ERSTE&STEIERMÄRKISCHE BANK d.d.

and subsidiaries

Consolidated financial statements for the year ended 31 December 2012 and Independent auditor's report

Contents

Responsibility for the financial statements

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

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

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

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

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

Signed on behalf of the Management Board

Petar Radaković

Slađana Jagar

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

05 March 2013

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Erste & Steiermärkische Bank d.d.
Račun / Account: 2402006-1100280716
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Independent Auditor's Report

Report on the financial statements

We have audited the accompanying consolidated and separate financial statements ('the financial statements') of Erste & Steiermärkische Bank d.d. (the 'Bank') and its subsidiaries (together, the 'Group'), which comprise Consolidated and Separate statement of financial position as at 31 December 2012 and Consolidated and Separate income statement, Consolidated and Separate statement of comprehensive income, Consolidated and Separate statement of changes of equity and Consolidated and Separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (as set out on pages 4 to 110).

Management Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

ERNST & YOUNG

Report on Other Legal Reporting Requirements

In accordance with the Bylaw on the structure and content of the annual financial statements (National Gazette no 62/08) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 111 to 128, and which contain a balance sheet as at 31 December 2012, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the primary financial statements of the Bank and the Group. This financial information is the responsibility of the Bank's management and is, pursuant to International Financial Reporting Standards, not a required part of the financial statements, but is required by the Bylaw.

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements of the Bank and the Group which were prepared in accordance with International Financial Reporting Standards as presented on pages 4 to 110 and are based on underlying accounting records of the Bank.

Ernst & Young d.o.o.

Zagreb, 05 March 2013

Income statement

For the year ended 31 December 2012

(All amounts are expressed in HRK million)

	Notes	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Interest income	5	4,089	3,815	3,470	3,265
Interest expense	6	(1,997)	(1,683)	(1,821)	(1,525)
Net interest income		**2,092**	**2,132**	**1,649**	**1,740**
Fee and commission income	7	680	729	447	432
Fee and commission expense	8	(159)	(135)	(131)	(123)
Net fee and commission income		**521**	**594**	**316**	**309**
Net trading income	9	148	146	139	144
Other operating income	10	83	46	111	58
Operating income		**2,844**	**2,918**	**2,215**	**2,251**
Personnel expenses	11	(543)	(568)	(411)	(412)
Other operating expenses	12	(541)	(548)	(403)	(381)
Depreciation of property and equipment	28	(53)	(56)	(34)	(34)
Amortization of intangible assets	29	(66)	(72)	(16)	(16)
Operating expense		**(1,203)**	**(1,244)**	**(864)**	**(843)**
PROFIT BEFORE PROVISION FOR IMPAIRMENT LOSSES, SHARE OF RESULTS OF ASSOCIATES AND INCOME TAX		**1,641**	**1,674**	**1,351**	**1,408**
Provision for impairment losses on loans and advances and other assets	13	(870)	(728)	(733)	(578)
Provision for impairment losses on financial investments	14	(2)	(13)	(2)	(15)
Other provisions	15	(30)	(16)	(18)	(12)
PROVISION FOR LOAN AND FINANCIAL INVESTMENT LOSSES AND OTHER PROVISIONS		**(902)**	**(757)**	**(753)**	**(605)**
Share of profit of associates	27	**4**	**4**	**-**	**-**
PROFIT BEFORE INCOME TAX		**743**	**921**	**598**	**803**
Income taxes	16	(147)	(176)	(115)	(152)
NET PROFIT FOR THE YEAR		**596**	**745**	**483**	**651**
Net profit attributable to:					
Equity holders of the Bank		**585**	**739**		
Non controlling interest		**11**	**6**		
EARNINGS PER SHARE					
Basic and diluted (HRK)	39	**34.45**	**43.51**		

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

Statement of comprehensive income

For the year ended 31 December 2012

(All amounts are expressed in HRK million)

	Notes	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
NET PROFIT FOR THE YEAR		**596**	**745**	**483**	**651**
Other comprehensive income					
Net gain/(loss) on financial investments available for sale		345	(118)	311	(115)
Exchange differences on translation of foreign operations		1	4	-	-
Other		(1)	(3)	-	1
Income tax on other comprehensive income	17	(67)	23	(62)	23
Total other comprehensive income for the year, net of tax:	18	**278**	**(94)**	**249**	**(91)**
Total comprehensive income for the year, net of tax		**874**	**651**	**732**	**560**
Total comprehensive income attributable to:					
Equity holders of the Bank		**863**	**645**	**-**	**-**
Non controlling interest		**11**	**6**	**-**	**-**

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

Statement of financial position

For the year ended 31 December 2012

(All amounts are expressed in HRK million)

	Notes	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
ASSETS					
Cash and balances with central banks	19	7,757	7,230	7,459	7,054
Amounts due from other banks	20	2,865	1,524	2,507	1,438
Reverse repurchase agreements	21	683	26	899	157
Receivables on financial derivative transactions	22	114	93	113	92
Financial assets held for trading	23	250	417	56	122
Financial assets at fair value through profit or loss	23	-	50	-	50
Loans and advances to customers	24	45,348	44,677	38,844	39,425
Financial investments available for sale	25	6,135	6,425	5,956	6,315
Financial investments held to maturity	26	813	602	685	366
Investments in subsidiaries and associates	27	68	69	1,300	1,300
Property and equipment	28	704	729	386	407
Intangible assets	29	740	792	47	50
Investment property	28	1	1	-	-
Deferred tax assets	16	172	206	38	93
Other assets	30	241	204	229	166
Total assets		**65,891**	**63,045**	**58,519**	**57,035**
LIABILITIES					
Amounts due to other banks	31	22,906	22,285	16,830	16,882
Repurchase agreements	21	1,490	609	1,369	500
Payables on financial derivative transactions	22	148	136	147	136
Financial liabilities at fair value through profit or loss	23	-	40	-	40
Amounts due to customers	32	32,190	31,812	31,618	31,787
Issued bonds and other borrowed funds	33	362	79	303	3
Current tax liabilities	16	15	5	-	-
Deferred tax liabilities	16	19	27	-	-
Other liabilities	34	438	448	325	330
Provisions	35	136	108	116	98
Subordinated debt	36	878	877	848	846
Total liabilities		**58,582**	**56,426**	**51,556**	**50,622**
Shareholders' equity					
Share capital	37	1,698	1,698	1,698	1,698
Share premium	37	1,802	1,802	1,802	1,802
Retained earnings		3,491	3,082	3,212	2,905
Other reserves		195	(83)	166	(83)
Other capital reserves	38	85	91	85	91
Equity attributable to equity holders of the Bank		**7,271**	**6,590**	**6,963**	**6,413**
Non controlling interest		38	29	-	-
Total equity		**7,309**	**6,619**	**6,963**	**6,413**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**65,891**	**63,045**	**58,519**	**57,035**

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

Signed on behalf of Erste&Steiermärkische Bank d.d. on 05 March 2013:

President of the Management Board
Petar Radaković

Member of the Management Board
Slađana Jagar

Statement of changes in equity

For the year ended 31 December 2012

(All amounts are expressed in HRK million)

GROUP

	Attributable to the equity holders of the Bank							
	Share capital	Share premium	Retained earnings	Other reserves	Statutory and legal reserves	Total	Non controlling interest	Total equity
Balance as at 1 January 2012	1,698	1,802	3,082	(83)	91	6,590	29	6,619
Total comprehensive income	-	-	585	278	-	863	11	874
Profit distribution for 2011:								
Transfer	-	-	6	-	(6)	-	-	-
Dividends	-	-	(182)	-	-	(182)	(2)	(184)
Balance as at 31 December 2012	1,698	1,802	3,491	195	85	7,271	38	7,309
Balance as at 1 January 2011	1,698	1,802	2,440	11	217	6,168	1	6,169
Total comprehensive income	-	-	739	(94)	-	645	6	651
Profit distribution for 2010:								
Transfer	-	-	126	-	(126)	-	-	-
Dividends	-	-	(193)	-	-	(193)	-	(193)
Acquisition and disposal of subsidiaries	-	-	(30)	-	-	(30)	22	(8)
Balance as at 31 December 2011	1,698	1,802	3,082	(83)	91	6,590	29	6,619

BANK

	Attributable to the equity holders of the Bank							
	Share capital	Share premium	Retained earnings	Other reserves	Statutory and legal reserves	Total	Non controlling interest	Total equity
Balance as at 1 January 2012	1,698	1,802	2,905	(83)	91	6,413	-	6,413
Total comprehensive income	-	-	483	249	-	732	-	732
Profit distribution for 2011:								
Transfer	-	-	6	-	(6)	-	-	-
Dividends	-	-	(182)	-	-	(182)	-	(182)
Balance as at 31 December 2012	1,698	1,802	3,212	166	85	6,963	-	6,963
Balance as at 1 January 2011	1,698	1,802	2,292	8	217	6,017	-	6,017
Total comprehensive income	-	-	651	(91)	-	560	-	560
Profit distribution for 2010:								
Transfer	-	-	126	-	(126)	-	-	-
Dividends	-	-	(164)	-	-	(164)	-	(164)
Balance as at 31 December 2011	1,698	1,802	2,905	(83)	91	6,413	-	6,413

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

Statement of cash flow

For the year ended 31 December 2012

(All amounts are expressed in HRK million)

	Notes	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Operating Activities					
Loss from operating activities before changes in operating assets and liabilities	42	(346)	(533)	(293)	(492)
Changes in operating assets and liabilities:					
Obligatory reserves with central banks		192	(928)	209	(937)
Amounts due from other banks		(811)	570	(690)	33
Reverse repurchase agreements		(658)	102	(744)	45
Net increase/(decrease) in financial assets held for trading		166	(366)	66	(72)
Net increase in assets at fair value through profit and loss		50	30	50	30
Loans and advances to customers, net of write-offs		(1,495)	(8,926)	(69)	(4,923)
Other assets		(43)	(99)	(75)	(59)
Amounts due to other banks		608	8,848	(60)	4,248
Repurchase agreements		876	(226)	863	(335)
Financial liabilities at fair value through profit or loss		(40)	(40)	(40)	(40)
Amounts due to customers		405	654	(141)	1,438
Other liabilities		(10)	114	(6)	15
Cash used in operations		*(1,106)*	*(800)*	*(930)*	*(1,049)*
Interest paid		(2,005)	(1,529)	(1,833)	(1,390)
Interest received		4,007	3,693	3,349	3,161
Income tax paid		(169)	(270)	(112)	(213)
NET CASH FROM OPERATING ACTIVITIES		**727**	**1,094**	**474**	**509**
Investing Activities					
Purchase of property and equipment		(32)	(76)	(16)	(38)
Disposal of property and equipment		4	10	4	10
Purchase of intangible assets		(14)	(844)	(13)	(22)
Purchase of investments available for sale		470	(2,553)	437	(2,515)
Increase/(decrease) in investments in associates		5	23	-	(1,133)
Sales of investments in subsidiaries		-	8	-	-
Acquisition of subsidiaries, net of cash acquired		-	(602)	-	-
Purchase/redemption of investments held to maturity		(210)	(179)	(318)	40
Dividends received		5	31	29	41
Gains on investments in associates received		-	-	6	-
NET CASH USED IN INVESTING ACTIVITIES		**228**	**(4,182)**	**129**	**(3,617)**
Financing Activities					
Subordinated borrowings		2	829	2	828
Dividends paid		(182)	(193)	(182)	(163)
Increase in other borrowed funds		(19)	-	(2)	-
Issued bonds		302	-	302	-
NET CASH FROM FINANCING ACTIVITIES		**103**	**636**	**120**	**665**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,058**	**(2,452)**	**723**	**(2,443)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	42	**4,299**	**6,751**	**4,193**	**6,636**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42	**5,357**	**4,299**	**4,916**	**4,193**

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

1. GENERAL

History and incorporation

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

Principal activities of the Bank

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

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

Supervisory Board

Herbert Juranek	President
Sava Ivanov Dalbokov	Deputy President
Mag. Franz Kerber	Member
Mag. Reinhard Ortner	Member
Mag. Peter Nemschak	Member
Dr. Kristijan Schellander	Member until 20 December 2012
Mag. Gerhard Maier	Member as of 20 December 2012
Dr. Ernst Gideon Loudon	Member

Management Board

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

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

(All amounts are expressed in HRK million)

1. GENERAL (CONTINUED)

Procurators:

Zdenko Matak	Procurator
Vladimir Kristijan	Procurator

The only shareholder of the Bank is ESB Holding GmbH with 16,984,175 shares as at 31 December 2012 and 2011.

Definition of the consolidated group

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

Name of subsidiary	Note	Ownership interest	Principal activity	Registered office
Erste DMD d.o.o. za upravljanje dobrovoljnim mirovinskim fondom	27	100%	Management company for voluntary pension fund	Ivana Lučića 2a, Zagreb
Erste nekretnine d.o.o.	27	100%	Real estate business	Ivana Lučića 2, Zagreb
Erste Delta d.o.o.	3	100%	Real estate business	Ivana Lučića 2, Zagreb
Erste Bank a.d. Podgorica, Montenegro	27	100%	Credit institution	Marka Miljanova 46, Podgorica, Montenegro
Erste Card Club d.o.o. za financijsko posredovanje i usluge[1]	3	100%	Financial intermediation and services	Praška 5, Zagreb
Diners Club BH d.o.o. Sarajevo	3	100%	Other financial intermediation	Fra Anđela Zvizdovića 1, Sarajevo, Bosnia and Herzegovina
Erste Factoring d.o.o. za factoring	3	74.996%	Accounts receivables repurchase	Ivana Lučića 2, Zagreb

[1] In July 2012 Erste Card Club joint stock company changed its legal form in limited liability company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of presentation

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

The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') and International Accounting Standards ('IAS') as published by the International Accounting Standards Board ('IASB'), under the historical cost convention, as modified by the revaluation of appropriate financial assets and liabilities.
The financial statements are presented in millions of Local Currency – Croatian Kuna ('HRK'), unless otherwise indicated.

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

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

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

2.2. Basis of consolidation

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

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

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

2.2. Basis of consolidation (continued)

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

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

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

2.3. Business combinations

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

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

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

2.3. Business combinations (continued)

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

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

2.4. Investments in associates

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

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

2.4. Investments in associates (continued)

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

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

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

2.5. Goodwill

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

2.6. Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012:

- IAS 12 *Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets;*
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters;*
- IFRS 7 *Financial Instruments : Disclosures - Enhanced Derecognition Disclosure Requirements.*

The adoption of the standards or interpretations is described below:

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduced a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and there has been no effect on the Group's financial position, performance or its disclosures.

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

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group does not expect that the amendment will have an impact on its financial position or results.

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

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off'. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans - Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

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

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation - Special Purpose Entities.*
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.
This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities - Non-monetary Contributions by Venturers.* IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analysis, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

- *IAS 1 Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

- *IAS 16 Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

- *IAS 32 Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

- *IAS 34 Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures. These improvements are effective for annual periods beginning on or after 1 January 2013.

2.7. Leasing

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

The Group and the Bank as lessee

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

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

2.8. Non-current assets held for sale

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

2.9. Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments.
When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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

2.10. Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, guarantees issued, letters of credit, card business and other credit instruments issued by the Group and the Bank. Such fees and commissions are generally recognized as income when due.
Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

2.11. Taxation

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

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and the Bank's liability for current tax is calculated using tax rates that have been enacted by the statement of financial position date.

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

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

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

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

2.12. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash, balances with the central banks, current accounts with other banks and term placements with other banks with residual maturity up to 3 months, and treasury bills with residual maturity up to 3 months.
Cash and cash equivalents exclude the obligatory reserves with the central banks as these funds are not available for the Group's day to day operations.

2.13. Financial assets

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

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

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

a) Assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

<u>Measurement:</u>
Subsequent to the initial recognition, financial assets at fair value through profit or loss are accounted for and stated at fair value which approximates the price quoted on recognized stock exchanges or acceptable valuation models. The Group and the Bank include realized and unrealized gains and losses in 'Net trading income'. Interest earned on assets at fair value through profit or loss representing coupons on debt securities is accrued on a daily basis and reported within 'Net trading income' in the income statement.

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

2.13. Financial assets (continued)

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

b) Investments held to maturity

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

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

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

c) Assets available for sale

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

This portfolio comprises equity and debt securities. Subsequent to initial recognition, available for sale financial investments are re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer.

2.13. Financial assets (continued)

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

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

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

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

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

d) Loans and receivables

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

2.13. Financial assets (continued)

This portfolio comprises loans provided to customers.

Loans and receivables are carried at amortized cost using the effective interest method, less any allowances for impairment. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

An allowances for loan impairment is established if there is objective evidence that the Group and the Bank will not be able to collect all amounts due. The amount of the allowances is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Loan loss allowances are assessed with reference to the credit standing and performance of the borrower considering the value of any collateral or third party guarantees.
If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Group and the Bank include the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.
Loans together with the associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. Subsequent recoveries are credited to the 'Impairment losses on loans and advances' line in the income statement.
Penalty interest is charged to borrowers when a portion of the loan falls overdue. Penalty interest is accounted for on a cash received basis in the caption 'Interest income'.

