ERSTE&STEIERMÄRKISCHE BANK d.d.

Annual report and consolidated financial statements as at and for the year ended 31 December 2013

Contents

1. REPORT OF THE PRESIDENT OF THE MANAGEMENT BOARD

In the pages of this Report we present to you business results achieved by Erste&Steiermärkische Bank d.d. (Bank) in 2013, which was an extremely challenging year for the entire economy, including the banking sector. In 2013 the Bank also shared a large burden of the gravity of the economic situation, which is evident from the financial performance indicators. Nevertheless, we are pleased that even in such circumstances we have maintained the stability of our business operations and further increased our market shares in total assets, total loans and total deposits.

Total assets of the Bank at 2013 YE amounted to HRK 60.12 billion, which was 2.7 % increase on 2012 of HRK 58.52 billion. According to the Croatian National Bank´s data, the share of the Bank´s assets in total assets of Croatian banks at 2013 YE was 14.82% compared with 14.39% at the end of 2012. Total loans of the Bank on 31 December 2013 amounted to HRK 39.91 billion, an increase by 2.7 % from HRK 38.84 billion the year before. The Bank´s market share in total loans at 2013 YE stood at 15.27% compared with 14.75% the previous year. Market share in total corporate loans was up from 15.68% to 16.48%. Market share in total retail loans increased from 13.65% to 13.75%. Total deposits at 2013 YE amounted to HRK 34.17 billion, up by 8.1 % from HRK 31.62 billion at 2012 YE. The Bank's market share in this segment rose from 12.54% to 12.92%, with the share in total retail deposits growing from 12.51% to 12.80%, and in total corporate deposits from 12.85% to 13.54%.

By implementing an adequate business policy and adjusting business operations to the general market conditions, we have maintained the operating aspect of our business at a stable level. Smaller net profit, which was HRK 68.4 million in 2013, is a result of the increased costs of provisions as a consequence of the actual economic situation and market conditions that have a generally negative impact on the operation of companies; adaptation to new regulatory measures of the Croatian National Bank implemented to the full during the previous period, as well as procedures conducted as part of pre-bankruptcy settlements. Nevertheless, the achieved financial result is in accordance with the set objectives, since such developments had been projected, and incorporated into our business plans for year 2013. The 2013 ROA was 0.1 %, ROE was 1.0 %, and the cost/income ratio was 34.3% on 31 December 2013.

According to the Group consolidated financial statement for 2013 which, in addition to the Bank, includes the following affiliated entities: Erste DMD d.o.o., Erste Nekretnine d.o.o., Erste Delta d.o.o., Erste Bank a.d., Podgorica, Erste Card Club Group, Erste Factoring d.o.o., total assets amounted to HRK 67.85 billion, and were by 3.0 % bigger y/y (HRK 65.89 billion at 2012 YE). The Group net profit at 2013 YE amounted to HRK 201.5 million. In 2013, the Group ROA was 0.3%, ROE was 2.5%, and cost/income ratio was 37.5%.

1. REPORT OF THE PRESIDENT OF THE MANAGEMENT BOARD (CONTINUED)

The Bank will continue to adhere to its basic strategic guidelines in its activities, which include following the financial needs of Croatian citizens, focusing intensively on the SME segment, and supporting quality projects driving the development of the real economy and employment. We still see potential for new financing in the field of EU-funded projects in renewable energy and energy efficiency, agriculture and infrastructure, in tourism and export-oriented production. Long-term business policies of the Bank aim at achieving above-average growth, increasing internal efficiency and rational cost management. We want to end the year 2014 with further increase in our market shares, and we will pay special attention to improving the quality of our services, to our communication with clients and understanding their needs in the current market environment.

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

Petar Radaković

President of the Management Board

2. MANAGEMENT BOARD

PETAR RADAKOVIĆ, Chairman of the Board

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

TOMISLAV VUIĆ, Deputy Chairman of the Board

– responsible for Retail Division, Multi Channel Management Department, Human Resources Department and Marketing Department for Erste Group Croatia.

BORISLAV CENTNER, Member of the Board

– responsible for Corporate Division and Financial Markets Division

SLAĐANA JAGAR, Member of the Board

– responsible for Accounting and Controlling Division, Processing Division, IT Division, Organization Department and Assets and Liabilities Management Department

CHRISTOPH SCHÖFBÖCK, Member of the Board

– responsible for Risk Management Division, Collection and Work-out Department, Legal Department, Compliance Department and Corporate Security Department.

3. BUSINESS RESULTS OF ERSTE&STEIERMÄRKISCHE BANK D.D. AND ITS SUBSIDIARIES IN 2013

3.1. Macroeconomic indicators

The economy maintained negative pattern thus far in 2013, with GDP decline gradually moderating from -1.5% y/y in 1Q to -0.7% y/y and -0.6% y/y in 2Q and 3Q, respectively. However, there was a shift in the component breakdown, as domestic demand exhibited more favorable developments on both private consumption and investments side, while net exports lost their supportive momentum. The outlook remains challenging, as private consumption faces headwinds from deteriorated labor market conditions, while investments are under threat from the fiscal austerity side. Flavor of optimism radiates from the EU growth momentum gaining some pace, thus being supportive to external demand outlook. 2013 contraction is seen close to 1.0%, followed by stabilization in 2014, while risks remain skewed to the downside, reflecting underperformance on the investment side and potential deterioration of the external demand outlook.

Balance of payments maintained positive trends, with C/A reaching surplus in excess of 1% of GDP on 4Q trailing basis. Current account has been supported by narrowing of the income account deficit and solid service account performance amid strong tourism season, while adverse trade balance trends were offsetting factor. We are not expecting major changes in 2014, as we see C/A remaining in mild positive region. The foreign debt figure implies modest deleveraging, driven by the private sector, while the government remained main contributor to the debt growth.

Labor market conditions show ongoing struggle, as the ILO methodology unemployment rate is expected in the region around 17.3% in 2013, thus indicating further deterioration vs. 2012 figure (15.8%). Trends are also set to remain weak throughout 2014, as the ongoing mediocre outlook fails to support labor market stabilization, suggesting unemployment rate further moderately increasing. Wage performance aligned with the labor market performance, with nominal wages recording only marginal increase, while the real wages dipped in the negative region.

Inflation pressures started to gradually subside towards the year-end–average 2013 inflation, measured by the Consumer Price Index, landed at 2.2% i.e. down 1.2pp vs. 2012 figure. Weak demand side pressures, accompanied by no surprise on the cost side, were the key shaping factor in behind inflation figures in 2013. Similar pattern is seen persisting also in 2014, suggesting average inflation further slowing down to around 1.0-1.5% in 2014.

Exchange rate stability remained the key monetary policy anchor, with CNB relying on the FX intervention tool to tame short-term FX volatility. With broadly stable exchange rate pattern, CNB maintained more dovish stance and kept the focus on stimulating credit and the economy, opting for the new round of conditional monetary loosening in 4Q (mandatory reserve requirement cut by 1.5pp to 12%). Policy course is set to remain similar also in 2014 with broad exchange rate stability (7.50-7.70 band) and in parallel keeping the MM rates close to current record low levels.

3.1. Macroeconomic indicators (continued)

Fiscal policy has been to large extent determined by the activation of the Excessive Deficit Procedure, where the Government has been called to deliver significant consolidation effort in upcoming period. The Government presented details on the budget measures under the EDP, with the deficit being aimed to meet the EC target (4.6% of GDP in 2014). While this should support fiscal policy credibility, while focus on revenue one-offs while avoiding stronger cuts on the expenditures side, is not appealing for regaining confidence. In the meanwhile, there was response from the rating agencies side. S&P made first move by cutting Croatia's rating from BB+ to BB (with the outlook set to stable), while Fitch kept the rating unchanged at BB+, but revised the outlook to negative. Fiscal discipline was once again emphasized as shaping factor for rating outlook.

	2009	2010	2011	2012	2013(e)	2014(e)	2015(e)
Nominal GDP (HRK, bn)	328.7	323.8	328.7	328.6	328.6	332.8	341.9
Nominal GDP (EUR, bn)	44.8	44.4	44.2	43.7	43.4	43.7	44.9
GDP per capita (in thousand EUR)	10.2	10.1	10.3	10.2	10.1	10.2	10.4
Real GDP (growth y/y, %)	-6.9	-2.3	-0.2	-1.9	-0.9	0.0	1.0
CPI (y/y, average %)	2.4	1.1	2.3	3.4	2.2	1.5	2.2
Current account balance (EUR, bn)	-2.3	-0.4	-0.4	0.0	0.2	0.3	0.2
Current account balance (% of GDP)	-5.1	-1.0	-1.0	-0.1	0.5	0.7	0.5
Foreign debt (EUR, bn)	45.2	46.5	45.9	44.8	46.3	47.1	48.7
Foreign debt to GDP (%)	101.0	104.6	103.7	102.6	106.6	107.9	108.6
Loc. Curr./EUR year-end	7.31	7.39	7.53	7.55	7.64	7.65	7.65
Loc. Curr./EUR average	7.34	7.29	7.43	7.52	7.57	7.62	7.62
Unemployment (%, ILO definition)	9.1	11.8	13.5	15.8	17.3	17.8	18.0

Source: CBS, CNB, Erste Bank

3.2. Erste Bank's lending operations in 2013

Erste Bank's total loans amounted to HRK 39.91 billion on December 31, 2013 and increased by 2.8% compared to YE 2012, when they had amounted to HRK 38.84 billion. Demand for new lending in the market in general is still subdued due to market circumstances and objective economic situation, but the Bank's market shares in this segment continue to increase in addition to total loan growth. According to Croatian National Bank's YE 2013 records, Erste Bank's market share in total loans rose from 14.75% at YE 2012 to 15.27% at YE 2013.

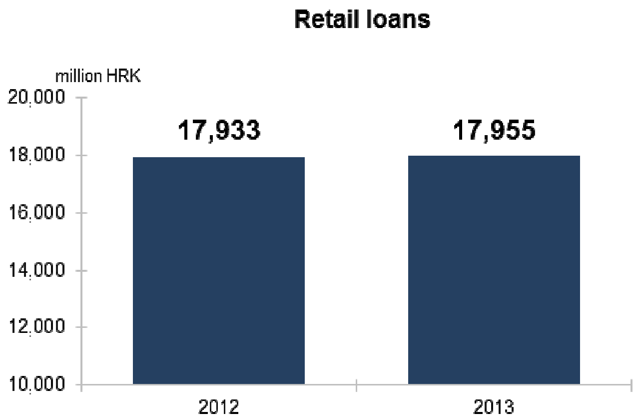
Retail loan market maintained a negative trend last year, which resulted in decrease of total retail loans. Reduced demand for new lending is most evident in housing loans segment and is the result of overall housing loan market slump where there are no positive effects of state-subsidized housing programmes from previous year after a new incentive model not including state subsidies was introduced. Cash loans market grew, especially in the segment of loans in HRK without a currency clause.

3.2. Erste Bank's lending operations in 2013 (continued)

Throughout the past year lending business was heavily influenced by a series of legislative changes aimed at customer protection and improved transparency, which required substantial adjustments and changes in business operations with direct negative impact on revenues.

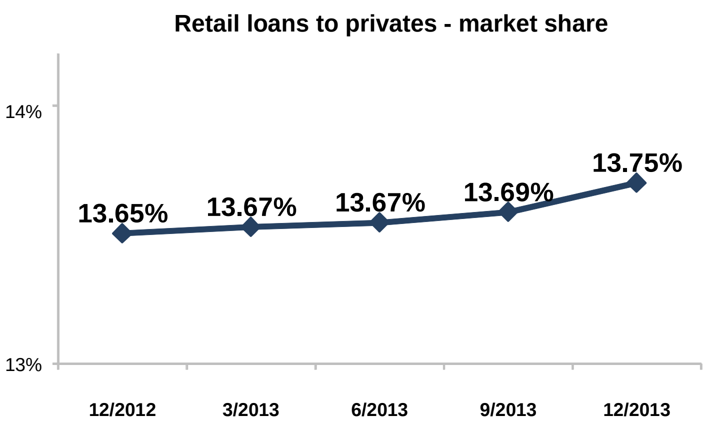
On December 31, 2013 retail loans portfolio amounted to HRK 17.9 billion, having maintained past year's levels.

Chart 1: Retail loans (loans and advances to customers)



Erste Bank's market share in retail loans increased from 13.65% to 13.75% as result of decrease lower than overall retail loans market decrease. Cash loans market share increased from 18.56% to 18.64% and housing loans market share increased from 11.33% to 11.35%.

Chart 2: Retail loans to privates - market share



3.2. Erste Bank's lending operations in 2013 (continued)

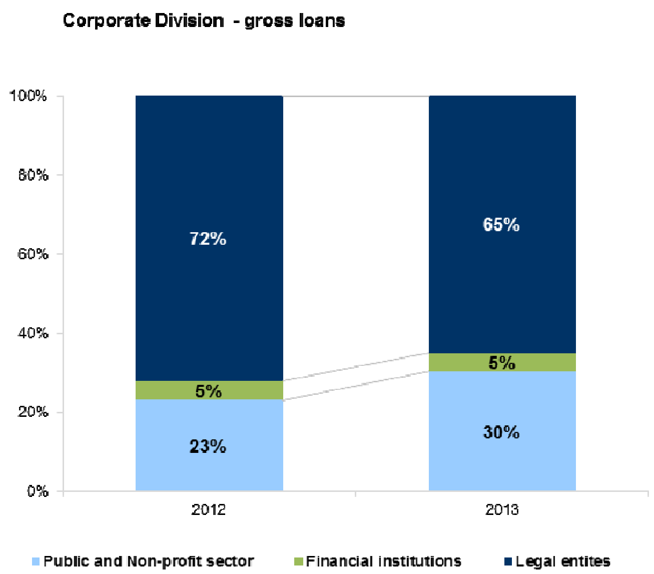
In course of 2013 corporate lending was still somewhat limited, the public sector maintained a stable demand, and demand by private companies recovered. In 2013 Erste Bank remained committed to SME division and to support of quality projects stimulating the development of real economy and increase of employment in this segment. The Bank supports all well-prepared and profitable projects, with special emphasis on projects driving export-oriented production, tourism, renewable energy and agriculture. These are also the sectors that recorded a positive trend and a relative increase in demand for funding, and some of the strategic sectors in the development of Croatia's overall economy.

Strategically oriented towards small and medium enterprises, Erste Bank monitors the situation in the market actively and continually and provides its customers with services incorporating new benefits, on top of competitive and attractive financing terms, to improve its response to customer needs with even better service quality.

Special emphasis was also laid on transaction banking segment this year. Intensive activities were initiated to develop new or improve existing products and to find solutions tailored to customer needs in this segment. Activities were initiated to improve service quality and achieve excellence in cash management, trade and export finance, supply chain finance and factoring.

Total gross loan portfolio of the corporate division on December 31, 2013 amounted to HRK 27.01 billion and increased by 9.34% or HRK 2.30 billion compared to December 31, 2012.

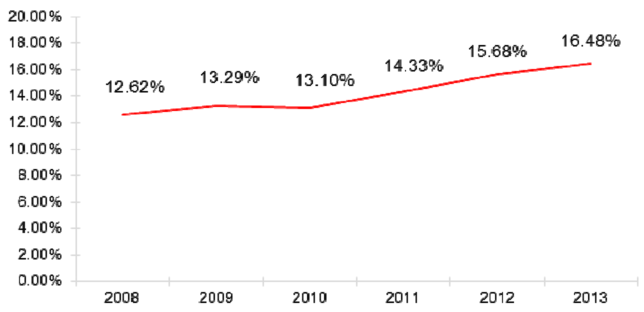
Chart 3: Corporate division – gross loan structure



Total corporate loans market share increased from 15.68% (31/12/2012) to 16.48% (31/12/2013). While overall market share increased by 2.86%, Erste Bank recorded 8.11% growth.

3.2. Erste Bank's lending operations in 2013 (continued)

Chart 4: Corporate loans – market share



Erste Bank remains one of most active commercial banks in administering Croatian Bank for Reconstruction and Development's (HBOR's) credit lines. As of December 31, 2013, loans from this source amounted to HRK 2,49 billion.

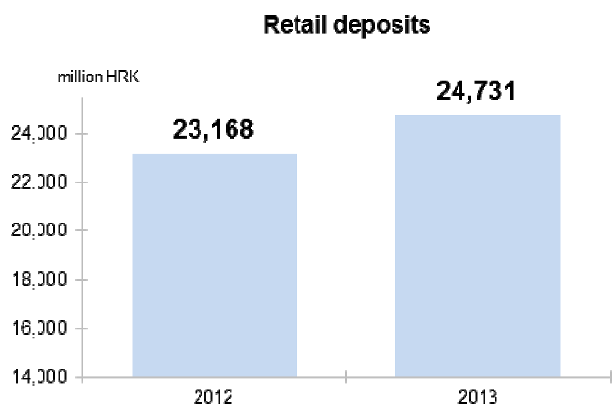
3.3. Deposits in 2013

At YE 2013 total deposits amounted to HRK 34.18 billion and increased by 8.1% compared to YE 2012, when they had amounted to HRK 31.62 billion.

Retail deposits stayed on the positive course from previous years despite the trend of decreasing passive interest rates, which shows that Croatian citizens, faced with growing uncertainty, favour saving over spending.

Total retail deposits increased by HRK 1.6 billion and amounted to HRK 24.7 billion as of December 31, 2013.

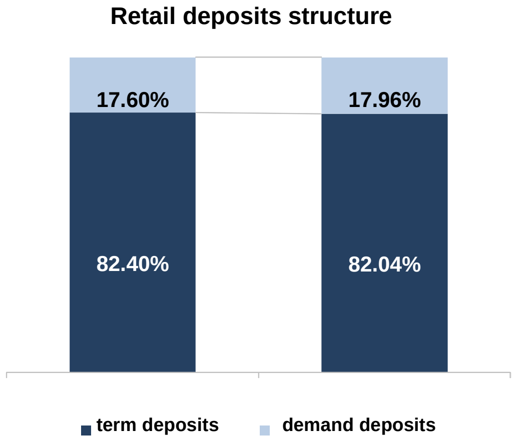
Chart 5: Retail deposits



Deposit structure changed somewhat compared to previous year, with demand deposits taking up a slightly higher share of 17.96% and term deposits accounting for 82.04%.

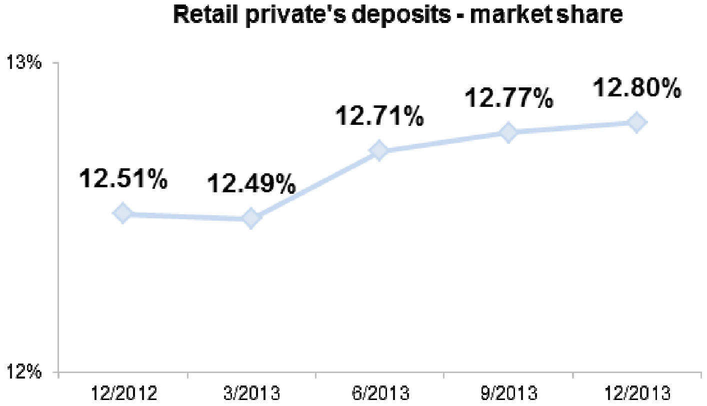
3.3. Deposits in 2013 (continued)

3.2. Chart 6: Retail deposits structure



Erste Bank increased its market share in retail deposits segment in 2013 from 12.51% to 12.80% as a result of increase in the segment of transactional accounts and especially in the segment of term deposits higher than market average.

Chart 7: Retail privates' deposits – market share



Total corporate deposits amounted to HRK 9.44 billion on December 31, 2013 and increased by 11.76% compared to HRK 8.45 billion on December 31, 2012. Term deposits amounted to HRK 4.18 billion on December 31, 2013 and decreased by 16.76% compared to previous year. At the same time, demand deposits amounted to HRK 5.26 billion on December 31, 2013 and increased by 53.56% compared to previous year. Accordingly, the Bank's total market share in corporate deposits increased from 12.85% at YE 2012 to 13.54% at YE 2013.

3.3. Deposits in 2013 (continued)

Chart 8: Corporate division – deposit structure

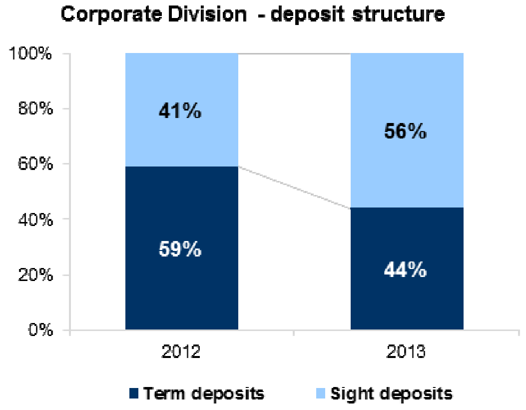
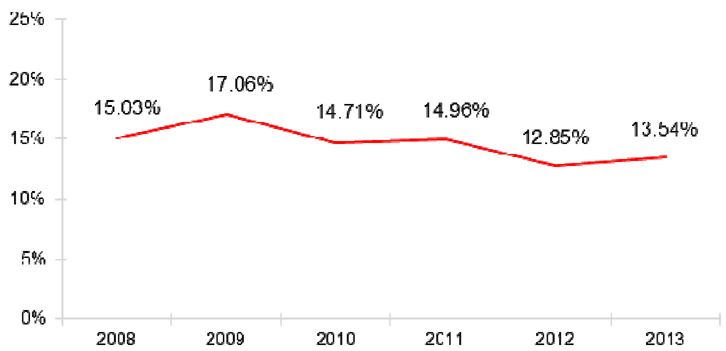


Chart 9: Corporate division – deposits market share



3.4. Retail and corporate products and services of the Bank in 2013

When introducing new products and services and modifying existing ones, Erste Bank continued to focus on customer care, including adequate financial support, flexibility and innovativeness.

Retail customers

In response to specific needs of retail customers with below-average incomes, Erste bank introduced Mini cash loans, making credit products more accessible to this particular customer category.

3.4. Retail and corporate products and services of the Bank in 2013 (continued)

The first Erste Maestro PayPass Display Debit Cards were also issued in the first half of the year. The new card is used for safer login to electronic banking services, transaction authorisation and safer online shopping while keeping all existing functionalities such as ATM cash withdrawal and POS payment, including contactless payment. This innovative product offers customers quicker, simpler and safer everyday transactions and contributes to competiveness of the bank's current account.

