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# ANNUAL REPORT

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# 2012



**PODRAVSKA BANKA**



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# Mobile Banking

Savings



**REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD**

## REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD

On behalf of Podravska Banka's Supervisory Board and myself personally, I hereby present you with the Bank's financial results for 2012.

Globally, financial markets are still troubled with euro zone difficulties, which slowed the expected recovery of many EU member states and their economies. Moreover, some of these troubled economies have gone deeper into recession. This economic crisis has left a deep scar on the Croatian economy too. The trends of plummeting GDP continued in 2012, the negative trends mostly caused by spending cuts, households in particular, the lack of investments and a higher jobless rate.

Despite these hard, challenging times, in 2012 Podravska Banka managed to achieve good business results, with a profit before tax of HRK 10.2 million.

Last year we notably increased our commercial activity across the entire business network, mostly targeting small businesses and entrepreneurs; applying measures for optimisation of costs; intensified collection of receivables past due. Our other activities included the realisation of the Bank's new core IT system that has continued in 2013 until achieving full implementation.

Through prudent management of risks, market diversification and an increased quality of services, Podravska Banka has strengthened its position in the Croatian banking industry.

Strengthening our market position further, improving our internal efficiency and maximising customer satisfaction are the most important strategic goals of the Bank in the years to come.

Pursuant to laws, regulations and the Bank's Statutory Regulations, the Supervisory Board oversaw the Bank's operations, set up the guidelines for the business policy and actively contributed in its realisation.

The Bank's Management was regularly present at the meetings of the Supervisory Board, within the business domains they are responsible for. They reported to the Supervisory Board on certain issues and provided all necessary data and information needed for the Supervisory Board meeting agenda and decision-making process. At all times the Supervisory Board was able to request and receive business information from the Management, especially the important information that influenced, or could influence, the business operation and the standing of the Bank.

As defined by the Auditing law, the Supervisory Board appointed the Audit Board, consisting of the entire Supervisory Board. In its function as Audit Board, we supervised the system of internal controls, carried out as 3 independent functions within the Bank: internal auditing, compliance and risk control, in order to establish such a system of internal controls that ensures prompt detection and timely monitoring of all risks the Bank is exposed to in its operations.

Pursuant to its legal obligations on the supervision of the Bank's operations in 2012 - including the review and control of the Bank's documentation - the Supervisory Board established that the Bank operated within the laws, regulations and central bank's recommendations after partial HNB audit and control, the Bank's internal enactment and the resolutions by the Shareholders' General Meeting.



As legally required, the Supervisory Board examined the Bank's annual reports for 2012, the Bank's statements, and the Management's proposal for distribution of profit, made in 2012. The Supervisory Board did not have any objections to any of the reports submitted, thus establishing that 2012 Annual reports, comprised of: a Profit & Loss Account, Balance Sheet, Cash Flow Report and Notes to the financial reports. These were drafted in accordance with actual facts and figures in the business books of Podravska Banka providing a true and accurate view of the assets and balances of the Bank. The above was confirmed by the Auditors Deloitte d.o.o. Zagreb, the appointed auditors for 2012 financial year.

Therefore, with the Supervisory Board's approval of the Bank's 2012 Financial Reports, both the Management's and Supervisory Board's adoption of these reports made the 2012 Financial Reports officially accepted and approved.

The Supervisory Board accepted and approved the 2012 Management Board Report on the Bank's affairs in 2012, and agreed, that the Bank's 2012 total profit of HRK 8,129,108.52 for the year ended 31 Dec. 2012, be distributed to the Bank's Reserves, as proposed by Management.

Following the above, the Supervisory Board hereby proposes to the Shareholders' General Meeting to verify and adopt the 2012 Annual Reports of Podravska Banka d.d., and the Management Board Report on the Bank's affairs in 2012.

Subsequently, we propose that the Shareholders' General Meeting approve the work of Management and Supervisory Boards and resolve on the profit distribution, as proposed by the Management.

Through their professional attitude and hard work, the Management and our employees have accomplished the Bank's plans in almost all segments, and, therefore, justified our trust in them.

On behalf of Podravska Banka's Supervisory Board, I express my gratitude and thanks to all the customers and shareholders of the Bank for their trust; to the Bank's employees and officials, for the good business results achieved.

My gratitude also goes to my colleagues, fellow members of the Supervisory Board, for their active support and contributions.

Chairman of the Supervisory Board  
Miljan Todorovic



# REPORT OF THE BOARD OF DIRECTORS ON THE BANK'S POSITION

The Board of Directors of Podravska banka is pleased to present the Bank's business results for the year 2012.

Despite certain positive forecasts in 2011, 2012 was still a year of crisis for the EU. This was the worst year for several member states, particularly because of the debt crisis. When the crisis peaked at the beginning of the summer, the European Central Bank announced that it would buy bonds from crisis affected states, thereby calming the markets, which put an end to speculations about the collapse of the euro zone by the end of the year.

In 2012, the Croatian economy experienced a further decline in economic activity, when GDP was recorded to have dropped by 2.0%. This resulted in a further increase in the unemployment rate and a decline in investments. The year was marked by a slight growth of exports of 0.2% and a decrease in imports of 0.7%, resulting in a deficit reduction of 2.1%, denominated in euro.

The Croatian banking system maintained its stability owing to responsible risk management, proper capitalisation and an active monetary policy. The regulatory capital adequacy rate amounted to a whopping 20.52% at the end of 2012. Total bank assets fell by 1.6%, which for the most part was a result of placement decrease. Retail placements decreased by 2%, and corporate sector placements decreased by 14%, while the highest growth was still recorded in lending to the state, which is up by 15.5%. The proportion of deposits in total bank liabilities was reduced to 68.9%. Compared to 2011, total deposits decreased by 2%, whereby retail deposits rose by 4.3%, while economic entity deposits decreased by 5.9%.

In 2012, average deposit rates increased more quickly than lending rates, resulting in a decrease in the interest spread compared to the previous year.

The economic crisis was also reflected in the deceleration of operating activities and the weakening of business results of banks in 2012, with an increase in available liquid assets.

The bank's total profit dropped by 25.8%, which for the most part was a result of lower interest income and higher provision expenses.

Podravska banka remained stable in this economic climate and achieved positive business results in 2012.

In the fiscal year 2012, Podravska banka strove to strengthen commercial operations in the entire territory of the Republic of Croatia, primarily operations focused on the entrepreneurial sector. Additionally, the Bank continued with its information system improvement activities, took continuous measures to optimise costs and intensified its credit activity, including placement monitoring, thus optimizing the credit risk.

With regard to the size of its assets, the Bank ranked 11th among the 31 banks in Croatia at the end of 2012.

Total assets of the Bank grew by 5% and amounted to HRK 3.06 billion at the end of 2012.



Compared to the previous year, total deposits increased by 2.26% to HRK 2.3 billion. Retail deposits make up 76.56%, and deposits by legal persons constitute 23.44% of the total deposit structure.

Retail deposits rose by 4.58%, while deposits by legal persons fell by 4.65%.

In the credit activity area in 2012, loans to business entities dropped by 6.1% compared to the previous year, and their share in total placements decreased slightly from 70.3% in 2011 to 70.1% at the end of 2012.

Retail loans were reduced by 5.3% compared to the previous year, which is a result of the relatively high indebtedness in the retail sector and a decreased tendency to go into debt.

As opposed to the previous years when the Bank almost exclusively experienced excess liquidity, in the previous year the Bank was present both on the supply and the demand side of the money market. In order to ensure stable liquidity and minimise market risks, in 2012 the Bank partially restructured its financial asset portfolio which had been formed in the previous years.

The Bank is capitalised well with regard to the risks it is exposed to. The Bank's regulatory capital grew from HRK 401.9 million to HRK 429.9 million at the end of 2012, amounting to a 7% increase. Owing to this growth, the adequacy rate of regulatory capital amounted to 17.00% at the end of 2012.

The Bank's regular operating income amounts to HRK 131.8 million, where net interest income has a share of 71.7%, fee and commission income has a 17.9% share, while other income participates in the operating income structure with a share of 10.4%.

Net profit of the current period dropped in comparison to the previous year and is now HRK 8.13 million, while total Bank profit at 31 Dec 2012 amounted to HRK 25.0 million.

According to legal regulations, the Bank is obligated to establish a system for measuring and monitoring risks which it is exposed to in its operations. The most important risks affecting the Bank's operations are the credit risk, liquidity risk, market risk and operational risk.

Risk management is defined by the Bank through a system of by-laws, organisation and control mechanisms, including risk concentration, validation and assessment, limit systems and the acceptance of risks according to particular areas of business.

The risk management framework was set in accordance with the regulatory quantitative and qualitative requirements. The efficiency of risk management is achieved by continuous process, methodology, model, control and system improvements.

In 2012, the Bank signed a Contract with Asseco Zagreb d.o.o., according to which the implementation of a new IT and business system aimed at supporting all of the Bank's operations would begin in 2012. The anticipated implementation of a new system would be carried out in stages and included technological support improvement in every business segment, as well as support for new distribution channels for customer services, management of business relations with customers, treasury process management and qualitative advances in risk management.

In the previous year, the Bank did not acquire treasury shares, so at 31 Dec 2012 the Bank had a total of 9,203 treasury shares, corresponding to a 1.38% share in the share capital of the Bank.

In 2012, upon liquidation of the investment fund managed by the subsidiary Pobal-colInvest d.o.o, the Bank became the sole proprietor of the company and pursuant to an amendment to its Memorandum of Association, registered the company for performing factoring operations under the name Poba faktor d.o.o. Operating activities in the factoring company were launched in the middle of the year. The company is focused on operations in their core business - factoring, purchase of receivables and discount of bills. The company is active in the entire Croatian market, particularly in the territory of the City of Zagreb. The majority of factoring customers are new customers, and their synergistic effect on the Bank is reflected in the opening of new giro accounts, performance of payment transactions and the use of other services.

The upcoming year shall also be challenging and arduous, both for the banking sector and the entire economy. Market conditions will remain difficult, and the recovery of the Croatian economy shall be gradual and slow.

Decreased demand for loans both by individuals and the economic sector is expected under such circumstances. Despite these expectations, the Bank shall attempt to increase the share of placements to the corporate sector, thereby avoiding highly concentrated placements and placing short-term, self-liquidating loans with adequate collateral coverage.

In the fiscal year 2013, the contribution of the Treasury sector shall be of utmost importance, primarily to ensure the necessary liquidity for safe bank operation. Except for the part referring to investments and currency trading, and securities transactions, the treasury shall perform a role of key importance in funding commercial activities, for the purpose of increasing the volume of business operations and decreasing the Bank's financial expenses.

The Bank shall continue to try to meet the demands of its customers and develop products and services accordingly to maintain long-term relationships with the customers.

The Bank's activities shall be focused on the utilisation of every internal potential, cost optimisation, adaptation to market trends, and improvement of business processes and the implementation of a new IT system for the Bank.

All of the aforementioned activities, despite the uncertainty and anticipated difficulties, are aimed at strengthening the market activity and increasing the share of Podravska banka in the Croatian financial market.

Lastly, I would like to take this opportunity to express my gratitude to all of our customers and business partners for their trust and cooperation which encourage us to continue improving the quality of our services.

I would also like to thank our shareholders, the members of the Supervisory Board for their exceptional cooperation and support, and all of the Bank's employees for their effort and commitment.

Mr. Julio Kuruc  
President of the Board of Directors







## **DESCRIPTION OF BUSINESS OPERATIONS**

## OVERVIEW OF THE WORLD ECONOMY IN 2012

According to IMF estimates, in 2012 the global market recorded a decelerated growth of 3.2%, as opposed to 2011 when it grew by 3.9%. These trends are a result of the slowing growth in China and the emerging markets.

The euro zone experienced a 0.4% drop due to the continued, and in some cases worsening recession in certain states of the European Union. Despite the ECB's efforts to restore stability in the financial markets with a more flexible monetary policy and measures for securing additional liquidity, the euro zone failed to experience the anticipated economic growth and employment rate increase.

There was significant progress in solving Europe's debt crisis in 2012. The European Central Bank decided to take on the role of last resort for euro zone countries by buying their bonds on the market, thereby preventing their bankruptcy. The requirement for this aid was the implementation of structural reforms in order to provide a permanent solution to this problem. This decision was well accepted by the market, and the yield on Italian and Spanish bonds plummeted. A decrease in the risk premium and an increase in the prices of speculative-grade bonds and bonds of developing countries were recorded by the end of the year. In addition to the decision of the Central Bank, there are plans for better coordination of the fiscal policies through the European Fiscal Compact, and the formation of a banking union is also contemplated. Although the crisis in Europe is not fully resolved, the market is signalling that the economy is headed in the right direction.

Due to further strict fiscal consolidation measures, it can be expected that there will be a delay in the economic recovery of many EU states this year, and some might suffer another recession.

Inflation decreased from 3.6% to 2.8% in 2012. The drop in the inflation rate mostly concerns the Asian territory. There are no key changes anticipated in this area for the year 2013.

The unemployment rate rose from 7.8% at the end of 2011 to 8% at the end of 2012. The underlying causes of this increase are attributed to the general growth of the unemployed in Europe, whereas the USA saw a drop in its unemployment rate.

There are no significant changes at global level predicted for the 2013. A further deterioration of the situation in Europe and additional improvement in the US are anticipated.

In the previous year, the EUR/USD exchange rate fluctuated in the historically narrow range of 13.4 cents (1.212-1.346). In the period from May to July, the euro was under maximum pressure caused by the escalation of the debt crisis and record-high yields on Italian and Spanish government bonds. As in previous years, in addition to the policies of the ECB and FED central banks, the exchange rate was mostly affected by the debt crisis in the euro zone.

The liquidity of the banking system in the euro zone is at a high level, and new ECB measures designed to maintain stability were implemented. There is a decline in risk aversion, resulting in the decrease in the premium for the risk of emerging markets, Croatia included. Interest rates on EUR deposits are at their all-time low, and as of July 2012 they are experiencing stagnation, with an additional decrease for longer terms to maturity. Inter-bank interest rates were lower than the ECB reference rates and they fluctuated around 0.07% in December, while the EURIBOR 12-month interest rate dropped to 0.54%.



## OVERVIEW OF CROATIAN ECONOMY IN 2012

The Croatian economy carried the following unfavourable trends into 2012 - stagnation of the real gross domestic product, increase in the unemployment rate and high level of budget expenditures and deficits. It was expected that a change in the executive power under these circumstances might have launched the pressing structural reforms and turn the economic trends in a positive direction. However, this was not supported by the still unstable situation in foreign financial markets, as well as the absence of stronger growth in countries representing the most significant export markets for the Croatian economy.

A further decline of the European economy, absence of announced government investments and a significant decrease in government spending, as well as VAT increase to 25% resulted in a slump in economic activity, a deeper lack of liquidity in the economy and a higher unemployment rate.

The lack of expected structural changes, increased fiscal pressure and rise in the prices of energy sources led the Croatian industry to a worse position than the one in 2011.

The conclusion of negotiations for the accession of Croatia to the EU did not result in an increase in foreign investments or the revival of the securities market.

Industrial production in 2012 fell by 5.5% compared to 2011, which for the most part was due to the discontinued production in Željezara Sisak, closing of DIOKI and a smaller production volume at the shipyards. Additionally, other industrial sectors are in decline, while there is a significant growth recorded in the pharmaceutical sector amounting to 21%, and in the energy sector amounting to 8.3%.

The shortage of new investments and the loss of existing jobs in the private sector affected the increase in unemployment at the end of 2012. The most considerable job losses were recorded in construction and industry, while the number of employees rose only in public sector activities.

Personal consumption had climbed in the first two months of 2012, after which it was in decline until the end of the year. The decrease in consumption is primarily the effect of increased unemployment rate, lower disposable income and consumer pessimism. The nominal net salary in 2012 was 0.7% greater than in the previous year, but really lower by 2.6%.

The assets of the banking sector decreased by 1.64% during the previous year, primarily due to the decline in credit activity. Total loan status at the end of 2012 was lower by HRK 8.4 billion than at the end of 2011, and looking by sector, we can see a considerable reduction of loan amounts for the entrepreneurial sector and an increase in the exposure of the banking sector to the state sector, while retail loans experienced a moderate drop.

Deposits at an annual level increased slightly compared to 2011. At the end of last year, deposits were higher by HRK 7.1 billion, i.e. 3.2% compared to 2011. The growth of deposits in the previous year was entirely the result of increased retail deposits, while deposits of businesses kept decreasing as an effect of the lack of liquidity in the economic sector.

The decline in credit activity was reflected in the decrease in the interest income of the banking system, while the development of the deposit bases and the slower adjustment of interest expenses had a simultaneous effect in the opposite direction. The profitability of the banking sector in 2012 fell by 25.8% compared to the previ-

ous year due to a significant increase in provisions for non-performing placements, a decrease in the interest spread as well as in the total income of banks. Due to the absence of the expected economic recovery, the share of non-performing loans continued to grow in 2012 and amounted to 13.8% at the end of last year.

The banking sector is still highly capitalised and had a regulatory capital adequacy rate of 20.55% at the end of the year.

In 2012, the CNB (Croatian National Bank) attempted to maintain a high liquidity level in the banking system, thereby not jeopardizing the stability of the foreign exchange rate. At the beginning of the year, it sold a total of EUR 458 million to banks on three different occasions to relieve depreciation pressures. Having the same goal in mind, at the end of January it increased the statutory reserve rate from 14% to 15%, thereby withdrawing approximately HRK 3.1 billion from the banking system.

Currency pair trends in the domestic and foreign markets had similar characteristics as in 2011 with very high volatility and very demanding and uncertain prediction of exchange rate fluctuations. The main feature of EUR/HRK exchange rate fluctuations in the year 2012 was the continuation of depreciation pressures. These pressures further intensified at the end of the year due to the lower credit rating of the Republic of Croatia. The average middle EUR/HRK exchange rate in 2012 amounted to 7.527, corresponding to a 1.16% increase compared to the average middle exchange rate in 2011.

The EUR/HRK currency pair was being traded in the average range from 7.530 to 7.590. Appreciation pressures prevailed in the summer months, which is the result of a successful tourist season and increased EUR flow to the domestic market. In September, the CNB again intervened on the foreign exchange market by buying EUR 58.1 million in order to slow down the exchange rate appreciation trend. After a short-term decline in the exchange rate, strong depreciation pressures affecting the increase in the EUR/HRK exchange rate reappeared by the end of the year.

The HRK depreciation pressures were visible even in the fluctuations of other exchange rates. The average middle exchange rates of all currencies increased compared to 2011.

The USD/HRK currency pair generally followed the EUR/USD currency pair trends on the international foreign exchange market. In 2012, EUR/USD ended up at virtually the same level at which it started (around 1.320), while the average USD/HRK exchange rate amounted to 5.829, with a growth rate of 9.52% compared to 2011.

The year 2012 recorded a continuous decrease in yields on HRK and EUR treasury bills issued by the Croatian Ministry of Finance. At an auction held on 3 Jan 2012, the yield on HRK treasury bills with a 364-day term to maturity amounted to 5.45%, and the yield on treasury bills denominated in EUR with the same term to maturity was 4.95%. By the end of the year, the yield on HRK treasury bills with a 364-day term to maturity amounted to 2.60%, and the yield on treasury bills denominated in EUR with the same term to maturity was 2.10%. Interest rates on the Zagreb Money Market (Tržište novca Zagreb) fluctuated between maximum 3.52% in February and 0.91% in May. In December 2012, the average interest rate on the Zagreb Money Market totalled 1.18%.

2012 was extremely difficult for the domestic economy, which is reflected in the performance of the Crobex index in the course of the year, but also in small trading volumes. Stock trading at the Zagreb Stock Exchange amounted to HRK 2.91 billion, which is an unbelievable drop of 44.3% compared to the previous year. The



CROBEX share index ended up at virtually the same level as last year, and the event that marked the domestic capital market in 2012 was the beginning of trade with structured financial instruments i.e. knock-out and index certificates.

Gross international reserves of the CNB totalled EUR 11.2 billion at the end of December 2012, which is the same amount as at the end of the previous year.

The following macroeconomic indicators were achieved in 2012:

	VALUE
GROSS DOMESTIC PRODUCT, GROWTH RATE, % CHANGE COMPARED TO PREVIOUS YEAR	-2.0
INDUSTRIAL PRODUCTION, GROWTH RATE, % CHANGE COMPARED TO PREVIOUS YEAR	-5.5
CONSUMER PRICES, % CHANGE COMPARED TO PREVIOUS YEAR	3.4
PRODUCER PRICES, % CHANGE COMPARED TO PREVIOUS YEAR	7.0
FOREIGN TRADE BALANCE, IN BILLIONS OF EUR	-5.8
EXPORTS OF GOODS, IN BILLIONS OF EUR	8.8
IMPORTS OF GOODS, IN BILLIONS OF EUR	14.6
CROATIAN FOREIGN DEBT, IN BILLIONS OF EUR	45.7
AVERAGE NET SALARY IN HRK	5,478
UNEMPLOYMENT RATE, %	21.1
NUMBER OF UNEMPLOYED PERSONS, CROATIAN EMPLOYMENT SERVICE	358,214
HRK/USD EXCHANGE RATE, AVERAGE	5.85
HRK/EUR EXCHANGE RATE, AVERAGE	7.52

Source: Croatian Bureau of Statistics, Croatian National Bank, Ministry of Finance

## PRODUCTS AND SERVICES

Podravska banka offers a wide range of products and services in its operations with individuals, as well as in the corporate and investment business segment.

Focusing on customer demands and needs, the Bank has been constantly modifying and expanding its wide range of products and services, and paying a lot of attention to the quality of its services through continuously educating its employees, and improving processes and control mechanisms.

Loans from the existing range, intended for individuals, were adapted to target user groups. At the same time, the offered conditions always aimed at meeting the expectations of existing customers and attracting new clients while ensuring risk minimisation and increased placement security.

MaestroCash is a very appealing service concerning current account debit cards allowing cash withdrawals at the Bank's ATM machines with repayment in interest-free instalments. In 2012, the number of MaestroCash transactions increased by over 80% compared to the previous year.