2.14. Financial liabilities

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

2.15. Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

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

2.16. Derivative financial instruments

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

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in Net trading income. Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement. Fair values are principally obtained from discounted cash flow models and option pricing models as appropriate. The results of the valuation of derivatives are reported in assets (aggregate of positive fair values) or liabilities (aggregate of negative fair values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise in the income statement line 'Net trading income' for derivatives in 'Trading book'.

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

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

(All amounts are expressed in HRK million)

2.17. Sale and repurchase agreements

If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized as the Group and the Bank retain substantially all the risks and rewards of ownership.
Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the statement of financial position according to the original classification or the Group and the Bank reclassify the asset on its statement of financial position, as a 'Repurchase receivable' if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in 'Repurchase agreements'.
Securities purchased under agreements to resell ('reverse repos') at a specified future date are not recognised in the statement of financial position. The consideration paid, is recorded in the statement of financial position line 'Reverse repurchase agreements', reflecting the transaction's economic substance as a loan. The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repurchase agreement using the effective interest rate.

2.18. Tangible and intangible fixed assets

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

	2012	2011
Buildings	40 years	40 years
Computers	4 years	4 years
Furniture and equipment	3-10 years	3-10 years
Motor vehicles	4 years	4 years
Software	4 years	4 years
Customer relationship	5.5-8 years	5.5-8 years
Other intangible assets	5 years	5 years

The carrying amounts of tangible and intangible assets are reviewed at each statement of financial position date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss, the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.
Investment properties are investments rented to third parties which are accounted for in the same manner as property used in operations of the Group i.e. using the cost model.

(All amounts are expressed in HRK million)

2.19. Foreign currency translation

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

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

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

The Bank has assets and liabilities originated in HRK, which are linked to foreign currency with a one-way currency clause. Due to this clause, the Bank has an option to revalue the asset by the higher of the foreign exchange rate valid as of the date of maturity, or the foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia, the fair value of this option cannot be calculated, as the forward rates for HRK for periods over 6 months are not available. As such, the Bank values it's assets and liabilities related to this clause by the agreed contract rate valid at the date of the statement of financial position or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher. As at 31 December 2012 one-way currency clause asset is HRK 42 million and liabilities HRK 28 million and as at 31 December 2011 one-way currency clause asset is HRK 66 million and liabilities HRK 47 million.

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

31 December 2012	EUR 1=HRK 7.545624	USD 1=HRK 5.726794	CHF 1=HRK 6.245343
31 December 2011	EUR 1=HRK 7.530420	USD 1=HRK 5.819940	CHF 1=HRK 6.194817

2.20. Off balance sheet commitments

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

2.21. Provisions

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

2.22. Long-term employee benefits

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

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

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

2.23. Fiduciary activities

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

2.24. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

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

Due to the absence of recently observed market prices for the derivative financial instruments, the management has decided to measure the derivatives using discounted cash flow models. Discount factors used in these models are derived from the smooth interest rates and volatility curves constructed with predefined interpolation methods and market interest rates from Reuters which are valid as at 31 December 2012 for each currency and corresponding maturity dates.

In the ordinary course of business, the Group and the Bank are subject to legal actions and complaints. The management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial situation or the results of future operations of the Group and the Bank. As of 31 December 2012 based on advice of legal counsel, provisions for these risks amounting to HRK 34 million for the Group, and HRK 33 million for the Bank (Note 35). For the rest of the legal cases where the Bank or its subsidiaries act as a defendant, no provisions were created since it is estimated based on the advice of legal counsel, that the Bank's and the subsidiaries' cases will prevail and the probability of an adverse outcome of the litigations is remote.

2.25. Regulatory requirements

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

(All amounts are expressed in HRK million)

3. BUSINESS COMBINATIONS, MERGERS AND GOODWILL

Acquisition of Erste Card Club Group:

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

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

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

	Amounts recognised on initial consolidation 1 January 2011
ASSETS	
Amounts due from other banks	989
Receivables on financial derivative transactions	3
Financial assets held for trading	221
Loans and advances to customers	1,896
Financial investments available for sale	4
Financial investments held to maturity	235
Property and equipment	44
Intangible assets	4
Deferred tax assets	65
Other assets	4
Total assets	**3,465**
LIABILITIES	
Amounts due to other banks	2,408
Repurchase agreements	220
Payables on financial derivative transactions	2
Amounts due to customers	438
Other liabilities	86
Provisions	4
Current tax liabilities	4
Total liabilities	**3,162**

(All amounts are expressed in HRK million)

3. BUSINESS COMBINATIONS, MERGERS AND GOODWILL (CONTINUED)

Net assets acquired	**303**
Intangible asset arising on acquisition	181
Goodwill arising on acquisition	603
Adjustment directly in equity	2
Cost of acquisition	**1,089**

Cash outflow on acquisition of the subsidiary:

Net cash acquired with the subsidiary	989
Cash paid	(1,089)
Net cash outflow	**(100)**

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

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

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

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

(All amounts are expressed in HRK million)

3. BUSINESS COMBINATIONS, MERGERS AND GOODWILL (CONTINUED)

Cash inflow on acquisition of the subsidiary:

Net cash acquired with the subsidiary	1,333
Cash paid	(38)
Net cash inflow	**1,295**

Merger of Erste Securities d.o.o.;

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

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

Cash outflow on acquisition of the subsidiary:

Net cash acquired with the subsidiary	1
Cash paid	(21)
Net cash outflow	**(20)**

3. BUSINESS COMBINATIONS, MERGERS AND GOODWILL (CONTINUED)

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

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

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

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

3.1. Goodwill and impairment testing

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

Goodwill is tested for impairment by comparing the recoverable amount of each cash-generating unit, to which goodwill has been allocated with its carrying amount. The carrying amount of a cash-generating unit is derived based on the amount of equity allocated to cash-generating unit taking into account any goodwill and unamortized intangible assets recognised for cash-generating unit according to the purchase prices allocation. The recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. Where available, the fair value less costs to sell is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF-model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

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

Long-term growth rate applied to estimate future earnings beyond the planning period for the year ended 2012 is 3.5% (2011: 2%).

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

Discount rate applied to determine the value in use of the CGU's in 2012 is 12.56% (2011: 11.76%).

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

4. SEGMENT INFORMATION

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

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

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

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

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

(All amounts are expressed in HRK million)

4. SEGMENT INFORMATION (CONTINUED)

GROUP 2012

	Retail banking	Corporate banking	Financial market	Central units	Erste Card Club Group	Erste Factoring d.o.o.	Erste Bank Podgorica	Other sub-sidiaries	Total
Revenue									
Third party	1,209	864	(34)	170	352	110	169	4	2,844
Inter-segment	258	(317)	(7)	66	-	-	-	-	-
Total operating income/(loss)	**1,467**	**547**	**(41)**	**236**	**352**	**110**	**169**	**4**	**2,844**
Impairment losses on financial investments and credit loss expense	(188)	(563)	2	(4)	(66)	(48)	(35)	-	(902)
Net operating income/(expense)	**1,279**	**(16)**	**(39)**	**232**	**286**	**62**	**134**	**4**	**1,942**
Results									
Net interest income	989	719	(123)	64	185	117	147	(6)	2,092
Net fees and commission income	169	126	11	11	184	(7)	19	8	521
Net trading income	52	19	64	3	3	5	2	-	148
General administrative expenses	(578)	(160)	(54)	(72)	(237)	(12)	(96)	6	(1,203)
Other	-	-	13	98	(21)	(4)	1	-	87
Provision for loan and financial investment losses and other provisions	(188)	(563)	2	(4)	(66)	(48)	(35)	-	(902)
Segment profit/(loss)	**444**	**141**	**(87)**	**100**	**48**	**51**	**38**	**8**	**743**
Income tax expense	(86)	(27)	14	(16)	(15)	(11)	(4)	(2)	(147)
Profit for the year	**358**	**114**	**(73)**	**84**	**33**	**40**	**34**	**6**	**596**
Assets									
Capital expenditure on:									
Property and equipment	-	-	-	19	10	-	6	-	35
Intangible assets	-	-	-	13	1	-	-	-	14
Total assets	**17,565**	**20,013**	**18,585**	**2,355**	**2,087**	**2,684**	**2,368**	**234**	**65,891**
Total liabilities	**23,496**	**6,658**	**20,495**	**907**	**2,040**	**2,567**	**2,198**	**221**	**58,582**

(All amounts are expressed in HRK million)

4. SEGMENT INFORMATION (CONTINUED)

GROUP 2011

	Retail banking	Corporate banking	Financial market	Central units	Erste Card Club Group	Erste Factoring d.o.o.	Erste Bank Podgorica	Other sub-sidiaries	Total
Revenue									
Third party	1,003	1,183	24	33	380	72	168	55	2,918
Inter-segment	251	(244)	(117)	110	-	-	-	-	-
Total operating income/(loss)	1,254	939	(93)	143	380	72	168	55	2,918
Impairment losses on financial investments and credit loss expense	(182)	(395)	1	(24)	(70)	(39)	(48)	-	(757)
Net operating income/(expense)	1,072	544	(92)	119	310	33	120	55	2,161
Results									
Net interest income	1,018	794	(181)	110	180	71	149	(9)	2,132
Net fees and commission income	183	122	16	(14)	200	6	16	65	594
Net trading income	53	23	72	(4)	3	2	2	(5)	146
General administrative expenses	(562)	(193)	(63)	(23)	(257)	(13)	(92)	(41)	(1,244)
Other	-	-	-	55	(3)	(7)	1	4	50
Provision for loan and financial investment losses and other provisions	(182)	(395)	1	(24)	(70)	(39)	(48)	-	(757)
Segment profit/ (loss)	510	351	(155)	100	53	20	28	14	921
Income tax expense	(100)	(67)	30	(16)	(12)	(6)	(3)	(2)	(176)
Profit for the year	410	284	(125)	84	41	14	25	12	745
Assets									
Capital expenditure on:									
Property and equipment	-	-	-	50	8	-	6	1	65
Other intangible assets	-	-	-	21	1	-	1	1	24
Total assets	17,904	19,694	16,968	2,469	2,033	1,694	2,038	245	63,045
Total liabilities	22,557	7,928	19,235	902	2,029	1,616	1,919	240	56,426

(All amounts are expressed in HRK million)

5. INTEREST INCOME

	GROUP		BANK	
	2012	2011	2012	2011
Interest on loans and advances to customers	3,202	3,205	2,612	2,679
Interest on financial derivative transactions	439	271	438	267
Interest income on financial investments available for sale	273	180	261	172
Interest income on impaired financial assets - loans and advances to customers	114	88	114	88
Interest income on financial investments held to maturity	29	29	18	22
Interest on amounts due from other banks	22	30	16	24
Interest on reverse repurchase agreements	8	4	9	5
Interest on financial assets designated at fair value through profit or loss	1	2	1	2
Interest on balances due from the central bank	1	4	1	4
Investment property	-	2	-	2
	4,089	3,815	3,470	3,265

6. INTEREST EXPENSE

	GROUP		BANK	
	2012	2011	2012	2011
Interest on amounts due to other banks	1,030	722	858	557
Interest on customer deposits	838	836	845	855
Interest on financial derivative transactions	62	84	60	81
Interest on subordinated debt	50	25	48	23
Interest on repurchase agreements	11	9	8	7
Interest on other borrowed funds	4	5	-	-
Interest on issued bonds	2	-	2	-
Interest on financial liabilities designated at fair value through profit or loss	-	2	-	2
	1,997	1,683	1,821	1,525

(All amounts are expressed in HRK million)

7. FEE AND COMMISSION INCOME

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Payments and money transfers	230	217	226	213
Bank cards services	320	339	120	102
Guarantee activities	65	76	47	50
Investment fund transactions and asset management	14	19	10	15
Insurance business	10	10	10	10
Custodial fees	9	12	9	12
Investment banking business	9	11	9	11
Other fee and commission income	23	45	16	19
	680	729	447	432

8. FEE AND COMMISSION EXPENSE

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Bank cards services	102	73	84	73
Payments and money transfers	42	47	39	43
Guarantee activities	4	3	5	4
Custodial fees	2	2	2	1
Investment banking business	1	1	1	1
Other fee and commission expense	8	9	-	1
	159	135	131	123

9. NET TRADING INCOME

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Net foreign exchange gain	106	115	101	115
Net gain on financial assets at fair value through profit or loss	34	16	29	13
Gain on derivative financial instruments	8	15	9	16
	148	146	139	144

(All amounts are expressed in HRK million)

10. OTHER OPERATING INCOME

	GROUP		BANK	
	2012	2011	2012	2011
Dividend income	5	25	29	33
Income from sale of property and equipment	3	10	3	10
Rental income	3	2	2	2
Realized gains on financial investments available for sale	61	-	61	-
Realized gains on investments held to maturity	-	2	-	2
Gains on investments in associates	-	1	6	7
Other	11	6	10	4
	83	46	111	58

11. PERSONNEL EXPENSES

	GROUP		BANK	
	2012	2011	2012	2011
Employee related costs				
- Wages, salaries and compensations	316	323	235	237
- Payroll taxes and other contributions	147	157	108	106
- Pension contributions	78	84	67	67
Long-term employee benefits	2	4	1	2
	543	568	411	412

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

The number of employees as full time equivalents of the Group was 2,615 and 2,536 as at 31 December 2012 and 2011, respectively. The number of employees as full time equivalents of the Bank was 2,060 and 2,001 as at 31 December 2012 and 2011, respectively.

12. OTHER OPERATING EXPENSES

	GROUP		BANK	
	2012	2011	2012	2011
Materials and services	397	414	294	288
Marketing and advertising costs	58	66	30	32
Savings insurance premiums	59	55	54	51
Other taxes and contributions	7	9	6	7
Other	20	4	19	3
	541	548	403	381

(All amounts are expressed in HRK million)

13. PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES AND OTHER ASSETS

Provisions for impairment losses on loans and advances charge for 2012 and 2011, comprises:

	GROUP		BANK	
	2012	2011	2012	2011
Provision for impairment loss on amounts due from banks	-	(2)	-	(2)
Provision for impairment loss on loans and advances	869	728	732	578
Provision for impairment loss on other assets	1	2	1	2
	870	728	733	578

14. PROVISION FOR IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

Provisions for impairment losses on financial investments charge for 2012 and 2011, comprises:

	GROUP		BANK	
	2012	2011	2012	2011
Provision for impairment loss on financial investments available for sale - quoted equities	2	2	2	2
Provision for impairment loss on financial investments available for sale - unquoted equities	-	11	-	13
	2	13	2	15

15. OTHER PROVISIONS

Other provisions charge for 2012 and 2011, comprises:

	GROUP		BANK	
	2012	2011	2012	2011
Provision for litigations	8	11	6	12
Provision for credit losses on guarantees and credit commitments	22	5	12	-
	30	16	18	12

(All amounts are expressed in HRK million)

16. INCOME TAXES

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2012 and 2011 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Relationship between tax expenses and accounting profit for the years ended 31 December 2012 and 2011 are explained as follows:

	GROUP		BANK	
	2012	2011	2012	2011
Profit before income tax	743	921	598	803
Theoretical tax calculated at a tax rate of 20% (2011: 20%)	149	184	120	161
Effect of different tax rates in the Republic Montenegro	(4)	(3)	-	-
Tax effect of permanent differences	1	(5)	(4)	(9)
Tax effect of temporary differences	41	8	6	(25)
Current income tax expense	187	184	122	127
Current income tax expense	(187)	(184)	(122)	(127)
Change in deferred tax assets recognized in income statement	40	8	7	(25)
Income tax expense reported in the income statement	(147)	(176)	(115)	(152)

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

	GROUP		BANK	
	2012	2011	2012	2011
Basis for deferred tax assets				
Loans origination fees	231	231	211	226
Unrealized (gains)/losses on investments available for sale	(220)	109	(192)	117
Negative valuation of derivative financial instruments	91	88	91	88
Employment benefits provisions	23	20	21	19
Provisions	666	560	-	-
Other temporary differences	69	21	61	14
Total basis	860	1,029	192	464

(All amounts are expressed in HRK million)

16. INCOME TAXES (CONTINUED)

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Basis for deferred tax liabilities				
Unrealized losses/(gains) on investments available for sale	5	(10)	-	-
Customer and merchant list	84	131	-	-
Employment benefits provisions	1	1	-	-
Property and equipment	9	10	-	-
Other temporary differences	12	7	-	-
Total basis	111	139	-	-
Deferred tax asset at the statutory tax rate (20%)	172	206	38	93
Deferred tax liabilities at the statutory tax rate (20%)	17	26	-	-
Deferred tax liabilities at the statutory tax rate (9%)	2	1	-	-

The movement in deferred tax balances is as follows:

GROUP

	Deferred tax assets 2012	Deferred tax liabilities 2012	Income statement 2012	Deferred tax assets 2011	Deferred tax liabilities 2011	Acquired on business combination	Income statement 2011
Deferred loan origination fees	46	-	-	46	-	1	1
Unrealized gains from financial investments available for sale	(44)	1	2	22	(1)	-	-
Unrealised gains/(losses) on derivative financial instruments	18	-	1	18	-	1	(26)
Long term employment provisions	5	-	-	4	-	-	-
Property and equipment	-	1	-	-	1	-	-
Reserves	133	-	20	112	-	87	25
Customer and merchant list	-	17	9	-	26	(36)	10
Other temporary differences	14	-	8	4	1	1	(2)
	172	19	40	206	27	54	8