In the second half of the year the Bank made new improvements to its VIP customer service models by introducing Erste Gold and Erste Gold+ current account packages that offer customers the use of several different products and services by Erste Bank and its partners for a single price.

Erste Bank already offered use of Dynamic Currency Conversion (DCC) services for Maestro and MasterCard cards, but now the Bank introduced this feature for VISA cards as well in the second half of the year. DCC service is especially interesting in tourist season because it allows foreign customers much simpler and much more transparent cash withdrawal at Erste Bank's ATMs by immediately informing them of the amount deducted from their accounts in their card's original currency.

Small businesses

Automatically calculated limits were introduced in mid-2013 to allow faster response to customers' needs in form of short-term loan products available within 24 hours with minimum mandatory documentation. Overdraft, revolving loans and working capital loans are available to clients within defined limit.

Microfinance project aimed at self-employment and support of good business ideas, implemented in cooperation with local and regional governments and institutions working on development and business incentives, continued in 2013. A total of 84 projects worth a total of HRK 6.1 million were approved in Microfinance project since early 2011.

Cooperation with South East Europe's leading fruit producers, buyers and sellers and active cooperation with ministries, counties, local governments and self-governments, towns and development agencies continued in 2013 through various SME crediting programmes.

Corporate customers

The Bank continues to closely monitor the market and to offer its customers competitive and attractive financing terms. We wish to provide full support to our customers in all segments and cycles of their business by continually improving service quality and our offer of products and services with new benefits. 2013 was characterised by cooperation with local and international financial institutions resulting in new credit lines and more attractive funding terms for our customers.

Economic Development Programme that attracted a considerable amount of interest among customers and banks alike, offering more advantageous sources of working capital loans, continued in 2013. Agreements on business cooperation based on risk sharing models, in which Croatian Bank for Reconstruction and Development (HBOR) shares credit risk with the commercial bank, were signed in late 2012 and lending under this model started in 2013.

3.4. Retail and corporate products and services of the Bank in 2013 (continued)

An agreement on a new credit line was also signed with European Investment Bank (EIB) in late 2012 and use of the programme intensified in 2013. This EUR 50 million credit line is meant to finance permanent working capital as well as investment projects. A component for energy efficiency projects is also available in EIB's credit line, supporting investments in production process modernisation and improvement of energy efficiency of buildings. This line offers EU grants for loan principal amounting to 15% as well as free consultant services.

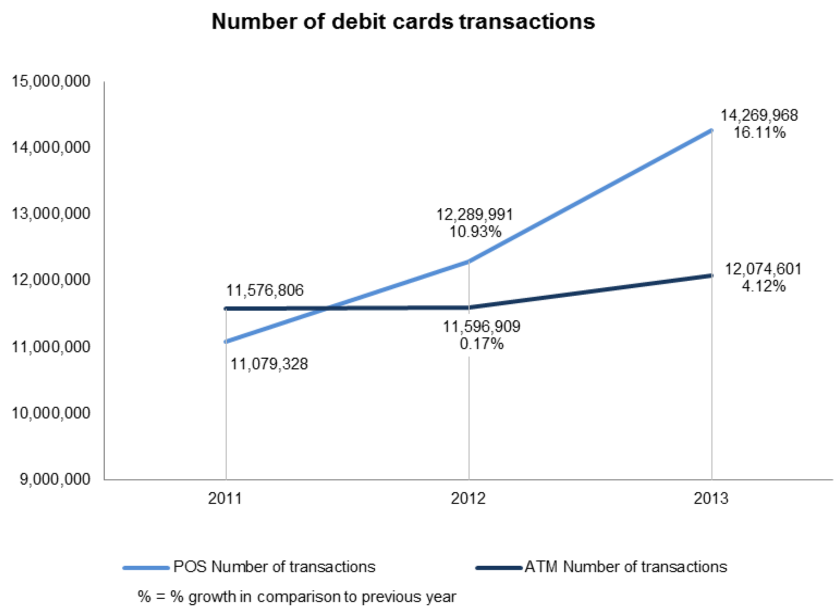
To offer more attractive forms of financing to almost all of its customers, Erste Bank signed an agreement with European Bank for Reconstruction and Development (EBRD) in the last week of 2012. The line worth a total of EUR 40 million is intended for almost all forms of short-term and long-term financing. A half of this amount was used in course of the year, 40% of it for short-term financing and 60% for the most part for long-term working capital financing. We expect remaining funds to be used in the first quarter of 2014. Negotiations with EBRD were opened in 2013 about a new component including financing of energy efficiency projects and renewable energy in private and public sector alike. This component, whose full application is expected in 2014, provides customers not only with attractive funding sources, but also with free consultant services and EU grants for loan principal covering 5-15%, which are granted to each successfully implemented project.

In 2013 Erste Bank continued successful cooperation with HAMAG INVEST, giving its clients access to quality insurance instruments in the form of unconditional first demand guarantees.

3.5. Direct banking services

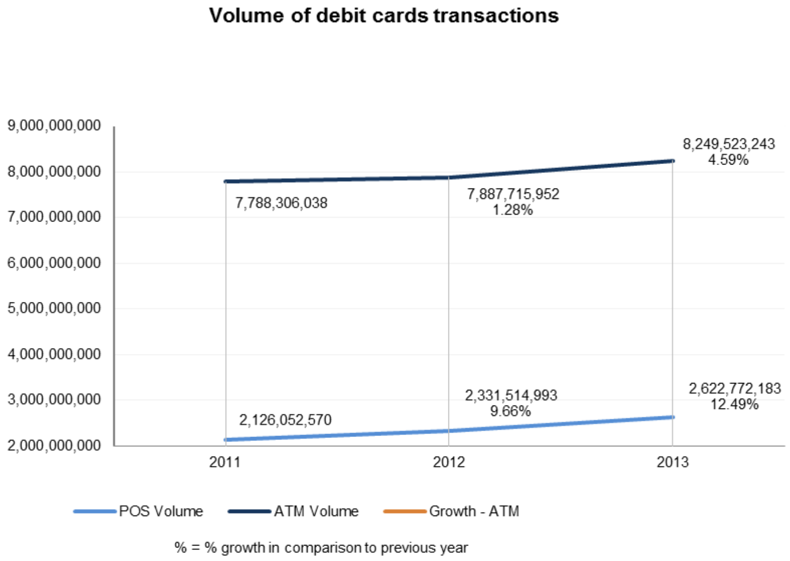
The bank had a total of 768,155 issued debit cards on December 31, 2013, which constitutes a 3.22% increase compared to YE 2012. The number of debit card transactions grew by 10.29% in 2013 and turnover grew by 6.39% compared to previous year.

Chart 10: Number of debit card transactions



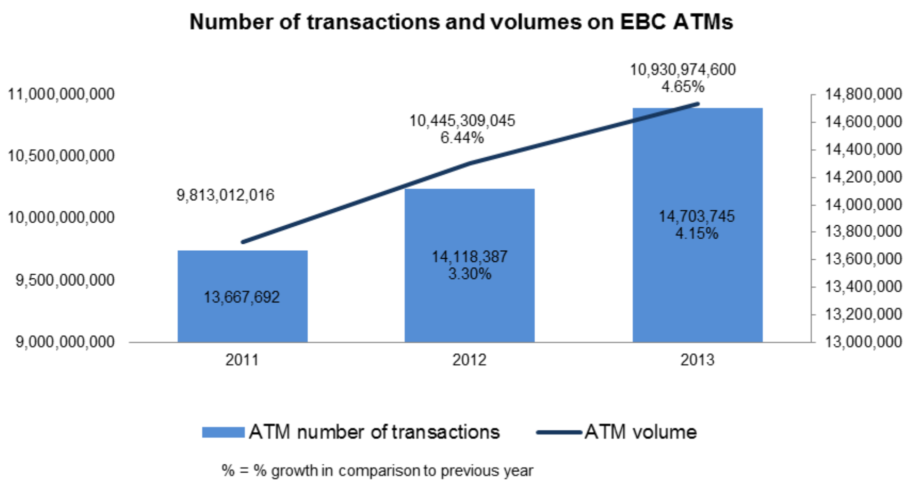
3.5. Direct banking services (continued)

Chart 11: Debit card transaction volume



The bank had 620 installed ATMs at YE 2013. Erste bank's ATMs held a market share of 15.04%[1] on September 30, 2013 and their market share grew slightly (by 0.07%) compared to September 30, 2012.[2] In course of the year 173 ATMs were transferred from Financial Agency FINA to the bank's vaults, which cut service costs dramatically without affecting network monitoring quality. Total ATM turnover in 2013 grew by 4.65% compared to previous year and amounted to HRK 10,930,974,600. The number of transactions grew by 4.15% and amounted to 14,703,745.

Chart 12: Number and volume of ATM transactions



[1] Source: HGK 3Q2013.
[2] Source: HGK 3Q2012.

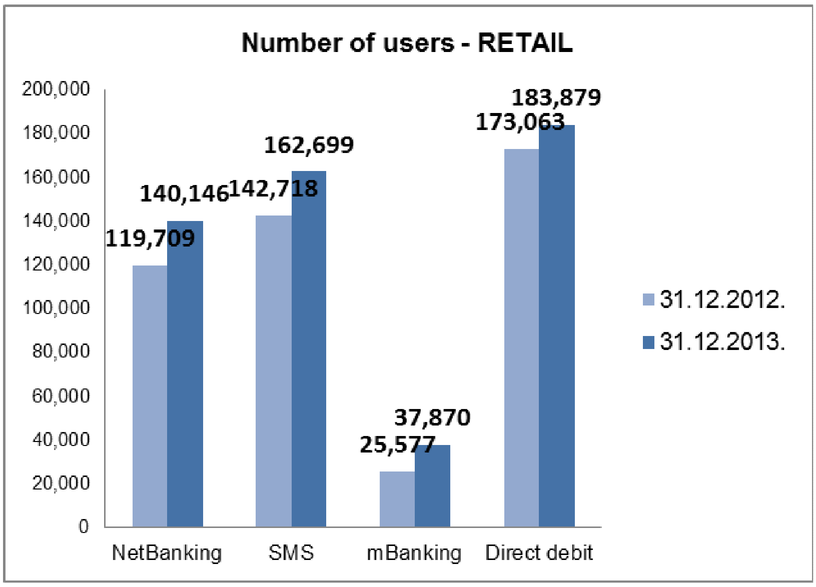
3.5. Direct banking services (continued)

Owners of foreign Maestro/MasterCard/Visa cards (with accounts tied to CHF, EUR and USD) performed 568,770 Dynamic Currency Conversion transactions totalling to HRK 677,837,400 on ATMs in course of 2013. Number of transactions increased by 37.95% compared to 2012 and turnover increased by 38.73%.

The number of users of the bank's electronic channels increased by YE 2013. Compared to YE 2012, the number of Erste NetBanking users increased by 17.07% and reached 140,146 at the end of the year. The number of users of Erste FonBanking increased by 33% and reached 38,831 and the number of users of Erste SMS services increased by 14% to 162,699 in the same period. The number of mBanking users increased by 48.06% to 37,870 at YE 2013.

The number of open direct debit mandates increased by 6.25% compared to 2012 and reached 183,879. The number of concluded direct debit contracts also increased by 2.63%.

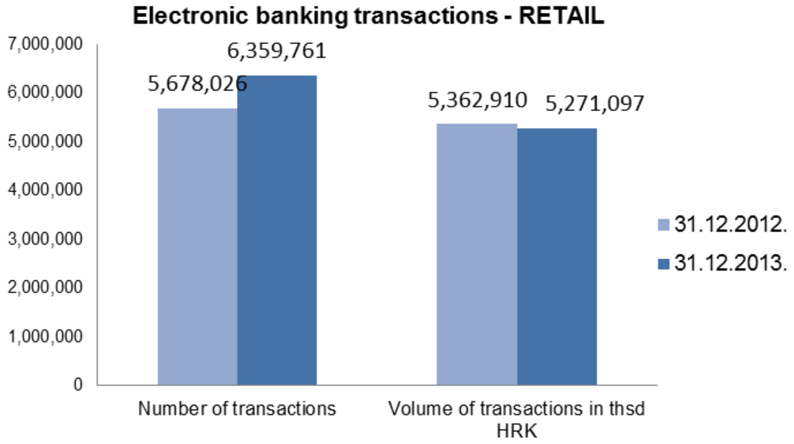
Chart 13: Number of users – retail customers



Retail customers performed 6,359,761 transactions on all electronic channels in 2013, which constitutes an increase of 12.01% compared to 2012. Transaction volume stood at HRK 5,271,097,801 in 2013 and decreased by 1.71 % compared to 2012.

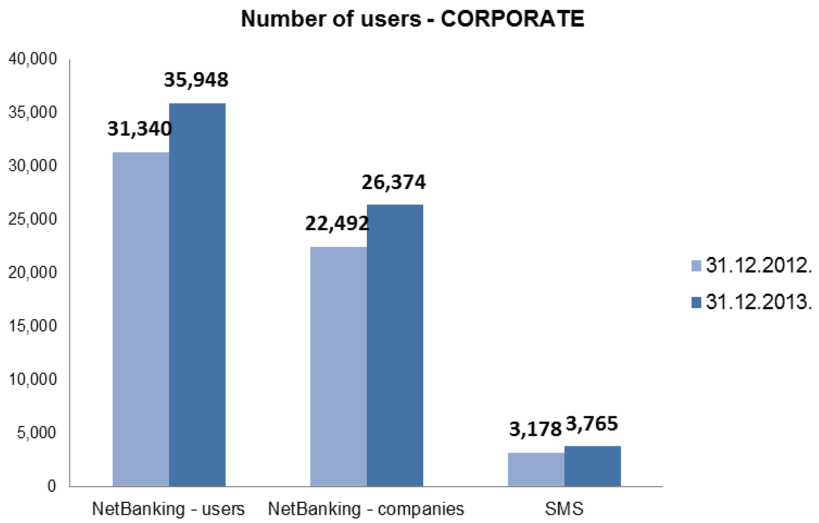
3.5. Direct banking services (continued)

Chart 14: Transactions – retail customers



The number of corporate customers using Erste NetBanking increased by 17.26% to 26,374. The number of users of this service among the bank's corporate customers likewise grew by 14.7% to 35.948. The number of Erste SMS users among corporate customers increased to 3,765 or by 18.47%.

Graf 15: Number of users – corporate customers

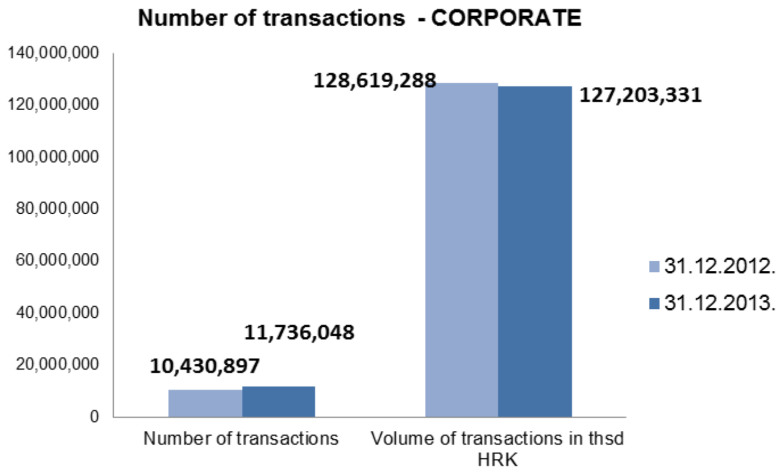


% = % growth in comparison with the last year

Corporate customers performed 11.736,048 transactions using Erste NetBanking and MultiCash services (including HRK and foreign currency transactions), which constitutes an increase of 12.51% compared to 2012. Transaction volume decreased by 1.10% to HRK 127,203,331,538.

3.5. Direct banking services (continued)

Chart 16: Transactions – corporate customers



Here are the highlights of improvement of existing and introduction of new electronic channels in 2013:

- **Display card** – a new card was offered that allows retail customers to log in and sign transactions on NetBanking. It improved security substantially while maintaining simplicity of use.

- **NetPay** – users of this service are able to shop in Kolektiva web shop and in the largest online store, Modus centre

- **Erste kiosk** – network of self-service devices allowing users to perform banking services by themselves was expanded to Cakovec and Opatija in 2013

- **Sales in Contact Centre** – allowed pre-opening of accounts and alternative channels for retail customers and automatic card and PIN order to bank office

The agents of the bank's contact centre had a total of 437,580 contacts in 2013 or 8% less than in 2012. 92% of the total number of contacts were telephone contacts, and the remaining 8% were email and chat contacts. 412,619 Interactive Voice Response (IVR) entries were recorded in the contact centre in 2013, which is 6% more than in 2012.

3.6. Financial markets

Trading overview

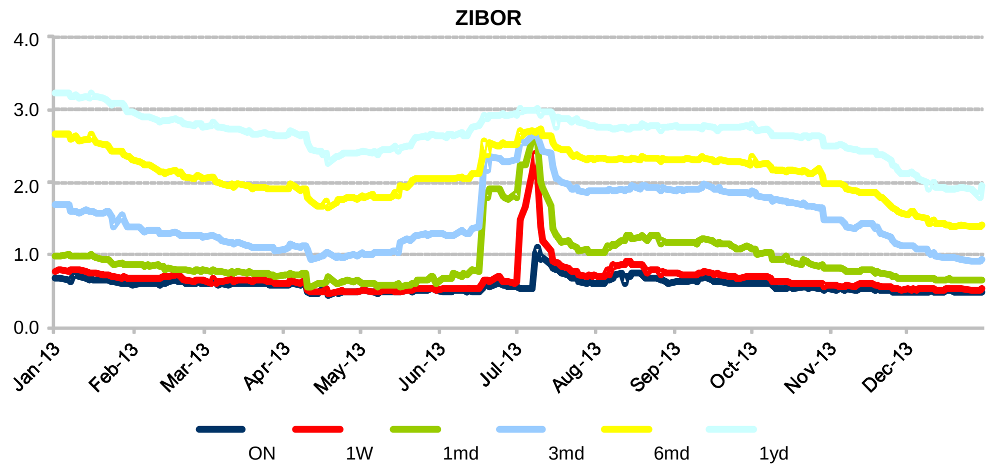
Erste Bank had a 28.2% share in the domestic bonds market in 2013. Strong rise was achieved in T-bills secondary trading market share, from 18% to 41%, along with rise of market share in reverse repo deals with clients to 33%.

In July 2013, the Bank acted as joint lead arranger and underwriter for Ministry of Finance of Republic of Croatia bonds in nominal amount of HRK 2.75 billion (maturity 2018) and EUR 750 million (maturity 2024). In 2013 Erste Bank signed two new market making agreements, with Ledo in early January and with Đuro Đaković holding in October. Total turnover with certificates in 2013 was HRK 170 million, of which Erste Bank as market maker had 93%.

In 2013 Erste&Steiermärkische Bank d.d. received Zagreb Stock Exchange's award for outstanding contribution to capital market development.

Money market

The decline of interest rates at YE 2012 resulted in trend mapping in most of 2013. ZIBOR O/N interest rates ranged from 0.44% to 1.1% with an average of 0.59%. ZIBOR 1M interest rates were in the range from 0.56% to 2.69% with a slightly higher average of 0.96%.



In 2013 Croatian National Bank ensured the stability of interest rates at minimal levels and reached for a series of measures in an attempt to stimulate bank lending and economic growth. Accordingly, interest rate on overnight deposits was reduced in April from 0.25% to 0%, which prevented banks from achieving interest income by providing funds to CNB.

3.6. Financial markets (continued)

In December CNB's Council also adopted a decision reducing the obligatory reserve rate from 13.5% to 12% to provide banks with additional liquidity to finance economic recovery, although liquidity in the system was already very high. In addition, in accordance with the general trend of declining interest rates, the interest rate that the central bank charges for Lombard loans was reduced from 6.25% to 5.00%. Liquidity was not available to banks immediately; instead CNB introduced a system of compulsory CNB bills, in which bank’s lending activity would be rewarded with additional liquidity.

Average surplus of HRK liquidity in 2013 amounted to almost HRK 5 billion, with a range from HRK 420 million to HRK 9.1 billion.

With all CNB’s measures stated above, there was no increase in lending or economic activity, but monetary policy made it possible for Ministry of Finance to fund its short-term needs at much more favourable terms compared to the previous year. Since the beginning of the year a yield decrease has been recorded on all maturities. The yield on HRK treasury bills with 91-day maturity fell from 1.14% to 0.75%, yield on 182-day T-Bills fell from 2.10% to 1.20%, and yield on 364-day T-bills proved most stable, falling from 2.60% to 2.40%. Trend of replacement of EUR debt with HRK debt was observed in addition to yield decline. On average, yields on EUR treasury bills with a currency clause decreased slightly more than yields on HRK treasury bills. Yields on 91-day T-bills with a currency clause fell from 1.0% to 0.45% and yields on 364-day T-bills from 2.0% to 0.70%.

In 2013 the Bank managed its liquidity efficiently. Throughout the year the Bank had no problems meeting its obligations to clients and to the Croatian National Bank. All customer requests and regulatory requirements, such as the reserve requirement and minimally required amount of FX claims, were met.

FX market

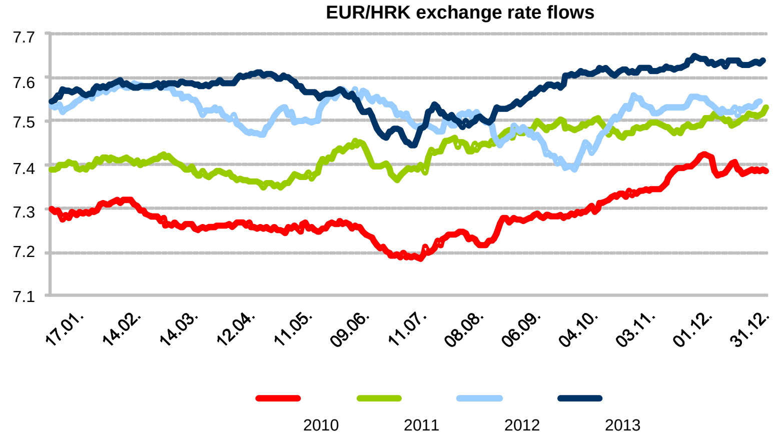
The first quarter of 2013 was marked by HRK depreciation against EUR. After a very quiet first quarter, the second quarter was somewhat more volatile. At the end of the first and the beginning of the second quarter, EUR/HRK exchange rate was influenced by demand of domestic investors for Croatian government bonds denominated in USD, in the amount of USD 1.5 billion. Combined with high HRK liquidity in interbank market, this forced Croatian National Bank to intervene in April, after which Croatian currency recorded continuous appreciation to EUR 7.45 by the end of the second quarter. HRK appreciation was caused by banks’ lending to state-owned companies (currency clause) and expectations of a domestic bond issue. Despite the influx of foreign currencies and enhanced demand for HRK in July and August, no appreciation pressures were observed.

