee benefits**	**Total**	**Litigations**	**Guarantees and credit commitments**	**Long-term employee benefits**	**Total**
At 1 January 2010	**19**	**53**	**19**	**91**	**19**	**52**	**17**	**88**
Additional provisions	4	42	2	48	2	42	2	46
Release of previously established allowances	(5)	(42)	(2)	(49)	(5)	(41)	(2)	(48)
At 1 January 2011	**18**	**53**	**19**	**90**	**16**	**53**	**17**	**86**
Additional provisions	11	20	5	36	12	15	2	29
Release of previously established allowances	-	(15)	(1)	(16)	-	(15)	-	(15)
Write-offs	-	(2)	-	(2)	-	(2)	-	(2)
At 31 December 2011	**29**	**56**	**23**	**108**	**28**	**51**	**19**	**98**

The provision for guarantees and other loan commitments and contingent liabilities primarily relates to commitments from guarantees and credit lines issued by the Bank for which timing of outflow is uncertain.

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36. SUBORDINATED DEBT

In June 2011 the Bank received subordinated debt from Erste Group Bank in the amount of HRK 226 million (original amount EUR 30 million). Maturity of the debt is till 2017, with interest rate 3 month EURIBOR plus 3.37% p.a.

In July 2011 the Bank issued its own subordinated bonds. Original amount of the issue is HRK 621 million linked to foreign currency. Maturity of the bonds is 6 years with interest to maturity 6.5%. Coupon will be settled annually.

Erste Bank a.d., Podgorica received in 2008 subordinated debt from Oikocredit, Ecumenical Development Cooperative Society U.A., the Netherlands in the original amount EUR 4 million (2011: HRK 31 million, 2010: HRK 30 million). Maturity of the debt is from 2013 till 2016, with interest rate 6 month EURIBOR plus 2.9% p.a.

Subordinated debt cannot be repaid in the case of bankruptcy or liquidation of the Borrower until all obligations of the Group towards other depositors and creditors have been met. Subordinated debt is included into the Tier 2 of the Group.

The purpose of the subordinated debt received and subordinated bonds is the creation of the subordinated instruments, as regulated by the respective provisions of Art. 19, par. 4 of the Decision on own funds of the Credit Institution made by Croatian National Bank.

37. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2011 and 2010 the share capital of the Bank comprises 16,984,175 ordinary shares with a par value of HRK 100 each. All the ordinary shares are ranked equally and bear one vote.

Share premium as at 31 December 2011 and 2010 amounted HRK 1,802 million.

38. OTHER CAPITAL RESERVES

The Bank's distributable and non-distributable reserves are determined by regulations of the Croatian National Bank. As at 31 December 2011 the statutory and legal reserves of the Bank disclose non-distributable reserves of HRK 91 million (HRK 217 million as at 31 December 2010). Such reserves include the reserve for general banking risk of HRK 126 million as of 31 December 2010. During year 2011 the reserves are transferred to retained earnings in compliance with local regulations.

39. EARNINGS PER ORDINARY SHARE

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

	GROUP	
	2011	**2010**
Net profit for the year	739	652
Profit attributable to ordinary shareholders	739	652
Weighted average number of shares of 100 HRK each (for basic and diluted earnings per share)	16,984,175	16,984,175
Earnings per ordinary share – basic and diluted (in HRK)	**43.51**	**38.42**

40. DIVIDENDS

The dividends for 2011 are subject to approval by shareholders at the Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorized for issue.

The dividend declared by the Bank for the year 2010 was HRK 9.59 per share (total amount HRK 164 million).

41. ESTIMATED FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. If available, fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing techniques as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates.

It is the opinion of the management of the Group, that the fair value of the Group's financial assets and liabilities are not materially different from the amounts stated in the statement of financial position as at 31 December 2011 and 2010.

41. ESTIMATED FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used:

(a) Cash and balances with the central banks

The carrying values of cash and balances with the central bank are generally deemed to approximate their fair value.

(b) Investments held to maturity

Fair values of securities carried in the 'Held to maturity' portfolio are calculated based on market quotations. The fair values of held to maturity investments are disclosed in Note 26.

(c) Due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less, approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral.

(d) Loans and advances to customers

The fair value of variable yield loans that regularly re-price, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. Loans at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total loans and advances to customers approximates the carrying values as at the statement of financial position date.

(e) Amounts due to banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand as at the statement of financial position date. The fair value of term deposits at variable interest rates approximates their carrying values as at the statement of financial position date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.
As the fixed rate long term deposits represent only a fraction of the entire deposit base, the Management believes that their fair value approximates the carrying value as at the statement of financial position date.

41.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Group and the Bank use following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no movements between levels in 2011.

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41.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

				GROUP 2011
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets				
Receivables on financial derivative transactions	-	93	-	**93**
Interest rate swaps	-	*22*	-	***22***
Currency swaps	-	*6*	-	***6***
Forward foreign exchange contracts	-	*65*	-	***65***
Financial assets held for trading	300	117	-	**417**
Government debt securities	-	*117*	-	***117***
Investment in open funds	*295*	-	-	***295***
Shares	*5*	-	-	***5***
Financial investments available for sale	4,718	1,707	-	**6,425**
Quoted investments	*29*	-	-	***29***
Government debt securities	*4,581*	*1,558*	-	***6,139***
Other debt securities	*24*	*142*	-	***166***
Equities	*83*	-	-	***83***
Unquoted investments	*1*	*7*	-	***8***
Total financial assets	**5,018**	**1,917**	**-**	**6,935**
Financial liabilities				
Payables on financial derivative transactions	-	136	-	**136**
Interest rate swaps	-	*18*	-	***18***
Currency swaps	-	*1*	-	***1***
Forward foreign exchange contracts	-	*117*	-	***117***
Total financial liabilities	**-**	**136**	**-**	**136**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

41.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

				GROUP 2010
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets				
Receivables on financial derivative transactions	-	38	-	**38**
Interest rate swaps	-	*10*	-	***10***
Currency swaps	-	*1*	-	***1***
Forward foreign exchange contracts	-	*27*	-	***27***
Financial assets held for trading	-	52	-	**52**
Government debt securities	-	*52*	-	***52***
Financial investments available for sale	2,758	1,601	-	**4,359**
Quoted investments	*32*	-	-	***32***
Government debt securities	*557*	*1,400*	-	***1,957***
Other debt securities	*2,131*	*196*	-	***2,327***
Equities	*38*	-	-	***38***
Unquoted investments	-	*5*	-	***5***
Total financial assets	**2,758**	**1,691**	**-**	**4,449**
Financial liabilities				
Payables on financial derivative transactions	-	238	-	**238**
Interest rate swaps	-	*8*	-	***8***
Currency swaps	-	*2*	-	***2***
Forward foreign exchange contracts	-	*228*	-	***228***
Total financial liabilities	**-**	**238**	**-**	**238**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

41.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

				BANK 2011
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets				
Receivables on financial derivative transactions	-	92	-	**92**
Interest rate swaps	*-*	*22*	*-*	***22***
Currency swaps	*-*	*5*	*-*	***5***
Forward foreign exchange contracts	*-*	*65*	*-*	***65***
Financial investments held for trading	5	117	-	**122**
Government debt securities	*-*	*117*	*-*	***117***
Shares	*5*	*-*	*-*	***5***
Financial investments available for sale	4,509	1,806	-	**6,315**
Quoted investments	*29*	*-*	*-*	***29***
Government debt securities	*4,374*	*1,557*	*-*	***5,931***
Other debt securities	*24*	*242*	*-*	***266***
Equities	*81*	*-*	*-*	***81***
Unquoted investments	*1*	*7*	*-*	***8***
Total financial assets	**4,514**	**2,015**	**-**	**6,529**
Financial liabilities				
Payables on financial derivative transactions	-	136	-	**136**
Interest rate swaps	*-*	*18*	*-*	***18***
Currency swaps	*-*	*1*	*-*	***1***
Forward foreign exchange contracts	*-*	*117*	*-*	***117***
Total financial liabilities	**-**	**136**	**-**	**136**

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41.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

				BANK 2010
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets				
Receivables on financial derivative transactions	-	38	-	**38**
Interest rate swaps	-	*10*	-	***10***
Currency swaps	-	*1*	-	***1***
Forward foreign exchange contracts	-	*27*	-	***27***
Financial investments held for trading	-	52	-	**52**
Government debt securities	-	*52*	-	***52***
Financial investments available for sale	2,674	1,596	-	**4,270**
Quoted investments	*32*	-	-	***32***
Government debt securities	*548*	*1,395*	-	***1,943***
Other debt securities	*2,056*	*196*	-	***2,252***
Equities	*38*	-	-	***38***
Unquoted investments	-	*5*	-	***5***
Total financial assets	**2,674**	**1,686**	**-**	**4,360**
Financial liabilities				
Payables on financial derivative transactions	-	238	-	**238**
Interest rate swaps	-	*8*	-	***8***
Currency swaps	-	*2*	-	***2***
Forward foreign exchange contracts	-	*228*	-	***228***
Equity swap and options	-	-	-	**-**
Total financial liabilities	**-**	**238**	**-**	**238**

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42. INFORMATION FOR CASH FLOW STATEMENT

	GROUP		BANK	
	2011	2010	2011	2010
Operating Activities				
Profit before income tax	921	807	803	758
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization expense	128	74	50	54
Unrealized gains on financial assets held for trading	1	-	-	-
Impairment losses on loans and advances	728	585	578	537
Impairment losses on financial investments	13	2	15	2
Net change in valuation of derivatives	(157)	171	(156)	171
Other provisions	16	(1)	12	(2)
Interest expense	1,683	1,376	1,525	1,315
Interest income	(3,831)	(3,121)	(3,278)	(2,931)
Dividend income	(31)	(5)	(41)	(5)
Share of results of associates	(4)	(16)	-	-
Loss from operating activities before changes in operating assets and liabilities	***(533)***	***(128)***	***(492)***	***(101)***

Analysis of cash and cash equivalents:

	GROUP		BANK	
	2011	2010	2011	2010
Cash on hand	816	734	758	691
Cash on clearing account	1,723	2,065	1,691	2,065
Current accounts with other banks	29	109	13	37
Placements with banks with maturity up to 3 months	1,164	2,877	1,164	2,877
Treasury bills with maturity up to 3 months	567	966	567	966
	4,299	**6,751**	**4,193**	**6,636**
Change in cash and cash equivalents	**(2,452)**	**(1,245)**	**(2,443)**	**(1,289)**

43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the Croatian National Bank. The table below provides an analysis of assets and liabilities into relevant maturity buckets based on the remaining period from the statement of financial position date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Those assets and liabilities that do not have a contractual maturity date are grouped together under 'Maturity undefined' category.

Financial investments available for sale and financial assets held for trading are classified in accordance with their remaining maturity.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivatives. The Group does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

GROUP 2011

	Up to 1 month	1-3 months	3-12 months	Total less than 12 months	1-5 years	Over 5 years	Total over 12 months	Maturity undefined	Total
ASSETS									
Cash and balances with central banks	7,230	-	-	7,230	-	-	-	-	**7,230**
Amounts due from other banks	1,201	78	143	1,422	102	-	102	-	**1,524**
Reverse repurchase agreements	26	-	-	26	-	-	-	-	**26**
Receivables on financial derivative transactions	67	4	-	71	17	5	22	-	**93**
Financial assets held for trading	225	117	75	417	-	-	-	-	**417**
Financial assets at fair value through profit or loss	50	-	-	50	-	-	-	-	**50**
Loans and advances to customers	6,425	2,288	8,494	17,207	15,195	12,275	27,470	-	**44,677**
Financial investments available for sale	1,303	568	1,280	3,151	1,802	1,472	3,274	-	**6,425**
Financial investments held to maturity	5	19	388	412	38	152	190	-	**602**
Investments in subsidiaries and associates	-	-	-	-	-	-	-	69	**69**
Property and equipment	-	-	-	-	147	582	729	-	**729**
Intangible assets	4	8	34	46	143	603	746	-	**792**
Investment property	-	-	-	-	-	1	1	-	**1**
Deferred tax assets	19	-	185	204	2	-	2	-	**206**
Other assets	71	5	13	89	112	3	115	-	**204**
Total assets	**16,626**	**3,087**	**10,612**	**30,325**	**17,558**	**15,093**	**32,651**	**69**	**63,045**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	1,922	4,034	8,457	14,413	6,890	982	7,872	-	**22,285**
Repurchase agreements	442	30	109	581	28	-	28	-	**609**
Payables on financial derivative transactions	114	3	1	118	13	5	18	-	**136**
Financial liabilities at fair value through profit or loss	40	-	-	40	-	-	-	-	**40**
Amounts due to customers	13,076	5,085	10,487	28,648	2,223	941	3,164	-	**31,812**
Other borrowed funds	-	9	9	18	40	21	61	-	**79**
Current tax liabilities	3	1	1	5	-	-	-	-	**5**
Deferred tax liabilities	1	2	7	10	17	-	17	-	**27**
Other liabilities	307	17	114	438	9	1	10	-	**448**
Provisions	24	5	43	72	34	2	36	-	**108**
Subordinated debt	18	1	-	19	30	828	858	-	**877**
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	6,590	**6,590**
Non controlling interest	-	-	-	-	-	-	-	29	**29**
Total liabilities and shareholders' equity	**15,947**	**9,187**	**19,228**	**44,362**	**9,284**	**2,780**	**12,064**	**6,619**	**63,045**
Net liquidity gap	**679**	**(6,100)**	**(8,616)**	**(14,037)**	**8,274**	**12,313**	**20,587**	**(6,550)**	**-**

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43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