(All amounts are expressed in HRK million)

16. INCOME TAXES (CONTINUED)

				BANK
	Deferred tax assets 2012	Income statement 2012	Deferred tax assets 2011	Income statement 2011
Deferred loan origination fees	42	(3)	45	1
Unrealized (losses)/gains from financial investments available for sale	(38)	-	23	-
Unrealised (losses)/gains on derivative financial instruments	18	1	18	(26)
Long term employment provisions	4	-	4	-
Other temporary differences	12	9	3	-
	38	7	93	(25)

Income tax assets and liabilities consist of the following:

		GROUP		BANK
	2012	2011	2012	2011
Current income tax liabilities	(15)	(5)	-	-
Deferred tax assets	172	206	38	93
Deferred tax liabilities	(19)	(27)	-	-
Net tax assets	138	174	38	93

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

(All amounts are expressed in HRK million)

17. INCOME TAX EFFECTS RELATING TO OTHER COMPREHENSIVE INCOME

			GROUP 2012			GROUP 2011
	Amount before tax	Tax expense	Net of tax	Amount before tax	Tax expense	Net of tax
Net gain/(loss) on financial investments available for sale	345	(67)	278	(118)	22	(96)
Exchange differences on translation of foreign operations	1	-	1	4	-	4
Other	(1)	-	(1)	(3)	1	(2)
	345	(67)	278	(117)	23	(94)

			BANK 2012			BANK 2011
	Amount before tax	Tax expense	Net of tax	Amount before tax	Tax expense	Net of tax
Net gain/(loss) on financial investments available for sale	311	(62)	249	(115)	23	(92)
Other	-	-	-	1	-	1
	311	(62)	249	(114)	23	(91)

(All amounts are expressed in HRK million)

18. COMPONENTS OF OTHER COMPREHENSIVE INCOME

		GROUP
	2012	**2011**
Financial investments available for sale:		
Gains/(losses) arising during the year	285	(119)
Less: Reclassification adjustment for gains included in the income statement	*60*	*1*
	345	(118)
Exchange differences on translating foreign operations	1	4
Other	(1)	(3)
Total other comprehensive income	**345**	**(117)**
Income tax relating to components of other comprehensive income	(67)	23
Other comprehensive income for the year	**278**	**(94)**

		BANK
	2012	**2011**
Financial investments available for sale:		
Gains/(losses) arising during the year	252	(116)
Less: Reclassification adjustment for gains included in the income statement	*59*	*1*
	311	(115)
Other	-	1
Total other comprehensive income	**311**	**(114)**
Income tax relating to components of other comprehensive income	(62)	23
Other comprehensive income for the year	**249**	**(91)**

(All amounts are expressed in HRK million)

19. CASH AND BALANCES WITH THE CENTRAL BANKS

	GROUP		BANK	
	2012	2011	2012	2011
Cash in hand	868	816	787	758
Cash on clearing account	2,389	1,723	2,275	1,691
Obligatory reserves with the central banks	4,500	4,691	4,397	4,605
	7,757	7,230	7,459	7,054

As at 31 December 2012 and 2011, obligatory reserves with the Croatian National Bank of HRK 4,397 million and HRK 4,605 million, respectively, represent the minimum reserve deposits which the Bank is required to maintain at all times. As at 31 December 2012 and 2011 obligatory reserve with Central Bank of Montenegro is HRK 103 million (original currency EUR 14 million) and HRK 86 million (original currency EUR 11 million).

20. AMOUNTS DUE FROM OTHER BANKS

	GROUP		BANK	
	2012	2011	2012	2011
Current accounts with other banks	1,304	30	1,134	13
Term deposits with banks	701	1,225	513	1,157
Loans and advances with banks	862	271	862	270
Total amounts due from other banks before allowances for impairment	2,867	1,526	2,509	1,440
Less: Allowances for possible placement losses	(2)	(2)	(2)	(2)
	2,865	1,524	2,507	1,438

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

	GROUP		BANK	
	2012	2011	2012	2011
Balance at 1 January	2	15	2	14
Release of previously established allowances	-	(2)	-	(2)
Disposal of subsidiary	-	(1)	-	-
Amounts written off	-	(10)	-	(10)
Balance at 31 December	2	2	2	2

(All amounts are expressed in HRK million)

21. REVERSE REPURCHASE / REPURCHASE AGREEMENTS

GROUP

	Cash collateral on securities borrowed 2012	Reverse repurchase agreements 2012	Cash collateral on securities borrowed 2011	Reverse repurchase agreements 2011
ASSET				
Due from banks	623	597	-	-
Due from customers	97	86	27	26
	720	**683**	**27**	**26**

	Cash collateral on securities lent 2012	Repurchase agreements 2012	Cash collateral on securities lent 2011	Repurchase agreements 2011
LIABILITIES				
Due to banks	889	925	709	605
Due to customers	589	565	4	4
	1,478	**1,490**	**713**	**609**

BANK

	Cash collateral on securities borrowed 2012	Reverse repurchase agreements 2012	Cash collateral on securities borrowed 2011	Reverse repurchase agreements 2011
ASSET				
Due from banks	622	597	-	-
Due from customers	325	302	164	157
	947	**899**	**164**	**157**

	Cash collateral on securities lent 2012	Repurchase agreements 2012	Cash collateral on securities lent 2011	Repurchase agreements 2011
LIABILITIES				
Due to banks	814	804	521	496
Due to customers	588	565	4	4
	1,402	**1,369**	**525**	**500**

(All amounts are expressed in HRK million)

21. REVERSE REPURCHASE / REPURCHASE AGREEMENTS (CONTINUED)

As at 31 December 2012 and 2011, Group and Bank's reverse repurchase agreements are secured with following:

	GROUP		BANK	
	2012	2011	2012	2011
Debt securities issued by the Republic of Croatia	79	27	154	164
Debt securities issued by the Republic of Austria	588	-	588	-
Debt securities issued by the Swiss confederation	10	-	10	-
Debt securities issued by Erste bank d.d.	27	-	27	-
Commercial shares	13	-	13	-
Corporate debt securities	3	-	3	-
Units in investment funds	-	-	152	-
	720	27	947	164

As at 31 December 2012 Group and Bank's repurchase agreements are secured with debt securities issued by the Croatian Ministry of Finance with a fair value of HRK 547 million and HRK 471 million, respectively, with debt securities issued by the Republic of Austria with a fair value of HRK 927 million, and debt securities issued by the Republic of Montenegro with a fair value of HRK 4 million. Cash collaterals on securities lent for the Group and the Bank are included in 'Financial investments available for sale'.

As at 31 December 2011 Group and Bank's repurchase agreements are secured with debt securities issued by the Croatian Ministry of Finance with a fair value of HRK 713 million and HRK 525 million, respectively. Cash collaterals on securities lent for the Group are included in 'Financial investments available for sale (HRK 498 million), 'Financial investments held for trading' (HRK 27 million) and in 'Financial investments held to maturity' (HRK 188 million).

(All amounts are expressed in HRK million)

22. DERIVATIVE FINANCIAL INSTRUMENTS

			GROUP 2012			GROUP 2011
	Notional Amount	Fair Value Assets	Fair Value Liabilities	Notional Amount	Fair Value Assets	Fair Value Liabilities
Interest rate instruments:	*1,149*	*22*	*(20)*	*1,389*	*22*	*(18)*
Interest rate swaps	1,149	22	(20)	1,389	22	(18)
Foreign currency instruments:	*28,742*	*92*	*(128)*	*28,463*	*71*	*(118)*
Currency swaps						
Purchase	2,381	30	-	1,546	6	-
Sell	2,379	-	(25)	1,542	-	(1)
Forwards						
Purchase	11,975	62	-	12,664	65	-
Sell	12,007	-	(103)	12,711	-	(117)
Other instruments:	*50*	-	-	*76*	-	-
Call options for stock index	15	-	-	8	-	-
Put options for stock index	15	-	-	8	-	-
Securities purchase	10	-	-	30	-	-
Securities sell	10	-	-	30	-	-
	29,941	114	(148)	29,928	93	(136)

			BANK 2012			BANK 2011
	Notional Amount	Fair Value Assets	Fair Value Liabilities	Notional Amount	Fair Value Assets	Fair Value Liabilities
Interest rate instruments:	*1,149*	*22*	*(20)*	*1,389*	*22*	*(18)*
Interest rate swaps	1,149	22	(20)	1,389	22	(18)
Foreign currency instruments:	*27,334*	*91*	*(127)*	*27,377*	*70*	*(118)*
Currency swaps						
Purchase	1,677	29	-	1,003	5	-
Sell	1,675	-	(24)	999	-	(1)
Forwards						
Purchase	11,975	62	-	12,664	65	-
Sell	12,007	-	(103)	12,711	-	(117)
Other instruments:	*32*	-	-	*60*	-	-
Call options for stock index	6	-	-	-	-	-
Put options for stock index	6	-	-	-	-	-
Securities purchase	10	-	-	30	-	-
Securities sell	10	-	-	30	-	-
	28,515	113	(147)	28,826	92	(136)

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

(All amounts are expressed in HRK million)

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

	GROUP		BANK	
	2012	2011	2012	2011
Financial assets held for trading:				
Debt securities	1	-	1	-
Treasury bills	38	117	38	117
Investment in open funds	194	295	-	-
Equity shares	17	5	17	5
	250	417	56	122
Financial assets designated at fair value through profit or loss:				
Amounts due from other banks	-	50	-	50
	-	50	-	50

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

As of 31 December 2012 financial assets held for trading are treasury bills of the Croatian Ministry of Finance with maturity in 2013, and with interest rate from 3.000% to 3.900%, bonds issued by the Republic of Croatia with maturity in 2017, and with interest rate of 6.250% and shares from Croatian and Serbian issuers.

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

	GROUP AND BANK 2012	GROUP AND BANK 2011
Financial liabilities designated at fair value through profit or loss:		
Amounts due to other Banks	-	40
	-	40

(All amounts are expressed in HRK million)

24. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December 2012 and 2011 are summarized as follows:

	GROUP		BANK	
	2012	2011	2012	2011
Companies	21,591	21,032	17,885	18,675
Individuals	21,140	20,930	17,933	17,918
Public sector	7,125	6,106	6,716	5,543
Other institutions	106	173	104	171
Total loans before allowances for impairment	49,962	48,241	42,638	42,307
Less: Allowances for loan impairment	*(4,614)*	*(3,564)*	*(3,794)*	*(2,882)*
	45,348	44,677	38,844	39,425

Loans and advances to customers are made principally within Republic of Croatia and partly within Montenegro.

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

	GROUP		BANK	
	2012	2011	2012	2011
Balance at 1 January	**3,564**	**2,260**	**2,882**	**2,168**
Release of previously established allowances	(1,109)	(495)	(971)	(389)
Additional allowances	1,978	1,223	1,703	967
Allowances acquired on business combination	-	450	-	-
Amounts written off	(17)	(17)	(10)	(4)
Suspended interest	306	199	298	198
Exchange-rate changes	6	32	6	30
Interest accrued on impaired loans and advances	(114)	(88)	(114)	(88)
Balance at 31 December	**4,614**	**3,564**	**3,794**	**2,882**

(All amounts are expressed in HRK million)

25. FINANCIAL INVESTMENTS AVAILABLE FOR SALE

	GROUP		BANK	
	2012	**2011**	**2012**	**2011**
Equity shares and participations:	54	91	53	89
Quoted equities	*37*	*74*	*37*	*73*
Unquoted equities	*17*	*17*	*16*	*16*
Debt securities:	6,053	6,305	5,875	6,197
Treasury bills	*600*	*1,366*	*600*	*1,366*
Listed bonds	*5,448*	*4,925*	*5,178*	*4,718*
Listed commercial bills	*5*	*14*	*5*	*14*
Unlisted bonds	-	-	*92*	*99*
Investment in open funds	28	29	28	29
	6,135	**6,425**	**5,956**	**6,315**

Debt securities available for sale allocated by the issuer comprise:

	GROUP		BANK	
	2012	**2011**	**2012**	**2011**
Debt securities available for sale issued by:				
Republic of Croatia	3,453	3,203	3,318	3,118
Foreign banks	380	-	472	99
Local government of Republic of Croatia	2	2	2	2
Companies in Republic of Croatia	140	164	140	164
Foreign states	2,078	2,936	1,943	2,814
	6,053	**6,305**	**5,875**	**6,197**

25. FINANCIAL INVESTMENTS AVAILABLE FOR SALE (CONTINUED)

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

Treasury bills of the Croatian Ministry of Finance are HRK and EUR denominated debt securities issued at a discount to nominal. These securities are issued with original maturities of 91, 182, 364, 546 and 728 days.

During 2012, the average interest yields on HRK denominated treasury bills were 2.95% for treasury bills with a maturity of 91 days, 3.81% for treasury bills with a maturity of 182 days and 3.93% for treasury bills with a maturity of 364 days. The average interest yields on the currency clause EUR denominated treasury bills were 3.02% for treasury bills with a maturity of 91 days and 3.51% for treasury bills with a maturity of 364 days. During 2012, also EUR treasury bills were issued with interest yields of 4.85% for treasury bills with a maturity of 364 days and 5.25% for treasury bills with a maturity of 546 days.

During 2011, the average interest yields on HRK denominated treasury bills were 2.99% for treasury bills with a maturity of 91 days, 3.87% for treasury bills with a maturity of 182 days and 3.97% for treasury bills with a maturity of 364 days. The average interest yields on the EUR denominated treasury bills were 3.99% for treasury bills with a maturity of 91 days and 3.49% for treasury bills with a maturity of 364 days.

Bonds of the Republic of Croatia are HRK and EUR denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2013 to 2022 and bear coupon interest from 4.250% to 6.750% p.a.

Bonds of the Republic of Austria are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2015 till 2017 and bear coupon interest from 3.500% to 4.300% p.a. Bonds of the Republic of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2015 and in 2016 and bear coupon interest of 7.875% and 7.250% p.a. Bonds of the Republic of Slovakia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2013 to 2017 and bear coupon interest from 0.978% p.a. (bond linked to 6M euribor) to 5.00% p.a. Bonds of the Republic of Slovenia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2014 and in 2016 and bear coupon interest 4.375% and 4.000% p.a.

Also, in financial investments available for sale are bonds issued by European Investment Bank with variable coupon (last coupon 0.461%).

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

(All amounts are expressed in HRK million)

26. FINANCIAL INVESTMENTS HELD TO MATURITY

	GROUP		BANK	
	2012	2011	2012	2011
Fixed income debt securities:				
Listed debt securities – Bonds issued by the Republic of Croatia	191	360	191	360
Listed debt securities – Bonds issued by the Republic of Montenegro	12	-	-	-
Unlisted debt securities – Bonds issued by the Republic of Croatia	5	6	5	6
Treasury bills of the Ministry of Finance	564	188	489	-
Treasury bills of the Republic of Montenegro	41	48	-	-
	813	602	685	366

Listed and unlisted bonds issued by the Republic of Croatia are fixed income debt securities denominated in EUR and HRK. These bonds have maturities from 2014 to 2020 and bear coupon interest from 5.500% to 6.500% p.a. Treasury bills of the Croatian Ministry of Finance with maturity in 2013, and with interest rate from 2.600% to 3.390% are HRK denominated fixed income debt securities. Listed debt securities of the Republic of Montenegro are EUR denominated fixed income debt securities with maturity in 2017 and with interest rate of 7%.

The fair value of financial investments held to maturity for the Group and the Bank is approximately HRK 10 million lower than their value as at 31 December 2012 (2011: HRK 5 million).

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

(All amounts are expressed in HRK million)

27. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Ownership interest 2012	Ownership interest 2011	Note	Activity	Group's Share of net assets 2012	Group's Share of net assets 2011	Investment at cost 2012	Investment at cost 2011
Associates								
S Immorent Zeta d.o.o.	49.00%	49.00%		Real estate business	-	-	-	-
Erste d.o.o.	37.94%	37.94%		Management company for obligatory pension fund	34	35	23	23
Immokor Buzin d.o.o.	49.00%	49.00%		Real estate business	34	34	34	34
S IT Solutions HR d.o.o.	20.00%	20.00%		IT engineering	-	-	-	-
Total associates:					68	69	57	57
Subsidiaries								
Erste nekretnine d.o.o.	100.00%	100.00%		Real estate business	3	2	1	1
Erste DMD d.o.o.	100.00%	100.00%		Management company for voluntary pension fund	17	15	15	15
Erste Factoring d.o.o.	74.996%	74.996%	3	Accounts receivables repurchase	115	87	38	38
Erste card club d.o.o.	100.00%	100.00%	3	Financial intermediation and services	471	388	1,089	1,089
Diners Club BH d.o.o. Sarajevo	100.00%	100.00%	3	Other financial intermediation	1	(3)	-	-
Erste Delta d.o.o.	100.00%	100.00%		Real estate business	(3)	(8)	-	-
Erste Bank a.d., Podgorica	100.00%	100.00%		Credit institution	254	208	100	100
Total subsidiaries:					858	689	1,243	1,243
Total:					926	758	1,300	1,300

In October 2012, Diners Club BH d.o.o. Sarajevo increased it's subscribed capital by HRK 5,721,442.80 (original currency BAM 1,500,000.00).