Product and service packages related to current and business accounts by which the Bank allows its customers to use certain services at a more affordable price are marked by a 20% growth in sales compared to the previous year. Users of current accounts and Maestro cards of Podravska banka are allowed to withdraw cash on 900 ATM machines in the MBNet network in Croatia without paying a fee.

The Bank is also active in the field of bank insurance and has developed a series of synergy products with its business partner - Generali osiguranje - which it sells through its business network.

In addition to the classic range of banking products and services, the Bank is active in offering other financial services - custody of financial instruments, brokerage operations, and portfolio management and investment consulting.

## DEPOSIT OPERATIONS

Compared to the previous year, total deposits increased by 2.3% to HRK 2.2 billion in 2012. Retail deposits rose by 4.6%, participating in the total deposit structure with 76.6%, as opposed to their share of 74.9% in 2011.

Deposits by legal persons dropped by 4.7%, amounting to HRK 515.4 million at the end of 2012.

A 9.0% decrease was recorded among demand deposits, while time deposits grew at a rate of 7.0%, whereby retail deposits rose by 5.5%, and deposits by legal persons by 15.3%.

<b>TOTAL DEPOSITS</b>		(IN THOUSANDS OF HRK)	
	31 DEC 2012	31 DEC 2011	CHANGES 2012/11
RETAIL	1,683,751	1,610,051	4.6%
LEGAL PERSONS	515,383	540,533	-4.7%
<b>TOTAL DEPOSITS</b>	<b>2,199,134</b>	<b>2,150,584</b>	<b>2.3%</b>

<b>TIME DEPOSITS</b>		(IN THOUSANDS OF HRK)	
	31 DEC 2012	31 DEC 2011	CHANGES 2012/11
RETAIL	1,347,818	1,277,737	5.5%
LEGAL PERSONS	269,548	233,720	15.3%
<b>TOTAL TIME DEPOSITS</b>	<b>1,617,366</b>	<b>1,511,457</b>	<b>7.0%</b>

## LENDING OPERATIONS

Even in 2012, the Bank was mostly oriented towards providing loans to business entities, so the loans in this sector amounted to HRK 1.4 billion. In the total placement structure, their share remained at the same level as last year, and totalled 70.1% at the end of 2012, compared to 70.3% in 2011. The Bank tried to focus primarily on custom-



ers with good business prospects, providing them with a full banking and financial service, trying to prove itself to be a long-term stable and reliable partner.

In 2012, the lack of liquidity continued to deepen in operations with business entities, with a predominant demand for liquidity loans, loans for current assets, factoring transactions as well as loans for restructuring existing liabilities.

There was a visible trend in providing loans to the business segment in 2012, primarily due to the factoring-oriented structure of the loans. Business entities were supported by the Bank through various funding methods, with a special emphasis on short-term products - bill transactions, purchase of foreign and domestic receivables, as well as funding of receivables.

Long-term and investment loans are chiefly stagnant or dropping, especially in comparison to the time before the crisis broke out. Long-term loans are generally granted in cooperation with the CBRD (Croatian Bank for Reconstruction and Development), whereby it is necessary to stress the increasingly important role of the HAMAG (Croatian Agency for Small Business and Investments) which considerably increased its guarantee potential and introduced innovations in its operations contributing to the appeal of the guarantee programmes to businesses and commercial banks.

In 2012, the Bank focused even more intensively on small and medium businesses because it recognised the potential of this economic segment. Small and medium businesses experienced an increase in income, exports, employment rate and investments in the previous year, and have been developing to become the most important and currently the only growing economic segment in the long term. During all of 2012, the commercial sector carried out acquisition transactions for new medium and small customers by using customer bases segmented by predefined criteria.

With most corporate customers, in addition to the dominant factoring, target groups are customers that already need or will need to use more sophisticated products, especially through treasury services - framework agreements for the Money Market, FX trading with exchange rate quotation under the most favourable market conditions and direct communication with the dealer, followed by Forward transactions and the like, all for the purpose of increasing income by way of cross-selling with the customers.

In the next year as well, the Bank shall continue to be largely focused on providing loans for the economy, thereby avoiding highly concentrated placements and placing short-term, self-liquidating loans, and adequately shortening their maturity and strengthening their collateral coverage. If we are dealing with classic loans, the main focus is on loans with a background in specific commercial transactions such as funding of receivables or short-term loans pursuant to signed commercial agreements, etc.

At 31 Dec 2012, placements to businesses were nominally 6.2% lower than on the same date last year, but it is the faster lending dynamics and factoring transactions that allowed interest income from companies to become 5.9% higher in the same period. With the simultaneous reduction of company interest expenses by 5.9%, the net interest effect is the rise in company interest income by 7.6%.

The aforementioned issue should be emphasised in circumstances under which the ZIBOR and Euribor reference market rates suffered a considerable drop, especially Euribor which was at its all-time low.

Loans to individuals decreased by 5.3% in 2012, but their share in total loans was maintained and totalled 29.9%. At the end of 2011, this share was 29.7%. These trends

are a result of the reduced household income and the decreased tendency to go into debt in times of economic crisis and higher unemployment.

	(IN THOUSANDS OF HRK)		
	31 DEC 2012	31 DEC 2011	CHANGES 2012/11
TOTAL GROSS LOANS	1,937,630	2,059,673	-5.9%
TOTAL LOAN RESERVES	164,985	166,052	-0.6%
<b>TOTAL NET LOANS</b>	<b>1,772,645</b>	<b>1,893,621</b>	<b>-6.4%</b>

## TREASURY OPERATIONS

At 31 Dec 2012, the weighted average interest rate paid by the Bank for deposits received from other banks amounted to 0.80% for the Croatian kuna, 0.31% for the euro and 0.14% for the Swiss franc.

Considering the very low interest rates on the interbank market in the second half of the year, in search of higher yields, the Treasury turned to the purchase of shares in money market funds in the total sum of HRK 18.7 million. New and higher existing debt limits with the domestic banks were approved for the Bank in the previous year, thereby further strengthening its liquidity and credit potential in the interbank money market.

The market value of the debt securities portfolio of Podravska banka totalled HRK 238.8 million at 31 Dec 2012. The currency structure of the portfolio is comprised of debt securities, with securities denominated in EUR amounting to 56%, in HRK 25%, in CHF 9%, and in USD 9%. According to the geographic exposure, the greatest part of the portfolio is related to Croatian issuers (51.48%), followed by European and global issuers. Total modified duration of the portfolio at 31 Dec 2012 was 2.3, while total average portfolio yield at the beginning of the investment amounts to 5.2%.

In 2012, the Bank generated a profit from foreign exchange trade of HRK 7.58 million, while its earned profit in 2011 had been HRK 9.16 million. Earned profit from revaluation in 2012 was HRK 2.08 million, a considerable growth compared to 2011. Total profit in foreign exchange management increased by 6.61% in 2012 compared to the year before and amounted to HRK 9.66 million.

The market value of the share portfolio at the beginning of 2012 was HRK 49.58 million, and at the end of 2012 it amounted to HRK 48.71 million. If we added the value of investment fund investments to the value of equity securities, the value of the portfolio of equity securities and shares in investment funds would come to HRK 79.23 million at the beginning of 2012 and HRK 102.37 million at the end of 2012.

The portfolio structure at the end of 2012 was as follows: the value of the share portfolio of domestic issuers totalled HRK 17.35 million, or a 17% share, while the value of shares from foreign issuers amounted to EUR 4.16 million i.e. 31% of the portfolio. The remaining 52% i.e. HRK 53.65 million was covered by shares in domestic and foreign investment funds. Out of HRK 53.65 million invested in investment funds, 35% i.e. HRK 18.85 million was invested in HRK money market funds. In the following period, our investment approach shall for the most part depend on the economic indicators in the biggest world economies, primarily in the EU, USA, China and Japan, and on trends in Croatia and the region.



Despite the continuing negative developments in the capital market, the value of assets in custody was an impressive HRK 322.6 million at 31 Dec 2012, which is practically the identical asset value as the one in the previous year. Out of that amount, HRK 289.97 million is covered by assets in the Croatian market, while assets in the Montenegrin market totalled HRK 32.58 million.

In the course of 2012, for the purpose of Euroclear account activation, a new EuclidPC application was installed, and testing was carried out in cooperation with our colleagues from Euroclear. At the end of 2012, testing was successfully finalised, thereby meeting every requirement for account activation and global securities custody and settlement services. Podravska banka thus became a member of the now largest global system for financial instrument clearing and settlement.

## PAYMENT TRANSACTIONS

In 2012, the Bank's customers, having used the Bank's payment transaction services for their business and personal goals, confirmed its competitiveness and quality and enabled the Bank to make a net profit of HRK 10.4 million.

In 2012, the volume of payment transactions grew by 12%, with an increase in the number of opened transactional accounts and a rise in the number of users and the volume of online payment transactions.

Among domestic payment transactions, the total volume of online payment transactions was HRK 7.6 billion, which is a 10% increase compared to last year.

Total external domestic payment transactions add up to more than HRK 40 billion, corresponding to a 13% increase, and this is for the most part a result of the increase in the volume of the Bank's treasury transactions in the segment of trading securities and money market fund shares, and foreign exchange and FX transactions with customers.

It is important to mention that the total volume of payment transactions for customers generated by the Bank amounts to HRK 16.5 billion.

Foreign exchange payment transactions reached EUR 336 million, despite the arduous economic situation, lower rating, production index, higher unemployment rate in the countries of the principal partners of the Bank's customers.

The flow of foreign exchange for individuals grew by 12% compared to the previous year. At the end of the year, we entered into a business cooperation with Euroclear Bank Brussels, ICSD, which is part of the global Euroclear Group, by opening a multi-currency bank account and activating the service of settling and storing equity and debt securities.

Aimed at increasing the quality of payment transaction services, the Bank proceeded with the initiated processes of further technical and technological advancements which will substantially improve the Bank's operations upon introduction of a new application software.

While preparing for a unique European payment market, the Bank implemented a series of adjustments to EU guidelines in 2012, in accordance with the activities defined by the regulator.

## BUSINESS NETWORK AND DISTRIBUTION CHANNELS

At the end of 2012, the Bank's sales network was composed of a total of 28 branches distributed in virtually the entire Croatian territory. Podravska banka ranked 10th in the Croatian banking market according to the size of its business network.

In addition to its widespread sales business network, the Bank is also accessible to its customers via other distribution channels - ATM machines, 24-hour vaults, EFTPOS terminals and the POBAklik online banking service.

Every ATM machine is equipped with chip technology protecting the users from potential misuse and skimming. The Bank's ATM machines accept Maestro, MasterCard, VISA, American Express and Diners Club cards. Along with its own ATM network, the Bank offers its customers a free-of-charge cash withdrawal service at more than 1,000 ATM machines in the MB NET network throughout Croatia.

The Bank has 703 EFTPOS terminals installed, and in 2012 the number of transactions on EFTPOS terminals of the Bank grew by 10.7% compared to the previous year. The number of online banking (POBAklik service) and POBAsms service users increased by 9.6%.

Business information is available to the Bank's service users via an Information Centre constantly recording a growing number of calls.

Special attention is paid to managing the business network, and refurbishing and equipping branches in order to offer services of the highest quality to the customers. Podravska banka shall continue to secure the highest level of accessibility to its customers - whether via its branches, the Internet, ATM machines or by phone.

## ORGANISATION AND STAFF

At 31 Dec 2012, Podravska banka had 290 employees, which is a 7.6% decrease compared to 31 Dec 2011. Out of the total number of employees, 68% are women, and 61% out of the total number of employees was hired to work directly with customers ("front office"). The average age of the Bank's employees is 42.

The development of Bank's operations and the implementation of a new information system brought about certain organisational changes for the purpose of higher efficiency and optimal utilisation of the Bank's technical and human resources.

Continuing education and professional development of employees are the Bank's primary goals. In 2012, almost two thirds of employees participated in in-house and external training courses in various fields that are of importance to the Bank's operations.

Employment of competent commercial personnel and continued professional development of employees in direct contact with the customers are planned for 2013.

## CAPITAL

The Bank's capital without profit generated in 2012 amounts to HRK 384.6 million. Compared to the previous year, capital increased by 8.3% based on the increase in the



reserves of fair values of financial instruments available for sale. It is worth mentioning here that the profit earned in 2011 was fully allocated to the Bank's reserves. The Bank's capital participates in total sources of funding with 12.8%.

At 31 Dec 2012, share capital was HRK 267.5 million, consisting of 668,749 common registered shares, each with a nominal value of HRK 400.00.

A group of jointly acting shareholders, foreign natural and legal persons owns 85.5% of the Bank's shares.

The Bank's regulatory capital increased by HRK 28.0 million or 7% at the end of 2012 and totals HRK 429.9 million, while the adequacy rate of the regulatory capital rose to 17.0%.

## PROFIT AND LOSS STATEMENT

In 2012, the Bank generated earnings before taxes amounting to HRK 10.2 million, while the earned net profit added up to HRK 8.1 million.

The Bank's regular operating income generated in 2012 amounted to HRK 131.8 million, which is a 9.9% drop compared to the results in the previous year.

Net interest income dropped by 13.7% compared to 2011 as a result of decreased credit activity and average generated lending rates, with low reference rates and maintenance of stable interest rates on the customers' deposits.

In the operating income structure, the share of net interest income was 71.7%, net fee and commission income was 17.9%, while net income from foreign exchange trading and other income increased, participating in total generated operating income with 10.4%.

Regular operating expenses, including depreciation, totalled HRK 121.6 million and dropped by HRK 9 million i.e. 7% compared to the previous year.

Operating expenses are well controlled owing to continuous cost optimisation activities, so the share of operating expenses in total operating income amounts to 55.5%, which is an improvement compared to the year before when it totalled 56.9%.

Credit risk assessment and formation of reserves for risky placements and potential liabilities is based on the application of conservative policy principles and the implementation of current regulations, so the share of provisions in gross placements grew from 8.06% in 2011 to 8.51% in 2012. At the end of 2012, total provisions for loans amounted to HRK 165 million.

## DISPOSAL OF PROFITS

The Bank's Board of Directors proposes to the Supervisory Board to submit a joint proposal to the General Assembly to enter the total profit earned in 2012 into the Bank's reserves.



**CORPORATE GOVERNANCE CODE -  
ANNUAL QUESTIONNAIRE**

# CORPORATE GOVERNANCE CODE

## Podravska Banka Statement of Adherence to the Corporate Governance Code

Following the rules of the Zagreb Stock Exchange, the Supervisory and Management Boards of Podravska Banka d.d. hereby give the Statement of adherence to the rules and regulations set forth in the CORPORATE GOVERNANCE CODE, jointly drafted by HANFA and ZSE.

Herein attached to this Statement, as an integral part, is the 2012 Annual Questionnaire on Corporate Governance duly completed, with answers and additional explanations.

Data on the Bank's internal controls and audits, risk management, and the Bank's shareholders is included in the Notes to the financial statements.

Regulations on appointing and/or revoking members of management are included in the Bank's Statutes/Bylaws.

The number of members of the Management Board is decided by the Supervisory Board and is set to 3 (three). The Management Board and Supervisory Board decide on individual candidacies for members and the Board chairman, who must comply with legal requirements from laws and regulations that regulate banks and financial institutions.

After prior approval from the HNB central bank has been acquired, the Supervisory Board appoints the chairman and members of the Management Board for the term of 5 (five) years with an option of renewal. The Supervisory Board can revoke its decision of appointment (either chairman or Board member) in case of unforeseen circumstances, as per effective regulations in place.

The Management Board's powers and authorities have been set forth in the Bank's Statutes/Bylaws, while individual responsibilities and/or powers of each Board member are set forth by a separate resolution.

The Management Board is not authorised to either acquire the Bank's own shares on organised markets, or issue new shares.

Personal details on Management and Supervisory Board members and their activities are duly listed in the attached Annual Questionnaire.

Rules on changes and amendments to the Bank's Statutes/Bylaws are integrated in the Statutes. Changes and amendments are approved by the Bank's Annual Meeting of shareholders, as per law and the Statutes, by votes representing at least three-fourths of the share capital represented at the Annual Meeting and voting on this resolution.

Changes/amendments to the Statutes are proposed by the Supervisory Board, the Management Board and/or the Bank's shareholders.

In order to protect the interests of all the investors, shareholders, customers, employees and other interested parties, the Bank has established and maintains the highest standards of corporate governance.



# CORPORATE GOVERNANCE CODE

## ANNUAL QUESTIONNAIRE

All the questions contained in this questionnaire relate to the period of one business year, to which annual financial statements also relate.

1. **Did the Company accept the application of the Corporate Governance Code or did it accept its own policy of corporate governance?**

YES  NO

2. **Does the Company have adopted principles of corporate governance within its internal policies?**

YES  NO

3. **Does the Company announce within its annual financial reports the compliance with the principles of 'comply or explain'?**

YES  NO

4. **Does the Company take into account the interest of all shareholders in accordance with the principles of Corporate Governance Code while making decisions?**

YES  NO

5. **Is the company in a cross-shareholding relationship with another company or other companies? (If YES, explain)**

YES  NO

6. **Does each share of the company have one voting right? (If not, explain)**

YES  NO

7. **Does the company treat all shareholders equally? (If not, explain)**

YES  NO

8. **Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, explain)**

YES  NO

9. **Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, explain)**

YES  NO

10. **Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which**

will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, explain)

YES  NO

11. Was the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, explain)

YES  NO

12. Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, explain)

YES  NO, there was no dividend payout

13. Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, explain)

YES  NO, see answer 12

14. Were any shareholders favoured while receiving their dividends or advance dividends? (If so, explain)

YES  NO, see answer 12

15. Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, explain)

YES  NO, there was no need for such participation

16. Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney etc.? (If so, explain)

YES  NO

Advance registration (timeframe established by the statutes, enabling better organisation of the general meeting (large numbers of shareholders))

17. Did the management of the company publish the decisions of the general assembly of the company?

YES  NO

18. Did the management of the company publish the data on legal actions, if any, challenging those decisions? (If not, explain)

YES  NO, there were no challenges, or legal actions



**PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS:**

Julio Kuruc, Chairman, Marijan Marušić, Board member, Davorka Jakir, Board member

**PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD MEMBERS AND THEIR FUNCTIONS:**

Miljan Todorovic - Chairman, Sigilfredo Montinari - Deputy Chairman, Filippo Disertori - Board member, Maurizio Dallochio - Board member, Dario Montinari - Board member, Dolly Predovic - Board member, Duro Predovic - Board member.

19. **Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, explain)**

YES  NO, board sessions convened by at will-need-necessity

20. **Did the Supervisory or Management Board pass its internal code of conduct? (If not, explain)**

YES  NO

21. **Is the Supervisory Board composed of mostly independent members, i.e. non-executive directors of the Management Board? (If not, explain)**

YES  NO, most members are shareholders

22. **Is there a long-term succession plan in the company? (If not, explain)**

YES  NO

23. **Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)**

YES  NO

24. **Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (If not, explain)**

YES  NO

25. **Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the company, including the structure of such remuneration, been made public? (If not, explain)**

YES, in the audited annual report  NO

26. **Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the**

company's shares, not later than five trading days, after such a change occurs (If not, explain)

YES  NO

27. Were all transactions involving members of the Supervisory or Management Board or persons related to them and the company and persons related to it clearly presented in reports of the company? (If not, explain)

YES  NO

28. Are there any contracts or agreements between members of the Supervisory or Management Board and the company?

YES  NO

29. Did they obtain prior approval of the Supervisory or Management Board? (If not, explain)

N/A, SEE ANSWER 28

30. Are important elements of all such contracts or agreements included in the annual report? (If not, explain)

N/A, SEE ANSWER 28

31. Did the Supervisory or Management Board establish the appointment committee?

YES  NO

32. Did the Supervisory or Management Board establish the remuneration committee?

YES  NO

33. Did the Supervisory or Management Board establish the audit committee?

YES  NO

34. Was the majority of the committee members selected from the group of independent members of the Supervisory Board? (If not, explain)

YES  NO, they are the actual members of the supervisory board

35. Did the committee monitor the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (If not, explain)

YES  NO

36. Did the committee assess the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, explain)

YES  NO



37. **Has the committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, explain)**
- YES     NO
38. **If there is no internal audit system in the company, did the committee consider the need to establish it? (If not, explain)**
- YES     NO, the bank has an internal auditing function
39. **Did the committee monitor the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, explain)**
- YES     NO
40. **Did the committee monitor the nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (If not, explain)**
- YES     NO
41. **Did the committee prepare rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)**
- YES     NO
42. **Did the committee analyze the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, explain)**
- YES     NO
43. **Did the audit committee ensure the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (If not, explain)**
- YES     NO
44. **Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)**
- YES     NO
45. **Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)**
- YES     NO

**46. Has the Supervisory or Management Board evaluated its work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?**

YES  NO

**47. Did the company publish a statement on the remuneration policy for the management, Management Board and the Supervisory Board as part of the annual report? (If not, explain)**

YES  NO

No, although there is no formal statement on remuneration policy for management/supervisory boards, the bank publishes this data in an aggregate amount (calculated, acknowledged remuneration for the management within the annual report (as per msfi), duly published on the bank's web pages

**48. Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the company? (If not, explain)**

YES  NO, see answer 47

**49. Is detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the annual report of the company? (If not, explain)**

YES  NO, see answer 47

**50. Are all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the company? (If not, explain)**

YES  NO, see answer 47

**51. Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (If not, explain)**

YES  NO

**52. Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the management of the company, and a special comment on its cooperation with the management? (If not, explain)**

YES  NO

**53. Does the company have an external auditor?**

YES  NO



54. Is the external auditor of the company related with the company in terms of ownership or interests?
- YES  NO
55. Is the external auditor of the company providing to the company, him/herself or through related persons, other services?
- YES  NO
56. Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)
- YES  NO, external auditing service contracted/fee agreed in an agreement
57. Does the company have internal auditors and an internal audit system established? (If not, explain)
- YES  NO
58. Are the semi-annual, annual and quarterly reports available to the shareholders?
- YES  NO
59. Did the company prepare the calendar of important events?
- YES  NO, important events announced/published on the bank's web pages
60. Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?
- YES  NO
61. Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?
- YES  NO
62. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company?
- YES  NO
63. Did the management of the company hold meetings with interested investors, in the last year?
- YES  NO
64. Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?
- YES  NO



**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012 TOGETHER  
WITH THE INDEPENDENT AUDITOR'S REPORT**

## RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Law (Official Gazette No. 109/07), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with applicable laws and regulatory requirements that provide a true and fair view of the financial position, performance, changes in equity and cash flows of Podravska banka d.d. for that period.