									GROUP 2010
	Up to 1 month	1-3 months	3-12 months	Total less than 12 months	1-5 years	Over 5 years	Total over 12 months	Maturity undefined	Total
ASSETS									
Cash and balances with central banks	6,536	-	-	6,536	26	-	26	-	**6,562**
Amounts due from other banks	2,943	20	320	3,283	2	-	2	-	**3,285**
Reverse repurchase agreements	128	-	-	128	-	-	-	-	**128**
Receivables on financial derivative transactions	30	-	-	30	4	4	8	-	**38**
Financial assets held for trading	-	4	48	52	-	-	-	-	**52**
Financial assets at fair value through profit or loss	60	-	20	80	-	-	-	-	**80**
Loans and advances to customers	2,947	2,591	7,400	12,938	12,527	10,933	23,460	-	**36,398**
Financial investments available for sale	75	1,049	448	1,572	2,431	356	2,787	-	**4,359**
Financial investments held to maturity	5	23	44	72	206	146	352	-	**424**
Investments in subsidiaries and associates	-	-	-	-	-	-	-	88	**88**
Property and equipment	-	-	-	-	169	530	699	-	**699**
Intangible assets	-	-	-	-	56	-	56	-	**56**
Investment property	-	-	-	-	1	19	20	-	**20**
Deferred tax assets	-	-	95	95	-	-	-	-	**95**
Other assets	38	1	7	46	53	-	53	-	**99**
Total assets	**12,762**	**3,688**	**8,382**	**24,832**	**15,475**	**11,988**	**27,463**	**88**	**52,383**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	492	687	1,959	3,138	9,554	628	10,182	-	**13,320**
Repurchase agreements	710	125	-	835	-	-	-	-	**835**
Payables on financial derivative transactions	231	2	-	233	3	2	5	-	**238**
Financial liabilities at fair value through profit or loss	60	-	20	80	-	-	-	-	**80**
Amounts due to customers	12,699	5,198	10,753	28,650	1,568	921	2,489	-	**31,139**
Other borrowed funds	1	7	59	67	6	6	12	-	**79**
Current tax liabilities	66	-	1	67	-	-	-	-	**67**
Deferred tax liabilities	-	-	1	1	-	-	-	-	**1**
Other liabilities	270	5	60	335	-	-	-	-	**335**
Provisions	24	5	35	64	23	3	26	-	**90**
Subordinated debt	-	-	-	-	23	7	30	-	**30**
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	6,168	**6,168**
Non controlling interest	-	-	-	-	-	-	-	1	**1**
Total liabilities and shareholders' equity	**14,553**	**6,029**	**12,888**	**33,470**	**11,177**	**1,567**	**12,744**	**6,169**	**52,383**
Net liquidity gap	**(1,791)**	**(2,341)**	**(4,506)**	**(8,638)**	**4,298**	**10,421**	**14,719**	**(6,081)**	**-**

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43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

BANK 2011

	Up to 1 month	1-3 months	3-12 months	Total less than 12 months	1-5 years	Over 5 years	Total over 12 months	Maturity undefined	Total
ASSETS									
Cash and balances with central banks	7,054	-	-	7,054	-	-	-	-	**7,054**
Amounts due from other banks	1,163	40	135	1,338	100	-	100	-	**1,438**
Reverse repurchase agreements	157	-	-	157	-	-	-	-	**157**
Receivables on financial derivative transactions	67	3	-	70	17	5	22	-	**92**
Financial assets held for trading	5	117	-	122	-	-	-	-	**122**
Financial assets at fair value through profit or loss	50	-	-	50	-	-	-	-	**50**
Loans and advances to customers	4,669	1,640	6,969	13,278	14,251	11,896	26,147	-	**39,425**
Financial investments available for sale	1,181	568	1,280	3,029	1,901	1,385	3,286	-	**6,315**
Financial investments held to maturity	5	-	170	175	39	152	191	-	**366**
Investments in subsidiaries and associates	-	-	-	-	-	-	-	1,300	**1,300**
Property and equipment	-	-	-	-	84	323	407	-	**407**
Intangible assets	-	-	-	-	50	-	50	-	**50**
Investment property	-	-	-	-	-	-	-	-	**-**
Deferred tax assets	-	-	93	93	-	-	-	-	**93**
Other assets	58	-	-	58	108	-	108	-	**166**
Total assets	**14,409**	**2,368**	**8,647**	**25,424**	**16,550**	**13,761**	**30,311**	**1,300**	**57,035**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	1,920	3,424	4,554	9,898	6,241	743	6,984	-	**16,882**
Repurchase agreements	442	30	-	472	28	-	28	-	**500**
Payables on financial derivative transactions	114	3	1	118	13	5	18	-	**136**
Financial liabilities at fair value through profit or loss	40	-	-	40	-	-	-	-	**40**
Amounts due to customers	12,404	5,448	10,871	28,723	2,145	919	3,064	-	**31,787**
Other borrowed funds	1	1	1	3	-	-	-	-	**3**
Other liabilities	253	3	74	330	-	-	-	-	**330**
Provisions	20	5	38	63	34	1	35	-	**98**
Subordinated debt	18	-	-	18	-	828	828	-	**846**
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	6,413	**6,413**
Total liabilities and shareholders' equity	**15,212**	**8,914**	**15,539**	**39,665**	**8,461**	**2,496**	**10,957**	**6,413**	**57,035**
Net liquidity gap	**(803)**	**(6,546)**	**(6,892)**	**(14,241)**	**8,089**	**11,265**	**19,354**	**(5,113)**	**-**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

BANK 2010

	Up to 1 month	1-3 months	3-12 months	Total less than 12 months	1-5 years	Over 5 years	Total over 12 months	Maturity undefined	Total
ASSETS									
Cash and balances with central banks	6,425	-	-	6,425	-	-	-	-	**6,425**
Amounts due from other banks	2,869	20	320	3,209	-	-	-	-	**3,209**
Reverse repurchase agreements	202	-	-	202	-	-	-	-	**202**
Receivables on financial derivative transactions	30	-	-	30	4	4	8	-	**38**
Financial assets held for trading	-	4	48	52	-	-	-	-	**52**
Financial assets at fair value through profit or loss	60	-	20	80	-	-	-	-	**80**
Loans and advances to customers	2,915	2,569	7,244	12,728	11,737	10,554	22,291	-	**35,019**
Financial investments available for sale	75	1,049	448	1,572	2,354	344	2,698	-	**4,270**
Financial investments held to maturity	5	6	44	55	205	146	351	-	**406**
Investments in subsidiaries and associates	-	-	-	-	-	-	-	167	**167**
Property and equipment	-	-	-	-	121	275	396	-	**396**
Intangible assets	-	-	-	-	44	-	44	-	**44**
Investment property	-	-	-	-	-	18	18	-	**18**
Deferred tax assets	-	-	95	95	-	-	-	-	**95**
Other assets	37	-	-	37	51	-	51	-	**88**
Total assets	**12,618**	**3,648**	**8,219**	**24,485**	**14,516**	**11,341**	**25,857**	**167**	**50,509**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	507	675	1,831	3,013	9,077	446	9,523	-	**12,536**
Repurchase agreements	710	125	-	835	-	-	-	-	**835**
Payables on financial derivative transactions	231	2	-	233	3	2	5	-	**238**
Financial liabilities at fair value through profit or loss	60	-	20	80	-	-	-	-	**80**
Amounts due to customers	12,366	5,064	10,458	27,888	1,526	914	2,440	-	**30,328**
Other borrowed funds	1	1	1	3	2	-	2	-	**5**
Current tax liabilities	66	-	-	66	-	-	-	-	**66**
Other liabilities	261	3	54	318	-	-	-	-	**318**
Provisions	23	5	33	61	23	2	25	-	**86**
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	6,017	**6,017**
Total liabilities and shareholders' equity	**14,225**	**5,875**	**12,397**	**32,497**	**10,631**	**1,364**	**11,995**	**6,017**	**50,509**
Net liquidity gap	**(1,607)**	**(2,227)**	**(4,178)**	**(8,012)**	**3,885**	**9,977**	**13,862**	**(5,850)**	**-**

The maturity analysis is prepared in accordance with the internal Asset Liability Management policy.

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44. RELATED-PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The parent company (which is also the ultimate parent entity of the entire group) is Erste Group Bank AG, Vienna (EGB).

As at 31 December 2011 and 31 December 2010, balances outstanding with related parties comprised:

				GROUP
		2011		2010
	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Amounts due from banks and loans to customers	Receivables from financial derivative transactions
Parent company	774	46	506	20
Entity with significant influence on the Group	-	25	-	11
Associates	37	-	30	-
Key management personnel	39	-	21	-
Other EGB companies	15	-	62	1
Other	15	-	12	-
Total assets	**880**	**71**	**631**	**32**

							GROUP
				2011			2010
	Amounts due to banks and customers	Payables on financial derivative transactions	Sub-ordinated debt	Other payables	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables
Parent company	14,193	98	240	1	7,840	180	1
Entity with significant influence on the Group	4,862	32	-	-	3,304	56	-
Associates	3	-	-	1	1,283	-	3
Key management personnel	80	-	16	-	89	-	-
Other EGB companies	169	-	-	4	1,056	-	7
Other	21	-	-	-	76	-	-
Total liabilities	**19,328**	**130**	**256**	**6**	**13,648**	**236**	**11**

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44. RELATED-PARTY TRANSACTIONS (CONTINUED)

				BANK
		2011		2010
	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Amounts due from banks and loans to customers	Receivables from financial derivative transactions
Parent company	773	46	498	20
Entity with significant influence on the Group	-	25	-	11
Associates	37	-	30	-
Key management personnel	39	-	20	-
Other EGB companies	15	-	60	1
Subsidiaries	358	-	77	-
Other	15	-	12	-
Total assets	**1,237**	**71**	**697**	**32**

							BANK
				2011			2010
	Amounts due to banks and customers	Payables on financial derivative transactions	Sub-ordinated debt	Other payables	Amounts due to banks and customers	Payables on financial derivative transactions	Other payables
Parent company	9,335	98	240	1	7,533	180	1
Entity with significant influence on the Group	4,446	32	-	-	2,944	56	-
Associates	3	-	-	1	1,283	-	3
Key management personnel	80	-	16	-	88	-	-
Other EGB companies	146	-	-	4	1,053	-	7
Subsidiaries	1,640	-	-	-	192	-	3
Other	21	-	-	-	76	-	-
Total liabilities	**15,671**	**130**	**256**	**6**	**13,169**	**236**	**14**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

44. RELATED-PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties comprised:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Interest income				
Parent company	175	108	175	108
Entity with significant influence on the Group	97	39	97	39
Associates	2	1	2	1
Other EGB companies	-	4	-	4
Other	-	1	7	1
Fee income				
Parent company	15	28	14	19
Associates	-	7	-	6
Other EGB companies	17	66	16	45
Subsidiaries	-	-	32	2
Other operating income				
Parent company	-	1	-	1
Total income	**306**	**255**	**343**	**226**

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Interest expense				
Parent company	491	214	348	206
Entity with significant influence on the Group	195	81	180	70
Associates	-	55	-	55
Other EGB companies	2	27	1	25
Subsidiaries	-	-	48	5
Other	-	3	-	3
Fee expense				
Parent company	8	5	7	5
Subsidiaries	-	-	4	20
Other EGB companies	9	2	19	2
Other operating expenses				
Parent company	3	1	3	1
Associates	46	39	45	38
Other EGB companies	19	18	14	12
Subsidiaries	-	-	22	26
Other	-	1	-	1
Total expenses	**773**	**446**	**691**	**469**

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44. RELATED-PARTY TRANSACTIONS (CONTINUED)

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Commitments and contingent liabilities				
Guarantees issued				
Associates	-	2	-	2
Other EGB companies	2	2	2	2
Subsidiaries	-	-	2	-
Other	1	1	1	1
Undrawn credit and loan commitments				
Associates	2	31	2	31
Key management personnel	1	1	1	1
Subsidiaries	-	-	83	2
Other EGB companies	2	106	2	106
	8	**143**	**93**	**145**

As at 31 December 2011, the Group and the Bank had cash deposit as collateral within Amounts due to banks from the parent company of HRK 1,556 million (HRK 1,556 million as at 31 December 2010).

The remuneration of Management Board and key management were as follows:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Wages and salaries	28	13	9	7
Bonuses	10	5	8	4
- thereof pension costs	*2*	*1*	*1*	*1*
	38	**18**	**17**	**11**

45. RISK MANAGEMENT

45.1. INTRODUCTION

Financial risk is in certain areas managed primarily on the Bank level (particularly related to legal requirements which apply only to the Bank), while in some other areas it is also managed and monitored on a Group wide basis as deemed appropriate by the management. The disclosures included in this note are clearly marked as the Group or the Bank, based on actual level on which the risk is managed or monitored.

Risk is inherent in the Bank's activities, but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits for certain types of risk exposure. The Bank has a set up risk management system aimed at attaining an optimal trade-off between risk and profit. The risk management system has been established as an ongoing management process of credit, market, liquidity, operational and other risk management which can arise through the Bank's daily business.

Risk management structure

Supervisory Board
The Supervisory Board has the responsibility to monitor the overall risk process within the Bank.

Management Board
The Management Board, with Supervisory Board consent if needed, is empowered to determine procedures and is responsible for their enforcement through approving and passing acts which define and regulate the Bank's business.
One of the Management Board members is responsible for the control and monitoring of all the Bank's risks through being responsible for the business activity of the Risk Management Division.

Risk Management Division
The Risk Management Division is entrusted with ensuring the foundations for effective risk management, as well as the management and control of decisions related to the Bank's risk exposure.
The Risk Management Division is responsible for the development of risk strategy and management principles, frameworks, policies and limits, and is liable for the implementation and the maintenance of procedures which enable independent control processes.
Also, responsibilities of the Risk Management Division are the revision of internal acts within its competence, carrying out appropriateness controls and impact analysis, and if deemed necessary, any alignments for the upcoming period.

Asset Liability Management ('ALM') Department
The ALM Department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit
Risk Management processes throughout the Bank are audited regularly by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with the Management Board and also reports its findings and recommendations.