At the beginning of July, the EUR/HRK exchange rate was around 7.45. High demand of institutional investors for EUR was caused by closing of their outright positions, which annulled the effects of tourism. At the end of August, HRK was worth around 7.55 EUR. The inflow of foreign currencies decreased with the end of the tourist season and HRK gradually depreciated, falling to EUR 7.60 in September.

At the beginning of the third quarter a period of slight weakening of the domestic currency began. HRK depreciation lasted until mid-November, after which the exchange rate stabilised. In this period, HRK fell from EUR 7.55 to 7.65, which resulted in a somewhat higher exchange rate in the second half of the year compared to the first six months.

3.6. Financial markets (continued)

At this level of euro, institutional clients started to sell EUR against HRK in outright deals, which lead to stabilisation of EUR/HRK exchange rate in the narrow range of 7.62 and 7.64 in the last two months of 2013.



The values of other major currencies against HRK followed the trends in global foreign exchange market. CHF became very stabile since the introduction of the downside rate by the Swiss Central Bank and moved within the range of 6.05 to 6.25 HRK and 1.21 to 1.25 EUR throughout 2013.

USD depreciated against HRK in January from 5.80 to 5.60, but the trend changed in the following two months and HRK depreciated to USD 5.95. USD appreciation was the result of the political crisis in Italy and debt problems in Greece, Spain and Cyprus. Very good macroeconomic data from USA also contributed to USD appreciation. HRK appreciated from USD 5.90 to 5.60 in the second quarter. After the politic situation in Cyprus was solved, USD depreciated against HRK. Investors' expectations that ECB might introduce negative interest rates on deposits remained unfulfilled and USD depreciated even more. In the summer USD depreciated against HRK from 5.85 to 5.65 when FED President dismissed the possibility of upcoming tapering. A period of USD appreciation followed, supported mainly by good economic data, primarily from the labour market. USD appreciated against EUR from 1.38 to 1.33, and HRK depreciated against USD from 5.55 to 5.70. The end of the year brought USD exchange rate stabilisation at around EUR 1.36 and HRK 5.61.

Debt securities market

In July 2013, the Bank acted as joint lead arranger and underwriter for Ministry of Finance of Republic of Croatia bonds in nominal amount HRK 2.75 billion (maturity 2018) and EUR 750 million (maturity 2024).

Realized bond arranging transactions continue to position the Bank among the top lead arrangers of debt securities in Republic of Croatia with a market share of 25% in 2013. The Bank thus confirms its strategic orientation on supporting capital market development despite very challenging circumstances.

In addition to bond arranging activities, in August the Bank was engaged in the structuring of the transaction of EUR denominated T-Bill auction of the Ministry of Finance of Croatia in the total nominal amount of EUR 750 million, with a maturity of 18 months and an interest rate of 5%.

3.6. Financial markets (continued)

In June the Bank granted a long-term bilateral HRK loan to the Croatian Ministry of Finance in the amount of HRK 1 billion, maturity 3 years, designed to settle some of the debts of the Croatian Institute for Health Insurance.

In June the Bank prolonged the maturity of the instalment of a domestic long-term syndicated loan to the Ministry of Finance in the total amount EUR 760 million. The maturity of the first instalment of another domestic long-term syndicated loan to the Ministry of Finance in the amount of EUR 500 million was also prolonged in June.

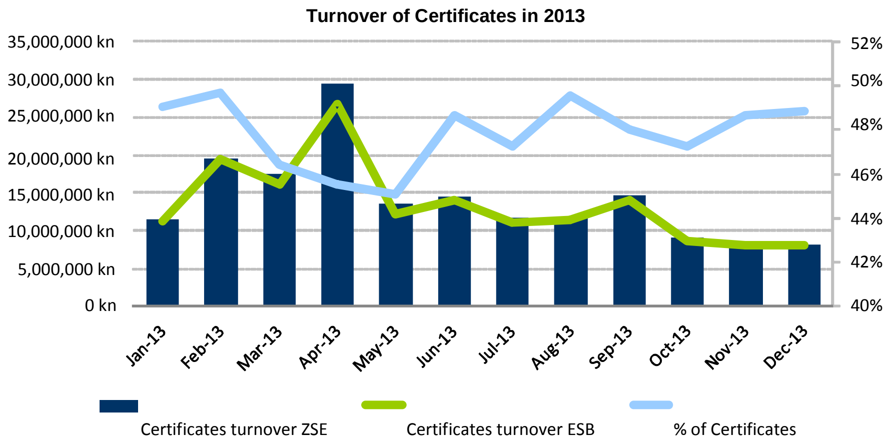
In September the Bank prolonged the majority of the instalment of Ministry of Finance's domestic long-term syndicated loan in the total amount of EUR 750 million.

Equity market

2013 was rife with challenges in the domestic capital market. CROBEX ended the year at 1799.24 points (+3.38%). Turnover of Zagreb Stock Exchange amounted to HRK 3.06 billion and was down by -1.5% compared to 2012.

There were no new releases in the market except Croatian government bonds, but we should mention the Jadrolinija bond listing (JRLN-O-17AA), in which Erste&Steiermärkische Bank d.d. was the underwriter, and Erste&Steiermärkische Bank d.d. bond (RIBA-O-17BA), listed in official market on 04.02.2013.

We must also mention the impact of structured products, which experienced a complete affirmation in 2013 although certificate turnovers in the second half of the year failed.



Custody

Market value of assets under custody in 2013 increased by 21% compared to 2012 and amounted to HRK 6.54 billion on December 31, 2013. The growth was achieved primarily by the increase of the assets of institutional clients as well as by increase of the assets of retail clients. In 2013 the number of transactions with financial instruments increased by 20% compared to 2012. Total number of customer transactions in 2013 was 9.370.

The total income from custody services in 2013 amounted to HRK 7.67 million, which represents an increase of 19% compared to 2012.

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

In 2013 Erste Bank A.D. Podgorica (EBM) maintained a lending growth trend above the local banking market. EBM's market share in total assets at YE 2013 amounted to 11.9% compared to 12.4% at YE 2012, which was a result of early repayment of loans to Erste Group AG due to surplus in liquidity. At the same time, market share in total deposits decreased slightly from 10.6% to 10.3%, while the share in total loans increased from 13.2% to 13.5 %.

Particular focus on increasing lending, risk management and operative efficiency contributed to EBM's profit before income tax in 2013 amounting to EUR 5.08 million, which was by 2.01% higher than in 2012. Net profit amounted to EUR 4.58 million with return on equity (ROE) of 12.7% and return on assets (ROA) of 1.3%.

Total operating income amounted to EUR 22.04 million and increased by 0.07% in comparison to 2012. Net interest income amounted to EUR 19 million and decreased by 2.64% compared to the previous reporting period. Net fee and commission income increased by 20.99% and reached EUR 3.06 million. Provisioning costs decreased by 46.3% compared to 2012. Risk cost coverage of 0.9% was significantly lower than at YE 2012, when it had amounted to 1.8%. NPL coverage rate was high and amounted to 76.65% at YE 2013.

General administrative expenses amounted to EUR 13.67 million and increased by 14.09% compared to the previous year, while cost/income ratio increased from 53.6% to 61%. At the end of the year total assets reached EUR 349.96 million and increased by 0.45% in comparison to 2012. Net loans to customers increased by 5.27% compared to 2012 and amounted to EUR 259.41 million. Retail loans accounted for EUR 133.61 million and corporate loans for EUR 125.80 million.

EBM affirmed its commitment by increasing its market share in the segment of granted loans and advances in the year characterized by providing advisory and financial assistance to retail and corporate customers and by migration to a new IT system. EUR 50.186 million was granted in Retail Division through 9,935 loan arrangements. Cash loans (80.08%), housing loans (6.35%), micro/agriculture loans and loans for their refinancing (5.37%), as well as mortgages and home improvement loans (5.30%) had the largest share in total disbursements. Customers remained focused on standard retail products in line with the Bank's strategy in the field, so that core retail products accounted for 94.63% of total lending in 2013. Market share in retail loan portfolio decreased slightly to 16.24%.

In SME/Corporate division, loan portfolio increased by 8.78% compared to 2012, while market share increased to 11.42%. A lot of effort was invested in bringing new clients, particularly market leaders. Additional effort was put into retail and corporate division's joint approach aimed at attracting new companies and their employees during the year.

3.7. Business results of Erste Bank A.D., Podgorica, Montenegro, subsidiary of Erste&Steiermärkische Bank d.d. (continued)

In 2013 total deposits from customers increased by EUR 6.15 million (2.80%) and amounted to EUR 226 million at YE 2013, out of which retail deposits accounted for EUR 144.67 million and corporate and public sector deposits for EUR 81.32 million. The increase in both retail and corporate deposits is indicative of growing customer trust in EBM and the banking sector in general.

Accomplished results are even more impressive considering that they were accomplished under very difficult business conditions at local level. EBM worked simultaneously on remodeling the existing branch offices to meet Erste Group's standards and on expanding its client base. EBM operates a network of 16 offices throughout Montenegro and served more than 70,000 clients by YE 2013.

EBM will continue to analyze the market's needs and develop targeted products and services to provide its clients with the best support. The bank will develop existing products and services and continue to provide a high level of professional service to its growing number of clients, while taking into account the best interests of its employees, community and shareholders.

3.8. Business operations of subsidiary Erste Card Club d.o.o.

Consolidated net profits amounted to HRK 93.7m, up 1.2% compared to 2012, where the losses of Erste Card Slovenia d.o.o. (EC Slovenia) amounted to HRK -2.7m. Stand alone net profits of Erste Card Club d.o.o. (ECC) amounted to HRK 96.6m, up 2.7% compared to 2012. Consolidated operating result in 2013 amounted to HRK 177m and was down 2.9% on account of consolidation with Slovenia, while ECC's stand alone operating result amounted to HRK 192m, up 4.0% compared to 2012.

The structure of operating income includes net interest income accounting for 52% and net fee and commission income accounting for 48%, which is different compared to 2012 when the ratio was 50:50. Lower net fee and commission income was the result of cancelling income from dunning notices in July 2012.

Consolidated net interest income amounted to HRK 191.7%, up 3.4% owing to the growth of loan portfolio and the volume of cash withdrawals, as well as consolidation with EC Slovenia. The income from cash loans to private clients continues to decline—as a result of the Ministry of Finance's decision from 2011 interest expenses are lower owing to the decline of market interest rates (3-month EURIBOR: 2013 0.225 vs. 2012 0.574). Consolidated net fee and commission income amounted to HRK 176.1m, down 4.6% compared to 2012.

On account of consolidation with Slovenia, risk provisions in 2013 amounted to HRK 65.6m and were up by HRK 1.3m compared to 2012, while ECC's stand alone provisions amounted to HRK 63.9m, remaining at the same level as in 2012. General provisions on the worst performing ratings were introduced in 2013, amounting to HRK 5.9m.

3.8. Business operations of subsidiary Erste Card Club d.o.o. (continued)

Net trading result amounted to HRK 2.9m in 2013, as a result of investment policies and FX developments. Consolidated general administrative expenses amounted to HRK 192.9m in 2013, up 1.6% compared to 2012 as a result of consolidation with EC Slovenia (HRK 16.2m). ECC's stand alone general administrative expenses amounted to HRK 174.5m, down -7.3% compared to 2012. In 2013, there was a reduction of salaries and related expenses, expenses for postal services, office space, temporary hiring and graphics services.

ECC's total consolidated assets amounted to HRK 3,777m as of December 31, 2013, up 11% compared to 2012.

Loans and receivables from customers and financial institutions amounted to HRK 3,525m, up 6% compared to 2012 as a result of increased loans and deposits as well as the consolidation with Slovenia (HRK 99.3m). ECC's stand alone advances to customers amounted to HRK 1,733m, accounting for 47% of total assets, and were up 0.9% primarily as a result of the rise of revolving products and instalment purchases. Charge receivables amounted to HRK 709m, accounting for 19% of total assets, and were up 3% compared to 2012. Receivables value adjustment amounted to HRK 541.6m, up 14% compared to 2012 as a result of a rise in non-performing loans alongside a simultaneous increase in efficiency and collection income. Financial assets held until maturity, referring to financial instruments for hedging operations, amounted to HRK 221.5m, up by HRK 146m compared to 2012 on account of higher treasury bills balance (EUR 29m as of December 31, 2013 compared to EUR 10m on December 31, 2012).

Trading assets, referring to investments in investment funds, amounted to HRK 179m and were 8% lower compared to 2012. Financial assets available for sale included investments in bonds. They amounted to HRK 158.9m in 2013, up by HRK 32.3m compared to 2012.

Consolidated liabilities to credit institutions amounted to HRK 2,639m as of December 31, 2013, up 8.8% compared to 2012. Liabilities to vendors amounted to HRK 497.1m, up 15% on account of consolidation with EC Slovenia (HRK 60.1m) and a increase in turnover (ECC acquiring +9.4 y-o-y). Total equity amounted to HRK 536m in 2013, up 14.8% compared to 2012. In 2013, a dividend amounting to 25% of 2012 net profit was paid out.

Realized return on equity (ROE) was 18.69% in 2013, down 14% compared to 2012. ROE was at an expected level considering the effects of consolidation with DCBH and EC Slovenia. Return on assets (ROA) was 2.66%, down -6% compared to 2012 on account of consolidation with EC Slovenia (HRK -2.7m in losses in 2013). Return on investments (ROI) stood at 8.60%, up 1% compared to 2012. Consolidated cost/income ratio grew 2% compared to 2012, to 52.04%. ECC's stand alone cost/income ratio fell 6% compared to 2012, amounting to 47.68% as a result of a 7.3% decrease in general administrative costs.

Total number of cards (CIF) issued by ECC stood at 510,164 as of December 31,2013, up 0.5% compared to the previous year. During 2013 ECC sold 57,572 cards while the number of ECC users grew 4.1% compared to 2012.

3.8. Business operations of subsidiary Erste Card Club d.o.o. (continued)

The total ECC issuing turnover rose +1.0%, with a market share of 23.45[3] (+13 bps compared to September 30, 2012), while acquiring turnover rose +9.4% with a market share of 12.70%[4] (+52 bps compared to September 30, 2012). Owing to an intensive expansion of the EFT POS network, acquiring turnover of Visa and MC cards was 44.7% higher in 2013 compared to 2012. Owing to an intensive expansion of the EFTPOS network, acquiring turnover of Visa and MC cards was 44.7% higher in 2013 compared to 2012.

Total number of EC Slovenia cards amounted to 44,924 as of December 31, 2013, of which 5,012 cards were sold, while EC Slovenia's total turnover amounted to EUR 23.3m.

3.9. Performance of Erste Factoring d.o.o., subsidiary of Erste&Steiermärkische Bank d.d.

Erste Factoring d.o.o. (EF) reported a remarkably successful result at the end of the challenging year 2013. EF recognises existing market environment as a business opportunity for further growth and as a challenge inspiring the company to pursue the best possible final result and consolidate its market leader position.

Return on assets amounts to 2.1%, having increased in comparison with 1.4% in 2012. Return on equity also increased from 32.5% to 39.8%. Net profit amounts to HRK 70.3 million and increased by 61% year-on-year. Net profit per employee also increased by 63% and amounts to HRK 3 million. EF kept its position of factoring market leader. Croatian Financial Supervisory Agency (HANFA) published the results as of September 30, 2013 showing that EF holds 44% share in total assets of all factoring companies in Croatia.

Factoring is in highest demand among large customers and corporations because payment terms are the longest in this segment. SME customers seek this form of financing less often. Growing illiquidity of the economy was an additional incentive for customers to choose factoring as a form of alternative financing. Croatian law under which companies are required to settle their debts within 60 days also contributes to factoring business. Despite slight decrease of exposure to customers, increase of net interest revenue was observed in 2013. The increase is mainly due to increase of fee income and decrease of interest expenses for EF’s loans. Net interest margin also increased from 3.6% to 3.7%.

Operating result was higher by HRK 12.9 million (+11%) year-on-year due to increase of net interest income (2012: HRK 109.5 million; 2013: HRK 122.4 million), as a result of increased turnover, increase of average exposure, and decrease of general administrative costs and employee costs.

The factoring market is not currently regulated by a specialised factoring act which, as announced, should be adopted in 2014. Adoption of the factoring act will establish a single legal framework for the factoring business, facilitate monitoring and supervision of factoring companies, and help users of factoring companies’ services protect their rights. Despite market turbulences, Erste Factoring will focus its efforts on maintaining its position of factoring market leader.

3 HGK, latest data avalable as of September 30, 2013.
4 Ibidem

4. SOCIAL RESPONSIBILITY

4.1. The Bank as corporate citizen

Erste Bank has a long tradition of donations and corporate social responsibility (CSR) programmes, supporting and promoting various segments of the society. The Bank supports a wide array of humanitarian, educational, cultural and sports institutions in Croatia, paying special attention to specific regional characteristics and local needs.

I. Retail

In retail division the Bank continually offers our customers products that are somewhat more advantageous than market average, and undertakes other activities to get as close as possible to existing and potential customers and the broader community in which it operates. The Bank also offers special microfinance lines to persons with good business ideas, offers loans promoting employment, and organises special trainings and workshops for its customers, including financial literacy workshops organised in cooperation with Croatian Banking Association (HUB). The Bank pays special attention to its special needs customers in the design of its offices, making sure that they have equal access to financial products and services.

a) Microfinancing

In cooperation with good.bee Holding, Erste Bank is implementing advantageous microfinancing projects for persons with good business ideas who do not have access to classic bank lending. In such operations the emphasis is not only on advantageous financial support, but also on education, mentoring and consulting.
Funds are made available to budding entrepreneurs with good ideas, which they develop and refine throughout the process, but also to existing entrepreneurs who have been in the market for up to two years and need additional funds to develop their existing business projects. After the screening, entrepreneurs with good and sustainable projects are given free training and then decide if they want to apply for advantageous funding and submit required documentation.

Erste Bank's Microfinance project started in 2011 with a pilot project in Osjecko-baranjska and Vukovarsko-srijemska counties and spread to a number of other counties in the years to come. In 2013 Microfinance project was implemented in seven counties and two other Croatian towns. 50 projects worth a total of HRK 3.8 million were financed. Supported projects in 2011 included a traditional Croatian restaurant, a producer of custom made furniture for all building types, a taxi company using electric cars, and many others. A total of 84 projects worth HRK 6.1 million were approved in Microfinance project since 2011.

Erste Bank provides not only free trainings and more accessible funding, but also project mentoring over two years based on its knowhow and experience, thus giving entrepreneurs access to information they need to run their business successfully and overcome potential difficulties. This project is particularly attractive to entrepreneurs who do not fit into standard bank lending models, usually because they have no classic insurance instruments.

4.1. The Bank as corporate citizen (continued)

Erste bank wishes to promote self-employment through successful continuation and implementation of such projects and to set the terms for the development of a long-term corporate responsibility model at local level in micro entrepreneurship segment.

b) Loans promoting employment

Unemployment is one of Croatia's burning issues. In an attempt to contribute to its solution, increase the number of new jobs and encourage new projects, the Bank is offering a special line of loans offering incentives for new employment. This credit line is characterised by a lower interest rate for companies that hire a certain number of new employees. The interest is lowered even more for exporters who hire new employees (by 0.2 additional percentage points). If a business takes out an investment loan worth EUR 200,000, its interest rate will be lowered by 0.2 percentage points if it hires one person and by a whole percentage point if it hires more than five persons. Interest rates for exporters will be lowered by 0.4 pp and 1.2 pp, respectively.

II. Employees

The Bank strives to provide all its employees with adequate working environment and tools as well as with professional training. In addition to numerous training programmes, all employees can choose supplemental health insurance and participate in preventive vaccination programmes at the bank's expense, such as the flu programme. The Bank also organises corporate volunteering programmes for its employees to help them build social awareness and empathy for underprivileged community members.

III. Society and community

In the society and social community segment, the Bank provides financial support to a number of fund-raising and sponsorship campaigns in the community every year, paying special attention to specific local needs. The bank spends around HRK 7 million on donations and sponsorships every year, helping numerous fund-raising projects for hospitals, sports clubs, children and youth programmes, cultural institutions and others.

The Bank takes an active part in corporate responsibility projects and continuously supports fund-raising and community projects and institutions. Some of many recipients of the Bank's donations in 2013 include SOS Children's Village Croatia, support organisation for children suffering from malignant diseases and their parents "Krijesnica", Croatian Guide Dog and Mobility Association, senior citizen aid organisation "Pomoc starijim osobama", support organisation for parents of children diagnosed with and treated for malignant diseases "Sanus", Children's Hospital Zagreb, General Hospital Bjelovar, and many nursery and primary schools nationwide.

Upon inquiry, the Bank also donates written-off equipment that is still usable and in good condition (IT equipment, furniture etc), but is no longer used by the bank due to new office furnishing standards or similar reasons.

4.1. The Bank as corporate citizen (continued)

The Bank sponsored a number of sports clubs in 2013, including water polo club Primorje Erste Banka, sand volleyball club Erste Zagreb, Croatian Shooting Federation, Handball Club Petrinja, Basketball Club Kvarner, Handball Club and Football Club Bjelovar, Croatian Academic Handball Club, Croatian Table Tennis Association, and many others.

We take special pride in our sponsorships of cultural projects and institutions, such as International Small Scenes Theatre Festival, Tvornica kulture Zagreb, tourist event Terezijana in Bjelovar, Motovun Film Festival, music festival Osor Music Evenings, outdoor science popularisation even Science Picnic, performance “Kapulica ni na nebu ni na zemlji” and many others.

a) Erste Fragments – Erste Bank’s art connection

Erste Fragments, a project designed by Erste Bank to help aspiring artists younger than 30 by buying their artwork and offering rewards for best artwork, special Facebook awards, and one-year scholarships for a young artist have been organised nine times so far. Exhibitions featuring purchased artwork give young artists an opportunity for additional promotion, and visitors and critics get the chance to see works by young Croatian authors, a sort of a cross-section view of the artwork of the new generation.