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

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

(All amounts are expressed in HRK million)

27. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (CONTINUED)

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

	GROUP	
	2012	**2011**
Current assets	22	27
Non current assets	120	127
Current liabilities	(6)	(7)
Non current liabilities	(68)	(78)
Net asset, carrying amount of associates	**68**	**69**
Share of associates revenue and profit		
Revenue	25	28
Expenses	(21)	(24)
Net profit	4	4

(All amounts are expressed in HRK million)

28. PROPERTY AND EQUIPMENT

						GROUP 2012
	Land and buildings	Computers	Furniture and other equipment	Invest-ment property	Construction in progress	Total
COST						
At 1 January 2012	784	156	252	2	22	1,216
Additions	-	-	-	-	35	35
Transfer	16	13	15	-	(44)	-
Disposals	(6)	(24)	(6)	-	-	(36)
At 31 December 2012	794	145	261	2	13	1,215
ACCUMULATED DEPRECIATION						
At 1 January 2012	184	131	170	1	-	486
Depreciation	18	11	24	-	-	53
Transfer	-	-	-	-	-	-
Disposals	-	(24)	(5)	-	-	(29)
At 31 December 2012	202	118	189	1	-	510
NET BOOK VALUE						
31 December 2012	592	27	72	1	13	705
31 December 2011	600	25	82	1	22	730

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

(All amounts are expressed in HRK million)

28. PROPERTY AND EQUIPMENT (CONTINUED)

						BANK 2012
	Land and buildings	Computers	Furniture and other equipment	Invest-ment property	Construction in progress	Total
COST						
At 1 January 2012	476	130	207	1	16	830
Additions	-	-	-	-	19	19
Transfer	16	4	11	-	(31)	-
Disposals	(6)	(24)	(3)	-	-	(33)
At 31 December 2012	486	110	215	1	4	816
ACCUMULATED DEPRECIATION						
At 1 January 2012	153	123	146	1	-	423
Depreciation	11	4	19	-	-	34
Transfer	-	-	-	-	-	-
Disposals	-	(24)	(3)	-	-	(27)
At 31 December 2012	164	103	162	1	-	430
NET BOOK VALUE						
31 December 2012	322	7	53	-	4	386
31 December 2011	323	7	61	-	16	407

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

As at 31 December 2012, the Group and the Bank had contractual capital commitments of HRK 5 million (HRK 11 million as at 31 December 2011) in respect of current capital investment projects.

(All amounts are expressed in HRK million)

29. INTANGIBLE ASSETS

GROUP 2012	Other intangible assets	Goodwill	Customer and merchant relationships	Construction in progress	Total
COST					
At 1 January 2012	109	603	181	14	907
Additions	-	-	-	14	14
Transfer	24	-	-	(24)	-
Disposals	(3)	-	-	-	(3)
At 31 December 2012	130	603	181	4	918
ACCUMULATED AMORTIZATION					
At 1 January 2012	65	-	50	-	115
Amortization	19	-	47	-	66
Disposals	(3)	-	-	-	(3)
At 31 December 2012	81	-	97	-	178
NET BOOK VALUE					
31 December 2012	49	603	84	4	740
31 December 2011	44	603	131	14	792

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

(All amounts are expressed in HRK million)

29. INTANGIBLE ASSETS (CONTINUED)

			BANK 2012
	Other intangible assets	Construction in progress	Total
COST			
At 1 January 2012	115	13	128
Additions	-	13	13
Transfer	23	(23)	-
Disposals	(3)	-	(3)
At 31 December 2012	135	3	138
ACCUMULATED AMORTIZATION			
At 1 January 2012	78	-	78
Amortization	16	-	16
Disposals	(3)	-	(3)
At 31 December 2012	91	-	91
NET BOOK VALUE			
31 December 2012	44	3	47
31 December 2011	37	13	50

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

(All amounts are expressed in HRK million)

30. OTHER ASSETS

	GROUP		BANK	
	2012	2011	2012	2011
Assets acquired in lieu of uncollected receivables	181	113	178	109
Receivables from fees and commissions	28	35	28	35
Checks	2	1	2	1
Prepaid expenses	6	7	3	4
Income tax prepayments	9	22	9	20
Other	21	40	15	11
Total other assets before allowances for impairment	247	218	235	180
Less: Allowances for impairment of other asset	*(6)*	*(14)*	*(6)*	*(14)*
	241	204	229	166

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

	GROUP		BANK	
	2012	2011	2012	2011
Balance at 1 January	14	13	14	13
Release of previously recognized allowances	(1)	(1)	(1)	(1)
Additional allowances	2	3	2	3
Amounts written off	(9)	(1)	(9)	(1)
Balance at 31 December	6	14	6	14

(All amounts are expressed in HRK million)

31. AMOUNTS DUE TO OTHER BANKS

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Demand deposits:	*209*	*93*	*213*	*107*
In HRK	63	51	63	51
In foreign currencies	146	42	150	56
Borrowings in HRK – short-term:	*348*	*597*	*340*	*594*
Domestic borrowings	348	367	340	364
Foreign borrowings	-	230	-	230
Borrowings in HRK – long-term:	*11,353*	*12,969*	*11,353*	*12,969*
Domestic borrowings	791	674	791	674
Foreign borrowings	10,562	12,295	10,562	12,295
Total borrowings in HRK	*11,701*	*13,566*	*11,693*	*13,563*
Borrowings in foreign currencies – short-term:	*3,078*	*4,639*	*1,360*	*155*
Domestic borrowings	1,299	155	2	155
Foreign borrowings	1,779	4,484	1,358	-
Borrowings in foreign currencies – long-term:	*7,918*	*3,987*	*3,564*	*3,057*
Domestic borrowings	1,798	1,613	1,798	1,613
Foreign borrowings	6,120	2,374	1,766	1,444
Total borrowings in foreign currencies	*10,996*	*8,626*	*4,924*	*3,212*
	22,906	22,285	16,830	16,882

32. AMOUNTS DUE TO CUSTOMERS

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Demand deposits from:	*8,303*	*8,505*	*7,506*	*7,684*
Individuals	4,430	4,443	4,078	4,086
Companies	3,433	3,788	3,050	3,339
Public sector	290	138	240	129
Other institutions	150	136	138	130
Term deposits from:	*23,887*	*23,307*	*24,112*	*24,103*
Individuals	19,771	18,721	19,090	18,216
Companies	3,852	4,394	4,795	5,732
Public sector	166	73	133	36
Other institutions	98	119	94	119
	32,190	31,812	31,618	31,787

(All amounts are expressed in HRK million)

33. ISSUED BONDS AND OTHER BORROWED FUNDS

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Issued bonds	302	-	302	-
Borrowings in foreign currencies – short-term:	17	16	-	-
Foreign borrowings	*17*	*16*	-	-
Borrowings in foreign currencies – long-term:	43	63	1	3
Foreign borrowings	*43*	*63*	*1*	*3*
	362	79	303	3

On 23rd November 2012, the Bank issued its own bonds in amount of HRK 300 million with a 5.875% coupon paid semi-annual and with maturity of 5 years.

34. OTHER LIABILITIES

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Prepayments received from borrowers	155	171	155	171
Salaries and bonuses payable	119	117	103	101
Amounts due to suppliers	63	59	35	30
Other amounts due to customers	29	45	-	-
Payables to State Agency for deposit insurance	15	13	14	13
Other	57	43	18	15
	438	448	325	330

(All amounts are expressed in HRK million)

35. PROVISIONS

	GROUP				BANK			
	Litigations	Guarantees and credit commitments	Long-term employee benefits	Total	Litigations	Guarantees and credit commitments	Long-term employee benefits	Total
At 1 January 2011	18	53	19	90	16	53	17	86
Additional provisions	11	20	5	36	12	15	2	29
Release of previously established allowances	-	(15)	(1)	(16)	-	(15)	-	(15)
Write-offs	-	(2)	-	(2)	-	(2)	-	(2)
At 1 January 2012	29	56	23	108	28	51	19	98
Additional provisions	9	146	3	158	8	136	1	145
Release of previously established allowances	(1)	(124)	(1)	(126)	(1)	(124)	-	(125)
Write-offs	(3)	(1)	-	(4)	(2)	-	-	(2)
At 31 December 2012	34	77	25	136	33	63	20	116

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

36. SUBORDINATED DEBT

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

In July 2011 the Bank issued its own subordinated bonds. Original amount of the issue is EUR 80 million. Maturity of the bonds is 6 years with interest to maturity 6.5%. Coupon will be settled annually.

Erste Bank a.d., Podgorica received subordinated debt in 2008 from Oikocredit, Ecumenical Development Cooperative Society U.A., the Netherlands in the original amount EUR 4 million (2012: HRK 31 million, 2011: HRK 31 million). Maturity of the debt is from 2013 till 2016, with interest rate 6 month EURIBOR plus 2.9% p.a.

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

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

(All amounts are expressed in HRK million)

37. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2012 and 2011 the share capital of the Bank comprises of 16,984,175 ordinary shares with a par value of HRK 100 each. All the ordinary shares are ranked equally and bear one vote.
Share premium as at 31 December 2012 and 2011 amounted HRK 1,802 million.

38. OTHER CAPITAL RESERVES

The Bank's distributable and non-distributable reserves are determined by regulations of the Croatian National Bank. As at 31 December 2012 the legal reserves of the Bank disclose non-distributable reserves of HRK 85 million, as at 31 December 2011 legal and statutory reserves amounted HRK 91 million.

39. EARNINGS PER ORDINARY SHARE

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

		GROUP
	2012	**2011**
Net profit for the year	585	739
Profit attributable to ordinary shareholders	585	739
Weighted average number of shares of 100 HRK each (for basic and diluted earnings per share)	16,984,175	16,984,175
Earnings per ordinary share – basic and diluted (in HRK)	34.45	43.51

40. DIVIDENDS

The dividends for 2012 are subject to approval by shareholders at the Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorized for issue.

The dividend declared by the Bank for the year 2011 was HRK 10.70 per share (total amount HRK 182 million).

41. ESTIMATED FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

It is the opinion of the management of the Group, that the fair value of the Group's financial assets and liabilities are not materially different from the amounts stated in the statement of financial position as at 31 December 2012 and 2011.

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

(a) Cash and balances with the central banks

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

(b) Investments held to maturity

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

(c) Due from banks

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

(d) Loans and advances to customers

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

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

(e) Amounts due to banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable on demand as at the statement of financial position date. The fair value of term deposits at variable interest rates approximates their carrying values as at the statement of financial position date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities.

As the fixed rate long term deposits represent only a fraction of the entire deposit base, the Management believes that their fair value approximates the carrying value as at the statement of financial position date.

(f) Issued bonds

Fair values of issued bonds are calculated based on market quotations.

(g) Derivatives

Derivative products valued using a valuation technique with market-observable inputs are mainly interest rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. CVA (Credit value adjustment) represents counterparty's risk of default when measuring the fair value of the derivative. CVA is derived from the probability of default, loss given default and expected positive exposure at the time of default and as at 31 December 2012 amounts HRK 3 million.

41.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

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

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

There were no movements between levels in 2012.

(All amounts are expressed in HRK million)

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

	LEVEL 1	LEVEL 2	LEVEL 3	GROUP 2012 TOTAL
Financial assets				
Receivables on financial derivative transactions	-	114	-	114
Interest rate swaps	-	22	-	22
Currency swaps	-	30	-	30
Forward foreign exchange contracts	-	62	-	62
Financial assets held for trading	212	38	-	250
Government debt securities	1	38	-	39
Investment in open funds	194	-	-	194
Shares	17	-	-	17
Financial investments available for sale	4,681	1,454	-	6,135
Quoted investments	28	-	-	28
Government debt securities	4,222	1,310	-	5,532
Other debt securities	384	137	-	521
Equities	45	-	-	45
Unquoted investments	2	7	-	9
Total financial assets	**4,893**	**1,606**	**-**	**6,499**
Financial liabilities				
Payables on financial derivative transactions	-	148	-	148
Interest rate swaps	-	20	-	20
Currency swaps	-	25	-	25
Forward foreign exchange contracts	-	103	-	103
Total financial liabilities	**-**	**148**	**-**	**148**

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

(All amounts are expressed in HRK million)

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

	LEVEL 1	LEVEL 2	LEVEL 3	BANK 2012 TOTAL
Financial assets				
Receivables on financial derivative transactions	-	113	-	113
Interest rate swaps	-	*22*	-	*22*
Currency swaps	-	*29*	-	*29*
Forward foreign exchange contracts	-	*62*	-	*62*
Financial investments held for trading	18	38	-	56
Government debt securities	*1*	*38*	-	*39*
Shares	*17*	-	-	*17*
Financial investments available for sale	4,410	1,546	-	5,956
Quoted investments	*28*	-	-	*28*
Government debt securities	*3,951*	*1,310*	-	*5,261*
Other debt securities	*384*	*229*	-	*613*
Equities	*45*	-	-	*45*
Unquoted investments	*2*	*7*	-	*9*
Total financial assets	4,428	1,697	-	6,125
Financial liabilities				
Payables on financial derivative transactions	-	147	-	147
Interest rate swaps	-	*20*	-	*20*
Currency swaps	-	*24*	-	*24*
Forward foreign exchange contracts	-	*103*	-	*103*
Total financial liabilities	-	147	-	147

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

(All amounts are expressed in HRK million)

42. INFORMATION FOR CASH FLOW STATEMENT

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Operating Activities				
Profit before income tax	743	921	598	803
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization expense	119	128	50	50
Unrealized gains on financial assets held for trading	-	1	-	-
Impairment losses on loans and advances	870	728	733	578
Impairment losses on financial investments	2	13	2	15
Net change in valuation of derivatives	(9)	(157)	(10)	(156)
Other provisions	30	16	18	12
Interest expense	1,997	1,683	1,821	1,525
Interest income	(4,089)	(3,831)	(3,470)	(3,278)
Dividend income	(5)	(31)	(29)	(41)
Gains on investments	-	-	(6)	-
Share of results of associates	(4)	(4)	-	-
Loss from operating activities before changes in operating assets and liabilities	*(346)*	*(533)*	*(293)*	*(492)*

Analysis of cash and cash equivalents:

	Note	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Cash on hand	19	868	816	787	758
Cash on clearing account	19	2,389	1,723	2,275	1,691
Current accounts with other banks	20	1,304	30	1,134	13
Placements with banks with maturity up to 3 months		421	1,164	421	1,164
Treasury bills with maturity up to 3 months		375	566	299	567
		5,357	4,299	4,916	4,193
Change in cash and cash equivalents		1,058	(2,452)	723	(2,443)

43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the Croatian National Bank. The table below provides an analysis of assets and liabilities into relevant maturity buckets based on the remaining period from the statement of financial position date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Those assets and liabilities that do not have a contractual maturity date are grouped together under 'Maturity undefined' category.
Financial investments available for sale and financial assets held for trading are classified in accordance with their remaining maturity.
The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivatives. The Group does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

(All amounts are expressed in HRK million)

43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

GROUP 2012

	Up to 1 month	1-3 months	3-12 months	Total less than 12 months	1-5 years	Over 5 years	Total over 12 months	Maturity unde-fined	Total
ASSETS									
Cash and balances with central banks	7,757	-	-	7,757	-	-	-	-	7,757
Amounts due from other banks	2,060	-	445	2,505	351	9	360	-	2,865
Reverse repurchase agreements	202	481	-	683	-	-	-	-	683
Receivables on financial derivative transactions	92	1	-	93	17	4	21	-	114
Financial assets held for trading	211	-	38	249	1	-	1	-	250
Loans and advances to customers	7,078	2,815	7,757	17,650	15,765	11,933	27,698	-	45,348
Financial investments available for sale	171	401	1,069	1,641	2,837	1,657	4,494	-	6,135
Financial investments held to maturity	81	38	529	648	13	152	165	-	813
Investments in subsidiaries and associates	-	-	-	-	-	-	-	68	68
Property and equipment	-	-	-	-	129	575	704	-	704
Intangible assets	3	6	28	37	100	603	703	-	740
Investment property	-	-	-	-	-	1	1	-	1
Deferred tax assets	129	-	43	172	-	-	-	-	172
Other assets	55	1	3	59	179	3	182	-	241
Total assets	17,839	3,743	9,912	31,494	19,392	14,937	34,329	68	65,891
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	2,130	1,447	7,545	11,122	10,421	1,363	11,784	-	22,906
Repurchase agreements	539	951	-	1,490	-	-	-	-	1,490
Payables on financial derivative transactions	124	3	2	129	15	4	19	-	148
Amounts due to customers	12,496	4,978	11,677	29,151	2,344	695	3,039	-	32,190
Issued bonds and other borrowed funds	2	9	9	20	325	17	342	-	362
Current tax liabilities	3	4	8	15	-	-	-	-	15
Deferred tax liabilities	1	1	5	7	12	-	12	-	19
Other liabilities	333	10	89	432	6	-	6	-	438
Provisions	33	10	47	90	43	3	46	-	136
Subordinated debt	18	8	-	26	852	-	852	-	878
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	7,271	7,271
Non controlling interest	-	-	-	-	-	-	-	38	38
Total liabilities and shareholders' equity	15,679	7,421	19,382	42,482	14,018	2,082	16,100	7,309	65,891
Net liquidity gap	2,160	(3,678)	(9,470)	(10,988)	5,374	12,855	18,229	(7,241)	