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

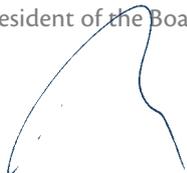
In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

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

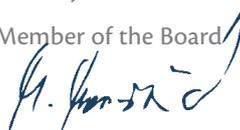
The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also, ensure that the financial statements comply with the Croatian Accounting Law in force. The Management Board is also responsible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

These financial statements were authorised for issue by the Management Board on 9 April 2013 and were signed on its behalf by the Management Board:

Julio Kuruc  
President of the Board



Marijan Marušić  
Member of the Board



Davorka Jakir  
Member of the Board



Koprivnica, 12 April 2013



## INDEPENDENT AUDITOR'S REPORT

### To the Owners of Podravska banka d.d.:

We have audited the financial statements of Podravska banka d.d. ("the Bank") which comprise the statement of financial position as at 31 December 2012, and the related income statement, statement of comprehensive income, statements of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

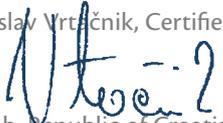
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

#### *Emphasis of the Matter*

##### *Other legal and regulatory requirements*

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix I to these financial statements on pages 69 to 78, which comprise the balance sheet as of 31 December 2012, and the statements of income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 4 to 68, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Bank.

Deloitte d.o.o.  
Branislav Vrtičnik, Certified Auditor

  
Zagreb, Republic of Croatia  
12 April 2013

# INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

(IN THOUSANDS OF HRK)

	NOTES	2012	2011
INTEREST AND SIMILAR INCOME	3	171,922	179,863
INTEREST AND SIMILAR EXPENSE	3	(77,452)	(70,378)
<b>NET INTEREST INCOME</b>		<b>94,470</b>	<b>109,485</b>
FEE AND COMMISSION INCOME	4	34,378	36,745
FEE AND COMMISSION EXPENSE	4	(10,732)	(11,248)
<b>NET FEE AND COMMISSION INCOME</b>		<b>23,646</b>	<b>25,497</b>
OTHER OPERATING INCOME, NET	5	13,727	11,407
<b>OPERATING INCOME</b>		<b>131,843</b>	<b>146,389</b>
IMPAIRMENT LOSSES AND PROVISIONS	6	(6,283)	(21,122)
ADMINISTRATIVE EXPENSES	7	(105,876)	(99,531)
DEPRECIATION AND AMORTISATION	8	(9,470)	(10,100)
<b>PROFIT BEFORE TAXATION</b>		<b>10,214</b>	<b>15,636</b>
INCOME TAX EXPENSE	9	(2,085)	(3,170)
<b>NET PROFIT FOR THE YEAR</b>		<b>8,129</b>	<b>12,466</b>
<b>EARNINGS PER SHARE</b>	<b>10</b>	<b>HRK 12.16</b>	<b>HRK 18.64</b>

The accompanying accounting policies and notes on pages 43 to 97 form an integral part of these financial statements.



# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	(IN THOUSANDS OF HRK)	
		2012	2011
<b>NET PROFIT FOR THE YEAR</b>		<b>8,129</b>	<b>12,466</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
NET INCREASE / (DECREASE) OF FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL ASSETS		21,106	(23,275)
DEFERRED TAX RECOGNISED IN EQUITY		(4,221)	4,655
<b>OTHER COMPREHENSIVE INCOME / (LOSS)</b>		<b>16,885</b>	<b>(18,620)</b>
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) AFTER TAX</b>		<b>25,014</b>	<b>(6,154)</b>

The accompanying accounting policies and notes on pages 43 to 97 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2012

(IN THOUSANDS OF HRK)

	NOTES	31 DECEMBER 2012	31 DECEMBER 2011
<b>ASSETS</b>			
CASH AND AMOUNTS DUE FROM BANKS	11	388,628	188,604
BALANCES WITH THE CROATIAN NATIONAL BANK	12	211,836	210,350
PLACEMENTS WITH OTHER BANKS	13	166,199	176,228
LOANS AND ADVANCES TO CUSTOMERS	14	1,772,645	1,893,621
FINANCIAL ASSETS AVAILABLE FOR SALE	15	340,593	293,958
FINANCIAL ASSETS HELD TO MATURITY	16	27,481	27,756
INVESTMENTS IN SUBSIDIARIES	19	4,770	3,570
INTANGIBLE ASSETS	17	31,787	20,696
PROPERTY AND EQUIPMENT	18	94,513	72,799
DEFERRED TAX ASSETS	9	6,619	9,700
OTHER ASSETS	20	13,141	14,468
<b>TOTAL ASSETS</b>		<b>3,058,212</b>	<b>2,911,750</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
AMOUNTS DUE TO OTHER BANKS	21	147,086	151,106
AMOUNTS DUE TO CUSTOMERS	22	2,199,134	2,150,584
OTHER BORROWED FUNDS	23	208,669	134,476
OTHER LIABILITIES	24	28,392	26,192
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	4,826	4,457
ISSUED HYBRID INSTRUMENTS	26	77,351	77,195
<b>TOTAL LIABILITIES</b>		<b>2,665,458</b>	<b>2,544,010</b>
<b>SHAREHOLDERS' EQUITY</b>			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(11,082)	(11,082)
OTHER RESERVES	28	125,192	95,841
PROFIT FOR THE YEAR		8,129	12,466
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>392,754</b>	<b>367,740</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>3,058,212</b>	<b>2,911,750</b>

The accompanying accounting policies and notes on pages 43 to 97 form an integral part of these financial statements.



# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

(IN THOUSANDS OF HRK)

	NOTES	2012	2011
<b>PROFIT FOR THE YEAR BEFORE TAXATION</b>		<b>10,214</b>	<b>15,636</b>
<b>ADJUSTMENTS FOR:</b>			
DEPRECIATION AND AMORTISATION		9,470	10,100
NET GAINS ON SALE OF NON-CURRENT TANGIBLE ASSETS		(195)	(860)
INCREASE IN PROVISIONS FOR LOANS AND ADVANCES AND OTHER PROVISIONS		6,283	21,122
DIVIDEND INCOME		(1,236)	(1,280)
NET FOREIGN EXCHANGE GAIN FROM ISSUED HYBRID INSTRUMENTS		156	-
<b>PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS</b>		<b>24,692</b>	<b>44,718</b>
<b>CHANGES IN OPERATING ASSETS</b>			
NET INCREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		(1,486)	(20,387)
NET DECREASE / (INCREASE) IN LOANS AND ADVANCES TO CUSTOMERS		117,465	(340,885)
NET (INCREASE) / DECREASE IN PLACEMENTS WITH BANKS		(16,898)	398
NET DECREASE IN OTHER ASSETS		797	572
INCREASE IN OTHER LIABILITIES		1,804	3,822
DECREASE IN AMOUNTS DUE TO OTHER BANKS		(4,020)	(3,459)
INCREASE IN DEPOSITS		48,550	42,843
INCOME TAXES PAID		(2,829)	(2,796)
<b>NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES</b>		<b>168,075</b>	<b>(275,174)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
PURCHASES OF PROPERTY AND EQUIPMENT		(42,285)	(15,648)
CASH RECEIPTS FROM DISPOSAL OF PROPERTY AND EQUIPMENT		205	1,021
NET (INCREASE) / DECREASE IN FINANCIAL ASSETS AVAILABLE FOR SALE		(28,602)	84,673
CASH RECEIPTS FROM DIVIDEND		1,236	1,280
INVESTMENTS HELD TO MATURITY		275	28,552
<b>NET CASH (USED IN) / GENERATED BY INVESTING ACTIVITIES</b>		<b>(69,171)</b>	<b>99,878</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
BORROWED FUNDS		74,193	(1,400)
ISSUED HYBRID INSTRUMENTS		-	77,195
<b>NET CASH GENERATED BY FINANCING ACTIVITIES</b>		<b>74,139</b>	<b>75,795</b>
<b>NET INCREASE / (DECREASE) IN CASH</b>		<b>173,097</b>	<b>(99,501)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>11</b>	<b>345,231</b>	<b>444,732</b>
<b>CASH AT END OF PERIOD</b>	<b>11</b>	<b>518,328</b>	<b>345,231</b>

The accompanying accounting policies and notes on pages 43 to 97 form an integral part of these financial statements.



## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(IN THOUSANDS OF HRK)

	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	OTHER RESERVES	PROFIT FOR THE YEAR	TOTAL
<b>BALANCE AT 1 JANUARY 2011</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>96,685</b>	<b>12,974</b>	<b>373,894</b>
ALLOCATION OF 2010 PROFIT	-	-	-	-	12,974	(12,974)	-
OTHER COMPREHENSIVE LOSS	-	-	-	-	(18,620)	-	(18,620)
PROFIT FOR THE YEAR	-	-	-	-	-	12,466	12,466
<b>BALANCE AT 31 DECEMBER 2011</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>91,039</b>	<b>12,466</b>	<b>367,740</b>
ALLOCATION OF 2011 PROFIT	-	-	-	-	12,466	(12,466)	-
OTHER COMPREHENSIVE INCOME	-	-	-	-	16,885	-	16,885
PROFIT FOR THE YEAR	-	-	-	-	-	8,129	8,129
<b>BALANCE AT 31 DECEMBER 2012</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>120,390</b>	<b>8,129</b>	<b>392,754</b>

The accompanying accounting policies and notes on pages 43 to 97 form an integral part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 1. GENERAL

### History and incorporation

Podravska banka d.d., Koprivnica ("the Bank") is incorporated in the Republic of Croatia and was registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3.

### Principal activity

As at 31 December 2012, the Bank was operating a total of 28 branches throughout the Republic of Croatia. The Bank's main areas of operation include:

1. Accepting deposits or other refundable funds from the public and approving loans out of those funds on its own account
2. Accepting deposits or other refundable funds
3. Approving loans and credits, including consumer credits and loans as well as mortgage credit and loans if allowed by a separate law, and financing of commercial businesses, including export trade financing on the basis of redemption at discount and without recourse of long-term receivables not yet due secured by financial instruments (forfeiting)
4. Purchase of receivables with or without recourse (factoring)
5. Financial lease
6. Issuing guarantees or other sureties
7. Trading, on its own account or on the account of customers, in:
  - money market instruments,
  - transferable securities,
  - foreign currencies, including exchange operations,
  - financial futures and options,
  - foreign-exchange and interest-rate instruments
8. Payment operation services, as follows:
  - 1) depositing of cash on payment accounts, as well as all operations required for managing payment accounts;
  - 2) raising cash from payment accounts, as well as all operations required for managing payment accounts;
  - 3) payment operation services, including transfers of cash into payment accounts with the user payment operation service providers or another payment operation service provider:
    - direct charging of accounts, including one-off direct payments from the accounts,
    - executing payment transactions using credit cards or similar instruments,
    - credit fund transfers, including standing orders
  - 4) payment transaction services using cash covered by credit lines provided to payment operation service users:
    - direct charging of accounts, including one-off direct payments from the accounts,
    - executing payment transactions using credit cards or similar instruments,
    - credit fund transfers, including standing orders
  - 5) issuance and/or acceptance of payment instruments
  - 6) money orders;
9. Loan related services, such as data collection, preparation of analyses and providing credit reports on legal entities and self-employed individuals
10. Providing and managing other payment security instruments, unless these services are deemed payment operation services in accordance with a separate law
11. Providing safe-deposit box services

12. Intermediation on money markets
13. Offering advisory services to legal entities covering capital structuring, business strategy and similar as well as providing services related to business acquisitions and acquisitions of shares in other companies
14. Issuing electronic money
15. Providing investment and ancillary services and activities in accordance with a separate capital market law, such as:
  - receiving and transmitting orders in relation to one or more financial instruments,
  - executing orders on behalf of customers,
  - own-account trading,
  - portfolio management,
  - investment consulting,
  - underwriting of financial instruments and/or placing of financial instruments without a firm commitment basis,
  - safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management,
  - granting credits or loans to an investor to allow him/her/it to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction,
  - advice on capital structure, industrial strategy and related matters, and advice and services relating to mergers and acquisitions of equity shares in companies,
  - foreign exchange services where these are connected to the provision of investment services,
  - investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments,
  - services related to underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis,
  - investment services and activities as well as ancillary services mentioned in this Article related to the underlying assets of the derivatives referred to in Article 3, paragraph 1, point 2, sub-point (d), indents 2, 3, 4 and 7, of this Act where these investment services and activities are connected to the provision of investment or ancillary services
16. Performing activities in connection with the sale of insurance policies in accordance with the applicable insurance regulations.

The operations of the Bank are overseen by the Supervisory Board. The members of the Supervisory Board of Podravska banka d.d., Koprivnica during 2012 were as follows:  
 Miljan Todorovic, President of the Supervisory Board  
 Sigilfredo Montinari, Deputy President of the Supervisory Board  
 Dario Montinari, Member of the Supervisory Board  
 Djuro Predovic, Member of the Supervisory Board  
 Dolly Predovic, Member of the Supervisory Board  
 Maurizio Dallochio, Member of the Supervisory Board  
 Filippo Disertori, Member of the Supervisory Board

The operations of the Bank are managed by the Management Board. The members of the Management Board during 2012 were as follows:  
 Julio Kuruc, President of the Management Board  
 Marijan Marušić, Member of the Management Board  
 Davorka Jakir, Member of the Management Board

The structure of the Bank's shareholders as at 31 December 2012 and 2011 is provided in Note 27. The Bank's shares are included on the Public Joint Stock Company Listing on the Zagreb Stock Exchange.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Bank's principal accounting policies is set out below.

### Basis of accounting

The Bank maintains its accounting records in Croatian kuna (HRK) and in accordance with the Croatian law and the accounting principles and practices observed by financial enterprises in Croatia.

### Statement of compliance

The financial statements have been prepared in accordance with the legal requirements applicable to accounting for banks in Croatia. In the Republic of Croatia, banking operations are carried out in accordance with the Credit Institutions Act, under which the financial reporting requirements for banks are specified by the Croatian National Bank ("the CNB"). These financial statements have been prepared in accordance with the CNB accounting requirements.

The CNB accounting requirements are based on International Financial Reporting Standards ("IFRS"). The key differences between the CNB accounting requirements and those provided in International Financial Reporting Standards include estimations of impairment losses on a portfolio basis for both balance sheet and off-balance sheet items not identified as individually impaired. The CNB requires from banks to recognise impairment losses on a portfolio basis in the range from 0.85% to 1.20% of qualifying items. As at 31 December 2012, the afore mentioned allowances amounted to HRK 26,190 thousand (2011: HRK 24,290 thousand) and expense of provisions for portfolio impairment losses in the income statement for the year ended 31 December 2012 amounted to HRK 1,900 thousand (2011: income of HRK 1,900 thousand).

According to IAS 39, future cash flows for groups of financial assets subject to a collective evaluation of impairment should be estimated on the basis of historical loss data about assets with similar credit risk characteristics and should not be limited from any aspect. The Bank is in the process of collecting data about past experience in unidentified losses in various portfolios, considering the appropriate economic conditions to adjust that data, to establish the basis for estimating the level of unidentified losses existing at the reporting date in accordance with the IFRS requirements.

The Management Board considers that unidentified impairment losses as determined on this basis would not exceed the losses determined in accordance with the CNB accounting requirements.

### Basis of preparation

The Bank's financial statements are prepared in thousands of Croatian kuna (HRK) and all values have been rounded to the nearest thousand, unless stated otherwise.

The financial statements for the year ended 31 December 2012 have been prepared under historical cost convention, except for financial assets and liabilities carried at fair value through profit or loss in accordance with IAS 39 "Financial instruments: Recognition and Measurement". The accounting policies have been consistently applied, unless stated otherwise.

The financial statements of the Bank have been prepared under the going-concern assumption.

In the preparation of the financial statements, the directors are required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated

assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The accounting policies applied are consistent with those from prior years.

The Bank also expects that, in the ordinary course of updating its accounting regulations, the CNB will take into account the following Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, which were in issue as of the date on which these financial statements were authorised for issue, but which are applicable to entities reporting under IFRS in periods commencing after 31 December 2012, and which may have an impact on the Bank.

#### **Standards and Interpretations effective in the current period**

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

- Amendments to IAS 1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009-2011 Cycle published in May 2012) (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 Disclosures - Transfers of Financial Assets
- Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)

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

#### **Standards and Interpretations in issue not yet adopted**

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

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015)
- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 12 Disclosures of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013)
- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)
- IAS 19 (as revised in 2011) Employee Benefits (effective for annual periods beginning on or after 1 January 2013)



- IAS 27 (as revised in 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2013)
- Amendments to IAS 10 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013).

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

### Reporting currency

At 31 December 2012, the effective exchange rate of the Croatian Kuna for 1 Euro was HRK 7.545624 and for 1 American dollar (USD) HRK 5.726794 (31 December 2011: EUR 1 = HRK 7.530420; USD 1 = HRK 5.819940).

### Interest and similar 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.

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

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees receivable are recognised when earned. Dividend income is recognised after being declared.

### Fee and commission income

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

Fees and commissions are recognised when the related service is rendered. Loan origination fees for loans which are likely of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan.

### Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realised gains on securities classified as assets available



for sale, foreign exchange revaluation, gains from disposal of fixed assets, dividends earned and other income.

## Foreign currencies

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

The Bank has receivables and liabilities originating in HRK, which are linked to foreign currencies with a one-way currency clause. Due to this clause the Bank has an option to revalue the asset by the higher of: foreign exchange rate valid as of the date of repayments of the receivables by the debtors, or foreign exchange rate valid as of the date of origination of the financial instrument. The counterparty has this option if the liability is linked to this clause. 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 9 months are generally not available. As such the Bank revalues its receivables and liabilities linked to this clause by the agreed reference rate valid at the reporting date or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

## Staff costs

Provisions for bonuses are recognised when the Bank has a constructive obligation arising from a contract or past practice. A provision is made for accrued vacation days by reference to the unused vacation days at the reporting date.

## Personnel social contributions

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

	2012	2011
CONTRIBUTIONS FOR PENSION FUND	20%	20%
CONTRIBUTIONS FOR STATE HEALTH FUND	13%	15%
CONTRIBUTIONS FOR THE STATE EMPLOYMENT BUREAU	1.7%	1.7%
INJURIES AT WORK	0.5%	0.5%

The Bank is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds.

The contributions on behalf of employees and on behalf of employer are charged to expenses in the period to which they relate (see Note 7).

In the course of normal operations, the Bank makes regular payments of contributions on behalf of its employees who are members of mandatory pension funds as provided by law. The mandatory pension contributions are included in the payroll costs when they are accrued. The Bank has no additional retirement benefit plan and, therefore, has no further obligations in respect of employee retirement benefits. In addition, the Bank has no obligation to provide any post-employment benefits to its employees.

## Taxation

The corporate income tax payable is provided on taxable profits for the year at the current rate. Deferred taxes are calculated using the balance sheet liability method.



Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the expected tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets.

The Bank is subject to a tax rate of 20% in accordance with the Income Tax Law.

### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days of remaining maturity, including cash and current accounts with other banks.

### Financial instruments

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

The Bank recognises financial assets and liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy.

Financial assets and liabilities are classified as "Financial assets at fair value through profit or loss", "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Regular way transactions with financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value on the underlying asset or liability are recognised starting from trade date.

The Bank recognises financial assets and financial liabilities initially at their fair value plus, except for financial assets at fair value through profit and loss, transaction costs directly attributable to the acquisition or delivery of a financial asset or a financial liability.

### Financial assets at fair value through profit or loss

Financial instruments included in this portfolio are instruments held for trading, acquired to generate profits from short-term fluctuations in prices or brokerage fees, or are securities included in a portfolio with a pattern of short-term profit taking.

Such instruments are initially recognised at cost and subsequently measured at fair value, which is based on the quoted bid prices in an active market.

### Held to maturity assets

Financial instruments included in this portfolio are non-derivative financial assets with fixed or determinable payments and fixed maturity, where Management has both the intent and the ability to hold to maturity. All held-to-maturity financial instruments are carried at amortised cost, less any provision for impairment. Interest earned from held-to-maturity financial instruments is reported as interest income and recognised based on the effective interest rate, 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.

The Bank assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Bank recognises allowances through the income statement.

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 recognised, 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 recognised.

### Loans and receivables

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

Loans and receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction 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 recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

### Impairment of financial assets

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is 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.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include: delinquency in contractual payments of principal or interest, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions, initiation of bankruptcy proceedings and deterioration of the borrower's competitive position.

If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes 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 recognised are not included in a collective assessment of impairment.

When a loan is uncollectible, it is written-off against the related provision for loan impairment. Such loans are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses. Based on CNB requirements, the Bank is recognising impairment losses on a portfolio basis in the range from 0.85% to 1.20% of qualifying items.

### Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available-for-sale financial assets 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. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has substantially transferred all risks and rewards of ownership. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

For available-for-sale assets, gains and losses arising from changes in fair value are recognised directly in equity under the caption "Reserves and retained profits", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss 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.

Interest earned whilst holding available-for-sale securities is accrued on a monthly 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 equity 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.

### Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. The real estate is stated at the lower of cost of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement. Real estate used as collateral for loans given to customers can be sold only in case it is subject to enforcement procedure.

### Sale and repurchase agreements

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

### Property and equipment

Property and equipment are stated at cost less accumulated depreciation less any provision for impairment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the period in which the costs are incurred. Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, property and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment. Property and equipment is depreciated on a straight-line basis over the useful life of the assets as follows:

	2012	2011
BUILDINGS	40	40
FURNITURE	5	5
COMPUTERS	4	4
MOTOR VEHICLES	5	5
EQUIPMENT AND OTHER ASSETS	2 - 10	2 - 10

Land is not depreciated. The asset's residual values useful lives and methods are reviewed, and adjusted if appropriate, at least at every financial year end. The



carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

## Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed at each reporting period.

Intangible assets are amortised over the periods of 4 years (software). Amortisation period and amortisation method are reviewed at least at every year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

## Impairment of non-financial assets

Property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property and equipment and intangibles carried at cost and treated as a revaluation decrease for assets that are carried at their revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset. The recoverable amount is the higher of an asset's net selling price and its value in use.