Erste Bank’s relationship with art is based on the Bank’s business strategy in sponsorships and donations segment, which is closely tied to culture and youth. In line with this strategy, the Bank publicly invites tenders for artwork every year, attracting an increasing amount of interest every year, and confirming that young artists in Croatia can use all the help they can get.

b) “Give me PET” project

“Give me PET” project (the name is a pun not fully translatable to English, as Croatian word for “five” is homophonous with “PET”) is one of the banks most important projects, started back in 2011 at the initiative of the Bank’s employees. The Bank has an internal programme called “Baltazar”, designed to encourage innovation among employees, and “Give me PET” project is one of its products. The project includes collection of PET packaging at Erste’s business centres in Zagreb and Bjelovar in cooperation with the Association for Promoting Inclusion. Bank employees collect empty beverage bottles and Association members take them to recycling and finance some of their needs with the proceeds. Erste Bank thus makes a double contribution to the community: not only does it help recycle large amounts of PET bottles, which is an environmentally friendly act, but also helps underprivileged members of the community – persons with mental disabilities who have a hard time finding employment – earn an income.

c) “Stepping into Life”

The Bank joined Rotary Club Zagreb’s project “Korak u zivot” (“Stepping into Life”) in 2010 with other members of Erste Group in Croatia. The project provides parentless children with scholarships to allow them to go to college. The Bank and other Group members have provided scholarships for eight students for the entire duration of their studies (five years).

4.1. The Bank as corporate citizen (continued)

IV. Environment

a) Office design

Erste Bank aims for the best and most sustainable business processes in the segment of environment and interior design. The Bank uses energy saving light bulbs and LED posterboxes in its everyday operations, makes an effort to recycle as much paper as possible, and strives to heat and air-condition its buildings in an efficient and environmentally friendly way, using eco friendly gas and regularly maintaining equipment to extend its useful life.

b) Financing energy efficiency

In addition to all its environmentally friendly programmes, the Bank has also designed several products aimed at financing energy efficiency, so-called “eco loans”**,** available to retail and corporate customers alike, which promote clean and renewable energy.

5. CORPORATE GOVERNANCE PRINCIPLES IMPLEMENTATION

Erste&Steiermärkische bank d.d. (hereinafter: the Bank) pays special attention to corporate governance as the most significant determinant of its operations, which gives an impetus to the Management Board, the managers and the Supervisory Board in achieving interests and protecting both its shareholders and the Bank as a whole. In order to establish high standards and achieve good rate governance, transparency in operations as the basis for the protection of shareholders, investors and other holders of interest, as well as to take care of employees and to support sustainable development and environment protection, the Bank applies Corporate Governance Principles (hereinafter: the Principles) adopted in 2009 to its business. The Principles are based on positive regulations of the Republic of Croatia and they ensure strategic governance of the Bank, efficient supervision over management and responsibilities of the Management Board and the Supervisory Board towards the Bank, its employees, clients and other interested parties; the Principles are published on the Bank's official website.

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

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

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

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

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

(a) risks monitoring function,

(b) compliance monitoring function, and

(c) internal audit function.

5. CORPORATE GOVERNANCE PRINCIPLES IMPLEMENTATION (CONTINUED)

The Bank's share capital, fully subscribed, amounts to HRK 1,698,417,500.00 and is divided into 16,984,175 ordinary shares issued in dematerialized form, each in the nominal amount of HRK 100.00, registered with the Central Depositary and Clearing Company under »RIBA-R-A« mark. The company ESB Holding GmbH holds all the Bank's shares.

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

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

On June 10, 2013 the Bank held its regular General Meeting at which a decision was made on the use of the Bank’s profit achieved in 2012. A part of net profit in the amount of HRK 336,475,676.85, that is, 69.71% was allocated to the retained earnings. The remaining amount of HRK 146,233,746.75 or 30.29% was allocated for shareholders’ dividend or 8.61% of share’s nominal value, which amounts to HRK 8.61 per share. The shareholders were paid dividend on 10 July 2013.

Besides this decision, decisions on granting discharge to the members of the Management Board and the Supervisory Board of the Bank for their work in 2012 were also made, as well as the amendments of the Articles of Associations.

As like as in previous years, Ernst & Young d.o.o. was appointed as the Bank’s auditor for 2013.

Besides above mentioned regular General Meeting, in 2013 two irregular General Meetings were held, first on March 22, 2013 and second on September 25, 2013.

At the General Meeting, held on March 22, 2013, decisions on amendments of the Articles of Association of the Bank and on the election of the Supervisory Board member, Mr. Hannes Frotzbacher, were made, while on the General Meeting held on September 25, 2013, the Policy for the Bank Supervisory Board Members Selection and Suitability Assessment was adopted.

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') and International Accounting Standards ('IAS') as published by IASB and adopted in the EU, 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 2014

Building a better working world

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Erste & Steiermärkische Bank d.d.
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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 2013 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 34 to 147).

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 as adopted in the European Union, 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 judgment, 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.

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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 2013, their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Report on Other Legal Reporting Requirements

1) 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 148 to 165, and which contain a balance sheet as at 31 December 2013, 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 as adopted in the European Union, 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 adopted in the European Union as presented on pages 34 to 147 and are based on underlying accounting records of the Bank.

2) Management Board of the Bank has prepared Annual report as set out on pages 1 to 30. The Management Board is responsible for the preparation of the Annual report in accordance with the Croatian Accounting Law and for its accuracy. Our responsibility is to perform procedures we consider necessary to reach a conclusion on whether the Annual report is consistent with the audited financial statements. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Bank and the Group. In our opinion, the accounting information presented in the Annual report of the Bank and the Group for the year 2013 is in consistent, in all material respects, with the audited financial statements for that year which are presented on pages 34 to 147.

Ernst & Young d.o.o.

ERNST & YOUNG
d.o.o.
Zagreb, Radnička cesta 50

Zagreb, 05 March 2014

Income statement

For the year ended 31 December 2013

(All amounts are expressed in HRK million)

	Notes	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Interest income	5	3,601	4,096	3,016	3,502
Interest expense	6	(1,587)	(1,997)	(1,426)	(1,821)
Share of profit of associates	25	3	4	-	-
Net interest income		**2,017**	**2,103**	**1,590**	**1,681**
Fee and commission income	7	728	680	500	447
Fee and commission expense	8	(177)	(159)	(147)	(131)
Net fee and commission income		**551**	**521**	**353**	**316**
Net trading income	9	154	146	149	137
Net operating income		**2,722**	**2,770**	**2,092**	**2,134**
Personnel expenses	10	(497)	(543)	(364)	(411)
Other administrative expenses	11	(450)	(447)	(308)	(316)
Depreciation of property and equipment	26	(50)	(53)	(30)	(34)
Amortization of intangible assets	27	(23)	(19)	(16)	(16)
General administrative expenses		**(1,020)**	**(1,062)**	**(718)**	**(777)**
Other operating result	12	(248)	(134)	(206)	(74)
Result from financial assets - Available for sale		(2)	59	1	59
PROFIT BEFORE PROVISION FOR IMPAIRMENT LOSSES AND INCOME TAX		**1,452**	**1,633**	**1,169**	**1,342**
Provision for impairment losses	13	(1,189)	(890)	(1,079)	(744)
PROFIT BEFORE INCOME TAX		**263**	**743**	**90**	**598**
Income taxes	14	(62)	(147)	(22)	(115)
NET PROFIT FOR THE YEAR		**201**	**596**	**68**	**483**
Net profit attributable to:					
Equity holders of the Bank		**184**	**585**		
Non-controlling interest		**17**	**11**		
EARNINGS PER SHARE					
Basic and diluted (HRK)	37	**10.83**	**34.45**		

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

Statement of comprehensive income

For the year ended 31 December 2013

(All amounts are expressed in HRK million)

		GROUP		BANK	
	Notes	**2013**	**2012**	**2013**	**2012**
NET PROFIT FOR THE YEAR		**201**	**596**	**68**	**483**
Other comprehensive income					
Net gain/(loss) on financial investments available for sale		7	345	1	311
Exchange differences on translation of foreign operations		3	1	-	-
Actuarial gains/(losses)		2	(1)	2	-
Income tax on other comprehensive income	15	(2)	(67)	-	(62)
Total other comprehensive income for the year, net of tax:	16	**10**	**278**	**3**	**249**
Total comprehensive income for the year, net of tax		**211**	**874**	**71**	**732**
Total comprehensive income attributable to:					
Equity holders of the Bank		**194**	**863**	**-**	**-**
Non-controlling interest		**17**	**11**	**-**	**-**

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

Statement of financial position

For the year ended 31 December 2013

(All amounts are expressed in HRK million)

	Notes	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
ASSETS					
Cash and balances with central banks	17	7,949	7,757	7,695	7,459
Amounts due from other banks	18	3,021	2,865	2,524	2,507
Reverse repurchase agreements	19	838	683	1,002	899
Receivables on financial derivative transactions	20	86	114	86	113
Financial assets held for trading	21	303	250	125	56
Loans and advances to customers	22	46,426	45,348	39,912	38,844
Financial investments available for sale	23	6,364	6,135	6,146	5,956
Financial investments held to maturity	24	768	813	499	685
Investments in subsidiaries and associates	25	39	68	1,272	1,300
Property and equipment	26	665	704	348	386
Intangible assets	27	746	740	37	47
Investment property	26	20	1	20	-
Deferred tax assets	14	191	172	37	38
Other assets	28	438	241	422	229
Total assets		**67,854**	**65,891**	**60,125**	**58,519**
LIABILITIES					
Amounts due to other banks	29	22,680	22,906	16,652	16,830
Repurchase agreements	19	974	1,490	647	1,369
Payables on financial derivative transactions	20	89	148	89	147
Amounts due to customers	30	34,824	32,190	34,175	31,618
Issued bonds and other borrowed funds	31	349	362	302	303
Current tax liabilities	14	17	15	-	-
Deferred tax liabilities	14	11	19	-	-
Other liabilities	32	449	438	324	325
Provisions	33	211	136	191	116
Subordinated debt	34	881	878	858	848
Total liabilities		**60,485**	**58,582**	**53,238**	**51,556**
Shareholders' equity					
Share capital	35	1,698	1,698	1,698	1,698
Share premium	35	1,802	1,802	1,802	1,802
Retained earnings		3,529	3,491	3,133	3,212
Other reserves		205	195	169	166
Other capital reserves	36	85	85	85	85
Equity attributable to equity holders of the Bank		**7,319**	**7,271**	**6,887**	**6,963**
Non-controlling interest		50	38	-	-
Total equity		**7,369**	**7,309**	**6,887**	**6,963**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**67,854**	**65,891**	**60,125**	**58,519**

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

Signed on behalf of Erste&Steiermärkische Bank d.d. on 05 March 2014:

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 2013

(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 2013	**1,698**	**1,802**	**3,491**	**195**	**85**	**7,271**	**38**	**7,309**
Total comprehensive income	-	-	184	10	-	194	17	211
Profit distribution for 2012:								
Transfer	-	-	-	-	-	-	-	-
Dividends	-	-	(146)	-	-	(146)	(5)	(151)
Balance as at 31 December 2013	**1,698**	**1,802**	**3,529**	**205**	**85**	**7,319**	**50**	**7,369**
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**

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 2013	**1,698**	**1,802**	**3,212**	**166**	**85**	**6,963**	**-**	**6,963**
Total comprehensive income	-	-	68	3	-	71	-	71
Profit distribution for 2012:								
Transfer	-	-	-	-	-	-	-	-
Dividends			(147)	-	-	(147)	-	(147)
Balance as at 31 December 2013	**1,698**	**1,802**	**3,133**	**169**	**85**	**6,887**	**-**	**6,887**
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**

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

Cash flow statement

For the year ended 31 December 2013

(*All amounts are expressed in HRK million)*

	Notes	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Operating Activities					
Loss from operating activities before changes in operating assets and liabilities	40	(459)	(346)	(429)	(293)
Changes in operating assets and liabilities:					
Obligatory reserves with central banks		288	192	299	209
Amounts due from other banks		(381)	(811)	(389)	(690)
Reverse repurchase agreements		(157)	(658)	(105)	(744)
Net increase/(decrease) in financial assets held for trading		(55)	166	(71)	66
Net increase in assets at fair value through profit and loss		-	50	-	50
Loans and advances to customers, net of write-offs		(2,307)	(1,495)	(2,169)	(69)
Other assets		(122)	(43)	(114)	(75)
Amounts due to other banks		(190)	608	(144)	(60)
Repurchase agreements		(515)	876	(721)	863
Financial liabilities at fair value through profit or loss		-	(40)	-	(40)
Amounts due to customers		2,637	405	2,568	(141)
Other liabilities		106	(10)	90	(6)
Cash used in operations		*(1,155)*	*(1,106)*	*(1,185)*	*(930)*
Interest paid		(1,626)	(2,005)	(1,472)	(1,833)
Interest received		3,622	4,007	3,024	3,349
Income tax paid		(165)	(169)	(99)	(112)
NET CASH FROM OPERATING ACTIVITIES		**676**	**727**	**268**	**474**
Investing Activities					
Purchase of property and equipment		(48)	(32)	(27)	(16)
Disposal of property and equipment		17	4	15	4
Purchase of intangible assets		(66)	(14)	(6)	(13)
Purchase of investments available for sale		(159)	470	(48)	437
Increase/(decrease) in investments in associates		-	5	-	-
Sales of investments in subsidiaries		-	-	-	-
Acquisition of subsidiaries, net of cash acquired		-	-	-	-
Purchase/redemption of investments held to maturity		45	(210)	186	(318)
Dividends received		6	5	48	29
Gains on investments in associates received		-	-	4	6
NET CASH USED IN INVESTING ACTIVITIES		**(205)**	**228**	**172**	**129**
Financing Activities					
Subordinated borrowings		3	2	10	2
Dividends paid		(146)	(182)	(147)	(182)
Increase in other borrowed funds		(14)	(19)	(1)	(2)
Issued bonds		-	302	-	302
NET CASH FROM FINANCING ACTIVITIES		**(157)**	**103**	**(138)**	**120**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**314**	**1,058**	**302**	**723**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**40**	**5,357**	**4,299**	**4,916**	**4,193**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**40**	**5,671**	**5,357**	**5,218**	**4,916**

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 until 22 March 2013
Hannes Frotzbacher	Member as of 22 March 2013
Mag. Gerhard Maier	Member
Dr. Ernst Gideon Loudon	Member

Management Board

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

Petar Radaković	President
Tomislav Vuić	Deputy President
Borislav Centner	Member
Slađana Jagar	Member
Christoph Schoefboeck	Member

(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 2013 and 2012.

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	25	100%	Management company for voluntary pension fund	Ivana Lučića 2a, Zagreb
Erste nekretnine d.o.o.	25	100%	Real estate business	Ivana Lučića 2, Zagreb
Erste Delta d.o.o.	25	100%	Real estate business	Ivana Lučića 2, Zagreb
Erste Bank a.d. Podgorica, Montenegro	25	100%	Credit institution	Marka Miljanova 46, Podgorica, Montenegro
Erste Card Club d.o.o. za financijsko posredovanje i usluge[1]	25	100%	Financial intermediation and services	Praška 5, Zagreb
Diners Club BH d.o.o. Sarajevo	25	100%	Other financial intermediation	Fra Anđela Zvizdovića 1, Sarajevo, Bosnia and Herzegovina
Erste Card d.o.o. Slovenia	3	100%	Financial intermediation and services	Dunajska cesta 129, Ljubljana, Slovenija
Erste Factoring d.o.o. za factoring	25	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.

Companies which are consolidated at equity method you can find in Note 25.

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 IASB and adopted in the EU, 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. New and amended standards and interpretations endorsed by European Union (EU)

The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS effective as of 1 January 2013:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - Government Loans (Amendments) – effective January 1, 2013
- 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 (Amendment), effective January 1, 2013
- IFRS 13 Fair Value Measurement – effective January 1, 2013
- IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets;
- IAS 19 Employee benefits (revised) – effective January 1, 2013
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – effective January 1, 2013

2.6. New and amended standards and interpretations endorsed by European Union (EU) (continued)

The adoption of the standards or interpretations is described below:

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 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 shall be applied as from the commencement date of its first financial year starting on or after 1 January 2013. The amendment had no impact to the Group's financial position or performance.

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 recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized 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 did not have impact on the Group's financial position or performance and are effective for annual periods beginning on or after 1 January 2013.

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 Standard did not affect financial position and performance of the Group but has affected the Group's fair value disclosures. Standard is effective for annual periods beginning on or after 1 January 2013.

2.6. New and amended standards and interpretations endorsed by European Union (EU) (continued)

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 introduces 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 shall be applied as from the commencement date of its first financial year starting on or after 1 January 2013 and there has been no effect on the Group's financial position, performance or its disclosures.

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 is effective for annual periods beginning on or after 1 January 2013. There has been no impact on the Group's financial position or results.

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 did not have an impact on the Group.

Following standards becomes effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standards and decided that standards should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014.

- *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*
- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosure of Interests in Other Entities*

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.

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.

2.6. New and amended standards and interpretations endorsed by European Union (EU) (continued)

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 judgment 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.

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.

Standards endorsed by EU but not yet effective

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.

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)
In October 2012 IASB issued the amendments that are effective for annual periods beginning on or after January 1, 2014. These amendments will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. The Group is currently assessing the impact that this standard could have on the financial position and performance.

2.6. New and amended standards and interpretations endorsed by European Union (EU) (continued)

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group has early adopted these amendments to IAS 36 in the current period since the amended/additional disclosures provide useful information as intended by the IASB .

Standards not yet endorsed by EU

The standards and interpretations that are issued, but not yet endorsed by EU, 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.

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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Hedge accounting
A new chapter on hedge accounting has been added to IFRS 9. This represents a major overhaul of hedge accounting and puts in place a new model that introduces significant improvements principally by aligning the accounting more closely with risk management. There are also improvements to the disclosures about hedge accounting and risk management.

The standard does not currently indicate the mandatory effective date. The IASB decided to defer the mandatory effective date of IFRS 9 until the date of the completed version of IFRS 9 is known. The standard has not yet been endorsed by EU. 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 and endorsed by EU.

2.6. New and amended standards and interpretations endorsed by European Union (EU) (continued)

IFRIC 21 Levies

The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g., IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached. The interpretation does not address the accounting for the debit side of the transaction that arises from recognizing a liability to pay a levy. Entities look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards. The interpretation is effective for annual periods beginning on or after January 1, 2014. The new interpretation will have no impact on the Group.

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.

<u>The Group and the Bank as lessee</u>

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.

Measurement:

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

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

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:

	2013	**2012**
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 2013 one-way currency clause asset is HRK 30 million and liabilities HRK 18 million and as at 31 December 2012 one-way currency clause asset is HRK 42 million and liabilities HRK 28 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 2013	EUR 1=HRK 7.637643	USD 1=HRK 5.549000	CHF 1=HRK 6.231758
31 December 2012	EUR 1=HRK 7.545624	USD 1=HRK 5.726794	CHF 1=HRK 6.245343

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 2013 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.

On 4th of July 2013, the 1st instance court in Zagreb (in a decision which is as yet not binding) upheld the complaint of the consumer association in a court case in which a consumer association sued eight of the largest banks in 2012 (including the Bank) claiming that (a) for loans linked to Swiss francs, consumers had not been given adequate information prior to taking out the loan and had not therefore been able to make a fully informed decision about the risks of such loans; and (b) a variable interest rate was unlawful, as it was set on the basis of a unilateral decision of the relevant bank, without the factors affecting the setting of the rate being clearly defined. All eight banks (including the Bank) have appealed. At this time, it is not possible to assess the timing of any final decisions, how successful any such litigation may ultimately be or what financial impact it or any associated legislative or regulatory initiatives might ultimately have on the Bank.

As of 31 December 2013 based on advice of legal counsel, the group has created provisions for certain legal cases amounting to HRK 135 million for the Group, and HRK 132 million for the Bank (Note 33). For other 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.

3. BUSINESS COMBINATIONS, MERGERS AND GOODWILL

On 27 June 2013 the Erste Card Club d.o.o. Croatia established the new company in Slovenia under the name Erste Card d.o.o. and it will exclusively handle issuing and acquiring Diners Cards on territory of Republic of Slovenia, with initial capital of EUR 125 thousand and subsequent capital increase to EUR 1 million. Main business of the company is providing card payment services, e.g. issuing credit cards and acquiring merchants in enabling credit card acceptance.
On 31 December 2013 balance sheet and income statement of Erste Card d.o.o. was as follows:

	Amounts in HRK million
Amounts due from other banks	*8*
Loans and advances to customers	*91*
Other assets	*3*
ASSETS	**102**
Amounts due to other banks	*33*
Amounts due to customers	*60*
Other liabilities	*4*
LIABILITIES	**97**
LOSS FOR THE YEAR	**(3)**
Loan commitments	*369*
CONTINGENT LIABILITIES	**369**

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 2013 is 4.2% (2012: 3.5%).

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 2013 is 14.77% (2012: 12.56%).

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. For the details of the impairment test please see further notes 25 and 27 of the financial statements.