Risk measurement and reporting system

The Bank risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment, as well as to test their validity on a regular basis.
Monitoring and controlling of the risk is primarily performed based on the limits established by the Bank. These limits reflect the market environment and the business strategy of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to aggregate risk exposure across all risk types and activities.
Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks.
The Management Board and the Supervisory Board regularly receive reports on the quality of credit portfolio from different risk aspects ensuring all vital information for the overview of credit risk to which the Bank is exposed. The report includes detailed information on exposures, ratings, concentration and risk profile changes. The Risk Management Division compiles additional reports which provide information necessary for a proactive approach in the risk management of the credit portfolio.
A daily briefing is given to the relevant members of the Management Board on the utilization of market limits, analysis of Value at Risk ('VaR'), plus any other risk developments. These risk developments are presented in the form of an aggregated report.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposure resulting from changes in interest rates, foreign currencies, equity risks, credit risks and exposures arising from forward transactions. The Bank actively uses collateral to reduce its credit risk.

Risk concentration

Concentration arises when a number of counterparties are engaged in similar business activities or have similar economic features that would influence their ability to meet their contractual obligation if external factors change. Concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular segment. Risk is managed through avoiding excessive concentration of risk through specific guidelines to focus on maintaining a diversified portfolio.

45.2. CREDIT RISK

Credit risk is the risk that the Group and the Bank will incur a loss because its customers or counterparties failed to fulfill their contractual obligations.

The credit risk management system encompasses all measures and rules determined by external legal regulations in force, internal acts as well as a proactive approach of harmonization with the guidelines and best practices of the Basel II Accord.

The role of the Risk Management Division is the control through all parts of the credit approval process and further credit portfolio monitoring. This includes overview and assessment of the quality of the credit portfolio and identification and revision of adequate provisions for the loans and losses respectively, per client and for the overall portfolio.

For this purpose, the classification of credit assets into risk classes based on internal ratings of customers is in place, which follows the best business practices of credit risk management.

Internal rating systems consist of eight rating grades for individuals not in default and one grade for customers in default. For all other customers, the internal rating systems consist of thirteen rating grades for customers not in default and one rating grade for those in default. Credit exposure is divided into the following risk classes: low risk, management attention and substandard as performing classes which are, for the purpose of this report, compared with Standard and Poor's ('S&P') rating scale according to corporate Probability of Default's ('PD's'), and non-performing risk class respectively.

Risk class – low risk (S&P: AAA-BB): The borrower demonstrates a strong repayment capacity.

Risk class – management attention (S&P: B+): The borrower's financial situation is in effect good, but his repayment ability may be negatively affected by unfavourable economic conditions. New business with clients in this risk class requires adequate structuring of the credit risks, e.g. by way of collateral.

Risk class – substandard (S&P: B and worse): The borrower is vulnerable to negative financial and economic impacts; such loans are managed with special care in the Risk Management Division.

Risk class – non-performing: At least one of the default criteria under Basel II occurred, e.g. total repayment unlikely, interest or principal payment more than 90 days past due, restructuring resulting in a loss to lender, realisation of a loan loss, or opening of bankruptcy proceedings.

The Bank also offers financial instruments which represent a potential obligation such as guarantees and letters of credit. These instruments expose the Bank to similar risks to loans and are mitigated by the same processes and policies.

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45.2. CREDIT RISK (CONTINUED)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown net, before the effect of mitigation through the use of master netting and collateral agreements.

		GROUP		BANK	
	Notes	**2011**	**2010**	**2011**	**2010**
Cash and balances with the central banks (without cash on hand)	19	6,414	5,828	6,296	5,734
Amounts due from other banks	20	1,524	3,285	1,438	3,209
Reverse repurchase agreements	21	26	128	157	202
Receivables on financial derivative transactions	22	93	38	92	38
Financial assets held for trading	23	417	52	122	52
Financial assets at fair value through profit or loss	23	50	80	50	80
Loans and advances to customers	24	44,677	36,398	39,425	35,019
Financial investments available for sale	25	6,425	4,359	6,315	4,270
Financial investments held to maturity	26	602	424	366	406
Investments in subsidiaries and associates	27	69	88	1,300	167
Other assets (included only fees and other)	30	61	26	32	25
Total assets		**60,358**	**50,706**	**55,593**	**49,202**
Contingent liabilities and commitments		5,398	3,550	3,766	3,466
Total credit risk exposure		**65,756**	**54,256**	**59,359**	**52,668**

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45.2. CREDIT RISK (CONTINUED)

Risk concentration of maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty without exposure to the Republic of Croatia as of 31 December 2011 was HRK 988 million (2010: HRK 1,010 million) before and after taking into account of collateral or other credit enhancements.

The Group's and the Bank's financial assets can be analysed by the following geographical regions:

		GROUP
	2011	**2010**
Republic of Croatia	58,804	47,283
EU countries	3,688	4,703
Other European countries	3,176	2,135
Latin America	18	22
United States of America	69	22
Other countries	1	91
	65,756	**54,256**

		BANK
	2011	**2010**
Republic of Croatia	54,536	47,248
EU countries	3,669	4,694
Other European countries	1,067	591
Latin America	18	22
United States of America	68	22
Other countries	1	91
	59,359	**52,668**

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45.2. CREDIT RISK (CONTINUED)

An industry sector analysis of the Group's and the Bank's financial assets is as follows:

		GROUP
	2011	**2010**
Agriculture, forestry and fishing	953	923
Mining	76	42
Manufacturing	4,518	3,679
Energy and water supply	578	481
Construction	5,222	4,718
Trade	5,577	4,395
Hotels and restaurants	1,971	1,977
Transport and storage	984	867
Banking and insurance	9,034	9,825
Real estate and other business activities	1,264	950
Public administration	10,842	7,396
Education services	84	80
Health and social work	107	120
Other service activities	2,921	1,151
Individuals	20,064	16,262
Information and communication	437	269
Professional, scientific and technical activities	1,124	1,121
	65,756	**54,256**

		BANK
	2011	**2010**
Agriculture, forestry and fishing	943	879
Mining	74	37
Manufacturing	4,181	3,668
Energy and water supply	517	410
Construction	4,943	4,693
Trade	4,568	4,087
Hotels and restaurants	1,874	1,847
Transport and storage	876	791
Banking and insurance	9,891	9,679
Real estate and other business activities	1,191	907
Public administration	10,144	7,110
Education services	83	80
Health and social work	105	120
Other service activities	1,922	695
Individuals	16,618	16,254
Information and communication	333	290
Professional, scientific and technical activities	1,096	1,121
	59,359	**52,668**

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45.2. CREDIT RISK (CONTINUED)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptance of types of collateral and valuation parameters. Monitoring of the market value of collateral is performed on a regular basis. When calculating collateral coverage, the amount of coverage is adjusted through corrective factors defined by the Bank's internal regulations depending on the collateral type. Coverage by collateral disclosed in the financial statements is capped to the amount of relevant exposure.

The types of collateral obtained are mortgages over residential or real estate properties, cash deposits, securities and guarantees issued by the Republic of Croatia or banks.

At 31 December 2011, Group′s and Bank′s estimated value of collaterals that have reduced credit risk exposure are HRK 11,227 million and HRK 11,192 million, respectively (2010: HRK 9,729 million and HRK 9,683 million).

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Bank's credit rating system.

						GROUP 2011
				Not impaired		
	Notes	**Low risk**	**Management attention**	**Sub-standard**	**Impaired**	**Total**
Amounts due from other banks	20	1,510	15	1	-	1,526
Loans and advances to customers		26,654	13,002	3,044	5,541	48,241
Companies	24	*8,818*	*7,301*	*1,527*	*3,386*	*21,032*
Individuals	24	*11,737*	*5,528*	*1,514*	*2,151*	*20,930*
Public sector	24	*5,957*	*149*	*-*	*-*	*6,106*
Other institutions	24	*142*	*24*	*3*	*4*	*173*
Financial investments		6,956	68	-	-	7,024
Treasury bills	23,25	*1,671*	*-*	*-*	*-*	*1,671*
Listed debt securities	25,26	*5,231*	*68*	*-*	*-*	*5,299*
Unlisted debt securities	25,26	*6*	*-*	*-*	*-*	*6*
Treasury bills of Republic of Montenegro	26	*48*	*-*	*-*	*-*	*48*
		35,120	**13,085**	**3,045**	**5,541**	**56,791**

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45.2. CREDIT RISK (CONTINUED)

Credit quality per class of financial assets (continued)

						GROUP 2010
			Not impaired			
	Notes	Low risk	Management attention	Sub-standard	Impaired	Total
Amounts due from other banks	20	3,226	62	1	11	3,300
Loans and advances to customers		23,341	9,913	1,660	3,744	38,658
Companies	24	*6,660*	*6,823*	*1,129*	*2,313*	*16,925*
Individuals	24	*13,138*	*3,037*	*531*	*1,426*	*18,132*
Public sector	24	*3,437*	*31*	-	-	*3,468*
Other institutions	24	*106*	*22*	-	*5*	*133*
Financial investments		4,565	183	12	-	4,760
Treasury bills	23,25	*1,449*	-	-	-	*1,449*
Listed debt securities	25,26	*3,048*	*183*	*12*	-	*3,243*
Unlisted debt securities	25,26	*50*	-	-	-	*50*
Treasury bills of Republic of Montenegro	26	*18*	-	-	-	*18*
		31,132	**10,158**	**1,673**	**3,755**	**46,718**

						BANK 2011
			Not impaired			
	Notes	Low risk	Management attention	Sub-standard	Impaired	Total
Amounts due from other banks	20	1,424	15	1	-	1,440
Loans and advances to customers		22,591	11,996	2,964	4,756	42,307
Companies	24	*7,003*	*7,058*	*1,480*	*3,134*	*18,675*
Individuals	24	*9,959*	*4,860*	*1,481*	*1,618*	*17,918*
Public sector	24	*5,489*	*54*	-	-	*5,543*
Other institutions	24	*140*	*24*	*3*	*4*	*171*
Financial investments		6,612	68	-	-	6,680
Treasury bills	23,25	*1,483*	-	-	-	*1,483*
Listed debt securities	25,26	*5,024*	*68*	-	-	*5,092*
Unlisted debt securities	25,26	*105*	-	-	-	*105*
		30,627	**12,079**	**2,965**	**4,756**	**50,427**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

45.2. CREDIT RISK (CONTINUED)

Credit quality per class of financial assets (continued)

						BANK 2010
				Not impaired		
	Notes	Low risk	Management attention	Sub-standard	Impaired	Total
Amounts due from other banks	20	3,153	60	-	10	3,223
Loans and advances to customers		22,278	9,706	1,588	3,615	37,187
Companies	24	*6,382*	*6,674*	*1,082*	*2,265*	*16,403*
Individuals	24	*12,435*	*2,990*	*506*	*1,345*	*17,276*
Public sector	24	*3,355*	*20*	-	-	*3,375*
Other institutions	24	*106*	*22*	-	*5*	*133*
Financial investments		4,458	183	12	-	4,653
Treasury bills	23,25	*1,447*	-	-	-	*1,447*
Listed debt securities	25,26	*2,961*	*183*	*12*	-	*3,156*
Unlisted debt securities	25,26	*50*	-	-	-	*50*
		29,889	**9,949**	**1,600**	**3,625**	**45,063**

As at 31 December 2011, the Group's and the Bank's total impaired exposures had been secured with collateral of HRK 2,463 million and HRK 2,536 million (HRK 1,831 million and HRK 1,797 million as at 31 December 2010).

Aging analysis of past due but not impaired loans per class of financial assets

As at 31 December 2011, the Group's and the Bank's past due but not impaired loans had been secured with collateral of HRK 2,453 million and HRK 2,224 million (HRK 1,783 million and HRK 1,628 million as at 31 December 2010).

					GROUP 2011
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Amounts due from other banks	118	-	-	-	118
Loans and advances to customers					
Companies	1,785	1,210	934	345	4,274
Individuals	833	386	28	37	1,284
Public sector	65	6	995	-	1,066
Other institutions	5	13	1	-	19
	2,806	**1,615**	**1,958**	**382**	**6,761**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

45.2. CREDIT RISK (CONTINUED)

Aging analysis of past due but not impaired loans per class of financial assets (continued)

					GROUP 2010
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Companies	1,264	1,090	564	32	2,950
Individuals	728	329	42	38	1,137
Public sector	50	4	1	10	65
Other institutions	63	31	2	1	97
	2,105	**1,454**	**609**	**81**	**4,249**

					BANK 2011
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Amounts due from other banks	118	-	-	-	118
Loans and advances to customers					
Companies	1,730	1,194	887	344	4,155
Individuals	714	355	13	37	1,119
Public sector	63	6	995	-	1,064
Other institutions	5	13	1	-	19
	2,630	**1,568**	**1,896**	**381**	**6,475**

					BANK 2010
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and advances to customers					
Companies	1,235	1,074	559	32	2,900
Individuals	634	287	26	38	985
Public sector	50	4	1	10	65
Other institutions	60	31	2	1	94
	1,979	**1,396**	**588**	**81**	**4,044**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

45.2. CREDIT RISK (CONTINUED)

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets. Renegotiated financial assets represent loans that would otherwise be past due or impaired if the terms were not renegotiated.

		GROUP
	2011	**2010**
Loans and advances to customers		
Companies	164	116
Individuals	101	61
Total renegotiated financial assets	**265**	**177**

The table below shows the carrying amount for renegotiated financial assets.

		BANK
	2011	**2010**
Loans and advances to customers		
Companies	136	87
Individuals	81	56
Total renegotiated financial assets	**217**	**143**

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk represents inability to pay obligations when they fall due. The Bank actively manages assets and liabilities all with the aim of harmonizing the Bank's cash inflows and cash outflows. In order to achieve this, the Bank monitors and plans liquidity, which will enable the evaluation of future needs for liquid resources, bearing in mind changes in economic, political, regulatory and other business effecting variables.

The Bank's strategy is orientated towards ensuring an adequate liquidity reserve that consists of highly liquid, quality and not pledged assets.