## Provisions for contingent liabilities

Provisions are recognised when the Bank has a present legal or contractual obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## Managed funds

The Bank manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Bank's statement of financial position (the details are set out in Note 29).

## Dividend policy

The Bank has a policy to pay dividends to its shareholders based on the audited annual results.

## Significant accounting judgements and estimates

### Judgements

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

### Held to maturity investments

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

**Estimating uncertainty**

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

**Allowances for impairment of loans and receivables**

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little historical data available relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

**Provisions for court cases**

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

**Income tax**

The Bank's profit is subject to corporate income tax in Croatia. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. These calculations that support the tax return may be subject to review and approval by the local tax authorities.



### 3. INTEREST AND SIMILAR INCOME AND EXPENSE

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>INTEREST INCOME</b>		
COMPANIES	105,676	99,741
CITIZENS	48,935	56,220
SECURITIES	11,649	18,197
BANKS	2,246	2,605
PUBLIC AND OTHER SECTORS	3,416	3,100
	<b>171,922</b>	<b>179,863</b>
<b>INTEREST EXPENSE</b>		
COMPANIES	(11,816)	(12,572)
CITIZENS	(55,487)	(50,272)
BANKS	(6,559)	(4,155)
PUBLIC AND OTHER SECTORS	(3,590)	(3,379)
	<b>(77,452)</b>	<b>(70,378)</b>
<b>NET INTEREST INCOME</b>	<b>94,470</b>	<b>109,485</b>

Interest income also includes deferred fees on loans in total amount of HRK 13,963 thousand (2011: HRK 13,307 thousand), which are recognised applying the effective interest rate methodology.

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>INTEREST INCOME ON:</b>		
SUBSTANDARD LOANS	3,715	2,895
NON-PERFORMING LOANS	2,383	1,045
	<b>6,098</b>	<b>3,940</b>

## 4. FEE AND COMMISSION INCOME AND EXPENSE

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>FEE AND COMMISSION INCOME</b>		
PAYMENT TRANSACTION FEES AND COMMISSIONS	13,067	13,684
FEES AND COMMISSIONS ON CREDIT CARD SERVICES	12,837	13,060
FEES AND COMMISSIONS FROM LENDING OPERATIONS	3,126	4,438
FEES AND COMMISSIONS ON SECURITIES TRADING	805	1,102
OTHER FEES AND COMMISSION INCOME	4,543	4,461
	<b>34,378</b>	<b>36,745</b>
<b>FEE AND COMMISSION EXPENSE</b>		
CASH OPERATION FEES AND COMMISSIONS	(5,433)	(5,280)
PAYMENT TRANSACTION CHARGES	(2,698)	(2,868)
INTERBANK SERVICE FEES	(499)	(537)
OTHER FEE AND COMMISSION EXPENSE	(2,102)	(2,563)
	<b>(10,732)</b>	<b>(11,248)</b>
<b>NET FEE AND COMMISSION INCOME</b>	<b>23,646</b>	<b>25,497</b>

Other fee and commission income consist mainly of fees collected on the Bank's counters from customers for the payments made and amounted to HRK 1,931 thousand (2011: HRK 1,975 thousand).

## 5. OTHER OPERATING INCOME, NET

	(IN THOUSANDS OF HRK)	
	2012	2011
FOREIGN EXCHANGE TRADING GAIN	7,581	9,169
REFUND OF COURT COSTS	1,784	1,628
NET GAIN / (LOSS) ON DEALINGS IN AVAILABLE-FOR-SALE SECURITIES	1,583	(3,660)
DIVIDEND INCOME	1,236	1,280
LEASE INCOME	366	641
NET GAIN ON DISPOSAL OF PROPERTY AND EQUIPMENT	195	860
NET GAIN / (LOSS) ON SALE OF REPOSSESSED ASSETS	119	(85)
INCOME ON SUBSEQUENT COLLECTION OF LOANS PREVIOUSLY WRITTEN OFF	36	13
FOREIGN EXCHANGE REVALUATION	(26)	724
OTHER INCOME	853	837
	<b>13,727</b>	<b>11,407</b>



## 6. IMPAIRMENT LOSSES AND PROVISIONS

	(IN THOUSANDS OF HRK)	
	2012	2011
PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS (NOTE 14D)	(3,546)	(19,446)
IMPAIRMENT OF EQUITY SECURITIES (NOTE 15E)	(3,073)	-
COLLECTION OF SUSPENDED INTEREST RECEIVABLES (NOTE 14D)	1,235	304
PROVISIONS FOR GUARANTEES AND COMMITMENTS (NOTE 25)	(369)	(1,557)
OTHER ASSETS (NOTE 20)	(530)	(423)
	<b>(6,283)</b>	<b>(21,122)</b>

## 7. ADMINISTRATIVE EXPENSES

	(IN THOUSANDS OF HRK)	
	2012	2011
STAFF COSTS	52,804	51,039
MATERIALS AND SERVICES	33,141	30,808
RENTALS	9,288	11,182
DEPOSIT INSURANCE PREMIUM	4,461	4,364
TAXES AND CONTRIBUTIONS	1,258	1,147
OTHER EXPENSES	4,924	991
	<b>105,876</b>	<b>99,531</b>

Other operating expenses include: cost of advertising, sponsorships, donations and other costs.

### Staff costs

	(IN THOUSANDS OF HRK)	
	2012	2011
NET SALARIES	27,725	27,457
PENSION INSURANCE COSTS	7,472	7,483
HEALTH INSURANCE COSTS	5,789	6,257
OTHER COMPULSORY CONTRIBUTIONS	932	918
TAXES AND SURTAXES	7,175	6,770
PROVISIONS FOR EMPLOYEE BENEFITS	409	750
OTHER STAFF COSTS	3,302	1,404
	<b>52,804</b>	<b>51,039</b>

At 31 December 2012, the number of staff employed by the Bank was 290 (2011: 314 employees).

## 8. DEPRECIATION AND AMORTISATION

	(IN THOUSANDS OF HRK)	
	2012	2011
DEPRECIATION OF PROPERTY AND EQUIPMENT	7,650	8,311
DEPRECIATION OF LEASEHOLD IMPROVEMENTS	990	1,034
AMORTISATION OF INTANGIBLE ASSETS	830	755
	<b>9,470</b>	<b>10,100</b>

## 9. INCOME TAX EXPENSE

Income tax is determined by applying the rate of 20% to taxable profits (2011: 20%).

Tax returns remain not final and are subject to supervisory inspection for at least a three-year period. Management states that the Bank has made adequate provisions for tax obligations in the presented financial statements.

Tax expense comprises the following:

	(IN THOUSANDS OF HRK)	
	2012	2011
CURRENT TAX EXPENSE	3,225	3,043
DEFERRED TAX EXPENSE/ (INCOME)	(1,140)	127
<b>INCOME TAX EXPENSE</b>	<b>2,085</b>	<b>3,170</b>



The reconciliation between accounting profit and taxable profit is set out below:

	(IN THOUSANDS OF HRK)	
	2012	2011
PROFIT BEFORE TAXATION	10,214	15,636
STATUTORY TAX RATE	20%	20%
<b>INCOME TAX CALCULATED AT 20%</b>	<b>2,043</b>	<b>3,127</b>
<b>TEMPORARY DIFFERENCES</b>		
UNREALISED LOSSES ON FINANCIAL ASSETS	-	(1,016)
DEFERRED LOAN ORIGATION FEES	(844)	383
IMPAIRMENT OF FINANCIAL ASSETS	3,073	-
DEFERRED TERMINATION BENEFITS	3,473	-
<b>NET TEMPORARY DIFFERENCES</b>	<b>5,702</b>	<b>(633)</b>
<b>PERMANENT DIFFERENCES</b>		
<b>TAX EFFECT OF NON-TAXABLE INCOME</b>	<b>(1,236)</b>	<b>(1,280)</b>
DIVIDENDS RECEIVED	(1,236)	(1,280)
<b>TAX EFFECT OF EXPENSES NOT RECOGNISED FOR TAX PURPOSES</b>	<b>1,446</b>	<b>1,492</b>
ENTERTAINMENT AND PERSONAL TRANSPORTATION	443	511
DEPRECIATION ABOVE PRESCRIBED AMOUNTS	383	377
WRITE-OFFS	593	590
OTHER	27	14
<b>NET PERMANENT DIFFERENCES</b>	<b>210</b>	<b>212</b>
TAXABLE PROFIT	16,126	15,215
TAX BASE	16,126	15,215
TAX RATE	20%	20%
TAX LIABILITY	3,225	3,043
<b>CURRENT TAX EXPENSE</b>	<b>3,225</b>	<b>3,043</b>
<b>EFFECTIVE TAX RATE</b>	<b>31.57%</b>	<b>19.46%</b>

Movements in deferred tax assets are as follows:

	(IN THOUSANDS OF HRK)			
	2012			
	OPENING BALANCE	CHARGED TO INCOME STATEMENT	CHARGED TO EQUITY	CLOSING BALANCE
LOSSES ON FINANCIAL ASSETS	610	-	-	610
LOSSES ON OTHER INVESTMENTS	43	-	-	43
DEFERRED LOAN ORIGATION FEES	2,064	(169)	-	1,895
FINANCIAL ASSETS AVAILABLE FOR SALE	6,983	-	(4,221)	2,762
IMPAIRMENT OF FINANCIAL ASSETS	-	614	-	614
DEFERRED TERMINATION BENEFITS	-	695	-	695
	<b>9,700</b>	<b>1,140</b>	<b>(4,221)</b>	<b>6,619</b>

(IN THOUSANDS OF HRK)

2011

	OPENING BALANCE	CHARGED TO INCOME STATEMENT	CHARGED TO EQUITY	CLOSING BALANCE
LOSSES ON FINANCIAL ASSETS	813	(203)	-	610
LOSSES ON OTHER INVESTMENTS	43	-	-	43
DEFERRED LOAN ORIGATION FEES	1,987	77	-	2,064
DEFERRED OTHER FEES	-	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	2,328	-	4,655	6,983
	<b>5,171</b>	<b>(126)</b>	<b>4,655</b>	<b>9,700</b>

## 10. EARNINGS PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders after deducting preference dividends.

(IN THOUSANDS OF HRK)

	2012	2011
PROFIT FOR THE YEAR (IN HRK '000)	8,129	12,466
WEIGHTED AVERAGE NUMBER OF SHARES	668,749	668,749
<b>EARNINGS PER SHARE (IN HRK) – BASIC AND DILUTED</b>	<b>12.16</b>	<b>18.64</b>

## 11. CASH AND AMOUNTS DUE FROM BANKS

(IN THOUSANDS OF HRK)

	31 DECEMBER 2012	31 DECEMBER 2011
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	156,952	83,804
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	123,836	52,095
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	54,550	4,772
CASH IN HAND	41,044	35,927
OTHER ITEMS	12,246	12,006
	<b>388,628</b>	<b>188,604</b>



Cash and cash equivalents included in the cash flow statement:

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	156,952	83,804
CASH EQUIVALENTS - DEPOSITS WITH OTHER BANKS (NOTE 13)	129,700	156,627
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	123,836	52,095
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	54,550	4,772
CASH IN HAND	41,044	35,927
OTHER ITEMS	12,246	12,006
	<b>518,328</b>	<b>345,231</b>

## 12. BALANCES WITH THE CROATIAN NATIONAL BANK

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
OBLIGATORY AND MARGINAL RESERVE	211,836	210,350

Obligatory reserve represents the amount of liquid assets required to be deposited with the Croatian National Bank. At the end of each month the obligatory reserve is calculated on certain balances of attracted funds for the previous month. The obligatory reserve is calculated as 13.5% of HRK denominated and of foreign currency denominated balances (in 2011: 14%). From that amount the banks should maintain at least 70% for the kuna obligatory reserve and 60% for the obligatory reserve in foreign currency with the Croatian National Bank. The percentage of the obligatory reserve funds denominated in Croatian kuna includes a portion of the foreign currency denominated funds maintained in kuna.

Balances with the Croatian National Bank are not bearing any interest. The banks are required to maintain 75% of the foreign currency obligatory reserve in HRK.

## 13. PLACEMENTS WITH OTHER BANKS

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
TERM DEPOSITS	129,700	156,627
LOANS TO HBOR	18,926	19,601
LOANS TO OTHER BANKS	18,173	600
	<b>166,799</b>	<b>176,828</b>
IMPAIRMENT ALLOWANCE	(600)	(600)
	<b>166,199</b>	<b>176,228</b>

Term deposits are short-term deposits with local banks bearing an interest rate of 0.35 to 1.00% (in 2011: 0.10 to 4.25%). Of the total term deposits with other banks, deposits with foreign banks in 2011 amount to HRK 79,156 thousand.

Pursuant to a Club loan between HBOR (the Croatian bank for reconstruction and development) and lead arrangers and mandated lead arrangers and lenders and Privredna banka Zagreb, as the Agent, the Bank approved a loan of HRK 20,000 thousand in 2010. The interest rate on the utilised Tranche A facility of HRK 9,737 thousand was 3.00%, on the utilised Tranche A+ facility of HRK 9,189 thousand it was 2.50%. Upon the expiry of the utilisation period, the undrawn portion of HRK 249 thousand was returned to the Bank in July 2012 (2011: the interest rate on the undrawn funds under Tranche A of 9,737 thousand was 3.00% and on the drawn funds under Tranche A+ of HRK 8,329 thousand it was 2.50%, whereas the interest rate on the undrawn portion of that tranche of HRK 1,535 thousand was 0.75%).

### Movements in impairment allowance

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>AT 1 JANUARY</b>	<b>600</b>	<b>600</b>
WRITE OFF	-	-
<b>AT 31 DECEMBER</b>	<b>600</b>	<b>600</b>

The impairment allowance presented above relates to domestic banks in bankruptcy.

### Geographical analysis

The analysis includes term deposits and current accounts with foreign banks:

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
GERMANY	97,862	12,033
ITALY	4,966	24,011
UNITED STATES OF AMERICA	4,418	24,808
AUSTRIA	3,829	900
BELGIUM	2,885	41,977
AUSTRALIA	2,859	3,069
CANADA	2,769	770
SWEDEN	1,403	370
NETHERLANDS	1,133	1,334
MONTE NEGRO	995	16,177
SWITZERLAND	268	4,860
SPAIN	216	310
SLOVENIA	215	600
DENMARK	18	32
	<b>123,836</b>	<b>131,251</b>



## 14. LOANS TO CUSTOMERS

### a) Analysis by type of customer

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
<b>CITIZENS</b>		
- HRK DENOMINATED	552,272	598,723
- FOREIGN CURRENCY DENOMINATED	26,154	12,281
	<b>578,426</b>	<b>611,004</b>
<b>COMPANIES</b>		
- HRK DENOMINATED	1,157,948	1,260,783
- FOREIGN CURRENCY DENOMINATED	201,256	187,886
	<b>1,359,204</b>	<b>1,448,669</b>
	<b>1,937,630</b>	<b>2,059,673</b>
IMPAIRMENT ALLOWANCE	(164,985)	(166,052)
	<b>1,772,645</b>	<b>1,893,621</b>

### b) Analysis by sector

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
CITIZENS	578,426	611,004
WHOLESALE AND RETAIL TRADE	508,132	614,336
PROCESSING INDUSTRY	203,329	253,967
REAL ESTATE ACTIVITIES	27,952	52,373
TRANSPORT, STORAGE AND COMMUNICATION	36,808	45,479
AGRICULTURE AND FORESTRY	122,032	106,204
CONSTRUCTION	103,938	96,204
FOOD AND BEVERAGE INDUSTRY	154,226	178,747
ENERGY (ELECTRICITY, GAS, WATER)	1,463	2,400
HOTELS AND RESTAURANTS	48,516	17,847
OTHER	152,808	81,112
	<b>1,937,630</b>	<b>2,059,673</b>
IMPAIRMENT ALLOWANCE	(164,985)	(166,052)
	<b>1,772,645</b>	<b>1,893,621</b>

### c) Changes in principal of substandard and bad loans

(IN THOUSANDS OF HRK)

	2012		2011	
	SUBSTANDARD LOANS	BAD LOANS	SUBSTANDARD LOANS	BAD LOANS
<b>AS OF 1 JANUARY</b>	<b>105,318</b>	<b>111,924</b>	<b>109,617</b>	<b>94,145</b>
TRANSFER FROM PERFORMING LOANS	131,665	1,226	36,173	6,720
TRANSFER FROM BAD LOANS	9	(9)	5,397	(5,397)
TRANSFER FROM SUBSTANDARD LOANS	(6,621)	6,621	(18,665)	18,665
TRANSFER TO PERFORMING LOANS	1,017	55	(2,252)	(104)
AMOUNTS COLLECTED	(15,359)	(3,710)	(24,952)	(1,613)
AMOUNTS WRITTEN OFF	-	(5,162)	-	(492)
<b>AS OF 31 DECEMBER</b>	<b>216,029</b>	<b>110,945</b>	<b>105,318</b>	<b>111,924</b>

On 31 December 2012, the gross principal amount of non-performing loans was HRK 110,945 thousand (2011: HRK 111,924 thousand). During 2012, HRK 3,710 thousand of non-performing loans was collected (2011: HRK 1,613 thousand). Also, during 2012 the amount of HRK 2,157 thousand of loans to companies and sole traders were renegotiated (in 2011: HRK 3,188 thousand).

### d) Provisions for losses

(IN THOUSANDS OF HRK)

	2012	2011
<b>BALANCE AT 1 JANUARY</b>	<b>166,052</b>	<b>147,098</b>
NEW PROVISIONS MADE	18,601	41,186
AMOUNTS COLLECTED	(16,527)	(20,675)
FOREIGN EXCHANGE DIFFERENCES	237	(1,369)
WRITE OFFS	(4,613)	(492)
INCREASE OF PROVISIONS FOR INTEREST RECEIVABLES	1,235	304
<b>BALANCE AT 31 DECEMBER</b>	<b>164,985</b>	<b>166,052</b>

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to avoid undue concentration in a single industry. Where required, the Bank obtains acceptable collateral to reduce the level of credit risk.



## 15. FINANCIAL ASSETS AVAILABLE FOR SALE

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
TREASURY BILLS OF THE REPUBLIC OF CROATIA	29,563	495
COMMERCIAL BILLS	-	9,538
BONDS	208,665	190,715
UNITS IN INVESTMENT FUNDS	53,655	43,626
EQUITY SECURITIES	53,009	50,810
	<b>344,892</b>	<b>295,184</b>
IMPAIRMENT ALLOWANCE	(4,299)	(1,226)
	<b>340,593</b>	<b>293,958</b>

Investments in debt securities are shown as follows:

### a) Treasury bills of the Republic of Croatia

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>BALANCE AT 1 JANUARY</b>	<b>495</b>	-
PURCHASE	94,363	989
COLLECTION	(65,620)	(494)
REALISED GAIN	325	-
<b>BALANCE AT 31 DECEMBER</b>	<b>29,563</b>	<b>495</b>

### b) Commercial bills

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>BALANCE AT 1 JANUARY</b>	<b>9,538</b>	<b>1,410</b>
PURCHASE	-	9,222
COLLECTION	(9,538)	(1,094)
<b>BALANCE AT 31 DECEMBER</b>	<b>-</b>	<b>9,538</b>

### c) Bonds

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>BALANCE AT 1 JANUARY</b>	<b>190,714</b>	<b>333,997</b>
PURCHASE	131,369	179,748
COLLECTION	(128,793)	(317,958)
REALISED GAIN / (LOSS)	970	(2,155)
CHANGES IN FAIR VALUE	14,405	(2,917)
<b>BALANCE AT 31 DECEMBER</b>	<b>208,665</b>	<b>190,715</b>

The table below presents the debt portfolio structure:

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
<b>BONDS OF DOMESTIC ISSUERS</b>		
- MINISTRY OF FINANCE OF THE REPUBLIC OF CROATIA	14,108	23,255
- FINANCIAL INSTITUTIONS	9,653	-
- NON FINANCIAL INSTITUTIONS	67,621	38,878
	<b>91,382</b>	<b>62,133</b>
<b>BONDS OF FOREIGN ISSUERS</b>		
- FOREIGN GOVERNMENTS	50,628	52,202
- FINANCIAL INSTITUTIONS	59,252	69,087
- NON FINANCIAL INSTITUTIONS	7,403	7,293
	<b>117,283</b>	<b>128,582</b>
	<b>208,665</b>	<b>190,715</b>

Investments in equity securities are shown as follows:

#### d) Units in investment funds

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>BALANCE AT 1 JANUARY</b>	<b>43,626</b>	<b>4,557</b>
PURCHASE	4,790	47,619
REALISED GAIN / (LOSS)	4	(1,505)
CHANGES IN THE FAIR VALUE	5,235	(7,045)
<b>BALANCE AT 31 DECEMBER</b>	<b>53,655</b>	<b>43,626</b>

The investment in POBA ICO Equity, an open-end investment fund with a public offering in liquidation, was realised in 2011 in accordance with the Decision on the Liquidation of the Fund.