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. ,Diners BH d.o.o., Sarajevo and Erste Card d.o.o. Slovenija
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 2013

	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	913	1,194	(73)	63	347	108	170	-	2,722
Inter-segment	278	(310)	(46)	77	-	-	-	1	-
Total operating income/(loss)	**1,191**	**884**	**(119)**	**140**	**347**	**108**	**170**	**1**	**2,722**
Impairment losses on financial investments and credit loss expense	(244)	(834)	-	(2)	(65)	(26)	(19)	1	(1,189)
Net operating income/(expense)	**947**	**50**	**(119)**	**138**	**282**	**82**	**151**	**2**	**1,533**
Results									
Net interest income/(loss)	949	729	(208)	126	168	117	144	(8)	2,017
Net fees and commission income	190	134	15	14	176	(11)	23	10	551
Net trading income	53	21	75	-	3	2	3	(3)	154
General administrative expenses	(515)	(144)	(44)	(16)	(193)	(9)	(104)	5	(1,020)
Other operating result	(59)	(2)	-	(148)	(32)	(1)	(8)	-	(250)
Provision for loan and financial investment losses and other provisions	(244)	(834)	-	(2)	(65)	(26)	(19)	1	(1,189)
Segment profit/ (loss)	**374**	**(96)**	**(162)**	**(26)**	**57**	**72**	**39**	**5**	**263**
Income tax expense	(76)	22	34	(1)	(17)	(18)	(4)	(2)	(62)
Profit for the year	**298**	**(74)**	**(128)**	**(27)**	**40**	**54**	**35**	**3**	**201**
Assets									
Capital expenditure on:									
Property and equipment	-	-	-	353	56	-	36	220	665
Intangible assets	-	-	-	32	705	-	9	-	746
Total assets	**17,320**	**23,356**	**16,935**	**2,514**	**2,524**	**2,550**	**2,431**	**224**	**67,854**
Total liabilities	**25,135**	**7,933**	**19,223**	**947**	**2,438**	**2,386**	**2,215**	**208**	**60,485**

(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	951	1,181	(41)	47	352	110	168	2	2,770
Inter-segment	258	(317)	(7)	66	-	-	-	-	-
Total operating income/(loss)	**1,209**	**864**	**(48)**	**113**	**352**	**110**	**168**	**2**	**2,770**
Impairment losses on financial investments and credit loss expense	(188)	(563)	2	6	(64)	(48)	(35)	-	(890)
Net operating income/(expense)	**1,021**	**301**	**(46)**	**119**	**288**	**62**	**133**	**2**	**1,880**
Results									
Net interest income/(loss)	989	719	(123)	102	165	112	147	(8)	2,103
Net fees and commission income	168	125	10	11	185	(7)	19	10	521
Net trading income	52	20	64	-	3	5	2	-	146
General administrative expenses	(527)	(158)	(54)	(39)	(190)	(10)	(90)	6	(1,062)
Other operating result	(51)	(2)	13	19	(49)	(1)	(5)	1	(75)
Provision for loan and financial investment losses and other provisions	(188)	(563)	2	6	(64)	(48)	(35)	-	(890)
Segment profit/ (loss)	**443**	**141**	**(88)**	**99**	**50**	**51**	**38**	**9**	**743**
Income tax expense	(86)	(27)	14	(16)	(15)	(11)	(4)	(2)	(147)
Profit for the year	**357**	**114**	**(74)**	**83**	**35**	**40**	**34**	**7**	**596**
Assets									
Capital expenditure on:									
Property and equipment	-	-	-	386	49	-	42	227	704
Intangible assets	-	-	-	47	690	1	2	-	740
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)

5. INTEREST INCOME

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Interest on loans and advances to customers	2,919	3,202	2,322	2,612
Interest income on financial investments available for sale	239	273	225	261
Interest income on impaired financial assets - loans and advances to customers	197	114	197	114
Interest on financial derivative transactions	181	439	180	438
Interest income on financial investments held to maturity	31	29	24	18
Interest on amounts due from other banks	21	23	12	17
Interest on reverse repurchase agreements	6	8	8	9
Dividend income	3	5	44	30
Interest on assets held for trading	2	2	2	2
Interest on balances due from the central bank	1	1	1	1
Investment property	1	-	1	-
	3,601	**4,096**	**3,016**	**3,502**

6. INTEREST EXPENSE

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Interest on customer deposits	791	838	779	845
Interest on amounts due to other banks	707	1,030	564	858
Interest on subordinated debt	49	50	48	48
Interest on issued bonds	18	2	18	2
Interest on financial derivative transactions	17	62	16	60
Interest on repurchase agreements	3	11	1	8
Interest on other borrowed funds	2	4	-	-
	1,587	**1,997**	**1,426**	**1,821**

(All amounts are expressed in HRK million)

7. FEE AND COMMISSION INCOME

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Bank cards services	352	320	143	120
Payments and money transfers	246	230	242	226
Guarantee activities	41	65	37	47
Investment fund transactions and asset management	17	14	12	10
Investment banking business	16	9	16	9
Insurance business	12	10	12	10
Custodial fees	11	9	11	9
Other fee and commission income	33	23	27	16
	728	**680**	**500**	**447**

8. FEE AND COMMISSION EXPENSE

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Bank cards services	120	102	102	84
Payments and money transfers	41	42	38	39
Guarantee activities	4	4	3	5
Custodial fees	2	2	2	2
Investment banking business	1	1	1	1
Other fee and commission expense	9	8	1	-
	177	**159**	**147**	**131**

9. NET TRADING INCOME

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Net foreign exchange gain	105	106	103	102
Net gain on financial assets held for trading	38	32	36	26
Gain on derivative financial instruments	11	8	10	9
	154	**146**	**149**	**137**

(All amounts are expressed in HRK million)

10. PERSONNEL EXPENSES

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Employee related costs				
- Wages, salaries and compensations	302	316	211	235
- Payroll taxes and other contributions	131	147	98	108
- Pension contributions	72	78	63	67
Long-term employee benefits	(8)	2	(8)	1
	497	**543**	**364**	**411**

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 2,551 and 2,615 as at 31 December 2013 and 2012, respectively. The number of employees as full time equivalents of the Bank was 2,024 and 2,060 as at 31 December 2013 and 2012, respectively.

11. OTHER ADMINISTRATIVE EXPENSES

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Services	99	103	87	90
Office expenses	78	74	81	80
Consulting and professional fees	70	82	24	32
Marketing and advertising cost	66	58	31	30
Repairs and maintenance	49	40	26	20
Telephone and post services	48	49	29	31
Other	40	41	30	33
	450	**447**	**308**	**316**

(All amounts are expressed in HRK million)

12. OTHER OPERATING RESULT

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Savings insurance premiums	(69)	(59)	(60)	(54)
Write-down on customer relationships	(37)	(47)	-	-
Impairment on investment in associates	(28)	-	(28)	-
Other taxes and contributions	(8)	(7)	(6)	(6)
Income from sale of property and equipment	17	4	15	3
Gains on investments in associates	-	-	4	6
Rental income	1	1	1	1
Other	(124)	(26)	(132)	(24)
	(248)	**(134)**	**(206)**	**(74)**

Position Other operating income was joined with position of Other operating expenses to form Other operating result in order to reflect structure of Group financial statements. Major effect is described below.
Write–down of customer relationship in amount of HRK 47 million in financial statements for 2012 was presented under Amortization of intangible asset. In financial statements for 2013 it was reclassified from Amortization of intangible asset to Other operating result for comparable data in financial statements.

Line other contains also changes of provisions for litigations (see Note 33).

13. PROVISION FOR IMPAIRMENT LOSSES

Provisions for impairment losses charge for 2013 and 2012, comprises:

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Provision for impairment loss on loans and advances	1,201	868	1,090	732
Provision for impairment loss on amounts due from banks	2	-	1	-
Provision for credit losses on guarantees and credit commitments	(14)	22	(12)	12
	1,189	**890**	**1,079**	**744**

(All amounts are expressed in HRK million)

14. 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 2013 and 2012 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 2013 and 2012 are explained as follows:

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Profit before income tax	**263**	**743**	**90**	**598**
Theoretical tax calculated at a tax rate of 20% (2012: 20%)	53	149	18	120
Effect of different tax rates in the Republic Montenegro	(4)	(4)	-	-
Tax effect of permanent differences	13	1	4	(4)
Tax effect of temporary differences	30	41	2	6
Current income tax expense	**92**	**187**	**24**	**122**
Current income tax expense	(92)	(187)	(24)	(122)
Change in deferred tax assets recognized in income statement	30	40	2	7
Income tax expense reported in the income statement	**(62)**	**(147)**	**(22)**	**(115)**

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

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Basis for deferred tax assets				
Loans origination fees	246	231	214	211
Unrealized (gains)/losses on investments available for sale	(206)	(220)	(177)	(192)
Negative valuation of derivative financial instruments	82	91	82	91
Employment benefits provisions	10	23	8	21
Provisions	751	666	-	-
Other temporary differences	70	69	60	61
Total basis	**953**	**860**	**187**	**192**

(All amounts are expressed in HRK million)

14. INCOME TAXES (CONTINUED)

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Basis for deferred tax liabilities				
Unrealized losses/(gains) on investments available for sale	8	5	-	-
Customer and merchant list	47	84	-	-
Employment benefits provisions	1	1	-	-
Property and equipment	13	9	-	-
Other temporary differences	-	12	-	-
Total basis	**69**	**111**	**-**	**-**
Deferred tax asset at the statutory tax rate (17%)	**1**	**-**	**-**	**-**
Deferred tax asset at the statutory tax rate (20%)	**190**	**172**	**37**	**38**
Deferred tax liabilities at the statutory tax rate (20%)	**9**	**17**	**-**	**-**
Deferred tax liabilities at the statutory tax rate (9%)	**2**	**2**	**-**	**-**

The movement in deferred tax balances is as follows:

	GROUP					
	Deferred tax assets 2013	**Deferred tax liabilities 2013**	**Income statement 2013**	**Deferred tax assets 2012**	**Deferred tax liabilities 2012**	**Income statement 2012**
Deferred loan origination fees	49	-	3	46	-	-
Unrealized gains from financial investments available for sale	(42)	1	4	(44)	1	2
Unrealised gains/(losses) on derivative financial instruments	16	-	(2)	18	-	1
Long term employment provisions	3	-	(2)	5	-	-
Property and equipment	-	1	-	-	1	-
Reserves	150	-	17	133	-	20
Customer and merchant list	-	9	8	-	17	9
Other temporary differences	15	-	2	14	-	8
	191	**11**	**30**	**172**	**19**	**40**

(All amounts are expressed in HRK million)

14. INCOME TAXES (CONTINUED)

				BANK
	Deferred tax assets 2013	Income statement 2013	Deferred tax assets 2012	Income statement 2012
Deferred loan origination fees	42	1	42	(3)
Unrealized (losses)/gains from financial investments available for sale	(35)	3	(38)	-
Unrealised (losses)/gains on derivative financial instruments	16	(2)	18	1
Long term employment provisions	2	(2)	4	-
Other temporary differences	12	2	12	9
	37	**2**	**38**	**7**

Income tax assets and liabilities consist of the following:

		GROUP		BANK
	2013	**2012**	**2013**	**2012**
Current income tax liabilities	(17)	(15)	-	-
Deferred tax assets	191	172	37	38
Deferred tax liabilities	(11)	(19)	-	-
Net tax assets	**163**	**138**	**37**	**38**

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)

15. INCOME TAX EFFECTS RELATING TO OTHER COMPREHENSIVE INCOME

	GROUP 2013			GROUP 2012		
	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	7	(1)	6	345	(67)	278
Exchange differences on translation of foreign operations	3	-	3	1	-	1
Actuarial gains (losses)	2	(1)	1	(1)	-	(1)
	12	**(2)**	**10**	**345**	**(67)**	**278**

	BANK 2013			BANK 2012		
	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	1	-	1	311	(62)	249
Actuarial gains (losses)	2	-	2	-	-	-
	3	**-**	**3**	**311**	**(62)**	**249**

(All amounts are expressed in HRK million)

16. COMPONENTS OF OTHER COMPREHENSIVE INCOME

		GROUP
	2013	**2012**
Financial investments available for sale:		
Gains/(losses) arising during the year	9	285
Less: Reclassification adjustment for gains included in the income statement	*(2)*	*60*
	7	345
Exchange differences on translating foreign operations	3	1
Actuarial gains (losses)	2	(1)
Total other comprehensive income	**12**	**345**
Income tax relating to components of other comprehensive income	(2)	(67)
Other comprehensive income for the year	**10**	**278**

		BANK
	2013	**2012**
Financial investments available for sale:		
Gains/(losses) arising during the year	1	252
Less: Reclassification adjustment for gains included in the income statement	*1*	*59*
	2	311
Actuarial gains (losses)	1	-
Total other comprehensive income	**3**	**311**
Income tax relating to components of other comprehensive income	-	(62)
Other comprehensive income for the year	**3**	**249**

(All amounts are expressed in HRK million)

17. CASH AND BALANCES WITH THE CENTRAL BANKS

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Cash in hand	904	868	822	787
Cash on clearing account	2,833	2,389	2,776	2,275
Obligatory reserves with the central banks	4,212	4,500	4,097	4,397
	7,949	**7,757**	**7,695**	**7,459**

A at 31 December 2013 and 2012, obligatory reserves with the Croatian National Bank of HRK 4,097 million and HRK 4,397 million, respectively, represent the minimum reserve deposits which the Bank is required to maintain at all times. As at 31 December 2013 and 2012 obligatory reserve with Central Bank of Montenegro is HRK 115 million (original currency EUR 15 million) and HRK 103 million (original currency EUR 14 million).

18. AMOUNTS DUE FROM OTHER BANKS

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Current accounts with other banks	431	1,304	275	1,134
Term deposits with banks	1,328	701	987	513
Loans and advances with banks	1,266	862	1,265	862
Total amounts due from other banks before allowances for impairment	3,025	2,867	2,527	2,509
Less: Allowances for possible placement losses	*(4)*	*(2)*	*(3)*	*(2)*
	3,021	**2,865**	**2,524**	**2,507**

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

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Balance at 1 January	**2**	**2**	**2**	**2**
Release of previously established allowances	-	-	-	-
Additional allowances	2	-	1	-
Balance at 31 December	**4**	**2**	**3**	**2**

(All amounts are expressed in HRK million)

19. REVERSE REPURCHASE / REPURCHASE AGREEMENTS

GROUP

	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral on securities borrowed	Reverse repurchase agreements
	2013	**2013**	**2012**	**2012**
ASSET				
Due from banks	447	428	623	597
Due from customers	472	410	97	86
	919	**838**	**720**	**683**

	Cash collateral on securities lent	Repurchase agreements	Cash collateral on securities lent	Repurchase agreements
	2013	**2013**	**2012**	**2012**
LIABILITIES				
Due to banks	749	730	889	925
Due to customers	253	244	589	565
	1,002	**974**	**1,478**	**1,490**

BANK

	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral on securities borrowed	Reverse repurchase agreements
	2013	**2013**	**2012**	**2012**
ASSET				
Due from banks	447	429	622	597
Due from customers	646	573	325	302
	1,093	**1,002**	**947**	**899**

	Cash collateral on securities lent	Repurchase agreements	Cash collateral on securities lent	Repurchase agreements
	2013	**2013**	**2012**	**2012**
LIABILITIES				
Due to banks	413	403	814	804
Due to customers	253	244	588	565
	666	**647**	**1,402**	**1,369**

(All amounts are expressed in HRK million)

19. REVERSE REPURCHASE / REPURCHASE AGREEMENTS (CONTINUED)

As at 31 December 2013 and 2012, Group and Bank's reverse repurchase agreements are secured with following fair value of collateral:

		GROUP		**BANK**
	2013	**2012**	**2013**	**2012**
Debt securities issued by the Republic of Croatia	524	79	562	154
Debt securities issued by the Republic of Germany	255	-	255	-
Debt securities issued by the Republic of Austria	-	588	-	588
Debt securities issued by Erste Bank AG	29	27	29	27
Debt securities issued by the Swiss confederation	-	10	-	10
Debt securities issued by Republic of Serbia	8	-	8	-
Debt securities issued by HBOR	2	-	2	-
Commercial shares	88	13	88	13
Corporate debt securities	13	3	13	3
Units in investment funds	-	-	136	152
	919	**720**	**1,093**	**947**

As at 31 December 2013 Group and Bank’s repurchase agreements are secured with debt securities issued by the Croatian Ministry of Finance with a fair value of HRK 771 million and HRK 397 million, respectively, with debt securities issued by the Republic of Germany with a fair value of HRK 253 million, with debt securities issued by the Republic of Montenegro with a fair value of HRK 17 million and units in investment fund with a fair value of 136 million HRK. Cash collaterals on securities lent for the Group and the Bank are included in ‘Financial investments available for sale’ and ‘Financial investments held for trading’.

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’.

(All amounts are expressed in HRK million)

20. DERIVATIVE FINANCIAL INSTRUMENTS

			GROUP 2013			GROUP 2012
	Notional Amount	*Fair Value* Assets	Liabilities	Notional Amount	*Fair Value* Assets	Liabilities
Interest rate instruments:	*1,563*	*15*	*(13)*	*1,149*	*22*	*(20)*
Interest rate swaps	1,563	15	(13)	1,149	22	(20)
Foreign currency instruments:	*34,464*	*71*	*(76)*	*28,742*	*92*	*(128)*
Currency swaps						
Purchase	3,849	44	-	2,381	30	-
Sell	3,848	-	(46)	2,379	-	(25)
Forwards						
Purchase	13,387	27	-	11,975	62	-
Sell	13,380	-	(30)	12,007	-	(103)
Other instruments:	-	-	-	*50*	-	-
Call options for stock index	-	-	-	15	-	-
Put options for stock index	-	-	-	15	-	-
Securities purchase	-	-	-	10	-	-
Securities sell	-	-	-	10	-	-
	36,027	**86**	**(89)**	**29,941**	**114**	**(148)**

			BANK 2013			BANK 2012
	Notional Amount	*Fair Value* Assets	Liabilities	Notional Amount	*Fair Value* Assets	Liabilities
Interest rate instruments:	*1,563*	*15*	*(13)*	*1,149*	*22*	*(20)*
Interest rate swaps	1,563	15	(13)	1,149	22	(20)
Foreign currency instruments:	*33,609*	*71*	*(76)*	*27,334*	*91*	*(127)*
Currency swaps						
Purchase	3,421	44	-	1,677	29	-
Sell	3,421	-	(46)	1,675	-	(24)
Forwards						
Purchase	13,387	27	-	11,975	62	-
Sell	13,380	-	(30)	12,007	-	(103)
Other instruments:	-	-	-	*32*	-	-
Call options for stock index	-	-	-	6	-	-
Put options for stock index	-	-	-	6	-	-
Securities purchase	-	-	-	10	-	-
Securities sell	-	-	-	10	-	-
	35,172	**86**	**(89)**	**28,515**	**113**	**(147)**

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)

21. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

		GROUP		BANK
	2013	**2012**	**2013**	**2012**
Financial assets held for trading:				
Investment in open funds	179	194	-	-
Debt securities	104	1	104	1
Equity shares	20	17	21	17
Treasury bills	-	38	-	38
	303	**250**	**125**	**56**

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 2013 financial assets held for trading are Treasury bills of the Croatian Ministry of Finance with maturity in 2015, and with interest rate of 5.000%, bonds issued by the Republic of Croatia with maturity from 2019 to 2024, and with interest rate from 5.375% to 6.500% and shares from Croatian and Serbian issuers. 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.

(All amounts are expressed in HRK million)

22. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers as at 31 December 2013 and 2012 are summarized as follows:

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Companies	21,516	21,591	18,280	17,885
Individuals	21,354	21,140	17,955	17,933
Public sector	9,392	7,125	8,619	6,716
Other institutions	117	106	114	104
Total loans before allowances for impairment	52,379	49,962	44,968	42,638
Less: Allowances for loan impairment	*(5,953)*	*(4,614)*	*(5,056)*	*(3,794)*
	46,426	**45,348**	**39,912**	**38,844**

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	
	2013	**2012**	**2013**	**2012**
Balance at 1 January	**4,614**	**3,564**	**3,794**	**2,882**
Release of previously established allowances	(864)	(1,109)	(715)	(971)
Additional allowances	2,065	1,978	1,805	1,703
Allowances acquired on business combination	-	-	-	-
Amounts written off	(33)	(17)	3	(10)
Suspended interest	343	306	343	298
Exchange-rate changes	25	6	23	6
Interest accrued on impaired loans and advances	(197)	(114)	(197)	(114)
Balance at 31 December	**5,953**	**4,614**	**5,056**	**3,794**

(All amounts are expressed in HRK million)

23. FINANCIAL INVESTMENTS AVAILABLE FOR SALE

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Equity shares and participations:	60	54	59	53
Quoted equities	*45*	*37*	*45*	*37*
Unquoted equities	*15*	*17*	*14*	*16*
Debt securities:	6,274	6,053	6,057	5,875
Treasury bills	*767*	*600*	*767*	*600*
Listed bonds	*5,507*	*5,448*	*5,200*	*5,178*
Listed commercial bills	-	*5*	-	*5*
Unlisted bonds	-	-	*90*	*92*
Investment in open funds	30	28	30	28
	6,364	**6,135**	**6,146**	**5,956**

Debt securities available for sale allocated by the issuer comprise:

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Debt securities available for sale issued by:				
Republic of Croatia	3,450	3,453	3,286	3,318
Foreign banks	385	380	475	472
Local government of Republic of Croatia	2	2	2	2
Companies in Republic of Croatia	125	140	125	140
Foreign states	2,312	2,078	2,169	1,943
	6,274	**6,053**	**6,057**	**5,875**

23. 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 2013, the average interest yields on HRK denominated treasury bills were 1.08% for treasury bills with a maturity of 91 days, 2.10% for treasury bills with a maturity of 182 days, 3.24% for treasury bills with a maturity of 364 days and 5.85% for treasury bills with a maturity of 728 days. The average interest yields on the currency clause EUR denominated treasury bills were 0.82% for treasury bills with a maturity of 91 days and 2.57% for treasury bills with a maturity of 364 days. The average interest yields on EUR treasury bills were 4.85% for treasury bills with a maturity of 364 days and 5.13% for treasury bills with a maturity of 546 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.

Bonds of the Republic of Croatia are HRK and EUR denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2014 to 2022 and bear coupon interest from 4.250% to 6.750% p.a.

Bonds of 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 Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2015 and in 2016 and bear coupon interest of 7.875% and 7.250% p.a. Bonds of Republic of Slovakia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2015 to 2018 and bear coupon interest from 0.320% p.a (bond linked to 6M euribor) to 4.625% p.a. Bonds of Republic of Slovenia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities in 2014 and in 2016 and bear coupon interest 4.375% and 4.000% p.a.

Also, in financial investments available for sale are bonds issued by European investment Bank with variable coupon (last coupon 0.472%).

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)

24. FINANCIAL INVESTMENTS HELD TO MATURITY

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Fixed income debt securities:				
Listed debt securities – Bonds issued by the Republic of Croatia	193	191	193	191
Listed debt securities – Bonds issued by the Republic of Montenegro	9	12	-	-
Unlisted debt securities – Bonds issued by the Republic of Croatia	6	5	6	5
Treasury bills of the Ministry of Finance	521	564	300	489
Treasury bills of the Republic of Montenegro	39	41	-	-
	768	**813**	**499**	**685**

Listed and unlisted bonds issued by the Republic of Croatia are fixed income debt securities denominated in EUR. 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 2014 and with interest rate of 2.600% are HRK denominated fixed income debt securities.

The fair value of financial investments held to maturity for the Group and the Bank is approximately HRK 11 million higher than their value as at 31 December 2013 (2012: HRK 5 million lower).