Legal restrictions

Decision on Reserve Requirement

With respect to the Decision on Reserve Requirement imposed by the CNB, the Bank is obliged to calculate and maintain an obligatory reserve for HRK and FX sources of funding. Received deposits and loans, issued debt securities, hybrid and subordinated instruments and other financial liabilities are the base for reserve requirement calculation. Calculation period lasts from the first to the last day of a calendar month. The reserve requirement rate amounted, in the period I-IX 2011, 13% and afterwards 14%.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Decision on Reserve Requirement (continued)

In the calculation, 75% of total foreign currency obligatory reserve is included into calculated HRK liquidity reserve and is allocated in HRK. The percentage for allocating HRK reserve requirements on special account with the CNB amounts 70% of the total obligatory reserve, while the remaining portion of the amount of 30% may be maintained through average daily balances of other liquid fund balances as defined by the CNB, while for FX reserve requirements 60% should be allocated on special account except for non-residents and persons in special relations with the bank where it should be 100%.

Decision on minimal required FX claims

Following the Decision on minimal required FX claims, the Bank is obliged to daily maintain a minimum of 17% of foreign currency and HRK with currency clause liabilities in short-term foreign currency assets. The Decision was changed in March 2011 in the way that percentage was decreased from 20% to 17%.

The table below shows information on minimal FX claims on December 31, 2011 and December 31, 2010:

2011	%	2010	%
Realised 31 December	18.85	Realised 31 December	21.87
Average 2011	20.25	Average 2010	23.05
Highest level	27.96	Highest level	26.30
Lowest level	17.55	Lowest level	20.82

Decision on liquidity risk management

From 31 March 2010 CNB's Decision on liquidity risk management is in force. Decision prescribes that expected cash inflows up to one week and expected cash inflows up to one month must be higher than expected outflows up to one week and up to one month. Calculation is made separately for HRK and separately for foreign currencies. The Bank has fulfilled the prescribed limits and the ratios during 2011 and 2010 were as follows:

2011	HRK 1 week	HRK 1 month	FX 1 week	FX 1 month
Year-end	3.15	1.61	2.46	1.72
Average III-XII 2011	2.22	1.48	2.33	1.65
Highest level	3.24	1.89	3.73	2.72
Lowest level	1.55	1.18	1.40	1.06

2010	HRK 1 week	HRK 1 month	FX 1 week	FX 1 month
Year-end	2.73	1.72	1.64	1.38
Average III-XII 2010	2.46	1.61	2.44	1.78
Highest level	3.43	2.36	3.70	2.81
Lowest level	1.67	1.11	1.10	1.05

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Internal regulations

The Bank has prescribed minimum level of required liquid claims which are monitored and reported on daily basis. Regular reporting on structural ratios of the statement of financial position, concentration indicators, maturity gaps of the statement of financial position, stress tests results and early warning indicators is in place. In the purpose of liquidity management, the Bank makes daily, weekly, two-weekly, monthly and six months cash flow projections.

By active daily liquidity management, the Bank ensures the fulfillment of prescribed limits and needs for its clients.

Analysis of financial assets and liabilities by remaining contractual maturities

The table below shows the maturity profile of the Group's and the Bank's financial assets and liabilities at 31 December 2011 and 31 December 2010 based on contractual undiscounted repayment obligations.

						GROUP 2011
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with central banks	7,187	-	-	43	-	**7,230**
Amounts due from other banks	1,202	78	144	106	-	**1,530**
Reverse repurchase agreements	26	-	-	-	-	**26**
Receivables on financial derivative transactions	67	4	-	17	5	**93**
Financial assets held for trading	225	118	77	-	-	**420**
Financial assets at fair value through profit or loss	50	-	-	-	-	**50**
Loans and advances to customers	6,456	2,321	8,935	18,879	18,625	**55,216**
Financial investments available for sale	1,307	572	1,317	2,039	1,886	**7,121**
Financial investments held to maturity	5	19	398	44	195	**661**
Other assets	72	5	14	111	3	**205**
Total undiscounted financial assets	**16,597**	**3,117**	**10,885**	**21,239**	**20,714**	**72,552**
FINANCIAL LIABILITIES						
Amounts due to other banks	1,926	4,049	8,596	7,425	1,145	**23,141**
Repurchase agreements	442	30	109	28	-	**609**
Payables on financial derivative transactions	114	3	1	13	5	**136**
Financial liabilities at fair value through profit or loss	40	-	-	-	-	**40**
Amounts due to customers	13,106	5,109	10,718	2,449	1,147	**32,529**
Other borrowed funds	-	9	9	44	24	**86**
Other liabilities	307	17	114	9	1	**448**
Subordinated debt	18	1	-	36	1,200	**1,255**
Total undiscounted financial liabilities	**15,953**	**9,218**	**19,547**	**10,004**	**3,522**	**58,244**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

						GROUP 2010
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS						
Cash and balances with central banks	6,538	-	-	26	-	**6,564**
Amounts due from other banks	2,944	20	321	2	-	**3,287**
Reverse repurchase agreements	128	-	-	-	-	**128**
Receivables on financial derivative transactions	30	-	-	4	4	**38**
Financial assets held for trading	-	4	49	-	-	**53**
Financial assets at fair value through profit or loss	60	-	21	-	-	**81**
Loans and advances to customers	2,964	2,622	7,795	15,654	16,781	**45,816**
Financial investments available for sale	75	1,056	462	2,774	464	**4,831**
Financial investments held to maturity	5	23	45	235	190	**498**
Other assets	38	1	7	53	-	**99**
Total undiscounted financial assets	**12,782**	**3,726**	**8,700**	**18,748**	**17,439**	**61,395**
FINANCIAL LIABILITIES						
Amounts due to other banks	492	689	2,028	9,948	690	**13,847**
Repurchase agreements	710	125	-	-	-	**835**
Payables on financial derivative transactions	231	2	-	3	2	**238**
Financial liabilities at fair value through profit or loss	60	-	20	-	-	**80**
Amounts due to customers	12,735	5,227	11,021	1,750	1,150	**31,883**
Other borrowed funds	2	8	10	55	7	**82**
Other liabilities	270	5	60	-	-	**335**
Subordinated debt	-	-	1	28	8	**37**
Total undiscounted financial liabilities	**14,500**	**6,056**	**13,140**	**11,784**	**1,857**	**47,337**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

						BANK 2011
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS						
Cash and balances with central banks	7,054	-	-	-	-	**7,054**
Amounts due from other banks	1,162	41	136	104	-	**1,443**
Reverse repurchase agreements	157	-	-	-	-	**157**
Receivables on financial derivative transactions	67	3	-	17	5	**92**
Financial assets held for trading	6	117	-	-	-	**123**
Financial assets at fair value through profit or loss	50	-	-	-	-	**50**
Loans and advances to customers	4,694	1,659	7,331	17,705	18,051	**49,440**
Financial investments available for sale	1,183	571	1,317	2,152	1,774	**6,997**
Financial investments held to maturity	5	-	175	44	195	**419**
Other assets	58	-	-	109	-	**167**
Total undiscounted financial assets	**14,436**	**2,391**	**8,959**	**20,131**	**20,025**	**65,942**
FINANCIAL LIABILITIES						
Amounts due to other banks	1,923	3,436	4,630	6,724	867	**17,580**
Repurchase agreements	442	30	-	28	-	**500**
Payables on financial derivative transactions	114	3	1	13	5	**136**
Financial liabilities at fair value through profit or loss	40	-	-	-	-	**40**
Amounts due to customers	12,432	5,474	11,109	2,364	1,120	**32,499**
Other borrowed funds	1	1	1	-	-	**3**
Other liabilities	253	3	74	-	-	**330**
Subordinated debt	18	-	-	-	1,200	**1,218**
Total undiscounted financial liabilities	**15,223**	**8,947**	**15,815**	**9,129**	**3,192**	**52,306**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

						BANK 2010
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
FINANCIAL ASSETS						
Cash and balances with central banks	6,427	-	-	-	-	**6,427**
Amounts due from other banks	2,870	20	321	-	-	**3,211**
Reverse repurchase agreements	202	-	-	-	-	**202**
Receivables on financial derivative transactions	30	-	-	4	4	**38**
Financial assets held for trading	-	4	49	-	-	**53**
Financial assets at fair value through profit or loss	60	-	21	-	-	**81**
Loans and advances to customers	2,933	2,599	7,631	14,666	16,199	**44,028**
Financial investments available for sale	75	1,056	462	2,686	448	**4,727**
Financial investments held to maturity	5	6	45	234	190	**480**
Other assets	37	-	-	51	-	**88**
Total undiscounted financial assets	**12,639**	**3,685**	**8,529**	**17,641**	**16,841**	**59,335**
FINANCIAL LIABILITIES						
Amounts due to other banks	509	676	9,167	1,915	490	**12,757**
Repurchase agreements	710	125	-	-	-	**835**
Payables on financial derivative transactions	231	2	-	3	2	**238**
Financial liabilities at fair value through profit or loss	60	-	20	-	-	**80**
Amounts due to customers	12,400	5,092	10,718	1,703	1,141	**31,054**
Other borrowed funds	1	1	2	1	-	**5**
Other liabilities	261	3	54	-	-	**318**
Total undiscounted financial liabilities	**14,172**	**5,899**	**19,961**	**3,622**	**1,633**	**45,287**

Term deposits from individuals can be drawn before maturity, but historical experience shows that it is not very usual. As of 31 December 2011 balance of term deposits for the Group and the Bank from individuals were HRK 18,423 million and HRK 17,918 million, and as of 31 December 2010 were HRK 16,937 million and HRK 16,495 million.

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

The table below shows the remaining maturity of the Group's and the Bank's contractual contingent liabilities and commitments.

						GROUP
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2011						
Contingent liabilities	194	273	812	399	78	1,756
Commitments	1,735	922	894	89	2	3,642
Total	**1,929**	**1,195**	**1,706**	**488**	**80**	**5,398**
2010						
Contingent liabilities	235	267	729	398	87	1,716
Commitments	885	156	669	122	2	1,834
Total	**1,120**	**423**	**1,398**	**520**	**89**	**3,550**

						BANK
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2011						
Contingent liabilities	116	274	813	399	78	1,680
Commitments	827	265	903	89	2	2,086
Total	**943**	**539**	**1,716**	**488**	**80**	**3,766**
2010						
Contingent liabilities	210	267	729	398	87	1,691
Commitments	826	156	669	122	2	1,775
Total	**1,036**	**423**	**1,398**	**520**	**89**	**3,466**

Lease commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on premises and vehicles. These leases have an average life between three and five years with no renewal option included in the contracts.

Future minimum lease payments under non-cancellable operating leases are as follows:

		GROUP		BANK
	2011	2010	2011	2010
Within one year	35	36	57	53
After one but not more than five years	102	98	201	192
More than five years	74	73	74	72
	211	**207**	**332**	**317**

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45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Operating lease commitments – Group as lessor

The Group has entered into commercial leases on premises and equipment.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	GROUP		BANK	
	2011	**2010**	**2011**	**2010**
Within one year	1	4	2	4
After one but not more than five years	5	7	6	7
More than five years	-	-	-	-
	6	**11**	**8**	**11**

Finance lease

	GROUP 2011		GROUP 2010	
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	12	13	16	13
After one but not more than five years	9	10	22	20
More than five years	1	1	2	2
Total minimum lease payments	**22**	**24**	**40**	**35**
Less amounts representing finance charge	*(3)*	-	*(3)*	-
Present value of minimum lease payments	**19**	**24**	**37**	**35**

45.4. MARKET RISK

Market risks represent the potential effects which external variables have on the asset, liability and off-balance sheet positions values of the Bank, which are caused by price fluctuations, i.e. financial market fluctuations and as such include:

- Interest rate risk
- Foreign exchange risk
- Securities risk

Measurement and control of the exposure as well as the limits set up are defined by internal acts, policies and manuals from the Risk Management Department. Control of the exposure to market risks is being performed by the Risk Management Department through its VaR limit system as well as through a sensitivity limits system (PVBP, FX Delta and Stop Loss).

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45.4.1. Market risk – trading

Value at Risk

Value at Risk (VaR) is the maximum expected loss, which is not exceeded during a defined period with a certain probability. For the purpose of the VaR calculation, the Bank is using the one-day, 99% historical VaR method, on 730 days basis. Historical VaR is methodologically simple. For the computation of the VaR with this method, a time series is needed for each market parameter in the portfolio and it is assumed that the past rate changes represent a good approximation for the future changes.

The following risk factors are taken into consideration: interest rate, currency, commodity, price and volatility. Furthermore, the Bank has VaR limits individually for money market, fixed income and foreign currency business as well as for the total trading book.

VaR figures, in total and per risk factor for the Trading Book, are as follows:

2011	Interest rate	Currency	Effect of correlation	Total VaR
year end	4	2	(2)	4
average	3	1	(3)	1
high	10	11	(9)	12
low	0	0	0	0

2010	Interest rate	Currency	Effect of correlation	Total VaR
year end	4	2	(1)	5
average	6	3	(3)	6
high	10	11	(9)	12
low	2	-	-	2

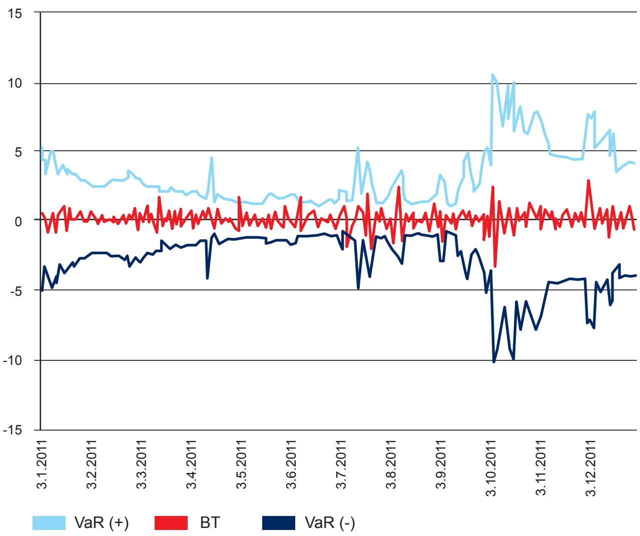
Effect of correlation reflects the fact that the total VaR on a given day will be lower then the sum of VaR's relating to the individual risk factors. Simply adding the VaR figures of the individual risk classes would imply the assumption that the losses in all risk categories occur simultaneously.