(All amounts are expressed in HRK million)

43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

GROUP 2011

	Up to 1 month	1-3 months	3-12 months	Total less than 12 months	1-5 years	Over 5 years	Total over 12 months	Maturity unde-fined	Total
ASSETS									
Cash and balances with central banks	7,230	-	-	7,230	-	-	-	-	7,230
Amounts due from other banks	1,201	78	143	1,422	102	-	102	-	1,524
Reverse repurchase agreements	26	-	-	26	-	-	-	-	26
Receivables on financial derivative transactions	67	4	-	71	17	5	22	-	93
Financial assets held for trading	225	117	75	417	-	-	-	-	417
Financial assets at fair value through profit or loss	50	-	-	50	-	-	-	-	50
Loans and advances to customers	6,425	2,288	8,494	17,207	15,195	12,275	27,470	-	44,677
Financial investments available for sale	1,303	568	1,280	3,151	1,802	1,472	3,274	-	6,425
Financial investments held to maturity	5	19	388	412	38	152	190	-	602
Investments in subsidiaries and associates	-	-	-	-	-	-	-	69	69
Property and equipment	-	-	-	-	147	582	729	-	729
Intangible assets	4	8	34	46	143	603	746	-	792
Investment property	-	-	-	-	-	1	1	-	1
Deferred tax assets	19	-	185	204	2	-	2	-	206
Other assets	71	5	13	89	112	3	115	-	204
Total assets	16,626	3,087	10,612	30,325	17,558	15,093	32,651	69	63,045
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	1,922	4,034	8,457	14,413	6,890	982	7,872	-	22,285
Repurchase agreements	442	30	109	581	28	-	28	-	609
Payables on financial derivative transactions	114	3	1	118	13	5	18	-	136
Financial liabilities at fair value through profit or loss	40	-	-	40	-	-	-	-	40
Amounts due to customers	13,076	5,085	10,487	28,648	2,223	941	3,164	-	31,812
Issued bonds and other borrowed funds	-	9	9	18	40	21	61	-	79
Current tax liabilities	3	1	1	5	-	-	-	-	5
Deferred tax liabilities	1	2	7	10	17	-	17	-	27
Other liabilities	307	17	114	438	9	1	10	-	448
Provisions	24	5	43	72	34	2	36	-	108
Subordinated debt	18	1	-	19	30	828	858	-	877
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	6,590	6,590
Non controlling interest	-	-	-	-	-	-	-	29	29
Total liabilities and shareholders' equity	15,947	9,187	19,228	44,362	9,284	2,780	12,064	6,619	63,045
Net liquidity gap	679	(6,100)	(8,616)	(14,037)	8,274	12.313	20,587	(6,550)	-

(All amounts are expressed in HRK million)

43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

BANK 2012

	Up to 1 month	1-3 months	3-12 months	Total less than 12 months	1-5 years	Over 5 years	Total over 12 months	Maturity undefined	Total
ASSETS									
Cash and balances with central banks	7,459	-	-	7,459	-	-	-	-	7,459
Amounts due from other banks	1,704	-	445	2,149	349	9	358	-	2,507
Reverse repurchase agreements	418	481	-	899	-	-	-	-	899
Receivables on financial derivative transactions	91	1	-	92	17	4	21	-	113
Financial assets held for trading	17	-	38	55	1	-	1	-	56
Loans and advances to customers	5,044	1,595	6,117	12,756	14,539	11,549	26,088	-	38,844
Financial investments available for sale	168	401	1,069	1,638	2,792	1,526	4,318	-	5,956
Financial investments held to maturity	5	38	489	532	1	152	153	-	685
Investments in subsidiaries and associates	-	-	-	-	-	-	-	1,300	1,300
Property and equipment	-	-	-	-	64	322	386	-	386
Intangible assets	-	-	-	-	47	-	47	-	47
Investment property	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	38	38	-	-	-	-	38
Other assets	52	-	-	52	177	-	177	-	229
Total assets	14,958	2,516	8,196	25,670	17,987	13,562	31,549	1,300	58,519
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	2,185	461	3,074	5,720	9,987	1,123	11,110	-	16,830
Repurchase agreements	418	951	-	1,369	-	-	-	-	1,369
Payables on financial derivative transactions	123	2	2	127	16	4	20	-	147
Amounts due to customers	11,700	5,228	11,869	28,797	2,146	675	2,821	-	31,618
Issued bonds and other borrowed funds	2	1	1	4	299	-	299	-	303
Other liabilities	247	2	76	325	-	-	-	-	325
Provisions	16	10	44	70	44	2	46	-	116
Subordinated debt	18	-	-	18	830	-	830	-	848
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	6,963	6,963
Total liabilities and shareholders' equity	14,709	6,655	15,066	36,430	13,322	1,804	15,126	6,963	58,519
Net liquidity gap	248	(4,139)	(6,870)	(10,761)	4,666	11,758	16,424	(5,663)	-

(All amounts are expressed in HRK million)

43. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

BANK 2011

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

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

(All amounts are expressed in HRK million)

44. RELATED-PARTY TRANSACTIONS

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

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

As at 31 December 2012 and 31 December 2011, balances outstanding with related parties comprised:

	GROUP			
	2012		2011	
	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Amounts due from banks and loans to customers	Receivables from financial derivative transactions
Parent company	1,529	45	774	46
Entity with significant influence on the Group	-	22	-	25
Associates	42	-	37	-
Key management personnel	36	-	39	-
Other EGB companies	9	-	15	-
Other	12	-	15	-
Total assets	1,628	67	880	71

	GROUP							
	2012				2011			
	Amounts due to banks and customers	Payables on financial derivative transactions	Sub-ordinated debt	Other payables	Amounts due to banks and customers	Payables on financial derivative transactions	Sub-ordinated debt	Other payables
Parent company	14,503	103	246	-	14,193	98	240	1
Entity with significant influence on the Group	4,804	36	-	-	4,862	32	-	-
Associates	1	-	-	4	3	-	-	1
Key management personnel	90	-	20	-	80	-	16	-
Other EGB companies	93	-	-	6	169	-	-	4
Other	38	3	-	-	21	-	-	-
Total liabilities	19,529	142	266	10	19,328	130	256	6

(All amounts are expressed in HRK million)

44. RELATED-PARTY TRANSACTIONS (CONTINUED)

BANK

	2012		2011	
	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Amounts due from banks and loans to customers	Receivables from financial derivative transactions
Parent company	1,486	45	773	46
Entity with significant influence on the Group	-	22	-	25
Associates	42	-	37	-
Key management personnel	35	-	39	-
Other EGB companies	9	-	15	-
Subsidiaries	223	-	358	-
Other	12	-	15	-
Total assets	**1,807**	**67**	**1,237**	**71**

BANK

	2012				2011			
	Amounts due to banks and customers	Payables on financial derivative transactions	Sub-ordinated debt	Other payables	Amounts due to banks and customers	Payables on financial derivative transactions	Sub-ordinated debt	Other payables
Parent company	8,893	103	246	-	9,335	98	240	1
Entity with significant influence on the Group	4,400	36	-	-	4,446	32	-	-
Associates	1	-	-	4	3	-	-	1
Key management personnel	89	-	20	-	80	-	16	-
Other EGB companies	85	-	-	5	146	-	-	4
Subsidiaries	1,520	-	-	-	1,640	-	-	-
Other	38	3	-	-	21	-	-	-
Total liabilities	**15,026**	**142**	**266**	**9**	**15,671**	**130**	**256**	**6**

(All amounts are expressed in HRK million)

44. RELATED-PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties comprised:

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Interest Income				
Parent company	286	175	286	175
Entity with significant influence on the Group	159	97	159	97
Associates	3	2	3	2
Subsidiaries	-	-	11	7
Fee Income				
Parent company	9	15	8	14
Other EGB companies	11	17	10	16
Subsidiaries	-	-	41	32
Total income	468	306	518	343

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Interest expense				
Parent company	669	491	669	348
Entity with significant influence on the Group	296	195	296	180
Other EGB companies	1	2	1	1
Subsidiaries	-	-	48	48
Fee expense				
Parent company	10	8	10	7
Subsidiaries	-	-	6	4
Other EGB companies	34	9	34	19
Other operating expenses				
Parent company	2	3	2	3
Associates	47	46	47	45
Other EGB companies	14	19	14	14
Subsidiaries	-	-	18	22
Total expenses	1,073	773	1,145	691

(All amounts are expressed in HRK million)

44. RELATED-PARTY TRANSACTIONS (CONTINUED)

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Commitments and contingent liabilities				
Guarantees issued				
Parent company	74	-	74	-
Other EGB companies	17	2	17	2
Subsidiaries	-	-	1	2
Other	-	1	-	1
Undrawn credit and loan commitments				
Associates	9	2	9	2
Key management personnel	1	1	1	1
Subsidiaries	-	-	76	83
Other EGB companies	2	2	2	2
	103	8	180	93

As at 31 December 2012, the Group and the Bank had cash deposit as collateral within Amounts due to banks from the parent company of HRK 1,565 million (HRK 1,556 million as at 31 December 2011).

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

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
Wages and salaries	28	28	10	9
Bonuses	12	10	5	8
- thereof pension costs	*4*	*2*	*1*	*1*
	40	38	15	17

45. RISK MANAGEMENT

45.1. INTRODUCTION

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

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

Risk management structure

Supervisory Board

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

Management Board

The Management Board, with Supervisory Board consent if needed, is empowered to determine procedures and is responsible for their enforcement through approving and passing acts which define and regulate the Bank's business.

One of the Management Board members is responsible for the control and monitoring of all the Bank's risks through being responsible for the business activity of the Risk Management Division, Collection and Work-out Department, Legal Department, Compliance Department and Corporate Security Department.

Risk Management Division and Collection and Work-out Department

The Risk Management Division and Collection and Work-out Department are responsible to ensure the foundations for effective risk management, as well as the management and control of decisions related to the Bank's risk exposure.

They are responsible for the development of risk strategy and management principles, frameworks, policies and limits, and are liable for the implementation and the maintenance of procedures which enable independent control processes.

Also, in their responsibilities are the revision of internal acts within its competence, carrying out appropriateness controls and impact analysis, and if deemed necessary, any alignments for the upcoming period.

Asset Liability Management ('ALM') Department

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

45.1. INTRODUCTION (CONTINUED)

Internal audit

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

Risk measurement and reporting system

The Bank risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment, as well as to test their validity on a regular basis.

Monitoring and controlling of the risk is primarily performed based on the limits established by the Bank. These limits reflect the market environment and the business strategy of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks.

The Management Board and the Supervisory Board regularly receive reports on the quality of credit portfolio from different risk aspects ensuring all vital information for the overview of credit risk to which the Bank is exposed. The report includes detailed information on exposures, ratings, concentration and risk profile changes. The Risk Management Division compiles additional reports which provide information necessary for a proactive approach in the risk management of the credit portfolio.

A daily briefing is given to the relevant members of the Management Board on the utilization of market limits, analysis of Value at Risk ('VaR'), plus any other risk developments. These risk developments are presented in the form of an aggregated report.

Risk mitigation

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

Risk concentration

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

45.2. CREDIT RISK

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

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

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

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

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

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

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

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

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

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

(All amounts are expressed in HRK million)

45.2. CREDIT RISK (CONTINUED)

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

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

			GROUP		BANK
	Notes	2012	2011	2012	2011
Cash and balances with the central banks (without cash on hand)	19	6,889	6,414	6,672	6,296
Amounts due from other banks	20	2,865	1,524	2,507	1,438
Reverse repurchase agreements	21	683	26	899	157
Receivables on financial derivative transactions	22	114	93	113	92
Financial assets held for trading	23	250	417	56	122
Financial assets at fair value through profit or loss	23	-	50	-	50
Loans and advances to customers	24	45,348	44,677	38,844	39,425
Financial investments available for sale	25	6,135	6,425	5,956	6,315
Financial investments held to maturity	26	813	602	685	366
Investments in subsidiaries and associates	27	68	69	1,300	1,300
Other assets (included only fees and other)	30	43	61	37	32
Total assets		63,208	60,358	57,069	55,593
Contingent liabilities and commitments		4,962	5,398	3,278	3,766
Total credit risk exposure		68,170	65,756	60,347	59,359

(All amounts are expressed in HRK million)

45.2. CREDIT RISK (CONTINUED)

Risk concentration of maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty without exposure to the Republic of Croatia and Croatian National Bank as of 31 December 2012 was HRK 777 million (2011: HRK 988 million) before and after taking into account of collateral or other credit enhancements.

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

		GROUP
	2012	2011
Republic of Croatia	60,359	58,804
EU countries	4,559	3,688
Other European countries	3,218	3,176
Latin America	-	18
United States of America	32	69
Other countries	2	1
	68,170	65,756

		BANK
	2012	2011
Republic of Croatia	55,071	54,536
EU countries	4,394	3,669
Other European countries	849	1,067
Latin America	-	18
United States of America	31	68
Other countries	2	1
	60,347	59,359

(All amounts are expressed in HRK million)

45.2. CREDIT RISK (CONTINUED)

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

		GROUP
	2012	2011
Agriculture, forestry and fishing	814	953
Mining	261	76
Manufacturing	4,041	4,518
Energy and water supply	913	578
Construction	5,460	5,222
Trade	6,029	5,577
Hotels and restaurants	2,089	1,971
Transport and storage	920	984
Banking and insurance	11,210	9,034
Real estate and other business activities	1,168	1,264
Public administration	11,858	10,842
Education services	81	84
Health and social work	106	107
Other service activities	1,694	2,921
Individuals	20,005	20,064
Information and communication	340	437
Professional, scientific and technical activities	1,181	1,124
	68,170	**65,756**

		BANK
	2012	2011
Agriculture, forestry and fishing	782	943
Mining	225	74
Manufacturing	3,472	4,181
Energy and water supply	496	517
Construction	5,297	4,943
Trade	4,333	4,568
Hotels and restaurants	1,954	1,874
Transport and storage	862	876
Banking and insurance	12,065	9,891
Real estate and other business activities	1,116	1,191
Public administration	10,946	10,144
Education services	80	83
Health and social work	103	105
Other service activities	704	1,922
Individuals	16,447	16,618
Information and communication	328	333
Professional, scientific and technical activities	1,137	1,096
	60,347	**59,359**

45.2. CREDIT RISK (CONTINUED)

Collateral and other credit enhancements

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

For credit risk mitigation the Bank use following types of collaterals: real estates, cash deposits, movables, balance sheet netting, securities and guarantees issued by the Republic of Croatia or banks.

At 31 December 2012, the Group and Bank's estimated value of collaterals that have reduced credit risk exposure are 10,492 HRK million and HRK 10,434 million, respectively (2011: HRK 11,227 million and HRK 11,192 million).

Credit quality per class of financial assets

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

						GROUP 2012
		Not impaired				
	Notes	Low risk	Management attention	Sub-standard	Impaired	Total
Amounts due from other banks	20	2,846	21	-	-	2,867
Loans and advances to customers		28,704	10,047	3,010	8,201	49,962
Companies	24	*10,623*	*3,900*	*1,429*	*5,639*	*21,591*
Individuals	24	*12,369*	*4,636*	*1,578*	*2,557*	*21,140*
Public sector	24	*5,623*	*1,502*	-	-	*7,125*
Other institutions	24	*89*	*9*	*3*	*5*	*106*
Financial investments		6,840	60	5	-	6,905
Treasury bills	23,25,26	*1,202*	-	-	-	*1,202*
Listed debt securities	23,25,26	*5,592*	*60*	*5*	-	*5,657*
Unlisted debt securities	25,26	*5*	-	-	-	*5*
Treasury bills of Republic of Montenegro	26	*41*	-	-	-	*41*
		38,390	10,128	3,015	8,201	59,734

(All amounts are expressed in HRK million)

45.2. CREDIT RISK (CONTINUED)

Credit quality per class of financial assets (continued)

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

						BANK 2012
		Not impaired				
	Notes	Low risk	Management attention	Sub-standard	Impaired	Total
Amounts due from other banks	20	2,488	21	-	-	2,509
Loans and advances to customers		23,992	8,731	2,679	7,236	42,638
Companies	24	*8,179*	*3,107*	*1,307*	*5,292*	*17,885*
Individuals	24	*10,459*	*4,166*	*1,369*	*1,939*	*17,933*
Public sector	24	*5,266*	*1,450*	-	-	*6,716*
Other institutions	24	*88*	*8*	*3*	*5*	*104*
Financial investments		6,534	60	5	-	6,599
Treasury bills	23,25,26	*1,127*	-	-	-	*1,127*
Listed debt securities	23,25,26	*5,310*	*60*	*5*	-	*5,375*
Unlisted debt securities	25,26	*97*	-	-	-	*97*
		33,014	**8,812**	**2,684**	**7,236**	**51,746**

(All amounts are expressed in HRK million)

45.2. CREDIT RISK (CONTINUED)

Credit quality per class of financial assets (continued)

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

As at 31 December 2012, the Group and the Bank's total impaired exposures had been secured with collateral of HRK 3,554 million and HRK 3,417 million (HRK 2,463 million and HRK 2,356 million as at 31 December 2011).