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

(All amounts are expressed in HRK million)

25. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Ownership Interest 2013	Ownership Interest 2012	Note	Activity	Group's Share of net assets 2013	Group's Share of net assets 2012	Investment at cost 2013	Investment at cost 2012
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	36	34	23	23
Immokor Buzin d.o.o.	49.00%	49.00%		Real estate business	3	34	6	34
S IT Solutions HR d.o.o.	20.00%	20.00%		IT engineering	-	-	-	-
Total associates:					**39**	**68**	**29**	**57**
Subsidiaries								
Erste nekretnine d.o.o.	100.00%	100.00%		Real estate business	3	3	1	1
Erste DMD d.o.o.	100.00%	100.00%		Management company for voluntary pension fund	17	17	15	15
Erste Factoring d.o.o.	74.996%	74.996%		Accounts receivables repurchase	151	115	38	38
Erste Card Club d.o.o.	100.00%	100.00%		Financial intermediation and services	543	471	1,089	1,089
Diners Club BH d.o.o. Sarajevo	100.00%	100.00%		Other financial intermediation	1	1	-	-
Erste Card d.o.o. Slovenia	100.00%	-	3	Financial intermediation and services	5	-	-	-
Erste Delta d.o.o.	100.00%	100.00%		Real estate business	1	(3)	-	-
Erste Bank a.d., Podgorica	100.00%	100.00%		Credit institution	297	254	100	100
Total subsidiaries:					**1,018**	**858**	**1,243**	**1,243**
Total:					**1,057**	**926**	**1,272**	**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 August 2013 Erste Card Club d.o.o. establish new company Erste card d.o.o. Slovenia (see Note 3).

(All amounts are expressed in HRK million)

25. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (CONTINUED)

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

	GROUP	
	2013	**2012**
Current assets	26	22
Non current assets	93	120
Current liabilities	(8)	(6)
Non current liabilities	(72)	(68)
Net asset, carrying amount of associates	**39**	**68**
Share of associates revenue and profit		
Revenue	28	25
Expenses	(25)	(21)
Net profit	**3**	**4**

Impairment losses on investment in associates in the amount of HRK 28 million were recognised during 2013 (2012: -). This impairment was allocated on the whole goodwill in amount of HRK 18 million, and remaining part for investment in Immokor Buzin.

(All amounts are expressed in HRK million)

26. PROPERTY AND EQUIPMENT

	Land and buildings	Computers	Furniture and other equipment	Invest-ment property	Construction in progress	Total
						GROUP 2013
COST						
At 1 January 2013	794	145	261	2	13	1,215
Additions	-	-	-	-	40	40
Transfer	(25)	16	15	30	(36)	-
Disposals	(3)	(8)	(25)	-	-	(36)
At 31 December 2013	**766**	**153**	**251**	**32**	**17**	**1,219**
ACCUMULATED DEPRECIATION						
At 1 January 2013	202	118	189	1	-	510
Depreciation	17	12	21	1	-	51
Transfer	(10)	-	-	10	-	-
Disposals	(1)	(8)	(18)	-	-	(27)
At 31 December 2013	**208**	**122**	**192**	**12**	**-**	**534**
NET BOOK VALUE						
31 December 2013	**558**	**31**	**59**	**20**	**17**	**685**
31 December 2012	**592**	**27**	**72**	**1**	**13**	**705**

	Land and buildings	Computers	Furniture and other equipment	Invest-ment property	Construction in progress	Total
						GROUP 2012
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**

(All amounts are expressed in HRK million)

26. PROPERTY AND EQUIPMENT (CONTINUED)

						BANK 2013
	Land and buildings	**Computers**	**Furniture and other equipment**	**Invest-ment property**	**Construction in progress**	**Total**
COST						
At 1 January 2013	486	110	215	1	4	816
Additions	-	-	-	-	13	13
Transfer	(26)	3	6	30	(13)	-
Disposals	(1)	(6)	(6)	-	-	(13)
At 31 December 2013	**459**	**107**	**215**	**31**	**4**	**816**
ACCUMULATED DEPRECIATION						
At 1 January 2013	164	103	162	1	-	430
Depreciation	10	3	17	1	-	31
Transfer	(9)	-	-	9	-	-
Disposals	(1)	(5)	(7)	-	-	(13)
At 31 December 2013	**164**	**101**	**172**	**11**	**-**	**448**
NET BOOK VALUE						
31 December 2013	**295**	**6**	**43**	**20**	**4**	**368**
31 December 2012	**322**	**7**	**53**	**-**	**4**	**386**

						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**

The Group and the Bank as of 31 December 2013 had contractual capital commitments of HRK 5 million (HRK 5 million as at 31 December 2012) in respect of current capital investment projects.

As of 31 December 2013, the fair value of investment properties was HRK 27 million.

(All amounts are expressed in HRK million)

27. INTANGIBLE ASSETS

					GROUP 2013
	Other intangible assets	**Goodwill**	**Customer and merchant relationships**	**Construction in progress**	**Total**
COST					
At 1 January 2013	130	603	181	4	918
Additions	-	-	-	73	73
Transfer	68	-	-	(68)	-
Disposals	(9)	-	-	-	(9)
At 31 December 2013	**189**	**603**	**181**	**9**	**982**
ACCUMULATED AMORTIZATION					
At 1 January 2013	81	-	97	-	178
Amortization	23	-	37	-	60
Disposals	(2)	-	-	-	(2)
At 31 December 2013	**102**	-	**134**	**-**	**236**
NET BOOK VALUE					
31 December 2013	**87**	**603**	**47**	**9**	**746**
31 December 2012	**49**	**603**	**84**	**4**	**740**

					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**

(All amounts are expressed in HRK million)

27. INTANGIBLE ASSETS (CONTINUED)

Goodwill recognized in the financial statements is related to the Erste Card Club d.o.o.. We compared current value of the investment of HRK 1,089 million (HRK 1,089 million in 2012) with recoverable value of HRK 1,240 million (HRK 1,247 million in 2012). Recoverable value was calculated as described in note 3.1.

Following table show sensitivity analysis of the recoverable value dependent on the main variables (terminal growth rate, beta factor and risk free rate):

	Risk free rate		
	1.7%	**2.7%**	3.7%
Beta Factor			
0.9	1,591	1,450	1,334
1.2	1,339	**1,240**	1,156
1.5	1,160	1,087	1,024

	Risk free rate		
	1.7%	**2.7%**	3.7%
TV growth rate			
3.2%	1,285	1,193	1,116
4.2%	1,344	**1,240**	1,154
5.2%	1,418	1,298	1,199

As recoverable value is above net present value of the investment, no impairment was recorded.

(All amounts are expressed in HRK million)

27. INTANGIBLE ASSETS (CONTINUED)

			BANK 2013
	Other intangible assets	Construction in progress	Total
COST			
At 1 January 2013	135	3	138
Additions	-	6	6
Transfer	8	(8)	-
Disposals	-	-	-
At 31 December 2013	**143**	**1**	**144**
ACCUMULATED AMORTIZATION			
At 1 January 2013	91	-	91
Amortization	16	-	16
Disposals	-	-	-
At 31 December 2013	**107**	**-**	**107**
NET BOOK VALUE			
31 December 2013	**36**	**1**	**37**
31 December 2012	**44**	**3**	**47**

			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**

(All amounts are expressed in HRK million)

28. OTHER ASSETS

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Collateral obtained in foreclosure procedures	298	181	290	178
Income tax prepayments	88	9	88	9
Receivables from fees and commissions	31	28	31	28
Prepaid expenses	9	6	7	3
Checks	-	2	-	2
Other	23	21	17	15
Total other assets before allowances for impairment	449	247	433	235
Less: Allowances for impairment of other asset	*(11)*	*(6)*	*(11)*	*(6)*
	438	**241**	**422**	**229**

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

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Balance at 1 January	**6**	**14**	**6**	**14**
Release of previously recognized allowances	(3)	(1)	(3)	(1)
Additional allowances	10	2	10	2
Amounts written off	(2)	(9)	(2)	(9)
Balance at 31 December	**11**	**6**	**11**	**6**

(All amounts are expressed in HRK million)

29. AMOUNTS DUE TO OTHER BANKS

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Demand deposits:	*215*	*209*	*259*	*213*
In HRK	45	63	44	63
In foreign currencies	170	146	215	150
Borrowings in HRK – short-term:	*608*	*348*	*604*	*340*
Domestic borrowings	127	348	123	340
Foreign borrowings	481	-	481	-
Borrowings in HRK – long-term:	*9,839*	*11,353*	*9,839*	*11,353*
Domestic borrowings	781	791	781	791
Foreign borrowings	9,058	10,562	9,058	10,562
Total borrowings in HRK	*10,447*	*11,701*	*10,443*	*11,693*
Borrowings in foreign currencies – short-term:	*2,502*	*3,078*	*266*	*1,360*
Domestic borrowings	100	1,299	100	2
Foreign borrowings	2,402	1,779	166	1,358
Borrowings in foreign currencies – long-term:	*9,516*	*7,918*	*5,684*	*3,564*
Domestic borrowings	1,663	1,798	1,663	1,798
Foreign borrowings	7,853	6,120	4,021	1,766
Total borrowings in foreign currencies	*12,018*	*10,996*	*5,950*	*4,924*
	22,680	**22,906**	**16,652**	**16,830**

30. AMOUNTS DUE TO CUSTOMERS

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Demand deposits from:	*10,801*	*8,303*	*9,706*	*7,506*
Individuals	4,843	4,430	4,442	4,078
Companies	5,570	3,433	4,933	3,050
Public sector	197	290	160	240
Other institutions	191	150	171	138
Term deposits from:	*24,023*	*23,887*	*24,469*	*24,112*
Individuals	20,993	19,771	20,289	19,090
Companies	2,862	3,852	4,052	4,795
Public sector	91	166	55	133
Other institutions	77	98	73	94
	34,824	**32,190**	**34,175**	**31,618**

(All amounts are expressed in HRK million)

31. ISSUED BONDS AND OTHER BORROWED FUNDS

	GROUP		BANK	
	2013	2012	2013	2012
Issued bonds	302	302	302	302
Borrowings in foreign currencies – short-term:	-	17	-	-
Foreign borrowings	*-*	*17*	*-*	*-*
Borrowings in foreign currencies – long-term:	47	43	-	1
Foreign borrowings	*47*	*43*	*-*	*1*
	349	**362**	**302**	**303**

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.

32. OTHER LIABILITIES

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Prepayments received from borrowers	147	155	147	155
Salaries and bonuses payable	109	119	94	103
Amounts due to suppliers	68	63	41	35
Other amounts due to customers	16	29	-	-
Payables to State Agency for deposit insurance	17	15	17	14
Other	92	57	25	18
	449	**438**	**324**	**325**

(All amounts are expressed in HRK million)

33. PROVISIONS

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Litigations	135	34	132	33
Guarantees and credit commitments	64	77	51	63
Long-term employee benefits	12	25	8	20
	211	**136**	**191**	**116**

	GROUP			BANK		
	Litigations	**Guarantees and credit commitments**	**Total**	**Litigations**	**Guarantees and credit commitments**	**Total**
At 1 January 2011	**29**	**56**	**85**	**28**	**51**	**79**
Additional provisions	9	146	155	8	136	144
Release of previously established allowances	(1)	(124)	(125)	(1)	(124)	(125)
Write-offs	(3)	(1)	(4)	(2)	-	(2)
At 1 January 2012	**34**	**77**	**111**	**33**	**63**	**96**
Additional provisions	112	146	258	111	137	248
Release of previously established allowances	(3)	(159)	(162)	(3)	(149)	(152)
Write-offs	(8)	-	(8)	(9)	-	(9)
At 31 December 2013	**135**	**64**	**199**	**132**	**51**	**183**

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.

(All amounts are expressed in HRK million)

33. PROVISIONS (CONTINUED)

Long term employee benefits

			GROUP
	Pensions	**Jubilee payments**	**Total**
Present value of long-term employee benefit obligations, 31 December 2011	**17**	**6**	**23**
Current service cost	1	1	2
Interest expense	1	-	1
Payments	(2)	(1)	(3)
Exchange rate difference			
Actuarial gains/losses recognised in other comprehensive income (Remeasurements)	*1*	*1*	*2*
Actuarial gains/losses arising from changes in demographic assumptions			
Actuarial gains/losses arising from changes in financial assumptions	1	1	2
Actuarial gains/losses arising from changes from experience assumptions			
Actuarial gains/losses recognised in P&L	-	-	-
Present value of long-term employee benefit obligations, 31 December 2012	**18**	**7**	**25**
Current service cost	(8)	1	(7)
Interest expense			
Payments	(3)	(1)	(4)
Exchange rate difference			
Actuarial gains/losses recognised in other comprehensive income (Remeasurements)	*(2)*	-	*(2)*
Actuarial gains/losses arising from changes in demographic assumptions			
Actuarial gains/losses arising from changes in financial assumptions	(1)	-	(1)
Actuarial gains/losses arising from changes from experience assumptions	(1)	-	(1)
Actuarial gains/losses recognised in P&L	-	-	-
Present value of long-term employee benefit obligations, 31 December 2013	**5**	**7**	**12**

(All amounts are expressed in HRK million)

33. PROVISIONS (CONTINUED)

Long term employee benefits (continued)

			BANK
	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2011	**13**	**6**	**19**
Current service cost	1	-	1
Interest expense	1	-	1
Payments	-	(1)	(1)
Exchange rate difference			
Actuarial gains/losses recognised in other comprehensive income (Remeasurements)	-	-	-
Actuarial gains/losses arising from changes in demographic assumptions	-	-	-
Actuarial gains/losses arising from changes in financial assumptions	-	-	-
Actuarial gains/losses arising from changes from experience assumptions	-	-	-
Actuarial gains/losses recognised in P&L	-	-	-
Present value of long-term employee benefit obligations, 31 December 2012	**15**	**5**	**20**
Current service cost	(8)	1	(7)
Interest expense	-	-	-
Payments	(3)	(1)	(4)
Exchange rate difference			
Actuarial gains/losses recognised in other comprehensive income (Remeasurements)	*(1)*	-	*(1)*
Actuarial gains/losses arising from changes in demographic assumptions	-	-	-
Actuarial gains/losses arising from changes in financial assumptions	-	-	-
Actuarial gains/losses arising from changes from experience assumptions	(1)	-	(1)
Actuarial gains/losses recognised in P&L	-	-	-
Present value of long-term employee benefit obligations, 31 December 2013	**3**	**5**	**8**

(All amounts are expressed in HRK million)

33. PROVISIONS (CONTINUED)

Long term employee benefits (continued)

Sensitivity to Key Assumption

The following table presents reasonably possible changes of individual parameters and their impact on post-employment benefit obligations as of yearend 2013:

	Pension	**Jubilee payments**	**Total**
Change in discount rate + 1,0 %	2	5	**7**
Change in discount rate - 1,0 %	3	6	**9**

Impact on Cash Flows

The following table reflects the benefits expected to be paid by the defined benefit plans in each of the respective periods:

	Pension	**Jubilee payments**	**Total**
2014	-	1	1
2015	-	1	1
2016	-	1	1
2017	-	1	1
2018	-	1	1
2019-2023	5	12	17

Duration

The following table presents weighted average duration of the defined benefit obligations in the respective plans as of yearend 2013:

In years	**Pension**	**Jubilee payments**
Duration	15.72	13.17

34. SUBORDINATED DEBT

In June 2011 the Bank received subordinated debt from Erste Group Bank in the amount of HRK 229 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% p.a.. 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 (2013: HRK 23 million, 2012: 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.

35. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2013 and 2012 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 2013 and 2012 amounted to HRK 1,802 million.

36. OTHER CAPITAL RESERVES

The Bank’s distributable and non-distributable reserves are determined by regulations of the Croatian National Bank. As at 31 December 2013 the legal reserves of the Bank disclose non-distributable reserves of HRK 85 million, as at 31 December 2012 legal reserves amounted to HRK 85 million.

(All amounts are expressed in HRK million)

37. 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	
	2013	**2012**
Net profit for the year	184	585
Profit attributable to ordinary shareholders	184	585
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)	**10.83**	**34.45**

38. DIVIDENDS

The dividends for 2013 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 2012 was HRK 8.61 per share (total amount HRK 147 million).

39. 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 orderly transaction between market participants at the measurement date. 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 2013 and 2012.

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 24.

(c) Due from banks

The fair value of 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 not being calculated for the disclosure purposes.

(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 and is calculated based on the discounted cash flows analysis using combination of the interest rates adjusted by credit spreads in order to reflect credit risk. 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 not being calculated for the disclosure purposes. The fair value of the loans at fixed interest rates represent smaller part of the total carrying value and hence the fair value of total loans and advances to customers is calculated on the discounted cash flows adjusted for credit spread.

39. 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 determined based on their carrying amount.

(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 2013 and 2012 amounts HRK 4 million and HRK 3 million. DVA (Debit value adjustment) represents own credit risk of the Bank and as at 31 December 2013 amounts HRK 0.2 million.

39.1. 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.

During the current year, due to the changes in the market conditions for the certain equities, due to the not observable market data / prices cannot be corroborated by observable market data at commonly quoted intervals, quoted prices in the active market do not exist anymore.

Therefore, these equities were transferred to Level 3 of the fair value hierarchy.

(All amounts are expressed in HRK million)

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

Fair value hierarchy – Financial instruments at fair value

	LEVEL 1	LEVEL 2	LEVEL 3	GROUP 2013 TOTAL
Financial assets				
Receivables on financial derivative transactions	-	86	-	86
Interest rate swaps	-	*15*	-	*15*
Currency swaps	-	*44*	-	*44*
Forward foreign exchange contracts	-	*27*	-	*27*
Financial assets held for trading	200	103	-	303
Government debt securities	*1*	*103*	-	*104*
Investment in open funds	*179*	-	-	*179*
Shares	*20*	-	-	*20*
Financial investments available for sale	5,017	1,343	4	6,364
Quoted investments	*17*	*12*	-	*29*
Government debt securities	*4,593*	*1,171*	-	*5,764*
Other debt securities	*385*	*127*	-	*512*
Equities	*22*	*25*	*4*	*51*
Unquoted investments	-	*8*	-	*8*
Total financial assets	**5,217**	**1,532**	**4**	**6,753**
Financial liabilities				
Payables on financial derivative transactions	-	89	-	89
Interest rate swaps	-	*13*	-	*13*
Currency swaps	-	*46*	-	*46*
Forward foreign exchange contracts	-	*30*	-	*30*
Total financial liabilities	**-**	**89**	**-**	**89**

	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**

(All amounts are expressed in HRK million)

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

Fair value hierarchy – Financial instruments at fair value (continued)

	LEVEL 1	LEVEL 2	LEVEL 3	BANK 2013 TOTAL
Financial assets				
Receivables on financial derivative transactions	-	86	-	86
Interest rate swaps	*-*	*15*	*-*	*15*
Currency swaps	*-*	*44*	*-*	*44*
Forward foreign exchange contracts	*-*	*27*	*-*	*27*
Financial investments held for trading	22	103	-	125
Government debt securities	*1*	*103*	*-*	*104*
Shares	*21*	*-*	*-*	*21*
Financial investments available for sale	4,800	1,342	4	6,146
Quoted investments	*17*	*12*	*-*	*29*
Government debt securities	*4,286*	*1,170*	*-*	*5,456*
Other debt securities	*475*	*127*	*-*	*602*
Equities	*22*	*25*	*4*	*51*
Unquoted investments	*-*	*8*	*-*	*8*
Total financial assets	**4,822**	**1,531**	**4**	**6,357**
Financial liabilities				
Payables on financial derivative transactions	-	89	-	89
Interest rate swaps	*-*	*13*	*-*	*13*
Currency swaps	*-*	*46*	*-*	*46*
Forward foreign exchange contracts	*-*	*30*	*-*	*30*
Total financial liabilities	**-**	**89**	**-**	**89**

	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**

(All amounts are expressed in HRK million)

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

Fair value hierarchy – Financial instruments not measured at fair value

	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**GROUP 2013 TOTAL**
Financial assets				
Amounts due from other banks	-	-	*2,905*	*2,905*
Reverse repurchase agreements	-	-	*806*	*806*
Loans and advances to customers	-	-	*44,637*	*44,637*
Financial investments held to maturity	243	526	6	775
Total financial assets	**243**	**526**	**48,354**	**49,123**
Financial liabilities				
Amounts due to other banks	-	-	21,660	21,660
Repurchase agreements	-	-	*940*	*940*
Amounts due to customers	-	-	*34,608*	*34,608*
Issued bonds and other borrowed funds	-	-	*328*	*328*
Subordinated debt	-	-	*828*	*828*
Total financial liabilities	**-**	**-**	**58,364**	**58,364**

	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**GROUP 2012 TOTAL**
Financial assets				
Amounts due from other banks	-	-	*2,622*	*2,622*
Reverse repurchase agreements	-	-	*625*	*625*
Loans and advances to customers	-	-	*41,501*	*41,501*
Financial investments held to maturity	248	574	6	828
Total financial assets	**248**	**574**	**44,754**	**45,576**
Financial liabilities				
Amounts due to other banks	-	-	21,740	21,740
Repurchase agreements	-	-	*1,439*	*1,439*
Amounts due to customers	-	-	*31,981*	*31,981*
Issued bonds and other borrowed funds	-	-	*340*	*340*
Subordinated debt	-	-	*819*	*819*
Total financial liabilities	**-**	**-**	**56,319**	**56,319**

(All amounts are expressed in HRK million)

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

Fair value hierarchy – Financial instruments not measured at fair value (continued)

	LEVEL 1	LEVEL 2	LEVEL 3	BANK 2013 TOTAL
Financial assets				
Amounts due from other banks	-	-	2,427	*2,427*
Reverse repurchase agreements	-	-	*963*	*963*
Loans and advances to customers	-	-	*38,375*	*38,375*
Financial investments held to maturity	196	304	6	506
Total financial assets	**196**	**304**	**41,771**	**42,271**
Financial liabilities				
Amounts due to other banks	-	-	15,903	15,903
Repurchase agreements	-	-	*628*	*628*
Amounts due to customers	-	-	*33,963*	*33,963*
Issued bonds and other borrowed funds	-	-	*282*	*282*
Subordinated debt	-	-	*806*	*806*
Total financial liabilities	**-**	**-**	**51,582**	**51,582**