#### e) Equity securities

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
QUOTED SECURITIES	47,825	48,292
UNQUOTED SECURITIES	5,184	2,518
	<b>53,009</b>	<b>50,810</b>
IMPAIRMENT ALLOWANCE	(4,299)	(1,226)
<b>TOTAL</b>	<b>48,710</b>	<b>49,584</b>



Changes in equities during the year:

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>BALANCE AT 1 JANUARY</b>	<b>49,584</b>	<b>61,942</b>
PURCHASES	466	955
REALISED GAIN	267	-
MOVEMENT IN THE FAIR VALUE	1,466	(13,313)
IMPAIRMENT ALLOWANCE	(3,073)	-
<b>BALANCE AT 31 DECEMBER</b>	<b>48,710</b>	<b>49,584</b>

The table below discloses details of the equity investment portfolio:

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
<b>EQUITY INVESTMENTS OF DOMESTIC ISSUERS</b>		
- FINANCIAL INSTITUTIONS	5,930	5,857
- NON FINANCIAL INSTITUTIONS	12,643	13,873
	<b>18,573</b>	<b>19,730</b>
<b>EQUITY INVESTMENTS OF FOREIGN ISSUERS</b>		
- FINANCIAL INSTITUTIONS	30,300	27,618
- NON FINANCIAL INSTITUTIONS	4,136	3,462
	<b>34,436</b>	<b>31,080</b>
	<b>53,009</b>	<b>50,810</b>
IMPAIRMENT ALLOWANCE	(4,299)	(1,226)
	<b>48,710</b>	<b>49,584</b>

**e) Revaluation reserve for financial assets available for sale**

	(IN THOUSANDS OF HRK)	
TYPE OF SECURITY	31 DECEMBER 2012	31 DECEMBER 2011
DEBT SECURITY	2,988	(11,417)
INVESTMENT IN INVESTMENT FUNDS	(2,737)	(7,972)
EQUITY SECURITY	(14,061)	(15,527)
CALCULATED DEFERRED TAX	2,762	6,983
<b>TOTAL REVALUATION RESERVE</b>	<b>(11,048)</b>	<b>(27,933)</b>

### Movements in the revaluation reserve

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>BALANCE AT 1 JANUARY</b>	<b>(27,933)</b>	<b>(9,313)</b>
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	14,405	(2,917)
CHANGE IN FAIR VALUE OF INVESTMENT IN INVESTMENT FUNDS	5,235	(7,045)
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	1,466	(13,313)
DEFERRED TAX RECOGNISED IN EQUITY	(4,221)	4,655
<b>BALANCE AT 31 DECEMBER</b>	<b>(11,048)</b>	<b>(27,933)</b>

## 16. FINANCIAL ASSETS HELD TO MATURITY

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
BONDS OF THE REPUBLIC OF CROATIA	27,481	27,756

### Movements in held-to-maturity assets

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>BALANCE AT 1 JANUARY</b>	<b>27,756</b>	<b>56,308</b>
PURCHASE	(275)	1,911
COLLECTION	-	(30,463)
<b>BALANCE AT 31 DECEMBER</b>	<b>27,481</b>	<b>27,756</b>



## 17. INTANGIBLE ASSETS

(IN THOUSANDS OF HRK)

	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
<b>COST OR VALUATION</b>				
<b>BALANCE AT 1 JANUARY 2011</b>	<b>11,324</b>	<b>16,867</b>	<b>1,441</b>	<b>29,632</b>
ADDITIONS	-	-	660	660
DISPOSALS AND RETIREMENTS	-	-	-	-
TRANSFER FROM ASSETS UNDER DEVELOPMENT	69	-	(69)	-
<b>BALANCE AT 31 DECEMBER 2011</b>	<b>11,393</b>	<b>16,867</b>	<b>2,032</b>	<b>30,292</b>
ADDITIONS	-	-	11,921	11,921
DISPOSALS AND RETIREMENTS	-	-	-	-
TRANSFER FROM ASSETS UNDER DEVELOPMENT	2,729	-	(2,729)	-
<b>BALANCE AT 31 DECEMBER 2012</b>	<b>14,122</b>	<b>16,867</b>	<b>11,224</b>	<b>42,213</b>
<b>ACCUMULATED AMORTISATION</b>				
<b>BALANCE AT 1 JANUARY 2011</b>	<b>8,841</b>	-	-	<b>8,841</b>
CHARGE FOR THE YEAR	755	-	-	755
DISPOSALS AND RETIREMENTS	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2011</b>	<b>9,596</b>	-	-	<b>9,596</b>
CHARGE FOR THE YEAR	830	-	-	830
DISPOSALS AND RETIREMENTS	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2012</b>	<b>10,426</b>	-	-	<b>10,426</b>
<b>NET BOOK VALUE</b>				
<b>AT 31 DECEMBER 2012</b>	<b>3,696</b>	<b>16,867</b>	<b>11,224</b>	<b>31,787</b>
<b>AT 31 DECEMBER 2011</b>	<b>1,797</b>	<b>16,867</b>	<b>2,032</b>	<b>20,696</b>

Goodwill has been allocated to the cash generating units acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined on the basis of profitability calculation. For the purposes of calculation, cash flow forecasts have been developed on the basis of financial projection over a time horizon of five years.

The budgeted gross margin has been determined on the basis of past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment.

## 18. PROPERTY AND EQUIPMENT

(IN THOUSANDS OF HRK)

COST OR VALUATION	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
<b>BALANCE AT 1 JANUARY 2011</b>	<b>91,062</b>	<b>46,885</b>	<b>6,148</b>	<b>37,745</b>	<b>12,466</b>	-	<b>194,306</b>
ADDITIONS	-	-	-	-	-	14,988	14,988
TRANSFER FROM ASSETS UNDER CONSTRUCTION	-	1,298	1,504	669	642	(4,113)	-
DISPOSALS AND RETIREMENTS	-	(113)	(2,971)	(414)	(1,109)	-	(4,607)
<b>BALANCE AT 31 DECEMBER 2011</b>	<b>91,062</b>	<b>48,070</b>	<b>4,681</b>	<b>38,000</b>	<b>11,999</b>	<b>10,875</b>	<b>204,687</b>
ADDITIONS	-	-	-	-	-	30,364	30,364
TRANSFER FROM ASSETS UNDER CONSTRUCTION	32,357	1,981	-	6,482	-	(40,820)	-
DISPOSALS AND RETIREMENTS	-	(3,935)	(459)	(1,791)	(850)	-	(7,035)
<b>BALANCE AT 31 DECEMBER 2012</b>	<b>123,419</b>	<b>46,116</b>	<b>4,222</b>	<b>42,691</b>	<b>11,149</b>	<b>419</b>	<b>228,016</b>
<b>ACCUMULATED DEPRECIATION</b>							
<b>BALANCE AT 1 JANUARY 2011</b>	<b>40,156</b>	<b>41,420</b>	<b>4,378</b>	<b>31,408</b>	<b>9,627</b>	-	<b>126,989</b>
CHARGE FOR THE YEAR	1,681	2,892	1,013	2,725	1,034	-	9,345
DISPOSALS AND RETIREMENTS	-	(113)	(2,811)	(413)	(1,109)	-	(4,446)
<b>BALANCE AT 31 DECEMBER 2011</b>	<b>41,837</b>	<b>44,199</b>	<b>2,580</b>	<b>33,720</b>	<b>9,552</b>	-	<b>131,888</b>
CHARGE FOR THE YEAR	2,189	2,126	670	2,665	990	-	8,640
DISPOSALS AND RETIREMENTS	-	(3,935)	(452)	(1,791)	(847)	-	(7,025)
<b>BALANCE AT 31 DECEMBER 2012</b>	<b>44,026</b>	<b>42,390</b>	<b>2,798</b>	<b>34,594</b>	<b>9,695</b>	-	<b>133,503</b>
<b>NET BOOK VALUE</b>							
<b>AT 31 DECEMBER 2012</b>	<b>79,393</b>	<b>3,726</b>	<b>1,424</b>	<b>8,097</b>	<b>1,454</b>	<b>419</b>	<b>94,513</b>
<b>AT 31 DECEMBER 2011</b>	<b>49,225</b>	<b>3,871</b>	<b>2,101</b>	<b>4,280</b>	<b>2,447</b>	<b>10,875</b>	<b>72,799</b>

The Bank has no tangible assets pledged as collateral for deposits from corporate customers (2011: The Bank has no tangible assets pledged as collateral for deposits from corporate customers).



## 19. INVESTMENTS IN SUBSIDIARIES

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>BALANCE 1 JANUARY</b>	<b>3,570</b>	<b>3,570</b>
INVESTMENT	1,200	-
<b>BALANCE 31 DECEMBER</b>	<b>4,770</b>	<b>3,570</b>

In 2007 the Bank acquired an ownership interest of 51% in POBA ICO d.o.o. fund management company. At the end of 2012 the Bank held all the equity shares in POBA faktor d.o.o., a company registered at the Commercial Court in April 2012 as the legal successor of POBA ICO d.o.o. The predecessor changed the firm name, the business address, the registered business into factoring, the members of the company, of the management as well as the Memorandum of Association. The investment presented for the year 2012 represents contributions to the capital reserves of the Company, while the ownership interest remained the same. The subsidiary has not been consolidated in these financial statements because the Management of the Bank considers the subsidiary's net assets are not material for the financial statements of the Bank. The following key data was reported by POBA faktor d.o.o. at 31 December:

	(IN THOUSANDS OF HRK)	
	2012	2011
TOTAL ASSETS	31,803	559
TOTAL NET ASSETS	1,562	(947)
<b>NET GAIN / (LOSS) FOR YEAR</b>	<b>1,310</b>	<b>(1,208)</b>

## 20. OTHER ASSETS

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
FORECLOSED ASSETS	6,748	6,692
ACCRUED FEES AND COMMISSIONS	4,592	5,037
PREPAID EXPENSES	2,064	2,210
OTHER ADVANCES MADE	87	84
INCOME TAX REFUND	-	115
OTHER ASSETS	1,639	2,173
	<b>15,130</b>	<b>16,311</b>
IMPAIRMENT ALLOWANCE	(1,989)	(1,843)
	<b>13,141</b>	<b>14,468</b>

Foreclosed property and equipment are assets not used by the Bank and amounted to HRK 6,748 thousand at 31 December 2012 (2011: HRK 6,692 thousand). They are carried by the Bank at cost.

Movements in impairment allowance for potential losses on other assets were as follows:

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>BALANCE AT 1 JANUARY</b>	<b>1,843</b>	<b>1,452</b>
ADDITIONS	896	641
AMOUNTS COLLECTED	(367)	(210)
AMOUNTS WRITTEN OFF	(384)	(32)
EXCHANGE DIFFERENCES	1	(8)
<b>BALANCE AT 31 DECEMBER</b>	<b>1,989</b>	<b>1,843</b>

## 21. AMOUNTS DUE TO OTHER BANKS

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
FOREIGN CURRENCY DEMAND DEPOSITS	12,804	21,722
DOMESTIC CURRENCY DEMAND DEPOSITS	28	6
FOREIGN BANK TERM DEPOSITS IN FOREIGN CURRENCY	129,254	98,876
DOMESTIC CURRENCY TERM DEPOSITS IN HRK	5,000	30,502
	<b>147,086</b>	<b>151,106</b>

The interest rate on received term deposits foreign banks range from 1.00% to 2.00% (2011: in the range from 1.00% to 3.00%). The interest rate on received term deposits domestic banks range from 0.01% to 0.50% (2011: 0.80% to 1.50%).

## 22. AMOUNTS DUE TO CUSTOMERS

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
<b>CITIZENS</b>		
<b>DEMAND DEPOSITS</b>		
- HRK DENOMINATED	199,657	187,654
- FOREIGN CURRENCY DENOMINATED	136,276	144,660
<b>TERM DEPOSITS</b>		
- HRK DENOMINATED	365,483	338,157
- FOREIGN CURRENCY DENOMINATED	982,335	939,580
<b>TOTAL CITIZENS</b>	<b>1,683,751</b>	<b>1,610,051</b>



	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
<b>LEGAL ENTITIES</b>		
<b>DEMAND DEPOSITS</b>		
- HRK DENOMINATED	198,354	244,246
- FOREIGN CURRENCY DENOMINATED	47,481	62,567
<b>TERM DEPOSITS</b>		
- HRK DENOMINATED	228,922	161,207
- FOREIGN CURRENCY DENOMINATED	40,626	72,513
<b>TOTAL LEGAL ENTITIES</b>	<b>515,383</b>	<b>540,533</b>
<b>TOTAL DEPOSITS FROM CUSTOMERS</b>	<b>2,199,134</b>	<b>2,150,584</b>

## 23. OTHER BORROWED FUNDS

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
REPO LOANS FROM DOMESTIC BANKS, HRK DENOMINATED	26,401	38,807
SHORT-TERM MONEY MARKET BORROWINGS FROM DOMESTIC BANKS	19,242	-
HBOR LOANS	163,026	95,669
	<b>208,669</b>	<b>134,476</b>

Repo loans from domestic banks and other legal entities represent a loan facility for which the Bank has pledged its securities with the obligation to repurchase those securities at a certain future date. The repo loan received in 2012 bears interest at the agreed rate of 0.70% (2011: 1.25% and 2.00%). The pledged securities are RHMF-O-15CA, with a market value of HRK 27,772 thousand (2011: RHMF-O-172A and RHM-F15CA, with a market value of HRK 42,388 thousand).

Loans from domestic banks comprise an investment loan with an interest rate of 4.08%.

Loans received from HBOR relate to loans approved by HBOR through the Bank in accordance with HBOR's programs for subsidising small and medium-sized entrepreneurs, tourism and agriculture, which bear interest at rates from 0% to 5% (2011: 0% - 5%).

## 24. OTHER LIABILITIES

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
PENDING DISBURSEMENTS UNDER LOAN COMMITMENTS	6,686	6,426
AMOUNTS DUE TO EMPLOYEES	3,811	3,907
PROVISIONS FOR SEVERANCE PAY	3,598	3,189
AMOUNTS DUE TO SUPPLIERS	3,152	3,199
ITEMS IN COURSE OF PAYMENT	1,669	3,914
ACCRUALS IN RESPECT OF RECEIVED FUNDS	1,263	950
ACCRUED PREMIUMS FOR INSURING TERM DEPOSITS PAYABLE	1,130	1,089
DEFERRED FEES AND COMMISSIONS	720	769
CURRENT INCOME TAX LIABILITY	396	267
DIVIDENDS PAYABLE	125	131
OTHER HRK DENOMINATED LIABILITIES	5,732	1,556
OTHER FOREIGN CURRENCY DENOMINATED LIABILITIES	110	795
	<b>28,392</b>	<b>26,192</b>

## 25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

### a) Analysis

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
PROVISIONS FOR OTHER CONTINGENT LIABILITIES	4,576	4,207
PROVISIONS FOR LEGAL CASES	250	250
	<b>4,826</b>	<b>4,457</b>

### b) Movements in provisions

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>MOVEMENTS IN PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES</b>		
<b>BALANCE AT 1 JANUARY</b>	<b>4,457</b>	<b>2,900</b>
INCREASE DURING THE YEAR	1,128	2,084
DECREASE DURING THE YEAR	(759)	(527)
<b>BALANCE AT 31 DECEMBER</b>	<b>4,826</b>	<b>4,457</b>



## 26. HYBRID INSTRUMENTS ISSUED

	31 DECEMBER 2012	31 DECEMBER 2011
ISSUED HYBRID BONDS	77,351	77,195

On 22 August 2011 the Bank subscribed hybrid instruments by issuing bonds with the ticker PDBA-O-188A, ISIN: HRPDBAO188A5. These are non-material registered bonds equivalent to EUR 10 million, denominated in 1 euro. The interest rate is fixed and amounts to 7.00% per annum, payable on a semi-annual basis. The principal is due on a one-off basis in 2018.

## 27. SHARE CAPITAL

Share capital consists of ordinary shares. The total number of ordinary shares in issue at the end of 2012 was 668,749 (2011: 668,749 shares), with a nominal value of HRK 400.00 per share.

At 31 December 2012, the Bank held 9,203 treasury shares, which it carries at cost (2011: 9,203 treasury shares).

The key shareholders of the Bank at 31 December were as follows:

	2012		2011	
	NUMBER OF SHARES	ORDINARY SHARES IN %	NUMBER OF SHARES	ORDINARY SHARES IN %
LORENZO GORGONI	66,002	9.87	66,002	9.87
ANTONIA GORGONI	65,336	9.77	65,336	9.77
ASSICURAZIONI GENERALI S.P.A.	63,791	9.54	63,791	9.54
CERERE S.P.A.	63,735	9.53	63,735	9.53
MILJAN TODOROVIC	55,731	8.33	55,731	8.33
ZAGREBAČKA BANKA D.D. ZBIRNI	39,863	5.96	39,863	5.96
SIGILFREDO MONTINARI	38,529	5.76	38,529	5.76
ANDREA MONTINARI	38,515	5.76	38,515	5.76
DARIO MONTINARI	28,526	4.27	38,526	5.76
GIOVANNI SEMERARO	27,494	4.11	27,494	4.11
OTHER SHAREHOLDERS (INDIVIDUALLY BELOW 3%)	181,227	27.10	171,227	25.6
	<b>668,749</b>	<b>100</b>	<b>668,749</b>	<b>100</b>

## 28. OTHER RESERVES

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
LEGAL RESERVES	109,504	97,038
RESERVES FOR TREASURY SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
<b>UNDISTRIBUTABLE RESERVES</b>	<b>131,439</b>	<b>118,972</b>
CAPITAL GAINS ON TRADING IN TREASURY SHARES	4,802	4,802
FAIR VALUE RESERVE	(11,048)	(27,933)
<b>DISTRIBUTABLE RESERVES</b>	<b>(6,247)</b>	<b>(23,131)</b>
	<b>125,192</b>	<b>95,841</b>

In accordance with the Croatian Companies Act, banks are required to allocate part of the net profit to a non-distributable legal reserve until the reserve funds reach 5% of the share capital or more if specified by the bank's statute. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for the year 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Bank's exposure has been increasing at a rate below 15% annually. Other reserves are distributable only with the approval by the General Shareholders' Assembly.

Both the distributable and non-distributable reserves of the Bank have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

## 29. FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES AND, CUSTODY SERVICES

The Bank manages significant funds for and on behalf of third parties, entities and individuals. Those assets are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to third parties and no liability falls on the Bank in connection with these transactions. The Bank is compensated for its services by fees chargeable to the funds.

Assets and liabilities on loans managed for and on behalf of third parties can be presented as follows:

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
<b>ASSETS</b>		
LOANS TO INDIVIDUALS	20,382	22,168
LOANS TO CORPORATE ENTITIES	1,151	28,486
CASH	964	1,818
<b>TOTAL ASSETS:</b>	<b>22,497</b>	<b>52,472</b>



## LIABILITIES

PUBLIC SECTOR	8,237	36,898
CORPORATE ENTITIES	3,250	4,382
FINANCIAL INSTITUTIONS	11,010	11,192
<b>TOTAL LIABILITIES:</b>	<b>22,497</b>	<b>52,472</b>

The Bank provides custody services for securities. The market value of equities taken under custody was HRK 322,555 thousand at 31 December 2012 (2011: HRK 323,924 thousand). During 2012, the total Bank's fee income in respect of funds managed for and on behalf of third parties amounted to HRK 1,010 thousand (2011: HRK 1,386 thousand).

## 30. CONTINGENT LIABILITIES AND COMMITMENTS

### Legal actions

At 31 December 2012 and 2011 there were several legal actions outstanding against the Bank. Based on the management's estimate, 250 thousand kuna is provided for the potential losses in legal actions (2011: HRK 250 thousand kuna).

### Commitments to extend credit, guarantees and other financial instruments

Total outstanding amounts under guarantees, letters of credit and undrawn loans at the year end were as follows:

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
COMMITMENTS – UNDRAWN OVERDRAFT FACILITIES ON TRANSACTION ACCOUNTS	173,033	184,848
COMMITMENTS – UNDRAWN LOANS	169,114	101,390
GUARANTEES	66,774	80,426
FOREIGN CURRENCY LETTERS OF CREDIT	16,420	23,182
	<b>425,341</b>	<b>389,846</b>

The primary purpose of commitments and contingencies is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Future minimum lease payments under operating leases are as follows:

	(IN THOUSANDS OF HRK)	
	31 DECEMBER 2012	31 DECEMBER 2011
UP TO 1 YEAR	5,203	7,954
FROM 2 TO 5 YEARS	8,187	17,072
OVER 5 YEARS	2,839	3,610
<b>TOTAL</b>	<b>16,229</b>	<b>28,636</b>

Upon the expiry of the lease term, the lease agreements are renewable at the market price.

### 31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such transactions are made in the ordinary course of business at market terms and conditions, and market interest rates. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Parties related to the Bank include the Bank's Management Board, its officers with the general power of attorney, members of the Supervisory Board and their related persons. Related party transactions at the year end were as follows:

	(IN THOUSANDS OF HRK)			
	KEY MANAGEMENT AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2012	2011	2012	2011
<b>LOANS</b>				
OPENING BALANCE	2,839	2,656	9,078	-
INCREASE DURING THE YEAR	485	183	12,956	9,078
<b>CLOSING BALANCE</b>	<b>3,324</b>	<b>2,839</b>	<b>22,034</b>	<b>9,078</b>
INTEREST INCOME	160	181	890	151
<b>DEPOSITS RECEIVED</b>				
OPENING BALANCE	5,586	9,575	288	1,246
INCREASE / (DECREASE) DURING THE YEAR	1,008	(3,989)	1,906	(958)
<b>CLOSING BALANCE</b>	<b>6,594</b>	<b>5,586</b>	<b>2,194</b>	<b>288</b>
<b>INTEREST EXPENSE</b>	<b>265</b>	<b>239</b>	<b>51</b>	<b>2</b>

#### Key management remuneration

	(IN THOUSANDS OF HRK)	
	2012	2011
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	9,205	8,182

The Management Board consists of three members.

	(IN THOUSANDS OF HRK)			
	ASSETS		LIABILITIES	
	2012	2011	2012	2011
POBA FAKTOR D.O.O.	31,803	4,977	30,240	524
	INCOME		EXPENSE	
	2012	2011	2012	2011
	19	70	950	24



## 32. FINANCIAL RISK MANAGEMENT POLICIES

This section provides details of the Bank's exposure to risk and describes the methods used by the management to control the risk.

The Bank's operations expose it to various types of financial risks. These operations include analysing, assessing, accepting and managing a certain level of risk, or a combination of risks. Assuming risk is a fundamental feature of financial operations, with risks being inherent to the business. The Bank's aim is to achieve an appropriate balance between the risk and return, whilst minimising potential negative effects on its financial performance.

The Bank's risk policies have been designed to identify and analyse those risks in order to define appropriate limits and controls, and to monitor those risks and limit compliance by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect any changes in its markets, products and best practices. The most important types of financial risks to which the Bank is exposed are the credit risk, liquidity risk, market risk and operational risk. The market risk includes the currency risk, interest rate risk and equities and securities price risk.

An integrated system of risk management is being established at Bank level by introducing a set of policies and procedures, determining the risk level limits acceptable to the Bank. The limits are applied to all types of risks. The methodology and models for managing the operational risk have been developed.