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

As at 31 December 2012, the Group and the Bank's past due but not impaired loans had been secured with collateral of HRK 2,216 million and HRK 1,987 million (HRK 2,453 million and HRK 2,224 million as at 31 December 2011).

					GROUP 2012
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Amounts due from other banks	-	501	-	-	501
Loans and advances to customers					
Companies	1,253	1,275	805	488	3,821
Individuals	844	396	25	45	1,310
Public sector	464	4	1	9	478
Other institutions	7	11	3	-	21
	2,568	**2,187**	**834**	**542**	**6,131**

(All amounts are expressed in HRK million)

45.2. CREDIT RISK (CONTINUED)

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

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

	BANK 2012				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Amounts due from other banks	-	501	-	-	501
Loans and advances to customers					
Companies	1,140	1,258	799	476	3,673
Individuals	724	356	9	45	1,134
Public sector	419	4	1	9	433
Other institutions	7	11	2	-	20
	2,290	2,130	811	530	5,761

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

(All amounts are expressed in HRK million)

45.2. CREDIT RISK (CONTINUED)

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

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

		GROUP
	2012	**2011**
Loans and advances to customers		
Companies	1,943	777
Individuals	384	105
Other	442	3
Total renegotiated financial assets	**2,769**	**885**

		BANK
	2012	**2011**
Loans and advances to customers		
Companies	1,883	749
Individuals	363	85
Other	421	3
Total renegotiated financial assets	**2,667**	**837**

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT

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

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

(All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Legal restrictions

Decision on Reserve Requirement

With respect to the Decision on Reserve Requirement imposed by the CNB, the Bank is obliged to calculate and maintain an obligatory reserve for HRK and FX sources of funding. Received deposits and loans, issued debt securities, hybrid and subordinated instruments and other financial liabilities are the base for reserve requirement calculation. Calculation period lasts from the first to the last day of a calendar month. The reserve requirement rate amounted, in the period January until September 2011 it was 13%, October until December 2011 it was 14%. In January 2012 rate increased on 15% till end of March, starting from 1st of April rate decreased to 13.5%.

In the calculation, 75% of total foreign currency obligatory reserve is included into calculated HRK liquidity reserve and is allocated in HRK.

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

Decision on minimal required FX claims

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

The table below shows information on minimal FX claims on December 31, 2012 and December 31, 2011:

2012	%	2011	%
Realised 31 December	20.58	Realised 31 December	18.85
Average 2012	19.95	Average 2011	20.25
Highest level	24.06	Highest level	27.96
Lowest level	17.42	Lowest level	17.55

Decision on liquidity risk management

From 31 March 2010 CNB's Decision on liquidity risk management is in force. Decision prescribes that expected cash inflows up to one week and expected cash inflows up to one month must be higher than expected outflows up to one week and up to one month. In year 2012 CNB made a decision to observe HRK and foreign currencies together. The Bank has fulfilled the prescribed limits and the ratios. The ratios during 2012 and 2011 were as follows:

(All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Decision on liquidity risk management (continued)

2012	HRK 1 week	HRK 1 month	FX 1 week	FX 1 month
Year-end	2.85	1.30	2.30	1.89
Average 2012	2.36	1.47	2.29	1.75
Highest level	3.60	2.00	3.75	2.23
Lowest level	1.38	1.13	1.48	1.18

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

Internal regulations

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

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

Analysis of financial assets and liabilities by remaining contractual maturities

The table below shows the maturity profile of the Group and the Bank's financial assets and liabilities at 31 December 2012 and 31 December 2011 based on contractual undiscounted repayment obligations.

						GROUP 2012
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with central banks	7,757	-	-	-	-	**7,757**
Amounts due from other banks	2,062	-	360	447	9	**2,878**
Reverse repurchase agreements	203	481	-	-	-	**684**
Receivables on financial derivative transactions	92	1	17	-	4	**114**
Financial assets held for trading	212	-	1	39	-	**252**
Loans and advances to customers	4,563	2,411	7,355	19,077	17,645	**51,051**
Financial investments available for sale	172	404	3,268	1,103	2,192	**7,139**
Financial investments held to maturity	81	38	1	547	202	**869**
Other assets	55	1	180	3	3	**242**
Total undiscounted financial assets	**15,197**	**3,336**	**11,182**	**21,216**	**20,055**	**70,986**

(All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Analysis of financial assets and liabilities by remaining contractual maturities (continued)

						GROUP 2012
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
FINANCIAL LIABILITIES						
Amounts due to other banks	2,135	1,454	11,366	7,691	1,628	**24,274**
Repurchase agreements	539	952	-	-	-	**1,491**
Payables on financial derivative transactions	125	2	15	2	4	**148**
Amounts due to customers	12,524	5,000	11,922	2,573	841	**32,860**
Issued bonds and other borrowed funds	2	9	419	9	24	**463**
Other liabilities	333	10	6	89	-	**438**
Subordinated debt	18	8	1,080	-	-	**1,106**
Total undiscounted financial liabilities	**15,676**	**7,435**	**24,808**	**10,364**	**2,497**	**60,780**

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

(All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Analysis of financial assets and liabilities by remaining contractual maturities (continued)

						BANK 2012
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with central banks	7,459	-	-	-	-	7,459
Amounts due from other banks	1,705	-	447	358	9	2,519
Reverse repurchase agreements	419	481	-	-	-	900
Receivables on financial derivative transactions	91	1	-	17	4	113
Financial assets held for trading	17	-	39	1	-	57
Loans and advances to customers	5,069	1,612	6,412	17,812	17,095	48,000
Financial investments available for sale	169	404	1,103	3,216	2,018	6,910
Financial investments held to maturity	5	38	505	1	202	751
Other assets	52	-	-	178	-	230
Total undiscounted financial assets	14,986	2,536	8,506	21,583	19,328	66,939
FINANCIAL LIABILITIES						
Amounts due to other banks	2,190	463	3,135	10,893	1,341	18,022
Repurchase agreements	417	952	-	-	-	1,369
Payables on financial derivative transactions	124	2	2	15	4	147
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Amounts due to customers	11,726	5,252	12,118	2,356	816	32,268
Issued bonds and other borrowed funds	1	1	1	388	-	391
Other liabilities	247	2	76	-	-	325
Subordinated debt	18	-	-	1,051	-	1,069
Total undiscounted financial liabilities	14,723	6,672	15,332	14,703	2,161	53,591

(All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Analysis of financial assets and liabilities by remaining contractual maturities (continued)

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

Term deposits from individuals can be drawn before maturity, but historical experience shows that it is not very usual. As of 31 December 2012 balance of term deposits for the Group and the Bank from individuals were HRK 19,449 million and HRK 18,767 million, and as of 31 December 2011 were HRK 18,423 million and HRK 17,918 million.

(All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

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

GROUP

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2012						
Contingent liabilities	120	336	906	474	70	1,906
Commitments	1,652	247	1,061	93	3	3,056
Total	**1,772**	**583**	**1,967**	**567**	**73**	**4,962**
2011						
Contingent liabilities	194	273	812	399	78	1,756
Commitments	1,735	922	894	89	2	3,642
Total	**1,929**	**1,195**	**1,706**	**488**	**80**	**5,398**

BANK

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2012						
Contingent liabilities	120	332	865	334	70	1,721
Commitments	810	128	569	48	2	1,557
Total	**930**	**460**	**1,434**	**382**	**72**	**3,278**
2011						
Contingent liabilities	116	274	813	399	78	1,680
Commitments	827	265	903	89	2	2,086
Total	**943**	**539**	**1,716**	**488**	**80**	**3,766**

Lease commitments

Operating lease commitments – Group as lessee

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

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

	GROUP		BANK	
	2012	2011	2012	2011
Within one year	36	35	54	57
After one but not more than five years	110	102	189	201
More than five years	73	74	300	74
	219	211	543	332

(All amounts are expressed in HRK million)

45.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Operating lease commitments – Group as lessor

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

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

	GROUP		BANK	
	2012	2011	2012	2011
Within one year	1	1	2	2
After one but not more than five years	5	5	7	6
More than five years	-	-	-	-
	6	6	9	8

Finance lease

	GROUP 2012		GROUP 2011	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	11	11	12	13
After one but not more than five years	4	4	9	10
More than five years	-	-	1	1
Total minimum lease payments	**15**	**15**	**22**	**24**
Less amounts representing finance charge	*(6)*	-	*(3)*	-
Present value of minimum lease payments	**9**	**15**	**19**	**24**

(All amounts are expressed in HRK million)

45.4. MARKET RISK

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

- Interest rate risk
- Foreign exchange risk
- Securities risk

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

45.4.1. MARKET RISK – TRADING

Value at Risk

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

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

VaR figures, in total and per risk factor for the trading book, are as follows:

2012	**Interest rate**	**Currency**	**Effect of correlation**	**Total VaR**
year end	2	5	-	7
average	3	1	(1)	3
high	19	15	(14)	20
low	1	-	-	1
2011	**Interest rate**	**Currency**	**Effect of correlation**	**Total VaR**
year end	4	2	(2)	4
average	3	1	(3)	1
high	10	11	(9)	12
low	-	-	-	-

45.4.1. MARKET RISK – TRADING (CONTINUED)

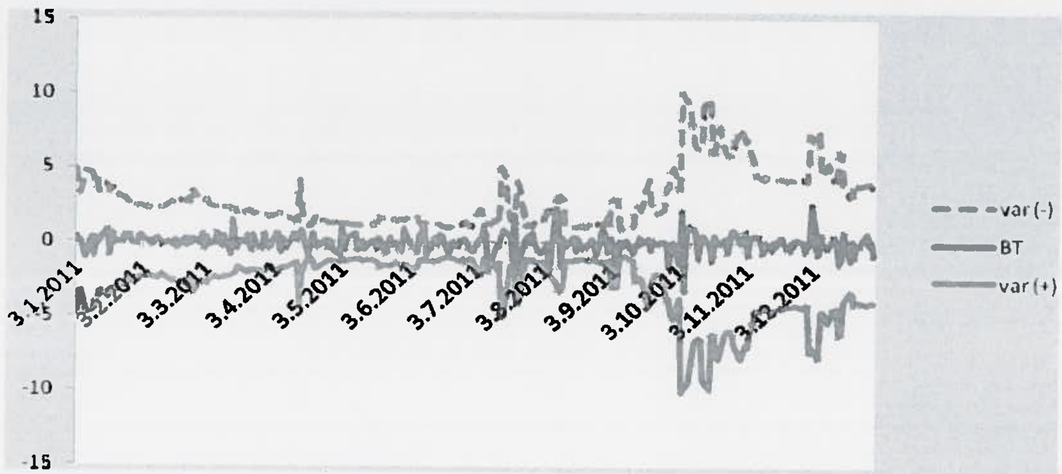
Effect of correlation reflects the fact that the total VaR on a given day will be lower then the sum of VaR's relating to the individual risk factors. Simply adding the VaR figures of the individual risk classes would imply the assumption that the losses in all risk categories occur simultaneously.

Back testing results of VaR calculations show statistically acceptable level of confidence, with three outlier on 252 days basis:

		TOTAL
Date	VaR	BT
6.4.2012	9,2	9,3
11.5.2012	2,9	(3,4)
17.8.2012	3,6	(3,9)

Comparison of VAR (99%, one-day) and Back testing results for 2012 in million HRK

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



(All amounts are expressed in HRK million)

45.4.1. MARKET RISK – TRADING (CONTINUED)

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

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

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

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

Legal restrictions

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

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

2012	**Without options**	**With options**
year end	2.00%	1.24%
average	2.05%	1.59%
low	0.81%	0.36%
high	6.80%	6.56%

2011	**Without options**	**With options**
year end	1.71%	0.80%
average	1.83%	1.29%
low	0.85%	0.33%
high	4.45%	3.49%

45.4.2. MARKET RISK – NON TRADING

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

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

(All amounts are expressed in HRK million)

45.4.2. MARKET RISK – NON TRADING (CONTINUED)

GROUP 2012

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with central banks	4,532	-	-	-	-	3,225	7,757
Amounts due from other banks	2,472	30	135	-	-	228	2,865
Reverse repurchase agreements	202	479	-	-	-	2	683
Receivables on financial derivative transactions	-	-	-	-	-	114	114
Financial assets held for trading	194	-	37	1	-	18	250
Loans and advances to customers	36,924	2,014	2,475	2,045	377	1,513	45,348
Financial investments available for sale	83	306	1,067	2,916	1,581	182	6,135
Financial investments held to maturity	80	38	530	11	149	5	813
Investments in subsidiaries and associates	-	-	-	-	-	68	68
Property and equipment	-	-	-	-	-	704	704
Intangible assets	-	-	-	-	-	740	740
Investment property	-	-	-	-	-	1	1
Deferred tax assets	-	-	-	-	-	172	172
Other assets	-	-	-	-	-	241	241
Total assets	44,487	2,867	4,244	4,973	2,107	7,213	65,891
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to other banks	9,454	10,492	852	1,073	746	289	22,906
Repurchase agreements	1,080	409	-	-	-	1	1,490
Payables on financial derivative transactions	-	-	-	-	-	148	148
Amounts due to customers	11,169	5,002	12,074	2,289	670	986	32,190
Issued bonds and other borrowed funds	1	8	8	326	17	2	362
Current tax liabilities	-	-	-	-	-	15	15
Deferred tax liabilities	-	-	-	-	-	19	19
Other liabilities	-	-	-	-	-	438	438
Provisions	-	-	-	-	-	136	136
Subordinated debt	-	257	-	604	-	17	878
Equity attributable to equity holders of the Bank	-	-	-	-	-	7,271	7,271
Non controlling interest	-	-	-	-	-	38	38
Total liabilities and shareholders' equity	21,704	16,168	12,934	4,292	1,433	9,360	65,891
TOTAL INTEREST SENSITIVITY GAP	22,783	(13,301)	(8,690)	681	674	(2,147)	-

(All amounts are expressed in HRK million)

45.4.2. MARKET RISK – NON TRADING (CONTINUED)

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

(All amounts are expressed in HRK million)

45.4.2. MARKET RISK – NON TRADING (CONTINUED)

BANK 2012

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with central banks	4,396	-	-	-	-	3,063	7,459
Amounts due from other banks	2,450	-	-	-	-	57	2,507
Reverse repurchase agreements	418	479	-	-	-	2	899
Receivables on financial derivative transactions	-	-	-	-	-	113	113
Financial assets held for trading	-	-	37	1	-	18	56
Loans and advances to customers	34,286	1,028	1,879	1,432	42	177	38,844
Financial investments available for sale	83	398	1,067	2,746	1,489	173	5,956
Financial investments held to maturity	5	38	489	-	149	4	685
Investments in subsidiaries and associates	-	-	-	-	-	1,300	1,300
Property, plant and equipment	-	-	-	-	-	386	386
Intangible assets	-	-	-	-	-	47	47
Investment property	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	38	38
Other assets	-	-	-	-	-	229	229
Total assets	41,638	1,943	3,472	4,179	1,680	5,607	58,519
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts due to other banks	8,738	5,639	412	1,066	700	275	16,830
Repurchase agreements	959	409	-	-	-	1	1,369
Payables on financial derivative transactions	-	-	-	-	-	147	147
Amounts due to customers	11,339	5,227	11,864	2,103	655	430	31,618
Issued bonds and other borrowed funds	1	-	-	300	-	2	303
Other liabilities	-	-	-	-	-	325	325
Provisions	-	-	-	-	-	116	116
Subordinated debt	-	226	-	604	-	18	848
Equity attributable to equity holders of the Bank	-	-	-	-	-	6,963	6,963
Total liabilities and shareholders' equity	21,037	11,501	12,276	4,073	1,355	8,277	58,519
TOTAL INTEREST SENSITIVITY GAP	20,601	(9,558)	(8,804)	106	325	(2,670)	-

(All amounts are expressed in HRK million)

45.4.2. MARKET RISK – NON TRADING (CONTINUED)

BANK 2011

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

45.4.2. MARKET RISK – NON TRADING (CONTINUED)

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

Net interest income simulation for the year 2013 based on data as at 31 December 2012:

	EUR	CHF	HRK	TOTAL
immediate parallel shock plus 200 bp	84.7	(31.2)	40.0	93.5
immediate parallel shock plus 100 bp	41.8	(15.8)	19.7	45.7
immediate parallel shock minus 100 bp	(31.8)	-	(18.2)	(50.0)
immediate parallel shock minus 200 bp	(34.2)	-	(37.2)	(71.4)

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

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

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

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

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

The structure of 2% shock effects of MVE as at 31 December 2012:

	-200	-100	+100	+200	Total Basel II
HRK	(39)	(20)	20	41	39
CHF	(28)	(19)	2	2	28
EUR	(82)	(61)	71	142	82
USD	(7)	(9)	12	20	9
Total	**(156)**	**(109)**	**105**	**205**	**158**

Equity (Tier I + Tier II) in 000 HRK	6,946,047
Basel II ratio	2.28%

45.4.2. MARKET RISK – NON TRADING (CONTINUED)

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

	-200	-100	+100	+200	Total Basel II
HRK	(27)	(14)	14	28	27
CHF	(36)	(23)	5	7	36
EUR	(66)	(32)	47	102	66
USD	(9)	(10)	8	13	9
Total	**(138)**	**(79)**	**74**	**150**	**138**

Equity (Tier I + Tier II) in 000 HRK	5,812,851
Basel II ratio	2.38%

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

45.5. OPERATIONAL RISK

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

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

(All amounts are expressed in HRK million)

46. CAPITAL

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

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

Capital management

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

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

Regulatory capital				GROUP
	Actual 2012	**Required capital**	**Actual 2011**	**Required capital**
Tier 1 capital	5,778	2,419	5,054	2,510
Tier 2 capital	673	2,419	843	2,510
Deduction according to Article 2.4. Capital Adequacy Decision	(136)	-	(29)	-
Total Capital	**6,315**	**4,838**	**5,868**	**5,020**
Risk weighted assets	34,899	4,188	36,832	4,420
Position, Foreign Exchange, Settlement and Counterparty Risks	5,420	650	4,998	600
Total Risks	**40,319**	**4,838**	**41,830**	**5,020**
Tier 1 capital Ratio	14.3%	6.0%	12.1%	6.0%
Total capital Ratio	15.7%	12.0%	14.0%	12.0%

(All amounts are expressed in HRK million)

46. CAPITAL (CONTINUED)

Regulatory capital	Actual 2012	Required capital	Actual 2011	Required capital
				BANK
Tier 1 capital	6,260	1,904	5,687	2,071
Tier 2 capital	664	1,904	828	2,071
Deduction according to Article 2.4. Capital Adequacy Decision	(1,401)	-	(1,295)	-
Total Capital	**5,523**	**3,808**	**5,220**	**4,142**
Risk weighted assets	27,556	3,307	30,721	3,687
Position, Foreign Exchange, Settlement and Counterparty Risks	4,172	501	3,798	455
Total Risks	**31,728**	**3,808**	**34,519**	**4,142**
Tier 1 capital Ratio	19.7%	6.0%	16.5%	6.0%
Total capital Ratio	17.4%	12.0%	15.1%	12.0%

Regulatory capital consists of Tier 1 capital which comprises share capital, share premium, retained earnings, legal and statutory reserves and part of other reserves. Minimum capital adequacy ratio as at 31 December 2012 and 2011 was 12%. The other component of regulatory capital is Tier 2 capital, which includes subordinated debt and issued subordinated bonds.