Back testing results of VaR calculations show statistically acceptable level of confidence, with one outlier on 250 days basis.

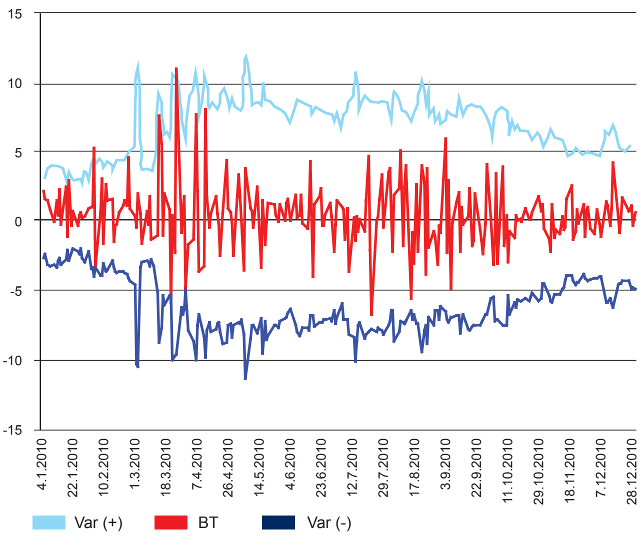
		TOTAL
Date	VaR	BT
23 March 2011	1.98	(0.57)

45.4.1. Market risk – trading (continued)

Comparison of VaR (99%, one-day) and Back testing results for 2011 in million HRK:



Comparison of VaR (99%, one-day) and Back testing results for 2010 in million HRK:



Apart from the aforementioned VaR calculations, the Bank is also using a sensitivity analysis in accordance with its portfolio structure, namely PVBP, FX Delta and Stop Loss.

PVBP (Price Value of a Basis Point) shows the sensitivity that the portfolio has on the change in the interest rate, namely a portfolio value change when the yield curve shifts by 1 basis point. For the purpose of monitoring this type of exposure, the Bank has PVBP limits individually for money market, fixed income and foreign currency business.

FX Delta shows the delta exposure of the total Bank position and (spot plus delta position in options) for various currencies. The Bank has FX Delta limits set in place on the total FX position as well as individually for significant currencies.

Stop Loss calculation shows the maximum loss the bank tolerates by individual trading portfolios on monthly and annual basis. In that respect the bank has in place a monthly and annual stop loss limits individually for money market, fixed income securities and foreign currency business.

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45.4.1. Market risk – trading (continued)

Legal restrictions

The key legal ratio related to FX position of the Bank is the Croatian National Bank's Decision on the limitation of the Bank's exposure to foreign exchange risk by which the Bank is liable to adjust its total open FX position in the way that the position (increased by the position in gold) does not exceed 30% of the guarantee capital, according to the Croatian National Bank regulations.

During 2010 Croatian National Bank introduced changes in this calculation by requesting banks to specify FX risk resulting from investments into investment funds as a separate 'currency'.

2011	Without options	With options	2010	Without options	With options
year end	1.71%	0.80%	year end	1.32%	2.35%
average	1.83%	1.29%	average	0.90%	1.27%
high	0.85%	0.33%	high	3.85%	4.87%
low	4.45%	3.49%	low	0.16%	0.31%

45.4.2. Market risk – non trading

Interest rate risk management includes implementation of measures and decisions with the aim of minimizing potential negative influence on the statement of financial position items caused by changes in interest rates (with a short-term horizon). Besides that, the Bank is analyzing the interest rate changes influence on the market value of equity (long-term horizon).

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the interest rate is fixed on a financial instrument, therefore, indicates to what extent it is exposed to the interest rate risk. The tables below provide information on the extent of the Group's and the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in 'non-interest bearing' category.

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45.4.2. Market risk – non trading (continued)

							GROUP 2011
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with central banks	4,723	-	-	-	-	2,507	**7,230**
Amounts due from other banks	1,406	40	45	-	-	33	**1,524**
Reverse repurchase agreements	26	-	-	-	-	-	**26**
Receivables on financial derivative transactions	-	-	-	-	-	93	**93**
Financial assets held for trading	220	116	75	-	-	6	**417**
Financial assets at fair value through profit or loss	50	-	-	-	-	-	**50**
Loans and advances to customers	37,985	1,422	1,608	2,028	339	1,295	**44,677**
Financial investments available for sale	941	568	1,064	1,977	1,433	442	**6,425**
Financial investments held to maturity	5	-	405	38	149	5	**602**
Investments in subsidiaries and associates	-	-	-	-	-	69	**69**
Property and equipment	-	-	-	-	-	729	**729**
Intangible assets	-	-	-	-	-	792	**792**
Investment property	-	-	-	-	-	1	**1**
Deferred tax assets	-	-	-	-	-	206	**206**
Other assets	-	-	-	-	-	204	**204**
Total assets	**45,356**	**2,146**	**3,197**	**4,043**	**1,921**	**6,382**	**63,045**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to other banks	10,277	7,452	2,703	819	689	345	**22,285**
Repurchase agreements	551	30	-	28	-	-	**609**
Payables on financial derivative transactions	-	-	-	-	-	136	**136**
Financial liabilities at fair value through profit or loss	40	-	-	-	-	-	**40**
Amounts due to customers	11,350	5,080	11,507	2,070	264	1,541	**31,812**
Other borrowed funds	1	9	8	39	21	1	**79**
Current tax liabilities	-	-	-	-	-	5	**5**
Deferred tax liabilities	-	-	-	-	-	27	**27**
Other liabilities	-	-	-	-	-	448	**448**
Provisions	-	-	-	-	-	108	**108**
Subordinated debt	30	226	-	-	603	18	**877**
Equity attributable to equity holders of the Bank	-	-	-	-	-	6,590	**6,590**
Non controlling interest	-	-	-	-	-	29	**29**
Total liabilities and shareholders' equity	**22,249**	**12,797**	**14,218**	**2,956**	**1,577**	**9,248**	**63,045**
TOTAL INTEREST SENSITIVITY GAP	**23,107**	**(10,651)**	**(11,021)**	**1,087**	**344**	**(2,866)**	**-**

Erste&Steiermärkische Bank d.d. | Notes to the financial statements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

45.4.2. Market risk – non trading (continued)

							GROUP 2010
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with central banks	3,680	-	-	-	-	2,882	**6,562**
Amounts due from other banks	2,907	20	320	2	-	36	**3,285**
Reverse repurchase agreements	128	-	-	-	-	-	**128**
Receivables on financial derivative transactions	-	-	-	-	-	38	**38**
Financial assets held for trading	-	4	48	-	-	-	**52**
Financial assets at fair value through profit or loss	60	-	20	-	-	-	**80**
Loans and advances to customers	32,763	1,926	800	618	121	170	**36,398**
Financial investments available for sale	-	978	448	2,248	356	329	**4,359**
Financial investments held to maturity	5	18	44	206	146	5	**424**
Investments in subsidiaries and associates	-	-	-	-	-	88	**88**
Property and equipment	-	-	-	-	-	699	**699**
Intangible assets	-	-	-	-	-	56	**56**
Investment property	-	-	-	-	-	20	**20**
Deferred tax assets	-	-	-	-	-	95	**95**
Other assets	-	-	-	-	-	99	**99**
Total assets	**39,543**	**2,946**	**1,680**	**3,074**	**623**	**4,517**	**52,383**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to other banks	10,243	1,114	641	655	453	214	**13,320**
Repurchase agreements	835	-	-	-	-	-	**835**
Payables on financial derivative transactions	-	-	-	-	-	238	**238**
Financial liabilities at fair value through profit or loss	60	-	20	-	-	-	**80**
Amounts due to customers	25,038	2,008	2,636	153	7	1,297	**31,139**
Other borrowed funds	18	15	17	20	8	1	**79**
Current tax liabilities	-	-	-	-	-	67	**67**
Deferred tax liabilities	-	-	-	-	-	1	**1**
Other liabilities	-	-	-	-	-	335	**335**
Provisions	-	-	-	-	-	90	**90**
Subordinated debt	-	30	-	-	-	-	**30**
Equity attributable to equity holders of the Bank	-	-	-	-	-	6,168	**6,168**
Non controlling interest	-	-	-	-	-	1	**1**
Total liabilities and shareholders' equity	**36,194**	**3,167**	**3,314**	**828**	**468**	**8,412**	**52,383**
TOTAL INTEREST SENSITIVITY GAP	**3,349**	**(221)**	**(1,634)**	**2,246**	**155**	**(3,895)**	**-**

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45.4.2. Market risk – non trading (continued)

							BANK 2011
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with central banks	4,605	-	-	-	-	2,449	**7,054**
Amounts due from other banks	1,365	40	-	-	-	33	**1,438**
Reverse repurchase agreements	157	-	-	-	-	-	**157**
Receivables on financial derivative transactions	-	-	-	-	-	92	**92**
Financial assets held for trading	-	116	-	-	-	6	**122**
Financial assets at fair value through profit or loss	50	-	-	-	-	-	**50**
Loans and advances to customers	36,555	483	760	1,364	41	222	**39,425**
Financial investments available for sale	1,040	568	1,163	1,760	1,350	434	**6,315**
Financial investments held to maturity	5	-	169	38	149	5	**366**
Investments in subsidiaries and associates	-	-	-	-	-	1,300	**1,300**
Property, plant and equipment	-	-	-	-	-	407	**407**
Intangible assets	-	-	-	-	-	50	**50**
Investment property	-	-	-	-	-	-	**-**
Deferred tax assets	-	-	-	-	-	93	**93**
Other assets	**-**	**-**	**-**	**-**	**-**	166	**166**
Total assets	**43,777**	**1,207**	**2,092**	**3,162**	**1,540**	**5,257**	**57,035**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to other banks	9,592	5,057	513	747	644	329	**16,882**
Repurchase agreements	442	30	-	28	-	-	**500**
Payables on financial derivative transactions	-	-	-	-	-	136	**136**
Financial liabilities at fair value through profit or loss	40	-	-	-	-	-	**40**
Amounts due to customers	12,188	5,446	10,854	2,007	248	1,044	**31,787**
Other borrowed funds	1	1	-	-	-	1	**3**
Other liabilities	-	-	-	-	-	330	**330**
Provisions	-	-	-	-	-	98	**98**
Subordinated debt	-	226	-	-	602	18	**846**
Equity attributable to equity holders of the Bank	-	-	-	-	-	6,413	**6,413**
Total liabilities and shareholders' equity	**22,263**	**10,760**	**11,367**	**2,782**	**1,494**	**8,369**	**57,035**
TOTAL INTEREST SENSITIVITY GAP	**21,514**	**(9,553)**	**(9,275)**	**380**	**46**	**(3,112)**	**-**

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45.4.2. Market risk – non trading (continued)

							BANK 2010
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with central banks	3,667	-	-	-	-	2,758	**6,425**
Amounts due from other banks	2,845	20	320	-	-	24	**3,209**
Reverse repurchase agreements	202	-	-	-	-	-	**202**
Receivables on financial derivative transactions	-	-	-	-	-	38	**38**
Financial assets held for trading	-	4	48	-	-	-	**52**
Financial assets at fair value through profit or loss	60	-	20	-	-	-	**80**
Loans and advances to customers	32,748	1,135	416	495	76	149	**35,019**
Financial investments available for sale	-	978	448	2,173	344	327	**4,270**
Financial investments held to maturity	5	-	44	206	146	5	**406**
Investments in subsidiaries and associates	-	-	-	-	-	167	**167**
Property, plant and equipment	-	-	-	-	-	396	**396**
Intangible assets	-	-	-	-	-	44	**44**
Investment property	-	-	-	-	-	18	**18**
Deferred tax assets	-	-	-	-	-	95	**95**
Other assets	**-**	**-**	**-**	**-**	**-**	88	**88**
Total assets	**39,527**	**2,137**	**1,296**	**2,874**	**566**	**4,109**	**50,509**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to other banks	10,045	1,030	297	544	410	210	**12,536**
Repurchase agreements	835	-	-	-	-	-	**835**
Payables on financial derivative transactions	-	-	-	-	-	238	**238**
Financial liabilities at fair value through profit or loss	60	-	20	-	-	-	**80**
Amounts due to customers	24,766	1,889	2,360	121	5	1,187	**30,328**
Other borrowed funds	3	-	-	-	-	2	**5**
Current tax liabilities	-	-	-	-	-	66	**66**
Other liabilities	-	-	-	-	-	318	**318**
Provisions	-	-	-	-	-	86	**86**
Equity attributable to equity holders of the Bank	-	-	-	-	-	6,017	**6,017**
Total liabilities and shareholders' equity	**35,709**	**2,919**	**2,677**	**665**	**415**	**8,124**	**50,509**
TOTAL INTEREST SENSITIVITY GAP	**3,818**	**(782)**	**(1,381)**	**2,209**	**151**	**(4,015)**	**-**

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45.4.2. Market risk – non trading (continued)

Net interest income simulation refers to the simulation of net interest income of the Bank in the case of parallel and nonparallel shifts in interest rates by +/- 100 and 200 basis points (bp). This simulation is conducted for the total Bank's position and for the all major currencies (EUR, CHF, USD and HRK).