### Credit risk

The Bank takes on exposure to credit risk, which may be defined as the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. Major changes in the economy or the status of an industry in which the Bank's portfolio is concentrated, may lead to losses not provided for at the reporting date. Therefore, the Board manages its exposure to credit risk with a high level of prudence. The exposure to credit risk arises primarily in respect of loans and advances, debt and other securities. Credit risk is also present in off-balance sheet financial arrangements, such as commitments to extend credit and guarantees issued. Credit risk management and control have been centralised within the Risk Management Division.

The Bank manages credit risk in accordance with its policies, procedures and other internal guidelines. The Bank has defined its Credit policy as a set of measures for allocating loan funds to loan applicants with the aim of sound and prudent credit risk management, by ensuring unbiased lending principles and goals and setting them as a general rule and reliable guidance in making every decision to lend. The credit policy defines the focus of considerations to be made in performing credit operations. If a proposal to extend a loan departs from the credit policy, the final decision is made by the Bank's management.

The structure of loans over a certain period is defined by the credit policy. Loans are structured by type of customer, or groups of customers, type or group of products, by sector and industry. The policy sets limits for individual placements in accordance with the guidelines of the Croatian National Bank. Given that loans are approved using the four eye principle, it is very unlikely that a loan authorised by overriding the procedures might remain undetected.

The credit policy defines and sets out policies and procedures for extending loans to individuals and legal entities. Credit risk is reviewed on an ongoing basis and reported

on regularly to promptly identify any indication of impairment in the loan portfolio. The Bank has been continually applying prudent methods and models used in the process of the credit risk assessment.

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

- Performing loans – A Risk Group – subject to a collective assessment
- Substandard loans – B Risk Group – subject to individual assessment
- Non-performing loans (bad debt) – C Risk Group – subject to individual assessment.

All three levels contain sub-categories, which are mandatory for the substandard loans.

Loans are classified into the groupings by criteria specified in the applicable Decision of the Croatian National Bank and the Bank's internal decision. In assessing each individual customer, the Bank considers the credit rating of the borrower, the past debt service history and the collaterals obtained for loans, guarantees and other placements.

The Bank reviews the risk assessment of its loans and advances on a quarterly basis. Based on the risk assessment and the risk groupings as defined by the Decision on the Internal Loan Classification System, the required level of provision is determined for every individual debtor impaired or type of placement. The final decision on the required level of provisions for identified potential losses is made by the Bank's management.

## Liquidity risk

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

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including different types of deposits, borrowings, subordinated liabilities including deposits, borrowings and share capital. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as a part of its liquidity risk management.

The Bank adjusts its business activities related to liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, by matching liabilities and assets, monitoring compliance with the externally and internally set limits, preferred liquidity ratios and contingency planning procedure. The Treasury manages liquidity reserves daily, ensuring also the accomplishment of all customers' needs.

Concentration indicators indicate the concentration in the deposit portfolio (top 20 individual and corporate depositors in the total deposits) which is regularly reported to the Bank's Management Board on a monthly level.

In addition to the regulatory requirements set out above, the Bank has the obligation to monitor the structural indicators of the liquidity and concentration levels, which have been set in the internal regulations of the Bank.



The structural liquidity level indicators present the correlations between certain items of assets and liabilities such as: the ratio of total loans to total deposits received; the ratio of total loans to total assets; the ratio of liquid assets to total deposits received; the ratio of total loans to total liabilities.

## Market risk

The majority of available for sale instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous. Market risks represent potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Bank. Changes in market rates imply all changes in interest rates, exchange rates, prices of financial instruments, indices or other market factors that affect the value of financial instruments. The instruments are recognised at fair value, and all changes in market conditions directly affect revaluation reserves. The Bank manages its use of trading instruments in response to changing market conditions.

The limits are defined in accordance with the Bank's requirements and strategy, and the senior management risk policy indications. The exposure to market risk is formally managed within the risk limits approved by the Management Board and revised annually at the least.

Key liquidity data about the liquidity positions in the local and foreign currency is provided to the Banks' Board and senior management on a daily basis, with a focus on the most significant fluctuations in interest and foreign exchange rates. The Treasury Division provides the Management Board with weekly reports on currency risk exposure. Also, the Risk Management Division provides the Management Board with monthly reports on the total currency risk exposure.

In managing its market risks, the Bank resorts to various strategies. Value-at-risk (VaR) methodology is applied to the Bank's open foreign currency position to estimate the maximum potential losses on the basis of certain assumptions regarding various changes in market conditions. The methodology defines the maximum loss that the Bank may suffer with a limited level of reliability 99%, based on 260 days. However, this approach does not preclude any losses outside the defined limits in case of major changes in market terms and conditions.

## Currency Risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The foreign exchange risk exposure is monitored on the overall balance sheet level in terms of foreign exchange open position as prescribed by the regulatory provisions and additionally through the internal limits on a daily basis.

The currency position of the Bank is monitored daily through the report on the open foreign currency positions in accordance with the CNB requirements. For the purposes of analysing the currency risk exposure, the Market, Operational and other risks management Division prepares regular management reports.

The Bank has the obligation to adjust its foreign currency position in line with the currency risk to ensure that the foreign exchange open position does not exceed 30% of the Bank's regulatory capital, as determined by the CNB.

## Interest rate risk

The interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period generate interest rate risk.

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

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using re-pricing gap analysis in the sensitivity to changes in interest rates, the net interest income and economic value of equity. Risk management activities are aimed at optimising the net interest income and economic value of equity, when the market interest rate levels are consistent with the Bank's business strategies.

Interest rate risk is reported through an interest rate gap report, by which the Management Board approves internally set limits for individual time horizons. The Bank's Management Board and Asset and Liability Committee control and manage the interest rate risk by involving all organisational units that operatively apply the prescribed interest rates.

### Equity and debt security price risk

Equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments and other instruments that derive their value from these investments. The primary exposure to equity price risk arises from the available-for-sale equity shares accounted for at fair value.

### Derivative financial instruments

The Bank enters into derivative financial instruments primarily to satisfy the needs and requirements of the customers. Derivative financial instruments used by the Bank include a one-way foreign currency clause.

### Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk.

Operational risk management falls within the area of competence of the Market, Operational and Other Risk Management Division ("the Division"). The objectives of the Division are to collect data, prepare reports and analyses of the current and potential operational risk events at the Bank and the underlying root causes, as well as to provide information that will allow operational risk at the Bank to be managed efficiently.

Operational risk events are aggregated in a single database using a web application.

According to the Basel II guidelines and EU Directives, there are three operational risk assessment methods, which are as follows:

- Basic Indicator Approach (BIA)
- Standardised Approach (SA)
- Advanced Measurement Approach (AMA).

The Bank has opted to adopt the Basic Indicator Approach (BIA).

For the purpose of actively managing operational risk and ensuring independent control and analysis of the risk, the Division monitors the operational risk exposure with reference to the defined internal by-laws and standards, collects operational risk data (risk events, key risk indicators, sensitivity analyses), proposes measures to reduce



and/or avoid operational risk, monitors and reports about the Bank's operational risk profile, participates in the implementation of new products and significant changes, organises operational risk training and provides regular operational risk exposure reports to the Bank's Managing Board, Operational Risk Board and senior management.

The purpose and main principles of taking-on and managing operational risk as well as the Bank's operational risk appetite are defined in the Operational Risk Management Policy and other internal by-laws of the Bank.

For the purpose of protection against operational risk, the Bank has developed a risk map and implemented an operational risk monitoring system. Given the nature of operational risk, the controls are performed comparing the losses with the determined risk assessment. The risk assessment is defined using an internal methodology or by reference to operational risk losses. Key risk indicators are monitored on an ongoing basis.

### 33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Loans and advances to customers and assets held to maturity are measured at amortised cost less impairment.

The following methods and assumptions have been made in estimating the fair value of financial instruments:

- Loans and advances to customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected future cash flows are estimated considering credit risk and any indication of impairment. Since the Bank has a limited portfolio of loans and advances with fixed rate and longer term maturity, the fair values of loans and advances are not significantly different from their carrying amounts.
- The fair value of securities is based on market prices, with the exception of unquoted equity investments whose fair value is based on the latest available financial statements of the issuer.
- The fair value of certain investments carried at amortised cost less impairment for which no quoted market price is available is, where possible, estimated using mark to model techniques and, as a result, their estimated fair values appeared not to be materially different from their carrying value. However, the aforementioned techniques did not include market liquidity factor on similar instruments.
- For demand deposits and deposits with no defined maturities, fair value is determined to be the amount payable on demand at the reporting date.
- Most of the Bank's long-term borrowings are at variable rates which are linked to the market and changed regularly. As such, the management believes that the book value of the long-term borrowings approximates their fair value.

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

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(IN THOUSANDS OF HRK)

2012	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>				
EQUITY SECURITIES	74,936	-	27,429	102,365
DEBT SECURITIES	238,228	-	-	238,228
<b>TOTAL</b>	<b>313,164</b>	<b>-</b>	<b>27,429</b>	<b>340,593</b>

The fair value level 3 includes investments in shares of companies HROK d.o.o., Središnje klirinško depozitarno društvo, Tržište novca d.d., Zagrebačka burza d.d., S.W.I.F.T Belgium, Centralna depozitarna agencija ad Podgorica and Atlasmont banka a.d Podgorica which are carried at cost.

(IN THOUSANDS OF HRK)

2011	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>				
EQUITY SECURITIES	65,872	-	27,338	93,210
DEBT SECURITIES	191,210	-	9,538	200,748
<b>TOTAL</b>	<b>257,082</b>	<b>-</b>	<b>36,876</b>	<b>293,958</b>

The fair value level 3 includes investments in shares of companies HROK d.o.o., Središnje klirinško depozitarno društvo, Tržište novca d.d., Zagrebačka burza d.d., S.W.I.F.T Belgium, Centralna depozitarna agencija ad Podgorica and Atlasmont banka a.d Podgorica which are carried at cost. Commercial bills of Institut građevinarstva Hrvatske d.d., Petrokemija d.d. i Žito d.o.o are carried at amortised cost since they are not actively traded on organised markets.

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



### 34. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2012 and 2011 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

(IN THOUSANDS OF HRK)

AT 31 DECEMBER 2012	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON - INTEREST BEARING	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	388,628	388,628
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	211,836	211,836
PLACEMENTS WITH OTHER BANKS	147,030	-	-	18,925	244	166,199
LOANS AND ADVANCES TO CUSTOMERS	1,452,681	66,152	171,652	67,901	14,259	1,772,645
FINANCIAL ASSET AVAILABLE FOR SALE	132,055	3,122	44,506	156,901	4,009	340,593
FINANCIAL ASSET HELD TO MATURITY	-	-	-	27,416	65	27,481
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	31,787	31,787
PROPERTY AND EQUIPMENT	-	-	-	-	94,513	94,513
DEFERRED TAX ASSETS	-	-	-	-	6,619	6,619
OTHER ASSETS	-	-	-	-	13,141	13,141
<b>TOTAL ASSETS</b>	<b>1,731,766</b>	<b>69,274</b>	<b>216,158</b>	<b>271,143</b>	<b>769,871</b>	<b>3,058,212</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	147,004	-	-	-	82	147,086
AMOUNTS DUE TO CUSTOMERS	1,553,236	202,391	406,979	6,287	30,241	2,199,134
OTHER BORROWED FUNDS	27,976	12,758	102,332	65,090	513	208,669
OTHER LIABILITIES	-	-	-	-	28,392	28,392
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,826	4,826
ISSUED HYBRID INSTRUMENTS	-	-	-	75,456	1,895	77,351
<b>TOTAL LIABILITIES</b>	<b>1,728,216</b>	<b>215,149</b>	<b>509,311</b>	<b>146,833</b>	<b>65,949</b>	<b>2,665,458</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	125,192	125,192
PROFIT FOR THE YEAR	-	-	-	-	8,129	8,129
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>392,754</b>	<b>392,754</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,728,216</b>	<b>215,149</b>	<b>509,311</b>	<b>146,833</b>	<b>458,703</b>	<b>3,058,212</b>
<b>NET INTEREST GAP</b>	<b>3,550</b>	<b>(145,875)</b>	<b>(293,153)</b>	<b>124,310</b>	<b>311,168</b>	<b>-</b>



(IN THOUSANDS OF HRK)

AT 31 DECEMBER 2011	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON - INTEREST BEARING	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	188,604	188,604
BALANCES WITH THE CROATIAN NATIONAL BANK	-	102,525	79,428	28,397	-	210,350
PLACEMENTS WITH OTHER BANKS	156,527	-	-	19,600	101	176,228
LOANS AND ADVANCES TO CUSTOMERS	1,558,029	173,367	64,297	81,901	16,027	1,893,621
FINANCIAL ASSET AVAILABLE FOR SALE	1,504	6,659	17,147	170,831	97,817	293,958
FINANCIAL ASSET HELD TO MATURITY	-	-	-	27,691	65	27,756
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	3,570	3,570
INTANGIBLE ASSETS	-	-	-	-	20,696	20,696
PROPERTY AND EQUIPMENT	-	-	-	-	72,799	72,799
DEFERRED TAX ASSETS	-	-	-	-	9,700	9,700
OTHER ASSETS	-	-	-	-	14,468	14,468
<b>TOTAL ASSETS</b>	<b>1,716,060</b>	<b>282,551</b>	<b>160,872</b>	<b>328,420</b>	<b>423,847</b>	<b>2,911,750</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	126,026	24,990	-	-	90	151,106
AMOUNTS DUE TO CUSTOMERS	1,436,194	181,221	432,903	72,664	27,602	2,150,584
OTHER BORROWED FUNDS	41,990	18,041	16,639	57,160	646	134,476
OTHER LIABILITIES	-	-	-	-	26,192	26,192
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,457	4,457
ISSUED HYBRID INSTRUMENTS	-	-	-	75,304	1,891	77,195
<b>TOTAL LIABILITIES</b>	<b>1,604,210</b>	<b>224,252</b>	<b>449,542</b>	<b>205,128</b>	<b>60,878</b>	<b>2,544,010</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	95,841	95,841
PROFIT FOR THE YEAR	-	-	-	-	12,466	12,466
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>367,740</b>	<b>367,740</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,604,210</b>	<b>224,252</b>	<b>449,542</b>	<b>205,128</b>	<b>428,618</b>	<b>2,911,750</b>
<b>NET INTEREST GAP</b>	<b>111,850</b>	<b>58,299</b>	<b>(288,670)</b>	<b>123,292</b>	<b>(4,771)</b>	<b>-</b>

During 2012, the weighted average effective interest rate on loans and advances to customers was 8.62% (2011: 9.27%).

During 2012, the weighted average effective interest rate on deposits from customers was 3.13% (2011: 3.08%).



The Table below presents the sensitivity of the Bank's variable rate assets and liabilities to the fluctuations in interest rates assuming the maximum recorded increase or decrease in the interest rates during 2012 and 2011. Changes in interest rates have a direct impact on net interest income. In case of an interest rate decrease at the same percentage, there would be an interest expense of the same amount.

(IN THOUSANDS OF HRK)

	ASSUMED INCREASE OF THE INTEREST RATE	IMPACT ON 2012 PROFIT AND LOSS	IMPACT ON 2011 PROFIT AND LOSS
ASSETS	5%	5,949	6,953
LIABILITIES	5%	(1,804)	(1,834)
<b>IMPACT ON NET INTEREST INCOME</b>		<b>4,145</b>	<b>5,119</b>

## 35. CURRENCY RISK

The Bank manages its exposure to currency risk through a variety of measures, including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies.

(IN THOUSANDS)

AT 31 DECEMBER 2012	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	121,259	8,350	61,105	190,714	197,914	388,628
BALANCES WITH THE CROATIAN NATIONAL BANK	21,347	4,925	-	26,272	185,564	211,836
PLACEMENTS WITH OTHER BANKS	55,306	4,966	-	60,272	105,927	166,199
LOANS AND ADVANCES TO CUSTOMERS	1,017,979	9,799	7	1,027,785	744,860	1,772,645
FINANCIAL ASSET AVAILABLE FOR SALE	201,496	24,025	22,439	247,960	92,633	340,593
FINANCIAL ASSET HELD TO MATURITY	-	-	-	-	27,481	27,481
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	31,787	31,787
PROPERTY AND EQUIPMENT	-	-	-	-	94,513	94,513
DEFERRED TAX ASSETS	-	-	-	-	6,619	6,619
OTHER ASSETS	153	1	1	155	12,986	13,141
<b>TOTAL ASSETS</b>	<b>1,417,540</b>	<b>52,066</b>	<b>83,552</b>	<b>1,553,158</b>	<b>1,505,054</b>	<b>3,058,212</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	77,379	14,714	49,965	142,058	5,028	147,086
AMOUNTS DUE TO CUSTOMERS	1,191,855	35,481	27,437	1,254,773	944,361	2,199,134
OTHER BORROWED FUNDS	56,721	-	-	56,721	151,948	208,669
OTHER LIABILITIES	359	18	18	395	27,997	28,392
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,826	4,826
ISSUED HYBRID INSTRUMENTS	77,351	-	-	77,351	-	77,351
<b>TOTAL LIABILITIES</b>	<b>1,403,665</b>	<b>50,213</b>	<b>77,420</b>	<b>1,531,298</b>	<b>1,134,160</b>	<b>2,665,458</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	125,192	125,192
PROFIT FOR THE YEAR	-	-	-	-	8,129	8,129
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>392,754</b>	<b>392,754</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,403,665</b>	<b>50,213</b>	<b>77,420</b>	<b>1,531,298</b>	<b>1,526,914</b>	<b>3,058,212</b>
<b>NET FX GAP</b>	<b>13,875</b>	<b>1,853</b>	<b>6,132</b>	<b>21,860</b>	<b>(21,860)</b>	<b>-</b>



(IN THOUSANDS)

AT 31 DECEMBER 2011	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	25,864	28,762	14,164	68,790	119,814	188,604
BALANCES WITH THE CROATIAN NATIONAL BANK	21,914	5,244	-	27,158	183,192	210,350
PLACEMENTS WITH OTHER BANKS	144,588	5,038	-	149,626	26,602	176,228
LOANS AND ADVANCES TO CUSTOMERS	1,059,876	9,943	283	1,070,102	823,519	1,893,621
FINANCIAL ASSET AVAILABLE FOR SALE	190,741	6,193	12,483	209,417	84,541	293,958
FINANCIAL ASSET HELD TO MATURITY	-	-	-	-	27,756	27,756
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	3,570	3,570
INTANGIBLE ASSETS	-	-	-	-	20,696	20,696
PROPERTY AND EQUIPMENT	-	-	-	-	72,799	72,799
DEFERRED TAX ASSETS	-	-	-	-	9,700	9,700
OTHER ASSETS	93	-	-	93	14,375	14,468
<b>TOTAL ASSETS</b>	<b>1,443,076</b>	<b>55,180</b>	<b>26,930</b>	<b>1,525,186</b>	<b>1,386,564</b>	<b>2,911,750</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	103,085	17,512	-	120,597	30,509	151,106
AMOUNTS DUE TO CUSTOMERS	1,210,891	39,311	23,084	1,273,286	877,298	2,150,584
OTHER BORROWED FUNDS	52,716	-	-	52,716	81,760	134,476
OTHER LIABILITIES	1,405	804	18	2,227	23,965	26,192
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,457	4,457
ISSUED HYBRID INSTRUMENTS	77,195	-	-	77,195	-	77,195
<b>TOTAL LIABILITIES</b>	<b>1,445,292</b>	<b>57,627</b>	<b>23,102</b>	<b>1,526,021</b>	<b>1,017,989</b>	<b>2,544,010</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	95,841	95,841
PROFIT FOR THE YEAR	-	-	-	-	12,466	12,466
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>367,740</b>	<b>367,740</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,445,292</b>	<b>57,627</b>	<b>23,102</b>	<b>1,526,021</b>	<b>1,385,729</b>	<b>2,911,750</b>
<b>NET FX GAP</b>	<b>(2,216)</b>	<b>(2,447)</b>	<b>3,828</b>	<b>(835)</b>	<b>835</b>	<b>-</b>



The Table below presents the sensitivity of the Bank's net assets and profit and loss to an increase in the CNB's middle exchange rate. By applying the same assumed percentage to a decrease of the CNB middle exchange rate, the impact on the profit or loss, on the net principle, by individual currency would be the same and opposite, that is, the aggregate impact on all currencies would result as an expense for the year 2012 and as an income for the year 2012. The results of fluctuations in exchange rates are reported in the income statement as foreign exchange gains or losses.