	LEVEL 1	LEVEL 2	LEVEL 3	BANK 2012 TOTAL
Financial assets				
Amounts due from other banks	-	-	*2,294*	*2,294*
Reverse repurchase agreements	-	-	*822*	*822*
Loans and advances to customers	-	-	*35,548*	*35,548*
Financial investments held to maturity	195	499	6	700
Total financial assets	**195**	**499**	**38,670**	**39,364**
Financial liabilities				
Amounts due to other banks	-	-	15,973	15,973
Repurchase agreements	-	-	*1,324*	*1,324*
Amounts due to customers	-	-	*31,413*	*31,413*
Issued bonds and other borrowed funds	-	-	*281*	*281*
Subordinated debt	-	-	*790*	*790*
Total financial liabilities	**-**	**-**	**49,781**	**49,781**

(All amounts are expressed in HRK million)

40. INFORMATION FOR CASH FLOW STATEMENT

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Operating Activities				
Profit before income tax	263	743	90	598
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization expense	73	72	46	50
Write-down on customer relationships	37	47		
Unrealized gains on financial assets held for trading	1	-	1	-
Impairment losses on loans and advances	1,203	870	1,091	733
Impairment losses on financial investments	33	2	28	2
Net change in valuation of derivatives	(32)	(9)	(31)	(10)
Other provisions	(14)	30	(12)	18
Interest expense	1,587	1,997	1,426	1,821
Interest income	(3,601)	(4,089)	(3,016)	(3,470)
Dividend income	(6)	(5)	(48)	(29)
Gains on investments	-	-	(4)	(6)
Share of results of associates	(3)	(4)	-	-
Loss from operating activities before changes in operating assets and liabilities	***(459)***	***(346)***	***(429)***	***(293)***

Analysis of cash and cash equivalents:

	Note	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
Cash on hand	17	904	868	822	787
Cash on clearing account	17	2,833	2,389	2,776	2,275
Current accounts with other banks	18	431	1,304	275	1,134
Placements with banks with maturity up to 3 months		1,066	421	908	421
Treasury bills with maturity up to 3 months		437	375	437	299
		5,671	**5,357**	**5,218**	**4,916**
Change in cash and cash equivalents		**314**	**1,058**	**302**	**723**

41. 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)

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

GROUP 2013

	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	7,949	-	-	7,949	-	-	-	-	**7,949**
Amounts due from other banks	2,168	115	473	2,756	265	-	265	-	**3,021**
Reverse repurchase agreements	628	210	-	838	-	-	-	-	**838**
Receivables on financial derivative transactions	25	1	5	31	52	3	55	-	**86**
Financial assets held for trading	199	-	104	303	-	-	-	-	**303**
Loans and advances to customers	8,311	1,483	7,262	17,056	17,646	11,724	29,370	-	**46,426**
Financial investments available for sale	413	357	467	1,237	4,602	525	5,127	-	**6,364**
Financial investments held to maturity	420	69	11	500	114	154	268	-	**768**
Investments in subsidiaries and associates	-	-	-	-	-	-	-	39	**39**
Property and equipment	-	-	-	-	136	529	665	-	**665**
Intangible assets	3	6	28	37	69	640	709	-	**746**
Investment property	-	-	-	-	-	20	20	-	**20**
Deferred tax assets	155	-	36	191	-	-	-	-	**191**
Other assets	134	-	5	139	299	-	299	-	**438**
Total assets	**20,405**	**2,241**	**8,391**	**31,037**	**23,183**	**13,595**	**36,778**	**39**	**67,854**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	3,857	902	9,828	14,587	5,808	2,285	8,093	-	**22,680**
Repurchase agreements	825	149	-	974	-	-	-	-	**974**
Payables on financial derivative transactions	21	10	7	38	48	3	51	-	**89**
Amounts due to customers	14,353	4,904	11,488	30,745	3,507	572	4,079	-	**34,824**
Issued bonds and other borrowed funds	2	7	6	15	319	15	334	-	**349**
Current tax liabilities	9	5	3	17	-	-	-	-	**17**
Deferred tax liabilities	1	1	5	7	4	-	4	-	**11**
Other liabilities	328	9	72	409	1	39	40	-	**449**
Provisions	19	9	36	64	145	2	147	-	**211**
Subordinated debt	19	8	-	27	854	-	854	-	**881**
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	7,319	**7,319**
Non- controlling interest	-	-	-	-	-	-	-	50	**50**
Total liabilities and shareholders' equity	**19,434**	**6,004**	**21,445**	**46,883**	**10,686**	**2,916**	**13,602**	**7,369**	**67,854**
Net liquidity gap	**971**	**(3,763)**	**(13,054)**	**(15,846)**	**12,497**	**10,679**	**23,176**	**(7,330)**	

(All amounts are expressed in HRK million)

41. 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)

41. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

BANK 2013

	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	7,695	-	-	7,695	-	-	-	-	**7,695**
Amounts due from other banks	1,968	-	294	2,262	262	-	262	-	**2,524**
Reverse repurchase agreements	792	210	-	1,002	-	-	-	-	**1,002**
Receivables on financial derivative transactions	26	1	5	32	51	3	54	-	**86**
Financial assets held for trading	21	-	104	125	-	-	-	-	**125**
Loans and advances to customers	4,450	1,168	6,429	12,047	16,531	11,334	27,865	-	**39,912**
Financial investments available for sale	328	357	467	1,152	4,551	443	4,994	-	**6,146**
Financial investments held to maturity	305	39	-	344	-	155	155	-	**499**
Investments in subsidiaries and associates	-	-	-	-	-	-	-	1,272	**1,272**
Property and equipment	-	-	-	-	53	295	348	-	**348**
Intangible assets	-	-	-	-	37	-	37	-	**37**
Investment property	-	-	-	-	-	20	20	-	**20**
Deferred tax assets	-	-	37	37	-	-	-	-	**37**
Other assets	132	-	-	132	290	-	290	-	**422**
Total assets	**15,717**	**1,775**	**7,336**	**24,828**	**21,775**	**12,250**	**34,025**	**1,272**	**60,125**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Amounts due to other banks	2,595	285	6,506	9,386	5,276	1,990	7,266	-	**16,652**
Repurchase agreements	498	149	-	647	-	-	-	-	**647**
Payables on financial derivative transactions	21	10	7	38	48	3	51	-	**89**
Amounts due to customers	13,649	4,751	11,707	30,107	3,511	557	4,068	-	**34,175**
Issued bonds and other borrowed funds	2	-	-	2	300	-	300	-	**302**
Other liabilities	258	-	66	324	-	-	-	-	**324**
Provisions	8	8	32	48	141	2	143	-	**191**
Subordinated debt	19	-	-	19	839	-	839	-	**858**
Equity attributable to equity holders of the Bank	-	-	-	-	-	-	-	6,887	**6,887**
Total liabilities and shareholders' equity	**17,050**	**5,203**	**18,318**	**40,571**	**10,115**	**2,552**	**12,667**	**6,887**	**60,125**
Net liquidity gap	**(1,333)**	**(3,428)**	**(10,982)**	**(15,743)**	**11,660**	**9,698**	**21,358**	**(5,615)**	**-**

(All amounts are expressed in HRK million)

41. 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 unde-fined	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	**249**	**(4,139)**	**(6,870)**	**(10,760)**	**4,665**	**11,758**	**16,423**	**(5,663)**	**-**

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

(All amounts are expressed in HRK million)

42. 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 2013 and 31 December 2012, balances outstanding with related parties comprised:

				GROUP
	2013		2012	
	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	900	25	1,529	45
Entity with significant influence on the Group	2	3	-	22
Associates	41	-	42	-
Key management personnel	36	-	36	-
Other EGB companies	6	-	9	-
Other	8	-	12	-
Total assets	**993**	**28**	**1,628**	**67**

								GROUP
	2013				2012			
	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	13,883	64	241	4	14,503	103	246	-
Entity with significant influence on the Group	5,113	3	-	-	4,804	36	-	-
Associates	3	-	-	7	1	-	-	4
Key management personnel	78	-	21	-	90	-	20	-
Other EGB companies	142	-	-	10	93	-	-	6
Other	9	-	-	-	38	3	-	-
Total liabilities	**19,228**	**67**	**262**	**21**	**19,529**	**142**	**266**	**10**

(All amounts are expressed in HRK million)

42. RELATED-PARTY TRANSACTIONS (CONTINUED)

	BANK				
	2013			2012	
	Amounts due from banks and loans to customers	Receivables from financial derivative transactions	Other recei-vables	Amounts due from banks and loans to customers	Receivables from financial derivative transactions
Parent company	833	25	-	1,486	45
Entity with significant influence on the Group	1	3	-	-	22
Associates	41	-	-	42	-
Key management personnel	36	-	-	35	-
Other EGB companies	6	-	-	9	-
Subsidiaries	193	-	90	223	-
Other	8	-	-	12	-
Total assets	**1,118**	**28**	**90**	**1,807**	**67**

	BANK							
	2013				2012			
	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	8,300	64	241	4	8,893	103	246	-
Entity with significant influence on the Group	4,738	3	-	-	4,400	36	-	-
Associates	3	-	-	7	1	-	-	4
Key management personnel	76	-	21	-	89	-	20	-
Other EGB companies	128	-	-	9	85	-	-	5
Subsidiaries	1,573	-	-	-	1,520	-	-	-
Other	9	-	-	-	38	3	-	-
Total liabilities	**14,827**	**67**	**262**	**20**	**15,026**	**142**	**266**	**9**

(All amounts are expressed in HRK million)

42. RELATED-PARTY TRANSACTIONS (CONTINUED)

Transactions with related parties comprised:

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Interest income				
Parent company	112	286	112	286
Entity with significant influence on the Group	72	159	72	159
Associates	2	3	2	3
Subsidiaries	-	-	5	11
Key management personnel	2	-	2	-
Fee income				
Parent company	7	9	2	8
Other EGB companies	13	11	13	10
Subsidiaries	-	-	50	41
Total income	**208**	**468**	**258**	**518**

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Interest expense				
Parent company	428	669	303	669
Entity with significant influence on the Group	193	296	182	296
Other EGB companies	-	1	-	1
Subsidiaries	-	-	32	48
Key management personnel	4	-	4	-
Fee expense				
Parent company	6	10	6	10
Subsidiaries	-	-	9	6
Other EGB companies	34	34	30	34
Other operating expenses				
Parent company	4	2	4	2
Associates	40	47	37	47
Other EGB companies	12	14	9	14
Subsidiaries	-	-	12	18
Other	1	-	1	-
Total expenses	**722**	**1,073**	**629**	**1,145**

(All amounts are expressed in HRK million)

42. RELATED-PARTY TRANSACTIONS (CONTINUED)

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Commitments and contingent liabilities				
Guarantees issued				
Parent company	59	74	59	74
Other EGB companies	2	17	2	17
Subsidiaries	-	-	-	1
Other	1	-	1	-
Undrawn credit and loan commitments				
Associates	13	9	13	9
Key management personnel	1	1	1	1
Subsidiaries	-	-	116	76
Other EGB companies	-	2	-	2
	76	**103**	**192**	**180**

As at 31 December 2013, 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 1,565 million as at 31 December 2012).

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

	GROUP		BANK	
	2013	**2012**	**2013**	**2012**
Wages and salaries	25	28	10	10
Bonuses	12	12	5	5
- thereof pension costs	*3*	*4*	*1*	*1*
	37	**40**	**15**	**15**

43. RISK MANAGEMENT

43.1. 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.

43.1. 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.

43.2. 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)

43.2. 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	**2013**	**2012**	**2013**	**2012**
Cash and balances with the central banks (without cash on hand)	17	7,045	6,889	6,873	6,672
Amounts due from other banks	18	3,021	2,865	2,524	2,507
Reverse repurchase agreements	19	838	683	1,002	899
Receivables on financial derivative transactions	20	86	114	86	113
Financial assets held for trading	21	303	250	125	56
Loans and advances to customers	22	46,426	45,348	39,912	38,844
Financial investments available for sale	23	6,364	6,135	6,146	5,956
Financial investments held to maturity	24	768	813	499	685
Investments in subsidiaries and associates	25	39	68	1,272	1,300
Other assets (included only fees and other)	28	43	43	37	37
Total assets		**64,933**	**63,208**	**58,476**	**57,069**
Contingent liabilities and commitments		5,684	4,962	3,558	3,278
Total credit risk exposure		**70,617**	**68,170**	**62,034**	**60,347**

(All amounts are expressed in HRK million)

43.2. 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 2013 was HRK 998 million (2012: HRK 777 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
	2013	**2012**
Republic of Croatia	62,515	60,359
EU countries	4,290	4,559
Other European countries	3,744	3,218
United States of America	66	32
Other countries	2	2
	70,617	**68,170**

		BANK
	2013	**2012**
Republic of Croatia	57,109	55,071
EU countries	3,686	4,394
Other European countries	1,173	849
United States of America	64	31
Other countries	2	2
	62,034	**60,347**

(All amounts are expressed in HRK million)

43.2. CREDIT RISK (CONTINUED)

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

		GROUP
	2013	**2012**
Agriculture, forestry and fishing	828	814
Mining	289	261
Manufacturing	3,639	4,041
Energy and water supply	960	913
Construction	5,396	5,460
Trade	5,490	6,029
Hotels and restaurants	1,957	2,089
Transport and storage	2,154	920
Banking and insurance	11,966	11,210
Real estate and other business activities	1,064	1,168
Public administration	13,369	11,858
Education services	82	81
Health and social work	98	106
Other service activities	1,441	1,694
Individuals	20,229	20,005
Information and communication	361	340
Professional, scientific and technical activities	1,294	1,181
	70,617	**68,170**

		BANK
	2013	**2012**
Agriculture, forestry and fishing	756	782
Mining	204	225
Manufacturing	3,206	3,472
Energy and water supply	559	496
Construction	5,190	5,297
Trade	3,925	4,333
Hotels and restaurants	1,906	1,954
Transport and storage	2,036	862
Banking and insurance	12,611	12,065
Real estate and other business activities	1,034	1,116
Public administration	11,973	10,946
Education services	81	80
Health and social work	94	103
Other service activities	626	704
Individuals	16,268	16,447
Information and communication	315	328
Professional, scientific and technical activities	1,250	1,137
	62,034	**60,347**

43.2. 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 2013, the Group and Bank′s estimated value of collaterals that have reduced credit risk exposure are 10,683 HRK million and HRK 10,559 million, respectively (2012: HRK 10,492 million and HRK 10,434 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 2013
		Not impaired				
	Notes	**Low risk**	**Management attention**	**Sub-standard**	**Impaired**	**Total**
Amounts due from other banks	18	3,003	21	1	-	3,025
Loans and advances to customers		30,732	9,010	2,540	10,097	52,379
Companies	22	*10,207*	*3,036*	*1,123*	*7,150*	*21,516*
Individuals	22	*12,550*	*4,448*	*1,414*	*2,942*	*21,354*
Public sector	22	*7,915*	*1,477*	-	-	*9,392*
Other institutions	22	*60*	*49*	*3*	*5*	*117*
Financial investments		7,136	-	-	10	7,146
Treasury bills	23,24	*1,288*	-	-	-	*1,288*
Listed debt securities	21,23,24	*5,803*	-	-	*10*	*5,813*
Unlisted debt securities	24	*6*	-	-	-	*6*
Treasury bills of Republic of Montenegro	24	*39*	-	-	-	*39*
		40,871	**9,031**	**2,541**	**10,107**	**62,550**

(All amounts are expressed in HRK million)

43.2. CREDIT RISK (CONTINUED)

Credit quality per class of financial assets (continued)

						GROUP 2012
				Not impaired		
	Notes	**Low risk**	**Management attention**	**Sub-standard**	**Impaired**	**Total**
Amounts due from other banks	18	2,846	21	-	-	2,867
Loans and advances to customers		28,704	10,047	3,010	8,201	49,962
Companies	22	*10,623*	*3,900*	*1,429*	*5,639*	*21,591*
Individuals	22	*12,369*	*4,636*	*1,578*	*2,557*	*21,140*
Public sector	22	*5,623*	*1,502*	*-*	*-*	*7,125*
Other institutions	22	*89*	*9*	*3*	*5*	*106*
Financial investments		6,840	60	5	-	6,905
Treasury bills	21,23,24	*1,202*	*-*	*-*	*-*	*1,202*
Listed debt securities	21,23,24	*5,592*	*60*	*5*	*-*	*5,657*
Unlisted debt securities	24	*5*	*-*	*-*	*-*	*5*
Treasury bills of Republic of Montenegro	24	*41*	*-*	*-*	*-*	*41*
		38,390	**10,128**	**3,015**	**8,201**	**59,734**

						BANK 2013
				Not impaired		
	Notes	**Low risk**	**Management attention**	**Sub-standard**	**Impaired**	**Total**
Amounts due from other banks	18	2,505	21	1	-	2,527
Loans and advances to customers		25,859	7,860	2,192	9,057	44,968
Companies	22	*7,993*	*2,576*	*922*	*6,789*	*18,280*
Individuals	22	*10,592*	*3,833*	*1,267*	*2,263*	*17,955*
Public sector	22	*7,214*	*1,405*	*-*	*-*	*8,619*
Other institutions	22	*60*	*46*	*3*	*5*	*114*
Financial investments		6,650	-	-	10	6,660
Treasury bills	23,24	*1,067*	*-*	*-*	*-*	*1,067*
Listed debt securities	21,23,24	*5,487*	*-*	*-*	*10*	*5,497*
Unlisted debt securities	23,24	*96*	*-*	*-*	*-*	*96*
		35,014	**7,881**	**2,193**	**9,067**	**54,155**

(All amounts are expressed in HRK million)

43.2. CREDIT RISK (CONTINUED)

Credit quality per class of financial assets (continued)

						BANK 2012
		Not impaired				
	Notes	**Low risk**	**Management attention**	**Sub-standard**	**Impaired**	**Total**
Amounts due from other banks	18	2,488	21	-	-	2,509
Loans and advances to customers		23,992	8,731	2,679	7,236	42,638
Companies	22	*8,179*	*3,107*	*1,307*	*5,292*	*17,885*
Individuals	22	*10,459*	*4,166*	*1,369*	*1,939*	*17,933*
Public sector	22	*5,266*	*1,450*	*-*	*-*	*6,716*
Other institutions	22	*88*	*8*	*3*	*5*	*104*
Financial investments		6,534	60	5	-	6,599
Treasury bills	21,23,24	*1,127*	*-*	*-*	*-*	*1,127*
Listed debt securities	21,23,24	*5,310*	*60*	*5*	*-*	*5,375*
Unlisted debt securities	24	*97*	*-*	*-*	*-*	*97*
		33,014	**8,812**	**2,684**	**7,236**	**51,746**

As at 31 December 2013, the Group and the Bank's total impaired exposures had been secured with collateral of HRK 4,154 million and HRK 4,022 million (HRK 3,554 million and HRK 3,417 million as at 31 December 2012).

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

As at 31 December 2013, the Group and the Bank's past due but not impaired loans had been secured with collateral of HRK 1,127 million and HRK 1,007 million (HRK 2,216 million and HRK 1,987 million as at 31 December 2012).

					GROUP 2013
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Amounts due from other banks	320	-	-	-	320
Loans and advances to customers					
Companies	1,009	753	392	99	2,253
Individuals	1,145	497	44	48	1,734
Public sector	59	3	1	10	73
Other institutions	2	1	-	-	3
	2,535	**1,254**	**437**	**157**	**4,383**

(All amounts are expressed in HRK million)

43.2. CREDIT RISK (CONTINUED)

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

					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**

					BANK 2013
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Amounts due from other banks	246	-	-	-	246
Loans and advances to customers					
Companies	929	702	382	99	2,112
Individuals	707	389	8	46	1,150
Public sector	32	3	1	10	46
Other institutions	2	1	-	-	3
	1,916	**1,095**	**391**	**155**	**3,557**

					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**

(All amounts are expressed in HRK million)

43.2. 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.

		GROUP
	2013	**2012**
Loans and advances to customers		
Companies	3,525	1,943
Individuals	1,093	384
Other	4	442
Total renegotiated financial assets	**4,622**	**2,769**

		BANK
	2013	**2012**
Loans and advances to customers		
Companies	3,496	1,883
Individuals	1,084	363
Other	4	421
Total renegotiated financial assets	**4,584**	**2,667**

Offsetting financial assets and financial liabilities

Bank employs repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the amount of assets and liabilities which would be set off as a result of master netting agreements is presented in the column Financial instruments. Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligation. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received / pledged. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from using it by the transferor during the time of the pledge.

(All amounts are expressed in HRK million)

43.2. CREDIT RISK (CONTINUED)

Offsetting financial assets and financial liabilities (continued)

					GROUP 2013
Financial assets subject to offsetting and potential offsetting agreements	**Gross amounts of recognised financial assets**	**Potential effects of netting agreements not qualifying for balance sheet offsetting**			**Net amount after potential offsetting**
		Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	86	(22)	-	-	64
Reverse repurchase agreements	839	-	-	(825)	14
Total	**925**	**(22)**	**-**	**(825)**	**78**

					GROUP 2013
Financial liabilities subject to offsetting and potential offsetting agreements	**Gross amounts of recognised financial liabilities**	**Potential effects of netting agreements not qualifying for balance sheet offsetting**			**Net amount after potential offsetting**
		Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	89	(22)	-	-	67
Repurchase agreements	974	-	-	(974)	-
Total	**1,063**	**(22)**	**-**	**(974)**	**67**

(All amounts are expressed in HRK million)

43.2. CREDIT RISK (CONTINUED)

Offsetting financial assets and financial liabilities (continued)

					GROUP 2012
Financial assets subject to offsetting and potential offsetting agreements	**Gross amounts of recognised financial assets**	**Potential effects of netting agreements not qualifying for balance sheet offsetting**			**Net amount after potential offsetting**
		Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	114	(42)	-	-	72
Reverse repurchase agreements	683	-	-	(683)	-
Total	**797**	**(42)**	**-**	**(683)**	**72**

					GROUP 2012
Financial liabilities subject to offsetting and potential offsetting agreements	**Gross amounts of recognised financial liabilities**	**Potential effects of netting agreements not qualifying for balance sheet offsetting**			**Net amount after potential offsetting**
		Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	148	(42)	-	-	106
Repurchase agreements	1,490	-	-	(1,481)	9
Total	**1,638**	**(42)**	**-**	**(1,481)**	**115**

(All amounts are expressed in HRK million)

43.2. CREDIT RISK (CONTINUED)

Offsetting financial assets and financial liabilities (continued)

					BANK 2013
Financial assets subject to offsetting and potential offsetting agreements	**Gross amounts of recognised financial assets**	**Potential effects of netting agreements not qualifying for balance sheet offsetting**			**Net amount after potential offsetting**
		Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	86	(22)	-	-	64
Reverse repurchase agreements	1,002	-	-	(988)	14
Total	**1,088**	**(22)**	**-**	**(988)**	**78**

					BANK 2013
Financial liabilities subject to offsetting and potential offsetting agreements	**Gross amounts of recognised financial liabilities**	**Potential effects of netting agreements not qualifying for balance sheet offsetting**			**Net amount after potential offsetting**
		Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	89	(22)	-	-	67
Repurchase agreements	647	-	-	(647)	-
Total	**736**	**(22)**	**-**	**(647)**	**67**

(All amounts are expressed in HRK million)

43.2. CREDIT RISK (CONTINUED)

Offsetting financial assets and financial liabilities (continued)

BANK 2012

Financial assets subject to offsetting and potential offsetting agreements	**Gross amounts of recognised financial assets**	**Potential effects of netting agreements not qualifying for balance sheet offsetting**			**Net amount after potential offsetting**
		Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	113	(42)	-	-	71
Reverse repurchase agreements	899	-	-	(899)	-
Total	**1,012**	**(42)**	**-**	**(899)**	**71**

BANK 2012

Financial liabilities subject to offsetting and potential offsetting agreements	**Gross amounts of recognised financial liabilities**	**Potential effects of netting agreements not qualifying for balance sheet offsetting**			**Net amount after potential offsetting**
		Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	147	(42)	-	-	105
Repurchase agreements	1,369	-	-	(1,367)	2
Total	**1,516**	**(42)**	**-**	**(1,367)**	**107**

43.3. LIQUIDITY RISK AND FUNDING MANAGEMENT

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

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

Legal restrictions

Decision on Reserve Requirement

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

In November 2013 the CNB Council reduced the reserve requirement calculation rate from 13.5% to 12%. Furthermore, banks were required to purchase three-year compulsory CNB bills for the total amount of the released reserve requirements (see Note 18). No interest will be charged on these bills and they will be non-transferrable, but banks will be able to offer them, prior to maturity, at each month-end, for redemption by the central bank. The amount offered is to equal 50% of the increase in certain placements to domestic non-financial enterprises in the previous month.