Net interest income simulation for the year 2012 based on data as at 31 December 2011:

	EUR	CHF	HRK	TOTAL
immediate parallel shock plus 200 bp	86.9	(40.0)	52.7	99.6
immediate parallel shock plus 100 bp	42.6	(20.1)	26.3	48.8
immediate parallel shock minus 100 bp	(24.6)	(1.5)	(26.2)	(52.3)
immediate parallel shock minus 200 bp	-	-	(51.7)	(51.7)

Net interest income simulation for the year 2011 based on data as at 31 December 2010:

	EUR	CHF	HRK	TOTAL
immediate parallel shock plus 200 bp	(13.9)	(37.1)	53.9	2.9
immediate parallel shock plus 100 bp	(5.5)	(18.6)	28.4	4.3
immediate parallel shock minus 100 bp	9.4	(2.6)	(27.5)	(20.7)
immediate parallel shock minus 200 bp	-	-	(69.4)	(69.4)

Position analysis is made for all major currencies, in the way that all assets and liabilities (statement of financial position and off-balance sheet ones) are separated according to the type of interest rates. For this analysis, all assets and liabilities items are separated, depending on the stipulated interest rate, as follows:

- items with money market interest rates,
- items with fixed interest rates,
- items with administrative interest rates.

Bank's market value of equity (MVE) report is the basic report on the Bank's long-term exposure to interest rate risk. It is based on the approximate market value of assets and liabilities, and therefore the approximated market value of equity. In that case, the aim of that analysis is to follow the Basel II limit or the influence of 200 basis points shocks on the market value of equity.

45.4.2. Market risk – non trading (continued)

The structure of 2% shock effects of MVE as at 31 December 2011:

	-200	-100	+100	+200	Total Basel II
HRK	(27)	(14)	14	28	**27**
CHF	(36)	(23)	5	7	**36**
EUR	(66)	(32)	47	102	**66**
USD	(9)	(10)	8	13	**9**
Total	**(138)**	**(79)**	**74**	**150**	**138**
				Equity (Tier I + Tier II) in 000 HRK	5,812,851
				Basel II ratio	2.38%

The structure of 2% shock effects of MVE as at 31 December 2010:

	-200	-100	+100	+200	Total Basel II
HRK	(49)	(24)	23	45	**49**
CHF	(52)	(19)	2	2	**52**
EUR	(84)	(35)	35	67	**84**
USD	(7)	(4)	2	1	**7**
Total	**(192)**	**(82)**	**62**	**115**	**192**
				Equity (Tier I + Tier II) in 000 HRK	5,369,722
				Basel II ratio	3.58%

The analysis shows that the Bank does not have substantial exposure to interest rate risk and the market value risk is well within the Basel II limit.

45.5. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, fraud, people and systems or from external events. If the control fails operational risk can harm Bank's reputation and can cause legal and regulatory problems or it can lead to financial loss. The Bank cannot expect reducing the operational risk completely but with an effort the Bank can manage this risk through the control, following and responding to the potential risks. Controls include effective separation of duties, approach, authorisation and procedure reconciliation, staff trainings, process evaluation, including internal audit's services.

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45.5. OPERATIONAL RISK (CONTINUED)

Within the operational risk framework the Bank has adopted an Operational risk management policy, which describes the way of operational risk management. Within the Operational risk management policy there is a questionnaire which is used to prevent an occurrence of operational risk when introducing a new products and business processes of the Bank. The other Bank activities which reduces the possibility of occurrence of the operational risk are Risk Control Self Assessment (workshops are conducted continuously every year, and are used for identification of the Bank's exposure to risk, for boosting the awareness of the possibility of operational risk occurrence and its mitigation, the development of controls, risk acceptance, and detection of unregistered operational risk events), Scenario Analysis (workshops are conducted annually and are aimed at assessing the threat from the environment that could adversely affect the Bank in the future, or a potential future event with a large amount of possible loss), Key Risk Indicators alert the Bank about changes of the level of the risk (trends) which could cause potential adverse effects, Business Continuity of the Bank that aims to reduce the risk and consequences of business interruption of the Bank in an acceptable level, Risk self-assessment workshops that are conducted during the outsourcing of the business activity of the Bank, Information security that aims to protect the information regardless of the form (which includes information in digital and paper form), and ongoing monitoring and reporting on the occurrence of operational risk. The Bank plans to develop and improve these tools, and the overall framework of management and control of operational risk.

46. CAPITAL

The Group and the Bank maintains an actively manage capital base to cover risks inherent in the business. The adequacy of the Group's and the Bank's capital is monitored using, among other measures, the rules and ratios established by the Croatian National Bank.

During past years, the Group and the Bank had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Group's and the Bank's capital management are to ensure that the Group and the Bank comply with externally imposed capital requirements and that the Group and the Bank maintain strong credit ratings and healthy capital ratios in order to support their business and to maximise value for shareholders.

The Group and the Bank manage their capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group and the Bank may adjust the amount of dividends paid to shareholders, increase of capital or issue of subordinated securities.

Regulatory capital				**GROUP**
	Actual 2011	**Required capital**	**Actual 2010**	**Required capital**
Tier 1 capital	5,054	2,510	5,479	2,085
Tier 2 capital	843	2,510	21	2,085
Deduction according to Article 2.4. CNB Capital Adequacy Decision	(29)	-	(34)	-
Total Capital	**5,868**	**5,020**	**5,466**	**4,170**
Risk weighted assets	36,832	4,420	32,777	3,723
Position, Foreign Exchange, Settlement and Counterparty Risks	4,998	600	4,136	447
Total Risks	**41,830**	**5,020**	**36,913**	**4,170**
Tier 1 capital Ratio	12.1%	6.0%	14.8%	6.0%
Total capital Ratio	14.0%	12.0%	14.8%	12.0%

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46. CAPITAL (CONTINUED)

Regulatory capital				**BANK**
	Actual 2011	**Required capital**	**Actual 2010**	**Required capital**
Tier 1 capital	5,687	2,071	5,379	2,085
Tier 2 capital	828	2,071	-	2,085
Deduction according to Article 2.4. CNB Capital Adequacy Decision	(1,295)	-	(149)	-
Total Capital	**5,220**	**4,142**	**5,230**	**4,170**
Risk weighted assets	30,721	3,687	31,027	3,723
Position, Foreign Exchange, Settlement and Counterparty Risks	3,798	455	3,722	447
Total Risks	**34,519**	**4,142**	**34,749**	**4,170**
Tier 1capital Ratio	16.5%	6.0%	15.5%	6.0%
Total capital Ratio	15.1%	12.0%	15.1%	12.0%

Regulatory capital consists of Tier 1 capital which comprises share capital, share premium, retained earnings, capital gains and other reserves. Minimum capital adequacy ratio as at 31 December 2011 and 2010 was 12%.

Apart from the increase of the minimum solvency ratio, the new regulations published by CNB in January 2010, require a change of methodology for the calculation of capital adequacy according to Basel II guidelines.

Until the third quarter of 2011, for the capital adequacy purposes the Bank applied standardized approach for calculation of risk weighted assets.

After obtaining approval by the Croatian National Bank on Bank's incentive, with the third quarter of 2011 the Bank began to apply internal rating base approach (IRB). The approval is issued in accordance with Article 166, the Decision on the capital adequacy of credit institutions and is consistent with Article 177 of the Decision.

The main difference between these two approaches is reflected in the fact that the Bank instead of using certain regulatory risk weights uses risk weights resulting from internally calculated risk parameters.

The Bank has decided to use IRB approach due to more accurate risk measurement, since adequate risk measurement supports greater harmonization of regulatory capital and risks in a specific portfolio, so the transition to the IRB maintains the level of capital that is consistent with portfolio's risk. Using IRB approach also provides complete, meaningful and accurate information to contribute making better decisions and better overview of all risks that would enable better management of capital, and control of expected and actual losses.

Standardized approach for calculation of risk weighted assets is in use for the subsidiaries.

Appendix 1 – Forms according to local requirements

Year ended 31 December 2011 (All amounts are expressed in HRK million)

Pursuant to the Decision of the Croatian National Bank on structure and content of bank's annual financial statements from 19th of May 2008 below we present the required forms for the Group and the Bank for the year ended 31 December 2011 in the form required by the decision. Information about the basis of presentation as well as a summary of accounting policies are given in the notes to the financial statements. Information important for better understanding of certain positions of the statement of financial position, income statement, changes in equity as well as cash flow statement are also included in the notes.

Differences between forms (appendix 1) presented below on pages 121 to 131 and primary financial statements are presented in appendix 2 titled 'Differences between financial statements according to IFRS and local requirements'.

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Income statement For the year end 31 December 2011		**GROUP**	
		2011	**2010**
1.	Interest income	3,814	3,106
2.	(Interest expense)	(1,683)	(1,374)
3.	**Net interest income (1-2)**	**2,131**	**1,732**
4.	Fee and commission income	728	521
5.	(Fee and commission expense)	(135)	(100)
6.	**Net fee and commission income (4-5)**	**593**	**421**
7.	Profit/(loss) from investments in subsidiaries, associates and joint ventures	(1)	14
8.	Profit/(loss) from trading	42	22
9.	Profit/(loss) from embedded derivatives	-	(1)
10.	Profit/(loss) from asset not actively traded measured at fair value through profit or loss	-	-
11.	Profit/(loss) from asset available for sale	-	19
12.	Profit/(loss) from asset held to maturity	2	-
13.	Profit/(loss) from hedging	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	-	-
15.	Income from other ownership investments	30	5
16.	Profit/(loss) from foreign currency differences	104	97
17.	Other income	22	20
18.	Other expenses	14	13
19.	General administrative expenses and depreciation	1,231	923
20.	**Net income from business before value adjustment and loan loss provisions (3+6+7+8+9+10+11+12+13+14+15+16+17-18-19)**	**1,678**	**1,393**
21.	Expense of value adjustment and loss provisions	757	586
22.	**Profit/(loss) before tax (20-21)**	**921**	**807**
23.	Income tax expense	176	155
24.	**Profit/(loss) of the current year (22-23)**	**745**	**652**
25.	Earnings per share	43.51	38.42
	Annex to income statement		
26.	Profit/(loss) of the current year	745	652
27.	Assign equity holders of the Bank	739	652
28.	Non controlling interest	6	-

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Statement of financial position As at 31 December 2011		**GROUP**	
		2011	**2010**
	Asset		
1.	CASH AND DEPOSITS WITH CB (1.1. + 1.2.)	7,230	6,560
1.1.	Cash	816	734
1.2.	Deposits with Central bank	6,414	5,826
2.	DEPOSITS WITH BANKING INSTITUTIONS	1,302	3,084
3.	TREASURY BILLS WITH MINISTRY OF FINANCE AND BILLS OF EXCHANGE WITH CENTRAL BANK	1,661	1,522
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	300	-
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	4,934	2,816
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	408	417
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	91	36
9.	LOANS TO FINANCIAL INSTITUTIONS	383	463
10.	LOANS TO OTHER CUSTOMERS	44,069	35,951
11.	INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	69	88
12.	REPOSSESED ASSETS	111	55
13.	TANGIBLE ASSET (MINUS DEPRECIATION)	729	719
14.	INTEREST, FEES AND OTHER ASSETS	1,758	672
A	**TOTAL ASSETS (1+2+3 up to 14)**	**63,045**	**52,383**
	Liabilities and equity		
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS (1.1. + 1.2.)	22,145	13,382
1.1.	Short-term borrowings	5,447	1,196
1.2.	Long-term borrowings	16,698	12,186
2.	DEPOSITS (2.1. + 2.2.+2.3.)	31,701	31,650
2.1.	Deposits of giro and current accounts	5,309	4,609
2.2.	Savings deposits	2,897	2,798
2.3.	Term deposits	23,495	24,243
3.	OTHER BORROWINGS (3.1. + 3.2.)	21	23
3.1.	Short-term borrowings	18	19
3.2.	Long-term borrowings	3	4
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	134	236
5.	ISSUED DEBT SECURITIES (5.1. + 5.2.)	-	-
5.1.	Short-term issued debt instruments	-	-
5.2.	Long-term issued debt instruments	-	-
6.	ISSUED SUBORDINATED INSTRUMENTS	858	30
7.	ISSUED HYBRID INSTRUMENTS	-	-
8.	INTEREST, FEES AND OTHER LIABILITIES	1,567	893
B	**TOTAL LIABILITIES (1+2+3+4+5+6+7+8)**	**56,426**	**46,214**
	Shareholders' equity		
1.	SHARE CAPITAL	3,500	3,500
2.	PROFIT/(LOSS) OF THE CURRENT YEAR	739	652
3.	RETAINED PROFIT/(LOSS)	2,372	1,789
4.	LEGAL RESERVES	85	85
5.	STATUTORY AND OTHER CAPITAL RESERVES	8	131
6.	UNREALISED PROFIT/(LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	(85)	12
C	**TOTAL EQUITY (1+2+3+4+5+6)**	**6,619**	**6,169**
D	**TOTAL LIABILITIES AND EQUITY (B+C)**	**63,045**	**52,383**
	Statement of financial position appendix		
7.	TOTAL EQUITY	6,619	6,169
8.	Equity attributable to equity holders of the Bank	6,590	6,168
9.	Non controlling interest	29	1

Signed on behalf of Erste&Steiermärkische Bank d.d. on 13 March 2012:

President of the Management Board
Petar Radaković

Member of the Management Board
Slađana Jagar

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Statement of changes in shareholders' equity
For the year end 31 December 2011

GROUP

	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Profit/ (loss) for the period	Unrealised profit/ (loss) from the basis of value adjustment of financial assets available for sale	Non controlling interest	Total capital and reserves
		Attributable to the equity holders of the Bank							
1.	Balance at 1 January	3,500	-	216	1,788	652	12	1	**6,169**
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	**-**
3.	Corrected balance as at 1 January (1+2)	3,500	-	216	1,788	652	12	1	**6,169**
4.	Sale of financial assets available for sale	-	-	-	-	-	-	-	**-**
5.	Change of fair value financial asset available for sale	-	-	-	-	-	(119)	-	**(119)**
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	22	-	**22**
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	(1)	-	-	-	-	**(1)**
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	(1)	-	-	(97)	-	**(98)**
9.	Profit/(loss) for the period	-	-	-	-	739	-	-	**739**
10.	Total recognised income and expenses for the period (8+9)	-	-	(1)	-	739	(97)	-	**641**
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	**-**
13.	Other changes	-	-	4	(28)	(30)	-	28	**(26)**
14.	Transfer to reserves	-	-	(126)	583	(429)	-	-	**28**
15.	Dividends paid	-	-	-	-	(193)	-	-	**(193)**
16.	Distribution on income (14+15)	-	-	(126)	583	(622)	-	-	**(165)**
17.	Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**93**	**2,343**	**739**	**(85)**	**29**	**6,619**