(IN THOUSANDS OF HRK)

CURRENCY ON 31 DECEMBER 2012	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	INFLUENCE ON PROFIT	INFLUENCE ON PROFIT	INFLUENCE ON PROFIT
		AND LOSS	AND LOSS	AND LOSS
		BANK ASSETS	BANK LIABILITIES	NET
ASSETS	2.00%	31,063	-	-
LIABILITIES	2.00%	-	30,626	-
<b>NET ASSETS / (LIABILITIES)</b>				<b>437</b>

(IN THOUSANDS OF HRK)

CURRENCY ON 31 DECEMBER 2011	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	INFLUENCE ON PROFIT	INFLUENCE ON PROFIT	INFLUENCE ON PROFIT
		AND LOSS	AND LOSS	AND LOSS
		BANK ASSETS	BANK LIABILITIES	NET
ASSETS	2.00%	30,504	-	-
LIABILITIES	2.00%	-	30,520	-
<b>NET ASSETS / (LIABILITIES)</b>				<b>(16)</b>



## 36. LIQUIDITY RISK

(IN THOUSANDS OF HRK)

AT 31 DECEMBER 2012	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	388,628	-	-	-	-	388,628
BALANCES WITH THE CROATIAN NATIONAL BANK	-	98,659	88,264	20,092	4,821	211,836
PLACEMENTS WITH OTHER BANKS	109,881	18,864	4,947	23,318	9,189	166,199
LOANS AND ADVANCES TO CUSTOMERS	350,355	197,085	642,691	219,293	363,221	1,772,645
FINANCIAL ASSET AVAILABLE FOR SALE	133,141	4,807	45,744	91,679	65,222	340,593
FINANCIAL ASSET HELD TO MATURITY	-	-	65	27,416	-	27,481
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	31,787	31,787
PROPERTY AND EQUIPMENT	-	-	-	-	94,513	94,513
DEFERRED TAX ASSETS	-	-	6,619	-	-	6,619
OTHER ASSETS	6,293	-	6,848	-	-	13,141
<b>TOTAL ASSETS</b>	<b>988,298</b>	<b>319,415</b>	<b>795,178</b>	<b>381,798</b>	<b>573,523</b>	<b>3,058,212</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	132,769	14,317	-	-	-	147,086
AMOUNTS DUE TO CUSTOMERS	876,597	330,507	870,655	103,682	17,693	2,199,134
OTHER BORROWED FUNDS	28,489	12,758	102,332	27,833	37,257	208,669
OTHER LIABILITIES	23,709	254	250	-	4,179	28,392
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	2,551	168	1,822	110	175	4,826
ISSUED HYBRID INSTRUMENTS	-	1,895	-	-	75,456	77,351
<b>TOTAL LIABILITIES</b>	<b>1,064,115</b>	<b>359,899</b>	<b>975,059</b>	<b>131,625</b>	<b>134,760</b>	<b>2,665,458</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	125,192	125,192
PROFIT FOR THE YEAR	-	-	-	-	8,129	8,129
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>392,754</b>	<b>392,754</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,064,115</b>	<b>359,899</b>	<b>975,059</b>	<b>131,625</b>	<b>527,514</b>	<b>3,058,212</b>
<b>NET LIQUIDITY GAP</b>	<b>(75,817)</b>	<b>(40,484)</b>	<b>(179,881)</b>	<b>250,173</b>	<b>46,009</b>	<b>-</b>



(IN THOUSANDS OF HRK)

AT 31 DECEMBER 2011	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	188,604	-	-	-	-	188,604
BALANCES WITH THE CROATIAN NATIONAL BANK	-	102,525	79,428	23,846	4,551	210,350
PLACEMENTS WITH OTHER BANKS	156,628	-	-	19,600	-	176,228
LOANS AND ADVANCES TO CUSTOMERS	257,952	347,735	563,856	329,388	394,690	1,893,621
FINANCIAL ASSET AVAILABLE FOR SALE	95,611	8,161	19,355	53,626	117,205	293,958
FINANCIAL ASSET HELD TO MATURITY	-	-	65	-	27,691	27,756
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	3,570	3,570
INTANGIBLE ASSETS	-	-	-	-	20,696	20,696
PROPERTY AND EQUIPMENT	-	-	-	-	72,799	72,799
DEFERRED TAX ASSETS	-	-	9,700	-	-	9,700
OTHER ASSETS	4,970	67	9,431	-	-	14,468
<b>TOTAL ASSETS</b>	<b>703,765</b>	<b>458,488</b>	<b>681,835</b>	<b>426,460</b>	<b>641,202</b>	<b>2,911,750</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	126,116	24,990	-	-	-	151,106
AMOUNTS DUE TO CUSTOMERS	871,099	298,559	806,827	154,168	19,931	2,150,584
OTHER BORROWED FUNDS	42,636	18,041	16,639	27,225	29,935	134,476
OTHER LIABILITIES	22,512	492	112	-	3,076	26,192
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	2,391	246	1,560	251	9	4,457
ISSUED HYBRID INSTRUMENTS	-	1,891	-	-	75,304	77,195
<b>TOTAL LIABILITIES</b>	<b>1,064,754</b>	<b>344,219</b>	<b>825,138</b>	<b>181,644</b>	<b>128,255</b>	<b>2,544,010</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	95,841	95,841
PROFIT FOR THE YEAR	-	-	-	-	12,466	12,466
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>367,740</b>	<b>367,740</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,064,754</b>	<b>344,219</b>	<b>825,138</b>	<b>181,644</b>	<b>495,995</b>	<b>2,911,750</b>
<b>NET LIQUIDITY GAP</b>	<b>(360,989)</b>	<b>114,269</b>	<b>(143,303)</b>	<b>244,816</b>	<b>145,207</b>	<b>-</b>



## 37. CREDIT RISK

### a) Overall exposure to credit risk – on-balance sheet and off-balance sheet

(IN THOUSANDS OF HRK)

AS AT 31 DECEMBER 2012	GROSS PLACEMENTS	PROVISIONS ON INDIVIDUAL BASIS	PROVISIONS ON GENERAL BASIS	NET PLACEMENTS
<b>A. BALANCE SHEET EXPOSURE</b>				
BALANCES WITH THE CROATIAN NATIONAL BANK	211,836	-	-	211,836
PLACEMENTS WITH OTHER BANKS	166,799	(600)	-	166,199
ASSETS AVAILABLE FOR SALE	344,892	(4,299)	-	340,593
ASSETS HELD TO MATURITY	27,481	-	-	27,481
<b>LOANS AND ADVANCES TO CUSTOMERS</b>				
- PERFORMING	1,610,068	-	(22,040)	1,588,028
- SUBSTANDARD	216,559	(31,942)	-	184,617
- NON-PERFORMING (BAD)	111,003	(111,003)	-	-
OVERALL BALANCE SHEET EXPOSURE	2,688,638	(147,844)	(22,040)	2,518,754
<b>B. OFF-BALANCE SHEET EXPOSURE</b>				
CUSTOMERS				
- PERFORMING	424,739	-	(4,150)	420,589
- SUBSTANDARD	251	(75)	-	176
- NON-PERFORMING (BAD)	351	(351)	-	-
OVERALL OFF-BALANCE SHEET EXPOSURE	425,341	(426)	(4,150)	420,765
<b>OVERALL EXPOSURE (A+B)</b>	<b>3,113,979</b>	<b>(148,270)</b>	<b>(26,190)</b>	<b>2,939,519</b>

(IN THOUSANDS OF HRK)

AS AT 31 DECEMBER 2011	GROSS PLACEMENTS	PROVISIONS ON INDIVIDUAL BASIS	PROVISIONS ON GENERAL BASIS	NET PLACEMENTS
<b>A. BALANCE SHEET EXPOSURE</b>				
BALANCES WITH THE CROATIAN NATIONAL BANK	210,350	-	-	210,350
PLACEMENTS WITH OTHER BANKS	176,828	(600)	-	176,228
ASSETS AVAILABLE FOR SALE	295,184	(1,226)	-	293,958
ASSETS HELD TO MATURITY	27,756	-	-	27,756
<b>LOANS AND ADVANCES TO CUSTOMERS</b>				
- PERFORMING	1,842,431	-	(20,540)	1,821,891
- SUBSTANDARD	105,318	(33,588)	-	71,730
- NON-PERFORMING (BAD)	111,924	(111,924)	-	-
OVERALL BALANCE SHEET EXPOSURE	2,769,791	(147,338)	(20,540)	2,601,913
<b>B. OFF-BALANCE SHEET EXPOSURE</b>				
CUSTOMERS				
- PERFORMING	389,203	-	(3,750)	385,453
- SUBSTANDARD	269	(83)	-	186
- NON-PERFORMING (BAD)	374	(374)	-	-
OVERALL OFF-BALANCE SHEET EXPOSURE	389,846	(457)	(3,750)	385,639
<b>OVERALL EXPOSURE (A+B)</b>	<b>3,159,637</b>	<b>(147,795)</b>	<b>(24,290)</b>	<b>2,987,552</b>



### b) Past due claims

Past due claims consist of balances due but not impaired for both the principle due and not yet due. They are arranged according to age, based on the individual placement including uncollected and not yet due interest and other income related to the principle. Other past due claims consist of interest not yet due and uncollected, and amounts written off or still in the process of collection. The total individual placement is classified by reference to the oldest past due claim, regardless of whether the principle or the interest is due.

(IN THOUSANDS OF HRK)

AS AT 31 DECEMBER 2012	PAST DUE UP TO 30 DAYS	PAST DUE BETWEEN 31 AND 90 DAYS	PAST DUE BETWEEN 91 AND 180 DAYS	PAST DUE BETWEEN 181 AND 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE OVER 3 YEARS
PLACEMENTS WITH OTHER BANKS	-	-	-	-	-	-	600
<b>LOANS AND ADVANCES TO CUSTOMERS</b>							
- CITIZENS	17,451	37,323	11,174	7,789	6,974	6,471	49,900
- COMPANIES	8,805	60,762	54,280	56,154	25,561	11,953	85,109
- PUBLIC AND OTHER SECTORS	6,853	-	-	1	202	2	377
OTHER PAST DUE CLAIMS	33	6	3	4	135	-	10,373
<b>TOTAL PAST DUE CLAIMS</b>	<b>33,142</b>	<b>98,091</b>	<b>65,457</b>	<b>63,948</b>	<b>32,872</b>	<b>18,426</b>	<b>146,359</b>

(IN THOUSANDS OF HRK)

AS AT 31 DECEMBER 2011	PAST DUE UP TO 30 DAYS	PAST DUE BETWEEN 31 AND 90 DAYS	PAST DUE BETWEEN 91 AND 180 DAYS	PAST DUE BETWEEN 181 AND 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE OVER 3 YEARS
PLACEMENTS WITH OTHER BANKS	183	-	-	-	-	-	600
<b>LOANS AND ADVANCES TO CUSTOMERS</b>							
- CITIZENS	23,574	41,872	9,802	13,286	8,994	9,005	45,039
- COMPANIES	21,765	60,324	7,620	6,006	15,218	17,838	76,413
- PUBLIC AND OTHER SECTORS	68	7,089	195	14	2	1	509
OTHER PAST DUE CLAIMS	1,718	509	109	42	-	158	14,667
<b>TOTAL PAST DUE CLAIMS</b>	<b>47,308</b>	<b>109,794</b>	<b>17,726</b>	<b>19,348</b>	<b>24,214</b>	<b>27,002</b>	<b>137,228</b>



### c) Placements covered by collaterals

(IN THOUSANDS OF HRK)

AS AT 31 DECEMBER 2012	DEPOSIT	HOUSING MORTGAGES	BUSINESS MORTGAGES	OTHER COLLATERALS	NO COLLATERAL
<b>A. BALANCE SHEET EXPOSURE</b>					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	211,836
PLACEMENTS WITH OTHER BANKS	-	-	-	-	166,199
LOANS AND ADVANCES TO CUSTOMERS	35,871	127,420	141,787	9,863	1,457,704
ASSETS AVAILABLE FOR SALE	-	-	-	-	340,593
ASSETS HELD TO MATURITY	-	-	-	-	27,481
<b>OVERALL BALANCE SHEET EXPOSURE</b>	<b>35,871</b>	<b>127,420</b>	<b>141,787</b>	<b>9,863</b>	<b>2,203,813</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>					
CUSTOMERS	5,742	5,409	338	-	413,852
<b>OVERALL OFF-BALANCE SHEET EXPOSURE</b>	<b>5,742</b>	<b>5,409</b>	<b>338</b>	<b>-</b>	<b>413,852</b>
<b>OVERALL EXPOSURE (A+B)</b>	<b>41,613</b>	<b>132,829</b>	<b>142,125</b>	<b>9,863</b>	<b>2,617,665</b>
<b>FAIR VALUE OF COLLATERALS</b>		<b>166,036</b>	<b>213,188</b>		

(IN THOUSANDS OF HRK)

AS AT 31 DECEMBER 2011	DEPOSIT	HOUSING MORTGAGES	BUSINESS MORTGAGES	OTHER COLLATERALS	NO COLLATERAL
<b>A. BALANCE SHEET EXPOSURE</b>					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	210,350
PLACEMENTS WITH OTHER BANKS	-	-	-	-	176,228
LOANS AND ADVANCES TO CUSTOMERS	54,650	159,560	191,179	18,864	1,469,368
ASSETS AVAILABLE FOR SALE	-	-	-	-	293,958
ASSETS HELD TO MATURITY	-	-	-	-	27,756
OVERALL BALANCE SHEET EXPOSURE	54,650	159,560	191,179	18,864	2,177,660
<b>B. OFF-BALANCE SHEET EXPOSURE</b>					
CUSTOMERS	3,077	3,470	5,312	420	377,567
<b>OVERALL OFF-BALANCE SHEET EXPOSURE</b>	<b>3,077</b>	<b>3,470</b>	<b>5,312</b>	<b>420</b>	<b>377,567</b>
<b>OVERALL EXPOSURE (A+B)</b>	<b>57,727</b>	<b>163,031</b>	<b>196,491</b>	<b>19,284</b>	<b>2,555,227</b>
<b>FAIR VALUE OF COLLATERALS</b>		<b>203,789</b>	<b>294,737</b>		

#### d) Provision ratio in performing and non-performing loans

	2012		2011	
	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)
PERFORMING LOANS	83.1	1.4	89.5	1.1
SUBSTANDARD LOANS	11.2	14.7	5.1	31.9
NON-PERFORMING LOANS	5.7	100	5.4	100
<b>TOTAL</b>	<b>100</b>		<b>100</b>	

## 38. PRICE RISK

Equity and debt instrument price risk represents the sensitivity of the available-for-sale assets to fluctuations in market prices, with effects on the income statement and the revaluation reserve within the Bank's equity.

(IN THOUSANDS OF HRK)

INFLUENCE OF  
PRICE INCREASE ON  
ASSUMED PRICE CHANGE REVALUATION RESERVES

<b>AT 31 DECEMBER 2012</b>	<b>3%</b>	<b>10,218</b>
<b>AT 31 DECEMBER 2011</b>	<b>3%</b>	<b>8,819</b>

## 39. CONCENTRATIONS OF ASSETS AND LIABILITIES

There is a significant concentration of the Bank's assets towards the Republic of Croatia, which is analysed as follows:

(IN THOUSANDS OF HRK)

	2012	2011
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	156,952	83,804
OTHER CASH RESERVE FUNDS	10,000	10,000
MANDATORY RESERVE WITH THE CROATIAN NATIONAL BANK	211,836	210,350
TREASURY BILLS OF THE REPUBLIC OF CROATIA	29,563	495
BONDS OF THE REPUBLIC OF CROATIA	41,589	51,011
OTHER ASSETS	4,537	1,862
DEPOSITS RECEIVED	(558)	(556)
CURRENT TAX LIABILITY	(3,225)	(3,043)
	<b>450,694</b>	<b>353,923</b>



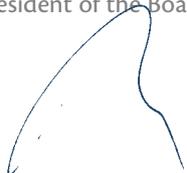
At 31 December 2012, the Bank's indirect exposure to the Republic of Croatia in respect of debt securities issued by local and municipal authorities, loans and other exposures were as follows:

	(IN THOUSANDS OF HRK)	
	2012	2011
STATE AGENCY FOR DEPOSIT INSURANCE AND REHABILITATION OF BANKS	(1,130)	(1,089)
HBOR LOANS GUARANTEED BY THE STATE	18,926	19,601
LOANS AND ADVANCES TO CUSTOMERS GUARANTEED BY THE STATE	9,863	10,595
DEPOSITS RECEIVED	(93,446)	(71,406)
LOANS FROM HBOR	(163,026)	(95,669)
	<b>(228,813)</b>	<b>(137,968)</b>

#### 40. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 12 April 2013 and were signed on its behalf by:

Julio Kuruc  
President of the Board



Marijan Marušić  
Member of the Board



Davorka Jakir  
Member of the Board





## **ABOUT THE BANK**

# BANK'S MANAGEMENT AND ORGANISATIONAL STRUCTURE

The Bank's operations are supervised by the Supervisory Board and managed by the Management Board.

## Supervisory Board

Miljan Todorovic, Chairman  
Sigilfredo Montinari, Deputy Chairman  
Maurizio Dallochio, Member  
Filippo Disertori, Member  
Dario Montinari, Member  
Djuro Predovic, Member  
Dolly Predovic, Member

## Bank's Management Board

Julio Kuruc, Chairman of the Management Board  
Davorka Jakir, Member of the Management Board  
Marijan Marušić, Member of the Management Board

## Chief Executive Officer

Moreno Marson

## Units

Operations and Organisation Unit - Marko Žigmund  
Risk Management Unit - Renata Vinković  
Administration and HR Management Unit - Božana Kovačević  
Accounting and Reporting Unit - Vesna Laloš  
Support Unit - Dragica Hrkalović  
Internal Audit Unit - Krunoslav Vnučec  
Compliance Monitoring Unit - Božica Širić  
Head of Information System Security - Damir Vukelić

## Departments

Treasury Department - Goran Varat  
Commercial Banking Department - Daniel Unger  
Retail Banking Department - Sanda Fuček Šanjić  
Payments and Back-Office Department - Snježana Pobi





Legend

 Commercial center

 Branches



## RETAIL CENTRES

### Commercial Centre Zagreb

**Zagreb, Green Gold - Ulica grada Vukovara 269f,**  
tel. 062 655 450, fax. 062 655 459

**Zagreb, Nova galerija - Zagrebačka avenija 104,**  
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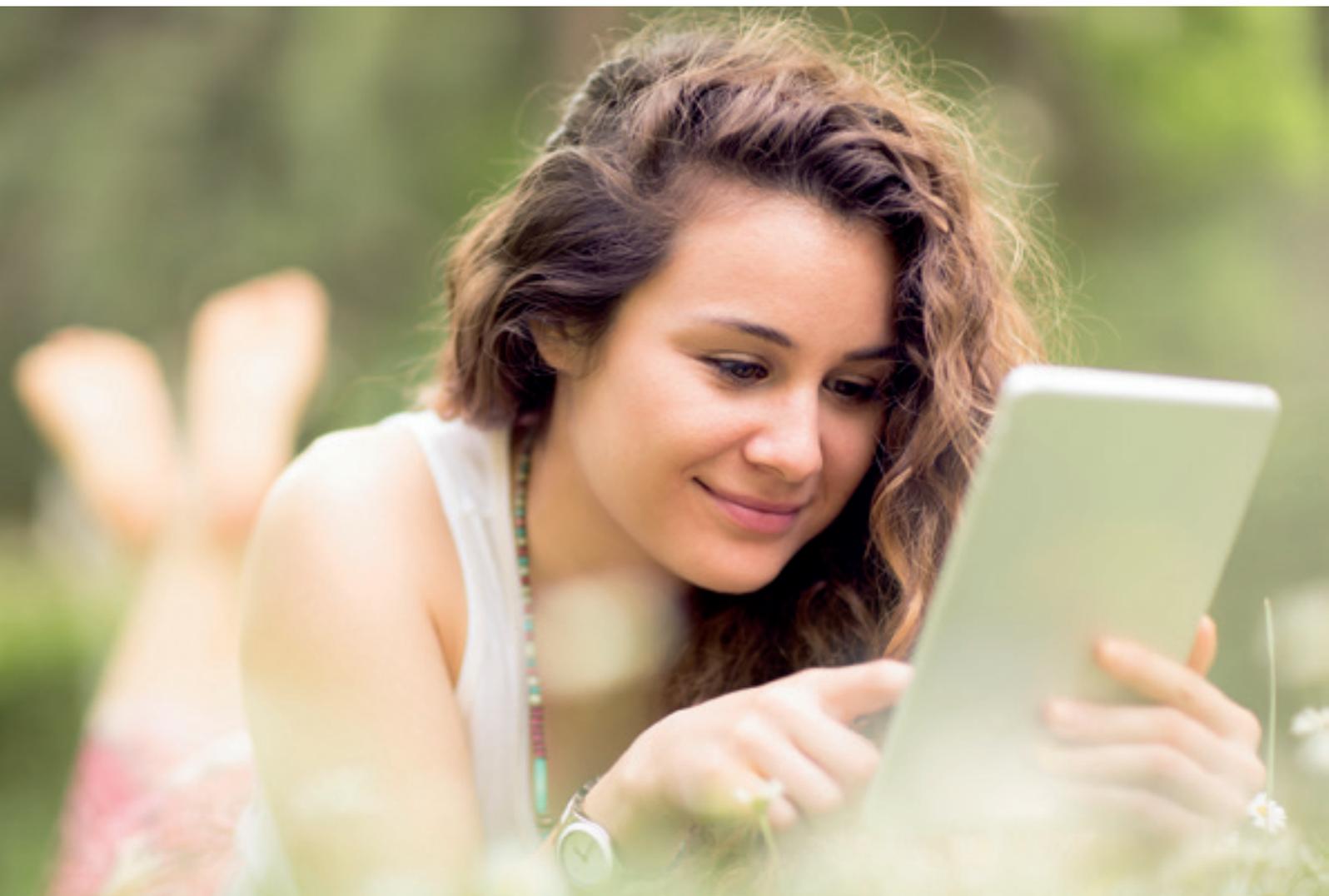
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<b>Komercijalni centar Požega</b>	<b>Požega, Republike Hrvatske 1b,</b> tel. 062 655 700, fax. 062 655 709
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**APPENDIX 1  
SUPPLEMENTARY REPORTS FOR  
THE CROATIAN NATIONAL BANK**

Pursuant to the Croatian Accounting Act (Official Gazette No. 109/07), the Croatian National Bank has promulgated the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 62/08). Set out below are the statutory financial statements of the Bank presented in accordance with the Decision:

## INCOME STATEMENT

		(IN THOUSANDS OF HRK)	
		2012	2011
		UNAUDITED	UNAUDITED
1.	INTEREST INCOME	169,708	179,738
2.	INTEREST EXPENSES	(81,698)	(75,126)
<b>3.</b>	<b>NET INTEREST INCOME</b>	<b>88,010</b>	<b>104,612</b>
4.	COMMISSION AND FEE INCOME	34,377	36,749
5.	COMMISSION AND FEE EXPENSES	<b>(10,732)</b>	<b>(11,244)</b>
<b>6.</b>	<b>NET COMMISSION AND FEE INCOME</b>	<b>23,645</b>	<b>25,505</b>
7.	GAIN/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
8.	GAIN/(LOSS) FROM TRADING ACTIVITIES	7,581	9,169
9.	GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-
10.	GAIN/(LOSS) FROM FINANCIAL ASSETS NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
11.	GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	(1,490)	(3,660)
12.	GAIN/(LOSS) FROM FINANCIAL ASSETS HELD TO MATURITY	-	-
13.	GAIN/(LOSS) FROM HEDGING TRANSACTIONS	-	-
14.	INCOME FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
15.	INCOME FROM OTHER EQUITY INVESTMENTS	1,236	1,280
16.	GAIN/(LOSS) FROM FOREIGN EXCHANGE DIFFERENCES	2,207	1,247
17.	OTHER INCOME	3,329	4,251
18.	OTHER EXPENSES	(11,915)	(5,765)
19.	GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(99,215)	(99,893)
<b>20.</b>	<b>NET INCOME BEFORE VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES</b>	<b>13,388</b>	<b>36,746</b>
21.	EXPENSES FROM VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	(3,174)	(21,110)
<b>22.</b>	<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>10,214</b>	<b>15,636</b>
23.	INCOME TAX	(2,085)	(3,170)
<b>24.</b>	<b>CURRENT YEAR PROFIT/(LOSS)</b>	<b>8,129</b>	<b>12,466</b>
25.	EARNINGS PER SHARE	12.16	18.64