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

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

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

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

Appendix 1 – Forms according to local requirements

Year ended 31 December 2012

(All amounts are expressed in HRK million)

Pursuant to the Decision of the Croatian National Bank on structure and content of Bank's annual financial statements from 19th of May 2008 below we present the required forms for the Group and the Bank for the year ended 31 December 2012 in the form required by the decision. Information about the basis of presentation as well as a summary of accounting policies are given in the notes to the financial statements. Information important for better understanding of certain positions of the statement of financial position, income statement, changes in equity as well as cash flow statement are also included in the notes.

Differences between forms (appendix 1) presented below on pages 111 to 122 and primary financial statements are presented in appendix 2 titled 'Differences between financial statements according to IFRS and local requirements'.

Income statement For the year end 31 December 2012			**GROUP**
		2012	**2011**
1.	Interest income	4,089	3,814
2.	(Interest expense)	(1,997)	(1,683)
3.	**Net interest income (1-2)**	**2,092**	**2,131**
4.	Fee and commission income	680	728
5.	(Fee and commission expense)	(159)	(135)
6.	**Net fee and commission income (4-5)**	**521**	**593**
7.	Profit/(loss) from investments in subsidiaries, associates and joint ventures	(2)	(1)
8.	Profit/(loss) from trading	39	42
9.	Profit/(loss) from embedded derivatives	-	-
10.	Profit/(loss) from asset not actively traded measured at fair value through profit or loss	-	-
11.	Profit/(loss) from asset available for sale	61	-
12.	Profit/(loss) from asset held to maturity	-	2
13.	Profit/(loss) from hedging	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	-	-
15.	Income from other ownership investments	10	30
16.	Profit/(loss) from foreign currency differences	109	104
17.	Other income	20	22
18.	Other expenses	9	14
19.	General administrative expenses and depreciation	1,196	1,231
20.	**Net income from business before value adjustment and loan loss provisions (3+6+7+8+9+10+11+12+13+14+15+16+17-18-19)**	**1,645**	**1,678**
21.	Expense of value adjustment and loss provisions	902	757
22.	**Profit/(loss) before tax (20-21)**	**743**	**921**
23.	Income tax expense	147	176
24.	**Profit/(loss) of the current year (22-23)**	**596**	**745**
25.	Earnings per share	34.45	43.51
	Annex to income statement		
26.	Profit/(loss) of the current year	596	745
27.	Assign equity holders of the Bank	585	739
28.	Non controlling interest	11	6

Appendix 1 – Forms according to local requirements

Year ended 31 December 2012

(All amounts are expressed in HRK million)

Statement of financial position As at 31 December 2012		**GROUP**	
	Asset	**2012**	**2011**
1.	CASH AND DEPOSITS WITH CB (1.1. + 1.2.)	7,757	7,230
1.1.	Cash	868	816
1.2.	Deposits with Central bank	6,889	6,414
2.	DEPOSITS WITH BANKING INSTITUTIONS	2,000	1,302
3.	TREASURY BILLS WITH MINISTRY OF FINANCE AND BILLS OF EXCHANGE WITH CENTRAL BANK	1,245	1,661
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	212	300
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	5,433	4,934
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	203	408
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	107	91
9.	LOANS TO FINANCIAL INSTITUTIONS	1,520	383
10.	LOANS TO OTHER CUSTOMERS	44,896	44,069
11.	INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	68	69
12.	REPOSSESED ASSETS	181	111
13.	TANGIBLE ASSET (MINUS DEPRECIATION)	705	729
14.	INTEREST, FEES AND OTHER ASSETS	1,564	1,758
A	**TOTAL ASSETS (1+2+3 up to 14)**	**65,891**	**63,045**
	Liabilities and equity		
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS (1.1. + 1.2.)	21,901	22,146
1.1.	Short-term borrowings	5,661	5,448
1.2.	Long-term borrowings	16,240	16,698
2.	DEPOSITS (2.1. + 2.2.+2.3.)	33,193	31,701
2.1.	Deposits of giro and current accounts	5,311	5,309
2.2.	Savings deposits	2,798	2,897
2.3.	Term deposits	25,084	23,495
3.	OTHER BORROWINGS (3.1. + 3.2.)	566	20
3.1.	Short-term borrowings	565	17
3.2.	Long-term borrowings	1	3
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	141	134
5.	ISSUED DEBT SECURITIES (5.1. + 5.2.)	300	-
5.1.	Short-term issued debt instruments	-	-
5.2.	Long-term issued debt instruments	300	-
6.	ISSUED SUBORDINATED INSTRUMENTS	860	858
7.	ISSUED HYBRID INSTRUMENTS	-	-
8.	INTEREST, FEES AND OTHER LIABILITIES	1,621	1,567
B	**TOTAL LIABILITIES (1+2+3+4+5+6+7+8)**	**58,582**	**56,426**
	Shareholders' equity		
1.	SHARE CAPITAL	3,500	3,500
2.	PROFIT/(LOSS) OF THE CURRENT YEAR	585	739
3.	RETAINED PROFIT/(LOSS)	2,944	2,372
4.	LEGAL RESERVES	85	85
5.	STATUTORY AND OTHER CAPITAL RESERVES	(1)	8
6.	UNREALISED PROFIT/(LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	196	(85)
C	**TOTAL EQUITY (1+2+3+4+5+6)**	**7,309**	**6,619**
D	**TOTAL LIABILITIES AND EQUITY (B+C)**	**65,891**	**63,045**
	Statement of financial position appendix		
7.	TOTAL EQUITY	7,309	6,619
8.	Equity attributable to equity holders of the Bank	7,271	6,590
9.	Non controlling interest	38	29

Signed on behalf of Erste&Steiermärkische Bank d.d. on 05 March 2013:

President of the Management Board

Petar Radaković

Member of the Management Board

Slađana Jagar

(All amounts are expressed in HRK million)

Statement of changes in shareholders' equity
For the year end 31 December 2012

GROUP

		Attributable to the equity holders of the Bank							
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale	Non controlling interest	Total capital and reserves
1.	Balance at 1 January	3,500	-	93	2,343	739	(85)	29	6,619
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3.	Corrected balance as at 1 January (1+2)	3,500	-	93	2,343	739	(85)	29	6,619
4.	Sale of financial assets available for sale	-	-	-	-	-	61	-	61
5.	Change of fair value financial asset available for sale	-	-	-	-	-	285	-	285
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(65)	-	(65)
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	(4)	-	-	-	-	(4)
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	(4)	-	-	281	-	277
9.	Profit/(loss) for the period	-	-	-	-	585	-	-	585
10.	Total recognised income and expenses for the period (8+9)	-	-	(4)	-	585	281	-	862
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13.	Other changes	-	-	1	-	-	-	9	10
14.	Transfer to reserves	-	-	(6)	563	(557)	-	-	-
15.	Dividends paid	-	-	-	-	(182)	-	-	(182)
16.	Distribution on income (14+15)	-	-	(6)	563	(739)	-	-	(182)
17.	Balance as at 31 December (3+10+11+12+13+16)	3,500	-	84	2,906	585	196	38	7,309

Appendix 1 – Forms according to local requirements

Year ended 31 December 2012

(All amounts are expressed in HRK million)

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

GROUP

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

(All amounts are expressed in HRK million)

Cash flow statement Year ended 31 December 2012			GROUP
	OPERATING ACTIVITIES	2012	2011
1.1.	Profit/(loss) before income tax	743	926
1.2.	Allowances and loss provisions	902	757
1.3.	Depreciation	119	128
1.4.	Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	-	1
1.5.	Profit/(loss) from sale of tangible assets	4	10
1.6.	Other profit/(losses)	(2,096)	(2,183)
1.	Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	(328)	(361)
2.1.	Deposits with Central Bank	192	(971)
2.2.	Treasury bills of Ministry of Finance and bills of exchange with CB	223	(140)
2.3.	Deposits with banks and loans to financial institutions	(1,304)	139
2.4.	Loans to other customers	(1,697)	(8,764)
2.5.	Securities and other financial instruments held for trading	87	(301)
2.6.	Securities and other financial instruments available for sale	(164)	(2,604)
2.7.	Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8.	Other operating assets	167	(1,031)
2.	Net increase/(decrease) of operating assets (2.1. to 2.8.)	(2,496)	(13,672)
3.1.	Demand deposits	2	701
3.2.	Savings and term deposits	1,489	(668)
3.3.	Financial derivative liabilities and other liabilities actively traded	(10)	(157)
3.4.	Other liabilities	2,035	2,859
3.	Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	3,516	2,735
4.	Net cash flow from operating activities before income tax (1+2+3)	692	(11,298)
5.	(Income tax paid)	169	270
6.	Net inflow/(outflow) of cash from operating activities (4-5)	523	(11,568)
	INVESTING ACTIVITIES		
7.1.	Receipt from sale/(payment for buying) tangible and intangible assets	(98)	(184)
7.2.	Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	1	23
7.3.	Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	205	9
7.4.	Dividend income	4	31
7.5.	Other receipts/(payments) from investing activities	-	8
7.	Net cash flow from investing activities (7.1. to 7.5.)	112	(113)
	FINANCIAL ACTIVITIES		
8.1.	Net increase/(decrease) of borrowings	303	8,642
8.2.	Net increase/(decrease) issued debt securities	302	-
8.3.	Net increase/(decrease) subordinated and hybrid instruments	-	811
8.4.	Receipts from transmitted share capital	-	-
8.5.	(Dividends paid)	(182)	(193)
8.6.	Other receipts/(payments) from financial activities	-	-
8.	Net cash flow from financial activities (8.1. to 8.6.)	423	9,260
9.	Net increase/(decrease) of cash and cash equivalents (6+7+8)	1,058	(2,421)
10.	Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11.	Net increase/(decrease) cash and cash equivalents (9+10)	1,058	(2,421)
12.	Cash and cash equivalents at the beginning of the year	4,299	6,720
13.	Cash and cash equivalents at the end of the year	5,357	4,299

(All amounts are expressed in HRK million)

Off balance sheet items As at 31 December 2012	GROUP 2012	2011
1. Guarantees	1,695	1,622
2. Letters of credit	201	127
3. Bills of exchange	1	-
4. Undrawn loans and loan commitments	3,055	3,641
5. Other risk off balance items	10	8
6. Futures	-	-
7. Options	111	151
8. Swap	28,258	5,865
9. Forwards	2,803	25,375
10. Other derivatives	-	60

Appendix 1 – Forms according to local requirements

Year ended 31 December 2012

(All amounts are expressed in HRK million)

Income statement For the year end 31 December 2012			BANK
		2012	**2011**
1.	Interest income	3,470	3,264
2.	(Interest expense)	(1,821)	(1,525)
3.	**Net interest income (1-2)**	**1,649**	**1,739**
4.	Fee and commission income	447	432
5.	(Fee and commission expense)	(131)	(123)
6.	**Net fee and commission income (4-5)**	**316**	**309**
7.	Profit/(loss) from investments in subsidiaries, associates and joint ventures	-	-
8.	Profit/(loss) from trading	35	40
9.	Profit/(loss) from embedded derivatives	-	-
10.	Profit/(loss) from asset not actively traded, measured at fair value through profit or loss	-	-
11.	Profit/(loss) from asset available for sale	61	-
12.	Profit/(loss) from asset held to maturity	-	2
13.	Profit/(loss) from hedging	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	-	-
15.	Income from other ownership investments	35	40
16.	Profit/(loss) from foreign currency differences	104	104
17.	Other income	18	18
18.	Other expenses	6	8
19.	General administrative expenses and depreciation	861	836
20.	**Net income from business before value adjustment and loan loss provisions (3+6+7+8+9+10+11+12+13+14+15+16+17-18-19)**	**1,351**	**1,408**
21.	Expense of value adjustment and loss provisions	753	605
22.	**Profit/(loss) before tax (20-21)**	**598**	**803**
23.	Income tax expense	115	152
24.	**Profit/(loss) of the current year (22-23)**	**483**	**651**
25.	Earnings per share		

Appendix 1 – Forms according to local requirements

Year ended 31 December 2012

(All amounts are expressed in HRK million)

Statement of financial position As at 31 December 2012			**BANK**
	Asset	**2012**	**2011**
1.	CASH AND DEPOSITS WITH Central bank (1.1.+1.2.)	7,459	7,054
1.1.	Cash	787	758
1.2.	Deposits with Central bank	6,672	6,296
2.	DEPOSITS WITH BANKING INSTITUTIONS	1,645	1,216
3.	TREASURY BILLS WITH MINISTRY OF FINANCE AND BILLS OF EXCHANGE WITH CENTRAL BANK	1,126	1,483
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	18	6
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	5,264	4,820
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	192	360
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	106	90
9.	LOANS TO FINANCIAL INSTITUTIONS	1,520	498
10.	LOANS TO OTHER CUSTOMERS	38,681	38,897
11.	INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	1,300	1,300
12.	REPOSSESED ASSETS	178	109
13.	TANGIBLE ASSET (MINUS DEPRECIATION)	386	407
14.	INTEREST, FEES AND OTHER ASSETS	644	795
A	**TOTAL ASSETS (1+2+3 up to 14)**	**58,519**	**57,035**
	Liabilities and equity		
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS (1.1.+1.2.)	15,616	16,593
1.1.	Short-term borrowings	1,136	872
1.2.	Long-term borrowings	14,480	15,721
2.	DEPOSITS (2.1.+2.2.+2.3.)	33,111	32,089
2.1.	Deposits of giro and current accounts	4,947	4,908
2.2.	Savings deposits	2,799	2,898
2.3.	Term deposits	25,365	24,283
3.	OTHER BORROWINGS (3.1.+3.2.)	566	3
3.1.	Short-term borrowings	565	-
3.2.	Long-term borrowings	1	3
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	140	134
5.	ISSUED DEBT SECURITIES (5.1.+5.2.)	300	-
5.1.	Short-term issued debt instruments	-	-
5.2.	Long-term issued debt instruments	300	-
6.	ISSUED SUBORDINATED INSTRUMENTS	830	828
7.	ISSUED HYBRID INSTRUMENTS	-	-
8.	INTEREST, FEES AND OTHER LIABILITIES	993	975
B	**TOTAL LIABILITIES (1+2+3+4+5+6+7+8)**	**51,556**	**50,622**
	Shareholder's equity		
1.	SHARE CAPITAL	3,500	3,500
2.	PROFIT/(LOSS) OF THE CURRENT YEAR	483	651
3.	RETAINED PROFIT/(LOSS)	2,729	2,254
4.	LEGAL RESERVES	85	85
5.	STATUTORY AND OTHER CAPITAL RESERVES	(1)	5
6.	UNREALISED PROFIT/(LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	167	(82)
C	**TOTAL EQUITY (1+2+3+4+5+6)**	**6,963**	**6,413**
D	**TOTAL LIABILITIES AND EQUITY (B+C)**	**58,519**	**57,035**
	Statement of financial position appendix		
7.	TOTAL EQUITY		
8.	Equity attributable to equity holders of the Bank		
9.	Non controlling interest		