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Statement of changes in shareholders' equity
For the year end 31 December 2010

GROUP

		Attributable to the equity holders of the Bank							
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Profit/ (loss) for the period	Unrealised profit/ (loss) from the basis of value adjustment of financial assets available for sale	Non controlling interest	Total capital and reserves
1.	Balance at 1 January	3,500	-	215	1,239	702	(4)	1	**5,653**
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	**-**
3.	Corrected balance as at 1 January (1+2)	3,500	-	215	1,239	702	(4)	1	**5,653**
4.	Sale of financial assets available for sale	-	-	-	-	-	19	-	**19**
5.	Change of fair value financial asset available for sale	-	-	-	-	-	(2)	-	**(2)**
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(3)	-	**(3)**
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	1	-	-	-	-	**1**
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	1	-	-	14	-	**15**
9.	Profit/(loss) for the period	-	-	-	-	653	-	-	**653**
10.	Total recognised income and expenses for the period (8+9)	-	-	1	-	653	14	-	**668**
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	**-**
13.	Other changes	-	-	-	-	-	2	-	**2**
14.	Transfer to reserves	-	-	-	549	(549)	-	-	**-**
15.	Dividends paid	-	-	-	-	(154)	-	-	**(154)**
16.	Distribution on income (14+15)	-	-	-	549	(703)	-	-	**(154)**
17.	Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**216**	**1,788**	**652**	**12**	**1**	**6,169**

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Cash flow statement Year ended 31 December 2011			**GROUP**
		2011	**2010**
	OPERATING ACTIVITIES		
1.1.	Profit/(loss) before income tax	926	807
1.2.	Allowances and loss provisions	757	586
1.3.	Depreciation	128	74
1.4.	Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	1	-
1.5.	Profit/(loss) from sale of tangible assets	10	3
1.6.	Other profit/(losses)	(2,183)	(1,845)
1.	Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	(361)	(375)
2.1.	Deposits with Central Bank	(971)	199
2.2.	Treasury bills of Ministry of Finance and bills of exchange with CB	(140)	690
2.3.	Deposits with banks and loans to financial institutions	139	(411)
2.4.	Loans to other customers	(8,764)	(3,414)
2.5.	Securities and other financial instruments held for trading	(301)	-
2.6.	Securities and other financial instruments available for sale	(2,604)	(780)
2.7.	Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8.	Other operating assets	(1,031)	109
2.	Net increase/(decrease) of operating assets (2.1. to 2.8.)	(13,672)	(3,607)
3.1.	Demand deposits	701	193
3.2.	Savings and term deposits	(668)	144
3.3.	Financial derivative liabilities and other liabilities actively traded	(157)	169
3.4.	Other liabilities	2,859	1,719
3.	Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	2,735	2,225
4.	Net cash flow from operating activities before income tax (1+2+3)	(11,298)	(1,757)
5.	(Income tax paid)	270	121
6.	Net inflow/(outflow) of cash from operating activities (4-5)	(11,568)	(1,878)
	INVESTING ACTIVITIES		
7.1.	Receipt from sale/(payment for buying) tangible and intangible assets	(184)	(96)
7.2.	Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	23	(19)
7.3.	Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	9	(103)
7.4.	Dividend income	31	5
7.5.	Other receipts/(payments) from investing activities	8	-
7.	Net cash flow from investing activities (7.1. to 7.5.)	(113)	(213)
	FINANCIAL ACTIVITIES		
8.1.	Net increase/(decrease) of borrowings	8,642	968
8.2.	Net increase/(decrease) issued debt securities	-	-
8.3.	Net increase/(decrease) subordinated and hybrid instruments	811	-
8.4.	Receipts from transmitted share capital	-	-
8.5.	(Dividends paid)	(193)	(153)
8.6.	Other receipts/(payments) from financial activities	-	-
8.	Net cash flow from financial activities (8.1. to 8.6.)	9,260	815
9.	Net increase/(decrease) of cash and cash equivalents (6+7+8)	(2,421)	(1,276)
10.	Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11.	Net increase/(decrease) cash and cash equivalents (9+10)	(2,421)	(1,276)
12.	Cash and cash equivalents at the beginning of the year	6,720	7,996
13.	Cash and cash equivalents at the end of the year	4,299	6,720

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Off balance sheet items As at 31 December 2011			**GROUP**
		2011	**2010**
1.	Guarantees	1,622	1,555
2.	Letters of credit	127	119
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	3,641	1,835
5.	Other risk off balance items	8	41
6.	Futures	-	-
7.	Options	151	184
8.	Swap	5,865	3,356
9.	Forwards	25,375	18,049
10.	Other derivatives	60	-

Income statement For the year end 31 December 2011			**BANK**
		2011	**2010**
1.	Interest income	3,264	2,918
2.	(Interest expense)	(1,525)	(1,313)
3.	**Net interest income (1-2)**	**1,739**	**1,605**
4.	Fee and commission income	432	451
5.	(Fee and commission expense)	(123)	(117)
6.	**Net fee and commission income (4-5)**	**309**	**334**
7.	Profit/(loss) from investments in subsidiaries, associates and joint ventures	-	-
8.	Profit/(loss) from trading	40	22
9.	Profit/(loss) from embedded derivatives	-	(1)
10.	Profit/(loss) from asset not actively traded, measured at fair value through profit or loss	-	-
11.	Profit/(loss) from asset available for sale	-	19
12.	Profit/(loss) from asset held to maturity	2	-
13.	Profit/(loss) from hedging	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	-	-
15.	Income from other ownership investments	40	5
16.	Profit/(loss) from foreign currency differences	104	98
17.	Other income	18	17
18.	Other expenses	8	8
19.	General administrative expenses and depreciation	836	796
20.	**Net income from business before value adjustment and loan loss provisions (3+6+7+8+9+10+11+12+13+14+15+16+17-18-19)**	**1,408**	**1,295**
21.	Expense of value adjustment and loss provisions	605	537
22.	**Profit/(loss) before tax (20-21)**	**803**	**758**
23.	Income tax expense	152	148
24.	**Profit/(loss) of the current year (22-23)**	**651**	**610**
25.	Earnings per share		

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Statement of financial position As at 31 December 2011			BANK
		2011	2010
	Asset		
1.	CASH AND DEPOSITS WITH Central bank (1.1.+1.2.)	7,054	6,423
1.1.	Cash	758	691
1.2.	Deposits with Central bank	6,296	5,732
2.	DEPOSITS WITH BANKING INSTITUTIONS	1,216	3,012
3.	TREASURY BILLS WITH MINISTRY OF FINANCE AND BILLS OF EXCHANGE WITH CENTRAL BANK	1,483	1,446
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	6	-
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	4,820	2,804
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	360	400
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	90	36
9.	LOANS TO FINANCIAL INSTITUTIONS	498	532
10.	LOANS TO OTHER CUSTOMERS	38,897	34,586
11.	INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	1,300	167
12.	REPOSSESED ASSETS	109	51
13.	TANGIBLE ASSET (MINUS DEPRECIATION)	407	414
14.	INTEREST, FEES AND OTHER ASSETS	795	638
A	**TOTAL ASSETS (1+2+3 up to 14)**	**57,035**	**50,509**
	Liabilities and equity		
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS (1.1.+1.2.)	16,592	12,514
1.1.	Short-term borrowings	871	1,186
1.2.	Long-term borrowings	15,721	11,328
2.	DEPOSITS (2.1.+2.2.+2.3.)	32,089	30,877
2.1.	Deposits of giro and current accounts	4,908	4,240
2.2.	Savings deposits	2,898	2,798
2.3.	Term deposits	24,283	23,839
3.	OTHER BORROWINGS (3.1.+3.2.)	4	8
3.1.	Short-term borrowings	1	4
3.2.	Long-term borrowings	3	4
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	134	236
5.	ISSUED DEBT SECURITIES (5.1.+5.2.)	-	-
5.1.	Short-term issued debt instruments	-	-
5.2.	Long-term issued debt instruments	-	-
6.	ISSUED SUBORDINATED INSTRUMENTS	828	-
7.	ISSUED HYBRID INSTRUMENTS	-	-
8.	INTEREST, FEES AND OTHER LIABILITIES	975	857
B	**TOTAL LIABILITIES (1+2+3+4+5+6+7+8)**	**50,622**	**44,492**
	Shareholder's equity		
1.	SHARE CAPITAL	3,500	3,500
2.	PROFIT/(LOSS) OF THE CURRENT YEAR	651	610
3.	RETAINED PROFIT/(LOSS)	2,254	1,681
4.	LEGAL RESERVES	85	85
5.	STATUTORY AND OTHER CAPITAL RESERVES	5	131
6.	UNREALISED PROFIT/(LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	(82)	10
C	**TOTAL EQUITY (1+2+3+4+5+6)**	**6,413**	**6,017**
D	**TOTAL LIABILITIES AND EQUITY (B+C)**	**57,035**	**50,509**
	Statement of financial position appendix		
7.	TOTAL EQUITY		
8.	Equity attributable to equity holders of the Bank		
9.	Non controlling interest		

Signed on behalf of Erste&Steiermärkische Bank d.d. on 13 March 2012:

President of the Management Board
Petar Radaković

Member of the Management Board
Slađana Jagar

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Statement of changes in shareholders' equity
For the year end 31 December 2011

BANK

		Attributable to the equity holders of the Bank							
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Profit/ (loss) for the period	Unrealised profit/ (loss) from the basis of value adjustment of financial assets available for sale	Non controlling interest	Total capital and reserves
1.	Balance at 1 January	3,500	-	216	1,681	610	10	-	**6,017**
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	**-**
3.	Corrected balance as at 1 January (1+2)	3,500	-	216	1,681	610	10	-	**6,017**
4.	Sale of financial assets available for sale	-	-	-	-	-	-	-	**-**
5.	Change of fair value financial asset available for sale	-	-	-	-	-	(115)	-	**(115)**
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	23	-	**23**
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	1	-	-	-	-	**1**
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	1	-	-	(92)	-	**(91)**
9.	Profit/(loss) for the period	-	-	-	-	651	-	-	**651**
10.	Total recognised income and expenses for the period (8+9)	-	-	1	-	651	(92)	-	**560**
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	**-**
13.	Other changes	-	-	-	-	-	-	-	**-**
14.	Transfer to reserves	-	-	(127)	573	(446)	-	-	**-**
15.	Dividends paid	-	-	-	-	(164)	-	-	**(164)**
16.	Distribution on income (14+15)	-	-	(127)	573	(610)	-	-	**(164)**
17.	Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**90**	**2,254**	**651**	**(82)**	**-**	**6,413**

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Statement of changes in shareholders' equity
For the year end 31 December 2010

BANK

		Attributable to the equity holders of the Bank							
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Profit/ (loss) for the period	Unrealised profit/ (loss) from the basis of value adjustment of financial assets available for sale	Non controlling interest	Total capital and reserves
1.	Balance at 1 January	3,500	-	215	1,228	607	(3)	-	**5,547**
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	**-**
3.	Corrected balance as at 1 January (1+2)	3,500	-	215	1,228	607	(3)	-	**5,547**
4.	Sale of financial assets available for sale	-	-	-	-	-	19	-	**19**
5.	Change of fair value financial asset available for sale	-	-	-	-	-	(3)	-	**(3)**
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(3)	-	**(3)**
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	1	-	-	-	-	**1**
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	1	-	-	13	-	**14**
9.	Profit/(loss) for the period	-	-	-	-	610	-	-	**610**
10.	Total recognised income and expenses for the period (8+9)	-	-	1	-	610	13	-	**624**
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	**-**
13.	Other changes	-	-	-	-	-	-	-	**-**
14.	Transfer to reserves	-	-	-	453	(453)	-	-	**-**
15.	Dividends paid	-	-	-	-	(154)	-	-	**(154)**
16.	Distribution on income (14+15)	-	-	-	453	(607)	-	-	**(154)**
17.	Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**216**	**1,681**	**610**	**10**	**-**	**6,017**

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Cash flow statement Year ended 31 December 2011			**BANK**
		2011	**2010**
	OPERATING ACTIVITIES		
1.1.	Profit/(loss) before income tax	803	758
1.2.	Allowances and loss provisions	604	537
1.3.	Depreciation	50	54
1.4.	Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	1	-
1.5.	Profit/(loss) from sale of tangible assets	10	3
1.6.	Other profit/(losses)	(1,794)	(1,616)
1.	Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	(326)	(264)
2.1.	Deposits with Central bank	(939)	197
2.2.	Treasury bills of Ministry of Finance and bills of exchange with CB	(37)	714
2.3.	Deposits with banks and loans to financial institutions	93	(457)
2.4.	Loans to other customers	(4,827)	(3,023)
2.5.	Securities and other financial instruments held for trading	(6)	-
2.6.	Securities and other financial instruments available for sale	(2,485)	(772)
2.7.	Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8.	Other operating assets	(199)	115
2.	Net increase/(decrease) of operating assets (2.1. to 2.8.)	(8,400)	(3,226)
3.1.	Demand deposits	668	99
3.2.	Savings and term deposits	525	94
3.3.	Financial derivative liabilities and other liabilities actively traded	(156)	169
3.4.	Other liabilities	1,944	1,495
3.	Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	2,981	1,857
4.	Net cash flow from operating activities before income tax (1+2+3)	(5,745)	(1,633)
5.	(Income tax paid)	213	118
6.	Net inflow/(outflow) of cash from operating activities (4-5)	(5,958)	(1,751)
	INVESTING ACTIVITIES		
7.1.	Receipt from sale/(payment for buying) tangible and intangible assets	(54)	(73)
7.2.	Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	(1,133)	(5)
7.3.	Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	39	(103)
7.4.	Dividend income	41	5
7.5.	Other receipts/(payments) from investing activities	-	-
7.	Net cash flow from investing activities (7.1. to 7.5.)	(1,107)	(176)
	FINANCIAL ACTIVITIES		
8.1.	Net increase/(decrease) of borrowings	3,975	792
8.2.	Net increase/(decrease) issued debt securities	810	-
8.3.	Net increase/(decrease) subordinated and hybrid instruments	-	-
8.4.	Receipts from transmitted share capital	-	-
8.5.	(Dividends paid)	(163)	(153)
8.6.	Other receipts/(payments) from financial activities	-	-
8.	Net cash flow from financial activities (8.1. to 8.6.)	4,622	639
9.	Net increase/(decrease) of cash and cash equivalents (6+7+8)	(2,443)	(1,288)
10.	Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11.	Net increase/(decrease) cash and cash equivalents (9+10)	(2,443)	(1,288)
12.	Cash and cash equivalents at the beginning of the year	6,636	7,924
13.	Cash and cash equivalents at the end of the year	4,193	6,636