## APPENDIX TO THE INCOME STATEMENT

		(IN THOUSANDS OF HRK)	
		2012	2011
	CURRENT YEAR PROFIT/(LOSS)	-	-
	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
	MINORITY INTEREST	-	-



# BALANCE SHEET

	(IN THOUSANDS OF HRK)	
	2012	2011
	UNAUDITED	UNAUDITED
<b>ASSETS</b>		
1. CASH AND DEPOSITS WITH THE CNB	420,161	340,226
1.1. CASH	41,374	36,072
1.2. DEPOSITS WITH THE CNB	378,787	304,154
2. DEPOSITS WITH BANKING INSTITUTIONS	308,061	213,394
3. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	29,563	495
4. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	443,974	405,955
6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	57,680	94,071
7. SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8. DERIVATIVE FINANCIAL ASSETS	-	-
9. LOANS TO FINANCIAL INSTITUTIONS	18,925	19,600
10. LOANS TO OTHER CLIENTS	1,620,530	1,707,494
11. INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	4,770	3,570
12. REPOSSESSED ASSETS	6,748	6,692
13. TANGIBLE AND INTANGIBLE ASSETS (MINUS DEPRECIATION AND AMORTISATION)	126,426	93,612
14. INTERESTS, FEES AND OTHER ASSETS	30,842	36,954
<b>A. TOTAL ASSETS</b>	<b>3,067,680</b>	<b>2,922,063</b>
<b>LIABILITIES AND EQUITY</b>		
1. BORROWINGS FROM FINANCIAL INSTITUTIONS	208,156	133,830
1.1. SHORT-TERM BORROWINGS	33,600	46,000
1.2. LONG-TERM BORROWINGS	174,556	87,830
2. DEPOSITS	2,296,674	2,256,955
2.1. DEPOSITS ON GIRO-ACCOUNTS AND CURRENT ACCOUNTS	372,017	403,541
2.2. SAVINGS DEPOSITS	202,989	240,156
2.3. TERM DEPOSITS	1,721,668	1,613,258
3. OTHER BORROWINGS	-	-
3.1. SHORT-TERM BORROWINGS	-	-
3.2. LONG-TERM BORROWINGS	-	-
4. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING FINANCIAL LIABILITIES	-	-
5. ISSUED DEBT SECURITIES	-	-
5.1. ISSUED SHORT-TERM DEBT SECURITIES	-	-
5.2. ISSUED LONG-TERM DEBT SECURITIES	-	-
6. ISSUED SUBORDINATED INSTRUMENTS	-	-
7. ISSUED SUBORDINATED DEBT	75,456	75,304
8. INTERESTS, FEES AND OTHER LIABILITIES	93,934	87,516
<b>B. TOTAL LIABILITIES</b>	<b>2,674,220</b>	<b>2,553,605</b>
<b>EQUITY</b>		
1. SHARE CAPITAL	259,433	259,433
2. CURRENT YEAR GAIN/LOSS	8,129	12,466
3. RETAINED EARNINGS/(LOSS)	-	-
4. LEGAL RESERVES	109,505	97,039
5. STATUTORY AND OTHER CAPITAL RESERVES	30,203	34,436
6. UNREALISED GAIN / (LOSS) FROM AVAILABLE FOR SALE FAIR VALUE ADJUSTMENT	(13,810)	(34,916)
<b>C. TOTAL EQUITY</b>	<b>393,460</b>	<b>368,458</b>
<b>D. TOTAL LIABILITIES AND EQUITY</b>	<b>3,067,680</b>	<b>2,922,063</b>

# APPENDIX TO THE BALANCE SHEET

	(IN THOUSANDS OF HRK)	
	2012	2011
<b>TOTAL EQUITY</b>		
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-



# CASH FLOW STATEMENT

(IN THOUSANDS OF HRK)

	2012 UNAUDITED	2011 UNAUDITED
<b>OPERATING ACTIVITIES</b>		
1.1. GAIN/(LOSS) BEFORE TAX	10,214	15,636
1.2. VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	3,174	21,110
1.3. DEPRECIATION AND AMORTISATION	9,470	10,100
1.4. NET UNREALISED (GAIN)/LOSS FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
1.5. GAIN/(LOSS) FROM SALE OF TANGIBLE ASSETS	(195)	(860)
1.6. OTHER (GAINS)/LOSSES	-	-
<b>1. OPERATING CASH FLOW BEFORE CHANGES IN OPERATING ASSETS</b>	<b>22,663</b>	<b>45,986</b>
2.1. DEPOSITS WITH THE CNB	(1,486)	(20,492)
2.2. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	(29,068)	(495)
2.3. DEPOSITS WITH BANKING INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	675	400
2.4. LOANS TO OTHER CLIENTS	83,790	(210,932)
2.5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
2.6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	(16,913)	(11,548)
2.7. SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
2.8. OTHER OPERATING ASSETS	6,432	(10,443)
<b>2. NET (INCREASE)/DECREASE IN OPERATING ASSETS</b>	<b>43,430</b>	<b>(253,510)</b>
<b>INCREASE/(DECREASE) IN OPERATING LIABILITIES</b>		
3.1. DEMAND DEPOSITS	(31,524)	51,151
3.2. SAVINGS AND TERM DEPOSITS	71,243	(14,431)
3.3. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING LIABILITIES	-	-
3.4. OTHER LIABILITIES	1,957	12,709
<b>3. NET INCREASE/(DECREASE) IN OPERATING LIABILITIES</b>	<b>41,676</b>	<b>49,429</b>
<b>4. NET CASH FLOW FROM OPERATING ACTIVITIES BEFORE PROFIT TAX</b>	<b>107,769</b>	<b>(158,095)</b>
<b>5. PROFIT TAX PAID</b>	<b>(3,225)</b>	<b>(3,158)</b>
<b>6. NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>104,544</b>	<b>(161,253)</b>
<b>INVESTING ACTIVITIES</b>		
7.1. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF TANGIBLE AND INTANGIBLE ASSETS	(42,284)	(15,518)
7.2. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	(1,200)	-
7.3. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	36,391	3,248
7.4. DIVIDENDS RECEIVED	1,236	(1,280)
7.5. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	(56)	1,913
<b>7. NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(5,913)</b>	<b>(11,637)</b>
<b>FINANCING ACTIVITIES</b>		
8.1. NET INCREASE/(DECREASE) IN BORROWINGS	74,326	(1,904)
8.2. NET INCREASE/(DECREASE) IN ISSUED DEBT SECURITIES	-	-
8.3. NET INCREASE/(DECREASE) IN SUBORDINATED DEBT AND HYBRID INSTRUMENTS	152	75,304
8.4. RECEIPTS FROM ISSUED SHARE CAPITAL	-	-
8.5. (DIVIDENDS PAID)	-	-
8.6. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	(12)	(11)
<b>8. NET CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>74,466</b>	<b>73,389</b>
<b>9. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>173,097</b>	<b>(99,501)</b>
<b>10. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>345,231</b>	<b>444,732</b>
<b>11. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>518,328</b>	<b>345,231</b>



# STATEMENT OF CHANGES IN EQUITY

(IN THOUSANDS OF HRK)

	SHARE CAPITAL	TREASURY SHARES	LEGAL, STATUTORY AND OTHER RESERVES	RETAINED EARNINGS/ (LOSS)	CURRENT YEAR PROFIT/ LOSS	UNREALISED GAIN/ LOSSES FROM AVAILABLE FOR SALE FINANCIAL ASSETS FAIR VALUE ADJUSTMENT	MINORITY INTEREST	TOTAL CAPITAL AND RESERVES
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
<b>1. BALANCE AT 1 JANUARY 2012</b>	<b>270,515</b>	<b>(11,082)</b>	<b>124,492</b>	<b>12,466</b>	-	<b>(27,933)</b>	-	<b>368,458</b>
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
<b>3. RESTATED CURRENT YEAR BALANCE</b>	<b>270,515</b>	<b>(11,082)</b>	<b>124,492</b>	<b>12,466</b>	-	<b>(27,933)</b>	-	<b>368,458</b>
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5. FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	21,106	-	21,106
6. TAX ON ITEMS RECOGNISED DIRECTLY IN, OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	(4,221)	-	(4,221)
7. OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	-
<b>8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES</b>	-	-	-	-	-	<b>16,885</b>	-	<b>16,885</b>
9. CURRENT YEAR GAIN/ (LOSS)	-	-	-	-	8,129	-	-	8,129
<b>10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR</b>	-	-	-	-	<b>8,129</b>	<b>16,885</b>	-	<b>25,014</b>
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	(12)	-	-	-	-	(12)
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
<b>16. ALLOCATION OF PROFIT</b>	-	-	<b>12,466</b>	<b>(12,466)</b>	-	-	-	-
<b>17. BALANCE AT 31 DECEMBER 2012</b>	<b>270,515</b>	<b>(11,082)</b>	<b>136,946</b>	-	<b>8,129</b>	<b>(11,048)</b>	-	<b>393,460</b>

(IN THOUSANDS OF HRK)

	SHARE CAPITAL	TREASURY SHARES	LEGAL, STATUTORY AND OTHER RESERVES	RETAINED EARNINGS/ (LOSS)	CURRENT YEAR PROFIT/ LOSS	UNREALISED GAIN/ LOSSES FROM AVAILABLE FOR SALE FINANCIAL ASSETS FAIR VALUE ADJUSTMENT	MINORITY INTEREST	TOTAL CAPITAL AND RESERVES
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
<b>1. BALANCE AT 1 JANUARY 2011</b>	<b>270,515</b>	<b>(11,082)</b>	<b>111,529</b>	<b>12,974</b>	-	<b>(9,312)</b>	-	<b>374,624</b>
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	(1)	-	-
<b>3. RESTATED CURRENT YEAR BALANCE</b>	<b>270,515</b>	<b>(11,082)</b>	<b>111,529</b>	<b>12,974</b>	-	<b>(9,313)</b>	-	<b>374,624</b>
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5. FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	(23,275)	-	(23,275)
6. TAX ON ITEMS RECOGNISED DIRECTLY IN, OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	4,655	-	4,655
7. OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	-
<b>8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES</b>	-	-	-	-	-	<b>(18,620)</b>	-	<b>(18,620)</b>
9. CURRENT YEAR GAIN/ (LOSS)	-	-	-	-	12,466	-	-	12,466
<b>10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR</b>	-	-	-	-	<b>12,466</b>	<b>(18,620)</b>	-	<b>(6,154)</b>
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	(11)	-	-	-	-	(11)
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
<b>16. ALLOCATION OF PROFIT</b>	-	-	<b>12,974</b>	<b>(12,974)</b>	-	-	-	-
<b>17. BALANCE AT 31 DECEMBER 2011</b>	<b>270,515</b>	<b>(11,082)</b>	<b>124,492</b>	-	<b>12,466</b>	<b>(27,933)</b>	-	<b>368,458</b>



Since the data in the financial statements prepared in accordance with the Croatian National Bank (“CNB”) Decision is classified differently from those in the financial statements prepared according to the statutory accounting requirements for banks in Croatia, set out below are the comparative figures. Comparatives for the income statement ended 31 December 2012 and 2011:

	2012		2011		(IN THOUSANDS OF HRK)	
	2012 CROATIAN NATIONAL BANK DECISION UNAUDITED	ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA	2012 DIFFERENCE	2011 CROATIAN NATIONAL BANK DECISION UNAUDITED	ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA	2011 DIFFERENCE
INTEREST AND SIMILAR INCOME	169,708	171,922	(2,214)	179,738	179,863	(125)
INTEREST AND SIMILAR EXPENSE	(81,698)	(77,452)	(4,246)	(75,126)	(70,378)	(4,748)
<b>NET INTEREST INCOME</b>	<b>88,010</b>	<b>94,470</b>	<b>(6,460)</b>	<b>104,612</b>	<b>109,485</b>	<b>(4,873)</b>
FEE AND COMMISSION INCOME	34,377	34,378	(1)	36,749	36,745	4
EXPENSE FOR FEES AND COMMISSIONS	(10,732)	(10,732)	-	(11,244)	(11,248)	4
<b>NET FEE AND COMMISSION INCOME</b>	<b>23,645</b>	<b>23,646</b>	<b>(1)</b>	<b>25,505</b>	<b>25,497</b>	<b>8</b>
NET TRADING GAIN	7,581	7,581	-	9,169	9,169	-
GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-	-	-	-	-
GAIN/(LOSS) FROM ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	-	-
GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	(1,490)	1,583	(3,073)	(3,660)	(3,660)	-
INCOME FROM OTHER INVESTMENTS IN EQUITY SECURITIES	1,236	1,236	-	1,280	1,280	-
NET FOREIGN EXCHANGE DIFFERENCES	2,207	(26)	2,233	1,247	724	523
OTHER OPERATING INCOME	3,329	3,353	(24)	4,251	3,894	357
<b>TOTAL OTHER INCOME</b>	<b>12,863</b>	<b>13,727</b>	<b>(864)</b>	<b>12,287</b>	<b>11,407</b>	<b>880</b>
GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(99,215)	(115,346)	16,131	(99,893)	(109,631)	9,738
IMPAIRMENT ALLOWANCE AND PROVISIONS	(3,174)	(6,283)	3,109	(21,110)	(21,122)	12
OTHER OPERATING EXPENSES	(11,915)	-	(11,915)	(5,765)	-	(5,765)
<b>TOTAL OTHER EXPENSES</b>	<b>(114,304)</b>	<b>(121,629)</b>	<b>7,325</b>	<b>(126,768)</b>	<b>(130,753)</b>	<b>3,985</b>
<b>PROFIT BEFORE TAX</b>	<b>10,214</b>	<b>10,214</b>	<b>-</b>	<b>15,636</b>	<b>15,636</b>	<b>-</b>
INCOME TAX EXPENSE	(2,085)	(2,085)	-	(3,170)	(3,170)	-
<b>NET PROFIT FOR THE YEAR</b>	<b>8,129</b>	<b>8,129</b>	<b>-</b>	<b>12,466</b>	<b>12,466</b>	<b>-</b>
<b>EARNINGS PER SHARE (U HRK)</b>	<b>12.16</b>			<b>18.64</b>		

The difference for the year ended 31 December 2012 in “Interest and interest similar income” of HRK 2,214 thousand (2011: HRK 125 thousand) relates to foreign exchange differences based on the interest income. The difference for the year ended 31 December 2012 in “Interest and similar expense” of HRK 4,246 thousand (2011: HRK 4,748 thousand) relates mainly to the savings deposit insurance premium expenses, which were presented within “General and administrative expenses” in the audited income statement per amount HRK 4,461 thousand (2011: HRK 4,364 thousand). Other differences are in respect of the reclassification of other expense items from the audited ac-

counts to interest expense and of exchange differences on interest expense into net foreign exchange gains on translation of monetary assets and liabilities. The difference on the item "Profit/(loss) from transactions with available for sale assets" of HRK 3,073 thousand relates to impairment of equities presented in the audited income statement within "Impairment charge and provisions". The differences in the positions included in "Net foreign exchange differences" relates to foreign exchange differences based on the translation of foreign currency balances to mid or contracted exchange rate. The differences in the positions included in "Total other expenses" result from reclassification of representation and advertising expenses, and other and extraordinary expenses to "General and administrative expenses" in audited financial statements. Comparatives for the balance sheet at 31 December 2012 and 31 December 2011:

	(IN THOUSANDS OF HRK)					
	2012	2012	2012	2011	2011	2011
	CROATIAN	ACCOUNTING	DIFFERENCE	CROATIAN	ACCOUNTING	DIFFERENCE
	NATIONAL BANK	REQUIREMENTS		NATIONAL BANK	REQUIREMENTS	
	UNAUDITED	FOR BANKS		UNAUDITED	FOR BANKS	
<b>ASSETS</b>						
CASH AND DEPOSITS WITH THE CROATIAN NATIONAL BANK	420,161	600,464	(180,303)	340,226	398,954	(58,728)
TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	29,563	-	29,563	495	-	495
FINANCIAL ASSETS AVAILABLE FOR SALE	443,974	340,593	103,381	405,955	293,958	111,997
FINANCIAL ASSETS HELD TO MATURITY	57,680	27,481	30,199	94,071	27,756	66,315
PLACEMENTS WITH AND LOANS TO OTHER BANKS	326,986	166,199	160,787	232,994	176,228	56,766
LOANS AND RECEIVABLES	1,620,530	1,772,645	(152,115)	1,707,494	1,893,621	(186,127)
INVESTMENTS IN SUBSIDIARIES	4,770	4,770	-	3,570	3,570	-
REPOSSESSED ASSETS	6,748	-	6,748	6,692	-	6,692
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	126,426	126,300	126	93,612	93,495	117
DEFERRED TAX ASSETS	6,619	6,619	-	9,700	9,700	-
OTHER ASSETS	24,223	13,141	11,082	27,254	14,468	12,786
<b>TOTAL ASSETS</b>	<b>3,067,680</b>	<b>3,058,212</b>	<b>9,468</b>	<b>2,922,063</b>	<b>2,911,750</b>	<b>10,313</b>
<b>LIABILITIES</b>						
DUE TO OTHER BANKS AND DEPOSITS FROM CUSTOMERS	2,504,830	2,554,889	(50,059)	2,390,785	2,436,166	(45,381)
PROVISIONS FOR LIABILITIES AND CHARGES	4,826	4,826	-	4,457	4,457	-
OTHER LIABILITIES	89,108	28,392	60,716	83,059	26,192	56,867
<b>TOTAL LIABILITIES</b>	<b>2,598,764</b>	<b>2,588,107</b>	<b>10,657</b>	<b>2,478,301</b>	<b>2,466,815</b>	<b>11,486</b>
HYBRID INSTRUMENTS	75,456	77,351	(1,895)	75,304	77,195	(1,891)
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	267,500	267,500	-	267,500	267,500	-
SHARE PREMIUM	3,015	3,015	-	3,015	3,015	-
TREASURY SHARES	(11,082)	(11,082)	-	(11,082)	(11,082)	-
NET PROFIT FOR THE YEAR	8,129	8,129	-	12,466	12,466	-
UNREALISED GAIN / (LOSS) FROM FAIR VALUE ADJUSTMENT OF AVAILABLE FOR SALE ASSETS	(13,810)	(13,810)	-	(34,916)	(34,916)	-
RESERVES	139,708	139,002	706	131,475	130,757	718
<b>TOTAL EQUITY</b>	<b>393,460</b>	<b>392,754</b>	<b>706</b>	<b>368,458</b>	<b>367,740</b>	<b>718</b>
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>3,067,680</b>	<b>3,058,212</b>	<b>9,468</b>	<b>2,922,063</b>	<b>2,911,750</b>	<b>10,313</b>



The difference in net of HRK 9,468 thousand (2011: 10,313 thousand) in the balance sheet totals between the balance sheet as per the CNB Decision and the balance sheet according to the statutory accounting requirements for banks in Croatia arises from the different classification of deferred loan origination fees of HRK 9,468 thousand (2011: HRK 10,313 thousand). In the balance sheet format prescribed by the CNB Decision, deferred fees and taxes are captured within "Interest, fees and other liabilities" under the line item "Total liabilities". The balance of the statutory accounting requirements for banks in the Republic of Croatia in the "Total assets" are delimited loan origination fees accounted for as an impairment in the position of "Loans and receivables" and the deferred tax liability is reported netted in the position "Deferred tax assets".

The differences in other positions arise from a different classification of interest receivables and interest payables. In the balance sheet according to the CNB Decision interest receivables and interest payables are recognised in "Other assets" and "Other liabilities", whereas in the balance sheet according to the statutory accounting requirements for banks in Croatia they are recognised on the balance sheet within the corresponding principal component.

## Assets

Cash balances on current accounts with domestic and foreign banks as well as other deposits in the total amount of HRK 180,303 thousand (2011: HRK 58,728 thousand) are presented in the audited accounts within "Cash and amounts due from banks", while according to the CNB Decision, they are reported within "Deposits with banking institutions".

In the audited accounts, placements with customers in respect of discounted bills and factored receivables in the total amount of HRK 167,217 thousand (2011: HRK 183,480 thousand) are presented within "Loans and advances to customers", while under the CNB Decision they are reported by the financial asset portfolio to which they are allocated as follows: HRK 136,953 thousand to financial assets available for sale (2011: HRK 117,100 thousand) and HRK 2,153 thousand to financial assets held to maturity (2011: HRK 880 thousand), while factoring receivables are classified as financial assets held to maturity amount to HRK 28,111 thousand (2011: HRK 65,500 thousand).

Repossessed i.e. foreclosed assets are reported under the CNB Decision separately, while in the audited accounts they have been included within "Other assets". Small inventories of HRK 126 thousand (2011: HRK 117 thousand) are presented in the audited accounts within "Other assets", whereas under the CNB Decision they are included in "Property, plant and equipment, and intangible assets".

Deferred tax assets of HRK 6,619 thousand (2011: HRK 9,700 thousand) are reported separately in the audited accounts, whereas according to the reporting requirements of the CNB they are included within "Other assets".

## Liabilities and capital

According to the CNB Decision, "Other liabilities" include provisions for contingent liabilities and legal cases, which have been presented separately in the audited accounts amounting to HRK 4,826 thousand (2011: HRK 4,457 thousand).

According to the CNB requirements, the position "Statutory and other capital reserves" include reserves of HRK 706 thousand, formed in respect of flats with tenancy rights not sold (2011: HRK 718 thousand), which are included in the audited accounts within "Other liabilities".