Signed on behalf of Erste&Steiermärkische Bank d.d. on 05 March 2013:

President of the Management Board

Petar Radaković

Member of the Management Board

Slađana Jagar

Appendix 1 – Forms according to local requirements

Year ended 31 December 2012

(All amounts are expressed in HRK million)

Statement of changes in shareholders' equity
For the year end 31 December 2012

BANK

		Attributable to the equity holders of the Bank							
	Type of change	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale	Non controlling interest	Total capital and reserves
1.	Balance at 1 January	3,500	-	90	2,254	651	(82)	-	6,413
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	-
3.	Corrected balance as at 1 January (1+2)	3,500	-	90	2,254	651	(82)	-	6,413
4.	Sale of financial assets available for sale	-	-	-	-	-	61	-	61
5.	Change of fair value financial asset available for sale	-	-	-	-	-	250	-	250
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(62)	-	(62)
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	-	249	-	249
9.	Profit/(loss) for the period	-	-	-	-	483	-	-	483
10.	Total recognised income and expenses for the period (8+9)	-	-	-	-	483	249	-	732
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	-
13.	Other changes	-	-	-	-	-	-	-	-
14.	Transfer to reserves	-	-	(6)	475	(469)	-	-	-
15.	Dividends paid	-	-	-	-	(182)	-	-	(182)
16.	Distribution on income (14+15)	-	-	(6)	475	(651)	-	-	(182)
17.	Balance as at 31 December (3+10+11+12+13+16)	3,500	-	84	2,729	483	167	-	6,963

(All amounts are expressed in HRK million)

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

BANK

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

(All amounts are expressed in HRK million)

Cash flow statement Year ended 31 December 2012		BANK
OPERATING ACTIVITIES	2012	2011
1.1. Profit/(loss) before income tax	598	803
1.2. Allowances and loss provisions	753	604
1.3. Depreciation	50	50
1.4. Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	-	1
1.5. Profit/(loss) from sale of tangible assets	4	10
1.6. Other profit/(losses)	(1,684)	(1,794)
1. Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	(279)	(326)
2.1. Deposits with Central bank	209	(939)
2.2. Treasury bills of Ministry of Finance and bills of exchange with CB	89	(37)
2.3. Deposits with banks and loans to financial institutions	(1,073)	93
2.4. Loans to other customers	(517)	(4,827)
2.5. Securities and other financial instruments held for trading	(13)	(6)
2.6. Securities and other financial instruments available for sale	(136)	(2,485)
2.7. Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8. Other operating assets	138	(199)
2. Net increase/(decrease) of operating assets (2.1. to 2.8.)	(1,303)	(8,400)
3.1. Demand deposits	38	668
3.2. Savings and term deposits	983	525
3.3. Financial derivative liabilities and other liabilities actively traded	(10)	(156)
3.4. Other liabilities	1,529	1,944
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	2,540	2,981
4. Net cash flow from operating activities before income tax (1+2+3)	958	(5,745)
5. (Income tax paid)	112	213
6. Net inflow/(outflow) of cash from operating activities (4-5)	846	(5,958)
INVESTING ACTIVITIES		
7.1. Receipt from sale/(payment for buying) tangible and intangible assets	(32)	(54)
7.2. Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	-	(1,133)
7.3. Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	168	39
7.4. Dividend income	35	41
7.5. Other receipts/(payments) from investing activities	-	-
7. Net cash flow from investing activities (7.1. to 7.5.)	171	(1,107)
FINANCIAL ACTIVITIES		
8.1. Net increase/(decrease) of borrowings	(414)	3,975
8.2. Net increase/(decrease) issued debt securities	302	810
8.3. Net increase/(decrease) subordinated and hybrid instruments	-	-
8.4. Receipts from transmitted share capital	-	-
8.5. (Dividends paid)		(163)
8.6. Other receipts/(payments) from financial activities	(182)	-
8. Net cash flow from financial activities (8.1. to 8.6.)	(294)	4,622
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	723	(2,443)
10. Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11. Net increase/(decrease) cash and cash equivalents (9+10)	723	(2,443)
12. Cash and cash equivalents at the beginning of the year	4,193	6,636
13. Cash and cash equivalents at the end of the year	4,916	4,193

(All amounts are expressed in HRK million)

Off balance sheet items As at 31 December 2012		BANK
	2012	2011
1. Guarantees	1,510	1,545
2. Letters of credit	201	127
3. Bills of exchange	1	-
4. Undrawn loans and loan commitments	1,556	2,086
5. Other risk off balance items	10	8
6. Futures	-	-
7. Options	102	134
8. Swap	26,850	4,779
9. Forwards	2,803	25,375
10. Other derivatives	-	60

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

Year ended 31 December 2012

(All amounts are expressed in HRK million)

GROUP

ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFERENCE	EXPLANATION
Interest income	4,089	Interest income	4,089	-	
Interest expense	(1,997)	Interest expense	(1,997)	-	
Fee and commission income	680	Fee and commission income	680	-	
Fee and commission expense	(159)	Fee and commission expense	(159)	-	
Net trading income	148	Profit/(loss) from trading Profit/(loss) from foreign currency differences Profit/(loss) from embedded derivatives	39 109 -	-	
Other operating income	83	Profit/(loss) from asset available for sale Profit/(loss) from asset held to maturity Income from other ownership investments Other income	61 - 10 20	(8)	(2) AR – Other operating expenses (6) AR – Share of result of associates
Personnel expenses	(543)			(543)	(543) CNB – General administrative expenses and depreciation
Other operating expenses	(541)	General administrative expenses and depreciation Other expenses	(1,196) (9)	664	53 AR – Depreciation of tangible fixed assets 66 AR – Amortization of intangible fixed assets 543 AR – Personnel expenses 2 CNB – Other income
Depreciation of tangible fixed assets	(53)			(53)	(53) CNB – General administrative expenses and depreciation
Amortization of intangible assets	(66)			(66)	(66) CNB – General administrative expenses and depreciation
Provision for loan and investment losses	(902)	Expense of value adjustment and loss provisions	(902)	-	
Share of result of associates	4	Profit/(loss) from investments in subsidiaries, associates and joint ventures	(2)	6	6 CNB – Income from other ownership investments
Profit before income tax	743	Profit before income tax	743	-	
Income tax expense	(147)	Income tax expense	(147)	-	
NET PROFIT FOR THE PERIOD	**596**	**NET PROFIT FOR THE PERIOD**	**596**	-	
		Non controlling interest (in subgroups)			
		NET PROFIT AFTER NON CONTROLLING INTERESTS			

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

Year ended 31 December 2012

(All amounts are expressed in HRK million)

GROUP

ANNUAL REPORT (AR)	In mln HRK	Form 'Statement of financial position' (CNB)	In mln HRK	DIFFERENCE	EXPLANATION
Cash and balances with central banks	7,757	Cash and deposits with CNB	7,757	-	
Amounts due from other banks	2,865	Deposits with banking institutions	2,000	865	805 CNB – Loans to financial institutions 60 CNB – Interest, fees and other assets
Reverse repurchase agreements	683			683	626 CNB – Loans to financial institutions 55 CNB – Loans to other customers 2 CNB – Interest, fees and other assets
Receivables on financial derivative transactions	114	Derivative financial assets	107	7	7 CNB – Interest, fees and other assets
Financial assets held for trading	250	Securities and other financial instruments held for trading	212	38	38 CNB – Treasury bills of Ministry of finance and bills of exchange of CNB
Financial assets at fair value through profit or loss	-				
Loans and advances to customers	45,348	Loans to financial institutions Loans to other customers	1,520 44,896	(1,068)	(681) AR – Reverse repurchase agreements (805) AR – Amounts due from other banks 418 CNB – Interest, fees and other assets
Financial investments available for sale	6,135	Treasury bills of Ministry of finance and bills of exchange of CNB Securities and other financial instruments available for sale	1,245 5,433	(543)	(38) AR – Financial assets held for trading; treasury bills (605) AR – Financial investments held to maturity 100 CNB – Interest, fees and other assets
Financial investments held to maturity	813	Securities and other financial instruments held to maturity	203	610	605 CNB – Treasury bills of Ministry of finance and bills of exchange of CNB 5 CNB – Interest, fees and other assets; interest on HtM
Investments in subsidiaries and associates	68	Investment in associates, subsidiaries and joint ventures	68	-	
Property and equipment	704	Tangible assets (minus depreciation)	705	(1)	(1) AR – Investment property
Intangible assets	740			740	740 CNB – Interest, fees and other assets
Investment property	1			1	1 CNB – Tangible assets (minus depreciation)
Deferred tax assets	172			172	172 CNB – Interest, fees and other assets
Other assets	241	Interest, fees and other assets Repossessed assets	1,564 181	(1,504)	(172) AR – Deferred tax assets (740) AR – Intangible assets (592) AR – Interest on loans, deposits, securities and derivatives
TOTAL ASSETS	65,891	TOTAL ASSETS	65,891	-	

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

Year ended 31 December 2012

(All amounts are expressed in HRK million)

GROUP

ANNUAL REPORT (AR)	In mln HRK	Form 'Statement of financial position' (CNB)	In mln HRK	DIFFERENCE	EXPLANATION
Amounts due to other banks	22,906	Borrowings from financial institutions	21,901	1,005	(925) AR – Repurchase agreements (43) AR – Issued bonds and other borrowed funds 1,814 CNB – Deposits 159 CNB – Interest, fees and other liabilities
Repurchase agreements	1,490			1,490	925 CNB – Borrowings from financial institutions 1 CNB – Interest, fees and other liabilities 564 CNB – Other borrowings
Payables on financial derivative transactions	148	Derivative financial liabilities and other liabilities held for trading	141	7	7 CNB – Interest, fees and other liabilities
Financial liabilities at fair value through profit or loss	-			-	
Amounts due to customers	32,190	Deposits	33,193	(1,003)	(1,814) AR – Amounts due to other banks (4) AR – Other liabilities (16) AR – Issued bonds and other borrowed funds 831 CNB – Interest, fees and other liabilities
Issued bonds and other borrowed funds	362	Other borrowings Issued debt securities	566 300	(504)	(564) AR – Repurchase agreements 16 CNB – Deposits 43 AR – Amounts due to other banks 1 CNB – Interest, fees and other liabilities
Current tax liabilities	15			15	15 CNB – Interest, fees and other liabilities
Deferred tax liabilities	19			19	19 CNB – Interest, fees and other liabilities
Other liabilities	438	Interest, fees and other liabilities	1,621	(1,183)	(1,051) AR – Interest on issued bonds and borrowed funds, amounts due to customers and banks and repurchase agreements 4 CNB – Deposits (136) AR – Provisions
Provisions	136			136	136 CNB – Interest, fees and other liabilities
Subordinated debt	878	Issued subordinated instruments	860	18	18 CNB – Interest, fees and other liabilities
Total shareholders' equity	7,271	Shareholder's equity	7,309	(38)	(38) AR - Non controlling interest
Non controlling interest	38	Non controlling interest		38	38 CNB - Shareholder's equity
TOTAL LIABILITIES AND EQUITY	65,891	**TOTAL LIABILITIES AND EQUITY**	65,891	-	

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

Year ended 31 December 2012

(All amounts are expressed in HRK million)

BANK

ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFERENCE	EXPLANATION
Interest income	3,470	Interest income	3,470	-	
Interest expense	(1,821)	Interest expense	(1,821)	-	
Fee and commission income	447	Fee and commission income	447	-	
Fee and commission expense	(131)	Fee and commission expense	(131)	-	
Net trading income	139	Profit/(loss) from trading Profit/(loss) from foreign currency differences Profit/(loss) from embedded derivatives	35 104 -	-	
Other operating income	111	Profit/(loss) from asset available for sale Profit/(loss) from asset held to maturity Income from other ownership investments Other income	61 - 35 18	(3)	(3) AR – Other operating expenses
Personnel expenses	(411)			(411)	(411) CNB – General administrative expenses and amortization
Other operating expenses	(403)	General administrative expenses and depreciation Other expenses	(861) (6)	464	34 AR – Depreciation of tangible fixed assets 16 AR – Amortization of intangible assets 411 AR – Personnel expenses 3 CNB – Other income
Depreciation of tangible fixed assets	(34)			(34)	(34) CNB – General administrative expenses and amortization
Amortization of intangible assets	(16)			(16)	(16) CNB – General administrative expenses and amortization
Provision for loan and investment losses	(753)	Expense of value adjustment and loss provisions	(753)	-	
Share of result of associates	-	Profit/(loss) from investments in subsidiaries, associates and joint ventures	-	-	
Profit before income tax	598	Profit before income tax	598	-	
Income tax expense	(115)	Income tax expense	(115)	-	
NET PROFIT FOR THE PERIOD	483	**NET PROFIT FOR THE PERIOD**	483	-	
		Non controlling interest (in subgroups)			
		NET PROFIT AFTER NON CONTROLLING INTERESTS			

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

Year ended 31 December 2012

(All amounts are expressed in HRK million)

BANK

ANNUAL REPORT (AR)	In mln HRK	Form 'Statement of financial position' (CNB)	In mln HRK	DIFFERENCE	EXPLANATION
Cash and balances with central banks	7,459	Cash and deposits with CNB	7,459	-	
Amounts due from other banks	2,507	Deposits with banking institutions	1,645	862	805 CNB – Loans to financial institutions 57 CNB – Interest, fees and other assets
Reverse repurchase agreements	899			899	627 CNB – Loans to financial institutions 270 CNB – Loans to other customers 2 CNB – Interest, fees and other assets
Receivables on financial derivative transactions	113	Derivative financial assets	106	7	7 CNB – Interest, fees and other assets
Financial assets held for trading	56	Securities and other financial instruments held for trading	18	38	38 CNB – Treasury bills of Ministry of finance and bills of exchange of CNB
Financial assets at fair value through profit or loss	-				
Loans and advances to customers	38,844	Loans to financial institutions Loans to other customers	1,520 38,681	(1,357)	(805) AR – Amounts due from other banks (897) AR – Reverse repurchase agreements 345 CNB – Interest, fees and other assets
Financial investments available for sale	5,956	Treasury bills of ministry of finance and bills of exchange of CNB Securities and other financial instruments available for sale	1,126 5,264	(434)	(38) AR – Financial assets held for trading; treasury bills (489) AR – Financial investments held to maturity 93 CNB – Interest, fees and other assets
Financial investments held to maturity	685	Securities and other financial instruments held to maturity	192	493	4 CNB – Interest, fees and other assets 489 CNB – Treasury bills of ministry of finance and bills of exchange of CNB
Investments in subsidiaries and associates	1,300	Investment in associates, subsidiaries and joint ventures	1,300	-	
Property and equipment	386	Tangible assets (minus depreciation)	386	-	
Intangible assets	47			47	47 CNB – Repossessed assets, other assets
Investment property	-			-	
Deferred tax assets	38			38	38 CNB – Interest, fees and other assets
Other assets	229	Interest, fees and other assets Repossessed assets	644 178	(593)	(38) AR – Deferred tax asset (47) AR – Intangible assets (508) AR – interest on loans, deposits, securities and derivatives
TOTAL ASSETS	58,519	TOTAL ASSETS	58,519	-	

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

Year ended 31 December 2012

(All amounts are expressed in HRK million)

BANK

ANNUAL REPORT (AR)	In mln HRK	Form 'Statement of financial position' (CNB)	In mln HRK	DIFFERENCE	EXPLANATION
Amounts due to other banks	16,830	Borrowings from financial institutions	15,616	1,214	(804) AR – Repurchase agreements 1,877 CNB – Deposits 141 CNB – Interest, fees and other liabilities
Repurchase agreements	1,369		-	1,369	1 CNB – Interest, fees and other liabilities 804 CNB – Borrowings from financial institutions 564 CNB – Other borrowings
Payables on financial derivative transactions	147	Derivative financial liabilities and other liabilities held for trading	140	7	7 CNB – Interest, fees and other liabilities
Financial liabilities at fair value through profit or loss	-			-	
Amounts due to customers	31,618	Deposits	33,111	(1,493)	(1,877) AR – Amounts due to other banks (4) AR – Other liabilities 388 CNB – Interest, fees and other liabilities
Issued bonds and other borrowed funds	303	Other borrowings Issued debt securities	566 300	(563)	1 CNB – Interest, fees and other liabilities (564) AR – Repurchase agreements
Current tax liabilities	-			-	
Other liabilities	325	Interest, fees and other liabilities	993	(668)	4 CNB – Deposits (556) AR – Interest on borrowed funds and amounts due to customers and banks (116) AR – Provisions
Provisions	116			116	116 CNB – Interest, fees and other liabilities
Subordinated debt	848	Issued subordinated instruments	830	18	18 CNB – Interest, fees and other liabilities
Total shareholders' equity	6,963	Shareholder's equity	6,963	-	
TOTAL LIABILITIES AND EQUITY	58,519	**TOTAL LIABILITIES AND EQUITY**	58,519	-	