Erste&Steiermärkische Bank d.d. | Appendix 1 – Forms according to local requirements | Year ended 31 December 2011 (All amounts are expressed in HRK million)

Off balance sheet items As at 31 December 2011			**BANK**
		2011	**2010**
1.	Guarantees	1,545	1,531
2.	Letters of credit	127	119
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	2,086	1,775
5.	Other risk off balance items	8	41
6.	Futures	-	-
7.	Options	134	184
8.	Swap	4,779	3,356
9.	Forwards	25,375	18,041
10.	Other derivatives	60	-

Appendix 2 – Differences between financial statements according to IFRS and local requirements

Year ended 31 December 2011 (All amounts are expressed in HRK million)

					GROUP
ANNUAL REPORT (AR)	**in mln HRK**	**Form 'Statement of financial position' (CNB)**	**in mln HRK**	**DIFFERENCE**	**EXPLANATION**
Cash and balances with central banks	7,230	Cash and deposits with CNB	7,230	-	
Amounts due from other banks	1,524	Deposits with banking institutions	1,302	222	236 CNB – Loans to financial institutions 35 CNB – Interest, fees and other assets (49) AR – Financial assets at fair value through profit or loss
Reverse repurchase agreements	26		-	26	14 CNB – Loans to financial institutions 12 CNB – Loans to other customers
Receivables on financial derivative transactions	93	Derivative financial assets	91	2	2 CNB – Interest, fees and other assets
Financial assets held for trading	417	Securities and other financial instruments held for trading	300	117	117 CNB – Treasury bills of Ministry of finance and bills of exchange of CNB
Financial assets at fair value through profit or loss	50		-	50	49 CNB – Deposits with banking institutions 1 CNB – Interest, fees and other assets
Loans and advances to customers	44,677	Loans to financial institutions Loans to other customers	383 44,069	225	(26) AR – Reverse repurchase agreements (236) AR – Amounts due from other banks 487 CNB – Interest, fees and other assets
Financial investments available for sale	6,425	Treasury bills of Ministry of finance and bills of exchange of CNB Securities and other financial instruments available for sale	1,661 4,934	(170)	(117) AR – Financial assets held for trading; treasury bills (188) AR – Financial investments held to maturity 135 CNB – Interest, fees and other assets
Financial investments held to maturity	602	Securities and other financial instruments held to maturity	408	194	188 CNB – Treasury bills of Ministry of finance and bills of exchange of CNB 6 CNB – Interest, fees and other assets; interest on HtM
Investments in subsidiaries and associates	69	Investment in associates, subsidiaries and joint ventures	69	-	
Property and equipment	729	Tangible assets (minus depreciation)	729	-	
Investment property	1		-	1	1 CNB – Tangible assets
Intangible assets	792		-	792	792 CNB – Interest, fees and other assets
Deferred tax assets	206		-	206	206 CNB – Interest, fees and other assets
Other assets	204	Interest, fees and other assets Repossessed assets	1,758 111	(1,665)	(206) AR – Deferred tax asset (792) AR – Intangible assets (1) AR – Investment property (666) AR – Interest on loans, deposits, securities
TOTAL ASSETS	**63,045**		**63,045**	**-**	

GROUP

ANNUAL REPORT (AR)	**in mln HRK**	**Form 'Statement of financial position' (CNB)**	**in mln HRK**	**DIFFERENCE**	**EXPLANATION**
Amounts due to other banks	22,285	Borrowings from financial institutions	22,145	140	(608) AR – Repurchase agreements (43) AR – Other borrowed funds 611 CNB – Deposits 1 CNB – Other borrowings 179 CNB – Interest, fees and other liabilities
Repurchase agreements	609		-	609	608 CNB – Borrowings from financial institutions 1 CNB – Interest, fees and other liabilities
Payables on financial derivative transactions	136	Derivative financial liabilities and other liabilities held for trading	134	2	2 CNB – Interest, fees and other liabilities
Financial liabilities at fair value through profit or loss	40		-	40	40 CNB – Deposits
Amounts due to customers	31,812	Deposits	31,701	111	(40) AR – Financial liabilities at fair value through profit or loss (611) AR – Amounts due to other banks (2) AR – Other liabilities (17) AR – Other borrowed funds 781 CNB – Interest, fees and other liabilities
Other borrowed funds	79	Other borrowings	21	58	43 CNB – Borrowings from financial institutions 17 CNB – Deposits (1) AR – Amounts due to other banks (1) CNB – Interest, fees and other liabilities
Current tax liabilities	5		-	5	5 CNB – Interest, fees and other liabilities
Deferred tax liabilities	27		-	27	27 CNB – Interest, fees and other liabilities
Other liabilities	448	Interest, fees and other liabilities	1,567	(1,119)	(1,013) AR – interest on borrowed funds and amounts due to customers and banks (2) CNB – Deposits (108) AR – Provisions
Provisions	108		-	108	108 CNB – Interest, fees and other liabilities
Subordinated debt	877	Issued subordinated instruments	858	19	19 CNB – Interest, fees and other liabilities
Total shareholders' equity	6,590		6,619	(29)	(29) Non controlling interest
Non controlling interest	29		-	29	29 Non controlling interest
TOTAL LIABILITIES AND EQUITY	**63,045**		**63,045**	**-**	

					BANK
ANNUAL REPORT (AR)	**in mln HRK**	**Form 'Statement of financial position' (CNB)**	**in mln HRK**	**DIFFERENCE**	**EXPLANATION**
Cash and balances with central banks	7,054	Cash and deposits with CNB	7,054	-	
Amounts due from other banks	1,438	Deposits with banking institutions	1,216	222	236 CNB – Loans to financial institutions (49) AR – Financial assets at fair value through profit or loss 35 CNB – Interest, fees and other assets
Reverse repurchase agreements	157		-	157	14 CNB – Loans to financial institutions 143 CNB – Loans to other customers
Receivables on financial derivative transactions	92	Derivative financial assets	90	2	2 CNB – Interest, fees and other assets
Financial assets held for trading	122	Securities and other financial instruments held for trading	6	116	116 CNB – Treasury bills of Ministry of finance and bills of exchange of CNB
Financial assets at fair value through profit or loss	50		-	50	49 CNB – Deposits with banking institutions 1 CNB – Interest, fees and other assets
Loans and advances to customers	39,425	Loans to financial institutions Loans to other customers	498 38,897	30	(236) AR – Amounts due from other banks (157) AR – Reverse repurchase agreements 423 CNB – Interest, fees and other assets
Financial investments available for sale	6,315	Treasury bills with ministry of finance and bills of exchange with CNB Securities and other financial instruments available for sale	1,483 4,820	12	(116) AR – Financial assets held for trading; treasury bills 128 CNB – Interest, fees and other assets
Financial investments held to maturity	366	Securities and other financial instruments held to maturity	360	6	6 CNB – Interest, fees and other assets
Investments in subsidiaries and associates	1,300	Investment in associates, subsidiaries and joint ventures	1,300	-	
Property and equipment	407	Tangible assets (minus depreciation)	407	-	
Investment property	-		-	-	
Intangible assets	50		-	50	50 CNB – Repossessed assets, other assets
Deferred tax assets	93		-	93	93 CNB – Interest, fees and other assets
Other assets	166	Interest, fees and other assets Repossessed assets	795 109	(738)	(93) AR – Deferred tax asset (50) AR – Intangible assets (595) AR – Interest on loans, deposits and securities
TOTAL ASSETS	**57,035**		**57,035**	-	

					BANK
ANNUAL REPORT (AR)	**in mln HRK**	**Form 'Statement of financial position' (CNB)**	**in mln HRK**	**DIFFERENCE**	**EXPLANATION**
Amounts due to other banks	16,882	Borrowings from financial institutions	16,592	290	(499) AR – Repurchase agreements 625 CNB – Deposits 164 CNB – Interest, fees and other liabilities
Repurchase agreements	500		-	500	1 CNB – Interest, fees and other liabilities 499 CNB – Borrowings from financial institutions
Payables on financial derivative transactions	136	Derivative financial liabilities and other liabilities held for trading	134	2	2 CNB – Interest, fees and other liabilities
Financial liabilities at fair value through profit or loss	40		-	40	40 CNB – Deposits
Amounts due to customers	31,787	Deposits	32,089	(302)	(40) AR – Financial liabilities at fair value through profit or loss (625) AR – Amounts due to other banks (2) AR – Other liabilities 365 CNB – Interest, fees and other liabilities
Other borrowed funds	3	Other borrowings	4	(1)	(1) CNB – Interest, fees and other liabilities
Current tax liabilities	-		-	-	
Other liabilities	330	Interest, fees and other liabilities	975	(645)	2 CNB – Deposits (549) AR – Interest on borrowed funds and amounts due to customers and banks (98) AR – Provisions
Provisions	98		-	98	98 CNB – Interest, fees and other liabilities
Subordinated debt	846	Issued subordinated instruments	828	18	18 CNB – Interest, fees and other liabilities
Total shareholders' equity	6,413		6,413	-	
TOTAL LIABILITIES AND EQUITY	**57,035**		**57,035**	-	

					GROUP
ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFERENCE	EXPLANATION
Interest income	3,815	Interest income	3,814	1	2 CNB – Rental income from investment property (1) CNB – Depreciation of investment property
Interest expense	(1,683)	Interest expense	(1,683)	-	
Fee and commission income	729	Fee and commission income	728	1	1 CNB – Other income
Fee and commission expense	(135)	Fee and commission expense	(135)	-	
Net trading income	146	Profit/(loss) from trading Profit/(loss) from foreign currency differences Profit/(loss) from embedded derivatives	42 104 -	-	
Other operating income	46	Profit/(loss) from asset available for sale Profit/(loss) from asset held to maturity Income from other ownership investments Other income	- 2 30 22	(8)	(2) AR – Interest income; rental income from investment property (1) AR – Fee and commission income (5) AR – Share of result of associates
Personnel expenses	(568)		-	(568)	(568) CNB – General administrative expenses and depreciation
Other operating expenses	(548)	General administrative expenses and depreciation Other expenses	(1,231) (14)	697	56 AR – Depreciation of tangible fixed assets 72 AR – Amortization of intangible fixed assets 568 AR – Personnel expenses 1 CNB – Depreciation of investment property
Depreciation of tangible fixed assets	(56)		-	(56)	(56) CNB – General administrative expenses and amortization
Amortization of intangible assets	(72)		-	(72)	(72) CNB – General administrative expenses and amortization
Provision for loan and investment losses	(757)	Expense of value adjustment and loss provisions	(757)	-	
Share of result of associates	4	Profit/(loss) from investments in subsidiaries, associates and joint ventures	(1)	5	5 CNB – Income from other ownership investments
Profit before income tax	921	Profit before income tax	921	-	
Income tax expense	(176)	Income tax expense	(176)	-	
NET PROFIT FOR THE PERIOD	**745**	**NET PROFIT FOR THE PERIOD**	**745**	**-**	
		Non controlling interest (in subgroups)			
		NET PROFIT AFTER NON CONTROLLING INTERESTS			

BANK

ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFERENCE	EXPLANATION
Interest income	3,265	Interest income	3,264	1	2 CNB – Other income (1) CNB – General administrative expenses and amortization
Interest expense	(1,525)	Interest expense	(1,525)	-	
Fee and commission income	432	Fee and commission income	432	-	
Fee and commission expense	(123)	Fee and commission expense	(123)	-	
Net trading income	144	Profit/(loss) from trading Profit/(loss) from foreign currency differences Profit/(loss) from embedded derivatives	40 104 -	-	
Other operating income	58	Profit/(loss) from asset available for sale Profit/(loss) from asset held to maturity Income from other ownership investments Other income	- 2 40 18	(2)	(2) AR – Interest income
Personnel expenses	(412)		-	(412)	(412) CNB – General administrative expenses and amortization
Other operating expenses	(381)	General administrative expenses and depreciation Other expenses	(836) (8)	463	34 AR – Depreciation of tangible fixed assets 16 AR – Amortization of intangible fixed assets 412 AR – Personnel expenses 1 AR – Interest income
Depreciation of tangible fixed assets	(34)		-	(34)	(34) CNB – General administrative expenses and amortization
Amortization of intangible assets	(16)		-	(16)	(16) CNB – General administrative expenses and amortization
Provision for loan and investment losses	(605)	Expense of value adjustment and loss provisions	(605)	-	
Share of result of associates	-	Profit/(loss) from investments in subsidiaries, associates and joint ventures	-	-	
Profit before income tax	803	Profit before income tax	803	-	
Income tax expense	(152)	Income tax expense	(152)	-	
NET PROFIT FOR THE PERIOD	**651**	**NET PROFIT FOR THE PERIOD**	**651**	-	
		Non controlling interest (in subgroups)			
		NET PROFIT AFTER NON CONTROLLING INTERESTS			