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%.

(All amounts are expressed in HRK million)

43.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

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 table below shows information on minimal FX claims on December 31, 2013 and December 31, 2012:

2013	%	2012	%
As of 31 December	20.65	As of 31 December	20.58
Average 2013	20.59	Average 2012	19.95
Highest level	23.94	Highest level	24.06
Lowest level	17.85	Lowest level	17.42

Decision on liquidity risk management

From 31 March 2010 CNB′s Decision on liquidity risk management is in force. Decision prescribes that expected cash inflows up to one week and expected cash inflows up to one month must be higher than expected outflows up to one week and up to one month. Calculation is made separately for HRK and separately for foreign currencies. The Bank has fulfilled the prescribed limits and the ratios during 2013 and 2012 were as follows:

2013	HRK 1 week	HRK 1 month	FX 1 week	FX 1 month
Year-end	2.01	1.30	2.00	1.61
Average 2013	2.07	1.49	2.43	1.66
Highest level	3.01	1.91	3.24	2.12
Lowest level	1.24	1.02	1.30	1.28

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

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.

(All amounts are expressed in HRK million)

43.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

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 2013 and 31 December 2012 based on contractual undiscounted repayment obligations.

						GROUP 2013
	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	7,949	-	-	-	-	**7,949**
Amounts due from other banks	2,169	115	475	270	-	**3,029**
Reverse repurchase agreements	628	210	-	-	-	**838**
Receivables on financial derivative transactions	25	1	5	52	3	**86**
Financial assets held for trading	200	-	107	-	-	**307**
Loans and advances to customers	8,351	1,498	7,580	21,237	16,817	**55,483**
Financial investments available for sale	414	359	480	5,182	666	**7,101**
Financial investments held to maturity	420	69	11	128	195	**823**
Other assets	132	-	-	310	-	**442**
Total undiscounted financial assets	**20,288**	**2,252**	**8,658**	**27,179**	**17,681**	**76,058**
FINANCIAL LIABILITIES						
Amounts due to other banks	3,864	905	9,995	6,269	2,674	**23,707**
Repurchase agreements	826	149	-	-	-	**975**
Payables on financial derivative transactions	22	10	7	47	3	**89**
Amounts due to customers	14,381	4,924	11,697	3,806	676	**35,484**
Issued bonds and other borrowed funds	2	7	7	385	21	**422**
Other liabilities	328	9	72	1	39	**449**
Subordinated debt	19	8	-	1,026	-	**1,053**
Total undiscounted financial liabilities	**19,442**	**6,012**	**21,778**	**11,534**	**3,413**	**62,179**

(All amounts are expressed in HRK million)

43.3. 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 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**
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**

(All amounts are expressed in HRK million)

43.3. LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

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

						BANK 2013
	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	7,695	-	-	-	-	**7,695**
Amounts due from other banks	1,969	-	295	267	-	**2,531**
Reverse repurchase agreements	792	210	-	-	-	**1,002**
Receivables on financial derivative transactions	26	1	5	51	3	**86**
Financial assets held for trading	21	-	107	-	-	**128**
Loans and advances to customers	4,471	1,179	6,710	19,895	16,256	**48,511**
Financial investments available for sale	329	359	480	5,124	561	**6,853**
Financial investments held to maturity	306	39	-	-	196	**541**
Other assets	132	-	-	310	-	**442**
Total undiscounted financial assets	**15,741**	**1,788**	**7,597**	**25,647**	**17,016**	**67,789**
FINANCIAL LIABILITIES						
Amounts due to other banks	2,600	286	6,616	5,695	2,329	**17,526**
Repurchase agreements	499	149	-	-	-	**648**
Payables on financial derivative transactions	21	10	7	48	3	**89**
Amounts due to customers	13,676	4,770	11,921	3,810	659	**34,836**
Issued bonds and other borrowed funds	2	-	-	362	-	**364**
Other liabilities	258	-	66	-	-	**324**
Subordinated debt	19	-	-	1,007	-	**1,026**
Total undiscounted financial liabilities	**17,075**	**5,215**	**18,610**	**10,922**	**2,991**	**54,813**

(All amounts are expressed in HRK million)

43.3. 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**
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**

Term deposits from individuals can be drawn before maturity, but historical experience shows that it is not very usual. As of 31 December 2013 balance of term deposits for the Group and the Bank from individuals were HRK 20,666 million and HRK 19,962 million, and as of 31 December 2012 were HRK 19,449 million and HRK 18,767 million.

(All amounts are expressed in HRK million)

43.3. 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**
2013						
Contingent liabilities	126	294	828	460	137	1,845
Commitments	138	272	2,868	552	10	3,840
Total	**264**	**566**	**3,696**	**1,012**	**147**	**5,685**
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**

						BANK
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
2013						
Contingent liabilities	103	270	664	410	102	1,549
Commitments	81	135	1,565	218	10	2,009
Total	**184**	**405**	**2,229**	**628**	**112**	**3,558**
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**

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**
	2013	**2012**	**2013**	**2012**
Within one year	36	36	53	54
After one but not more than five years	115	110	184	189
More than five years	65	73	65	300
	216	**219**	**302**	**543**

(All amounts are expressed in HRK million)

43.3. 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**
	2013	**2012**	**2013**	**2012**
Within one year	11	1	4	2
After one but not more than five years	32	5	15	7
More than five years	1	-	-	-
	44	**6**	**19**	**9**

Finance lease

		GROUP 2013		**GROUP 2012**
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	2	2	11	11
After one but not more than five years	3	2	4	4
More than five years	-	-	-	-
Total minimum lease payments	**5**	**4**	**15**	**15**
Less amounts representing finance charge	*(1)*	-	*(6)*	-
Present value of minimum lease payments	**4**	**4**	**9**	**15**

(All amounts are expressed in HRK million)

43.4. MARKET RISK

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

- Interest rate risk
- Foreign exchange risk
- Securities risk

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

43.4.1. 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:

2013	**Interest rate**	**Currency**	**Effect of correlation**	**Total VaR**
year end	-	1	-	1
average	1	1	(1)	1
high	4	11	(3)	12
low	-	-	-	-

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

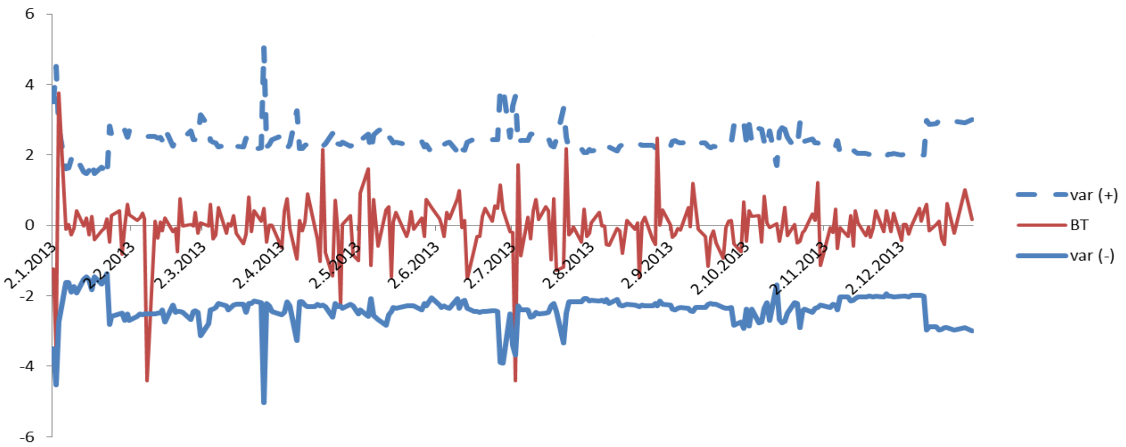
43.4.1. MARKET RISK – TRADING (CONTINUED)

Effect of correlation reflects the fact that the total VaR on a given day will be lower than 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.

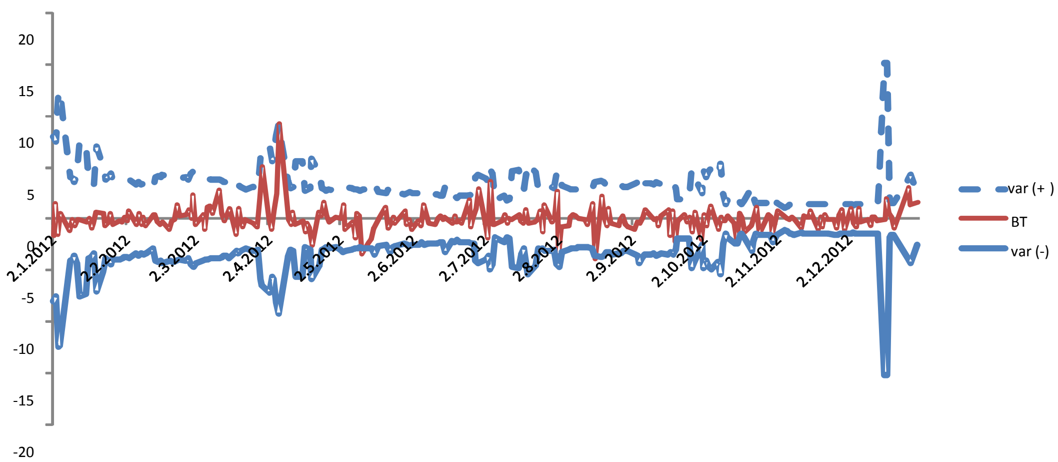
Back testing results of VaR calculations show statistically acceptable level of confidence, with four outliers on the 250 days basis.

		TOTAL
Date	**VaR**	**BT**
4.1.2013	2.74	3.75
8.2.2013	2.52	-4.42
3.7.2013	3.67	-4.42
28.8.2013	2.28	2.47

Comparison of VAR (99%, one-day) i Back testing results for 2013 in million HRK



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



(All amounts are expressed in HRK million)

43.4.1. 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 and foreign currency business.

Legal restrictions

The key legal ratio related to FX position of the Bank is the Croatian National Bank 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".

2013	**Without options**	**With options**	**2012**	**Without options**	**With options**
year end	0.84%	1.14%	year end	1.24%	2.00%
average	1.06%	1.49%	average	1.59%	2.05%
low	0.40%	0.85%	low	0.36%	0.81%
high	10.20%	10.49%	high	6.56%	6.80%

(All amounts are expressed in HRK million)

43.4.2. 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.

Net interest income simulation refers to the simulation of net interest income of the Bank in the case of parallel 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 2014 based on data as at 31 December 2013:

	EUR	**CHF**	**HRK**	**TOTAL**
immediate parallel shock plus 200 bp	129.4	(17.5)	43.8	155.7
immediate parallel shock plus 100 bp	64.0	(8.9)	21.5	76.6
immediate parallel shock minus 100 bp	(33.4)	-	(32.9)	(66.3)
immediate parallel shock minus 200 bp	(37.4)	-	(61.5)	(98,9)

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)

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.

(All amounts are expressed in HRK million)

43.4.2. MARKET RISK – NON TRADING (CONTINUED)

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 2013:

	-200	-100	+100	+200	Total Basel II
HRK	(61)	(27)	23	43	**61**
CHF	(48)	(23)	9	17	**48**
EUR	(130)	(85)	109	217	**130**
USD	(21)	(12)	15	29	**21**
Total	**(261)**	**(147)**	**155**	**305**	**261**
				Equity (Tier I + Tier II)	7,117
				Basel II ratio	3.67%

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	**(157)**	**(109)**	**105**	**204**	**158**
				Equity (Tier I + Tier II)	6,939
				Basel II ratio	2.28%

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.

43.5 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 a new products and business processes of the Bank. The other Bank activities which reduces the possibility of occurrence of the operational risk are Risk Control Self Assessment (workshops are conducted continuously every year, and are used for identification of the Bank's exposure to risk, for boosting the awareness of the possibility of operational risk occurrence and its mitigation, the development of controls, risk acceptance, and detection of unregistered operational risk events), Scenario Analysis (workshops are conducted annually and are aimed at assessing the threat from the environment that could adversely affect the Bank in the future, or a potential future event with a large amount of possible loss), Key Risk Indicators alert the Bank about changes of the level of the risk (trends) which could cause potential adverse effects 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)

44. 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.

				GROUP
Regulatory capital	**Actual 2013**	**Required capital**	**Actual 2012**	**Required capital**
Tier 1 capital	6,231	2,419	5,778	2,419
Tier 2 capital	509	2,419	673	2,419
Deduction according to Article 2.4. Capital Adequacy Decision	(443)	-	(136)	-
Total Capital	**6,297**	**4,838**	**6,315**	**4,838**
Risk weighted assets	36,202	4,188	34,899	4,188
Position, Foreign Exchange, Settlement and Counterparty Risks	5,130	650	5,420	650
Total Risks	**41,332**	**4,838**	**40,319**	**4,838**
Tier 1 capital Ratio	15.1%	6.0%	14.3%	6.0%
Total capital Ratio	15.2%	12.0%	15.7%	12.0%

(All amounts are expressed in HRK million)

44. CAPITAL (CONTINUED)

				BANK
Regulatory capital	**Actual 2013**	**Required capital**	**Actual 2012**	**Required capital**
Tier 1 capital	6,601	1,958	6,260	1,904
Tier 2 capital	504	1,958	664	1,904
Deduction according to Article 2.4. Capital Adequacy Decision	(1,708)	-	(1,401)	-
Total Capital	**5,397**	**3,916**	**5,523**	**3,808**
Risk weighted assets	28,804	3,456	27,556	3,307
Position, Foreign Exchange, Settlement and Counterparty Risks	3,830	460	4,172	501
Total Risks	**32,634**	**3,916**	**31,728**	**3,808**
Tier 1 capital Ratio	20.2%	6.0%	19.7%	6.0%
Total capital Ratio	16.5%	12.0%	17.4%	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 2013 and 2012 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.

45. EVENTS AFTER THE REPORTING DATE

On 10 February 2014, the Bank acquired additional 40% of shares in S-leasing increasing its ownership to 50% for a consideration of HRK 84 million.
As it was acquired within the Group (ultimate controlling parent is Erste Group Bank A.G.) pooling of interest accounting method for acquisition of the Leasing was used. This resulted in recognition of difference between purchase price and net asset value directly in retained earnings.

	Amounts in HRK million
Amounts due from other banks	*9*
Loans and advances to customers	*816*
Other assets	*776*
ASSETS	**1,601**
Amounts due to other banks	*1,117*
Amounts due to customers	*206*
Other liabilities	*77*
LIABILITIES	**1,400**
Net assets acquired	**201**
Non- controlling interest (50% of net asset)	(100)
Net assets acquired before 2013	(20)
Total net asset acquired	81
Adjustment directly in equity	3
Cost of acquisition	**84**

Cash outflow on acquisition of the subsidiary:

Net cash acquired with the subsidiary	9
Cash paid	(84)
Net cash outflow	**(75)**

On 20 February 2014, Bank established new company Erste Euro Savjetovanje d.o.o. with paid up capital in amount of HRK 1.5 million.

(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 2013 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 148 to 159 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 2013			**GROUP**
		2013	**2012**
1.	Interest income	3,595	4,089
2.	(Interest expense)	1,587	1,997
3.	**Net interest income (1-2)**	**2,008**	**2,092**
4.	Fee and commission income	727	680
5.	(Fee and commission expense)	177	159
6.	**Net fee and commission income (4-5)**	**550**	**521**
7.	Profit/(loss) from investments in subsidiaries, associates and joint ventures	(1)	(2)
8.	Profit/(loss) from trading	52	39
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	(30)	61
12.	Profit/(loss) from asset held to maturity	-	-
13.	Profit/(loss) from hedging	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	-	-
15.	Income from other ownership investments	6	10
16.	Profit/(loss) from foreign currency differences	105	109
17.	Other income	51	20
18.	Other expenses	11	9
19.	General administrative expenses and depreciation	1,162	1,196
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)**	**1,568**	**1,645**
21.	Expense of value adjustment and loss provisions	1,305	902
22.	**Profit/(loss) before tax (20-21)**	**263**	**743**
23.	Income tax expense	62	147
24.	**Profit/(loss) of the current year (22-23)**	**201**	**596**
25.	Earnings per share	10.83	34.45
	Annex to income statement		
26.	Profit/(loss) of the current year	201	596
27.	Assign equity holders of the Bank	17	585
28.	Non- controlling interest	184	11

(All amounts are expressed in HRK million)

Statement of financial position As at 31 December 2013			GROUP
	Asset	**2013**	**2012**
1.	CASH AND DEPOSITS WITH CB (1.1. + 1.2.)	8,526	7,757
1.1.	Cash	904	868
1.2.	Deposits with Central bank	7,622	6,889
2.	DEPOSITS WITH BANKING INSTITUTIONS	1,753	2,000
3.	TREASURY BILLS WITH MINISTRY OF FINANCE AND BILLS OF EXCHANGE WITH CENTRAL BANK	1,334	1,245
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	303	212
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	5,490	5,433
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	204	203
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	81	107
9.	LOANS TO FINANCIAL INSTITUTIONS	1,401	1,520
10.	LOANS TO OTHER CUSTOMERS	46,066	44,896
11.	INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	39	68
12.	REPOSSESED ASSETS	291	181
13.	TANGIBLE ASSET (MINUS DEPRECIATION)	685	705
14.	INTEREST, FEES AND OTHER ASSETS	1,681	1,564
A	**TOTAL ASSETS (1+2+3 up to 14)**	**67,854**	**65,891**
	Liabilities and equity		
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS (1.1. + 1.2.)	19,761	21,901
1.1.	Short-term borrowings	5,753	5,661
1.2.	Long-term borrowings	14,008	16,240
2.	DEPOSITS (2.1. + 2.2.+2.3.)	37,471	33,193
2.1.	Deposits of gyro and current accounts	7,240	5,197
2.2.	Savings deposits	3,273	2,912
2.3.	Term deposits	26,958	25,084
3.	OTHER BORROWINGS (3.1. + 3.2.)	265	566
3.1.	Short-term borrowings	244	565
3.2.	Long-term borrowings	21	1
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	84	141
5.	ISSUED DEBT SECURITIES (5.1. + 5.2.)	300	300
5.1.	Short-term issued debt instruments	-	-
5.2.	Long-term issued debt instruments	300	300
6.	ISSUED SUBORDINATED INSTRUMENTS	863	860
7.	ISSUED HYBRID INSTRUMENTS	-	-
8.	INTEREST, FEES AND OTHER LIABILITIES	1,741	1,621
B	**TOTAL LIABILITIES (1+2+3+4+5+6+7+8)**	**60,485**	**58,582**
	Shareholders' equity		
1.	SHARE CAPITAL	3,500	3,500
2.	PROFIT/(LOSS) OF THE CURRENT YEAR	184	585
3.	RETAINED PROFIT/(LOSS)	3,395	2,944
4.	LEGAL RESERVES	85	85
5.	STATUTORY AND OTHER CAPITAL RESERVES	6	(1)
6.	UNREALISED PROFIT/(LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	199	196
C	**TOTAL EQUITY (1+2+3+4+5+6)**	**7,369**	**7,309**
D	**TOTAL LIABILITIES AND EQUITY (B+C)**	**67,854**	**65,891**
	Statement of financial position appendix		
7.	TOTAL EQUITY	7,369	7,309
8.	Equity attributable to equity holders of the Bank	7,319	7,271
9.	Non- controlling interest	50	38

Signed on behalf of Erste&Steiermärkische Bank d.d. on 05 March 2014:

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 2013 **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	-	84	2,906	585	196	38	**7,309**
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	**-**
3.	Corrected balance as at 1 January (1+2)	3,500	-	84	2,906	585	196	38	**7,309**
4.	Sale of financial assets available for sale	-	-	-	-	-	1	-	**1**
5.	Change of fair value financial asset available for sale	-	-	-	-	-	6	-	**6**
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	(4)	-	**(4)**
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	-	-	3	-	**7**
9.	Profit/(loss) for the period	-	-	-	-	184	-	-	**184**
10.	Total recognised income and expenses for the period (8+9)	-	-	4	-	184	3	-	**191**
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	**-**
13.	Other changes	-	-	3	-	-	-	17	**20**
14.	Transfer to reserves	-	-	-	439	(439)	-	-	**-**
15.	Dividends paid	-	-	-	-	(146)	-	(5)	**(151)**
16.	Distribution on income (14+15)	-	-	-	439	(585)	-	(5)	**(151)**
17.	Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**91**	**3,345**	**184**	**199**	**50**	**7,369**

(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**

(All amounts are expressed in HRK million)

Cash flow statement			
Year ended 31 December 2013			**GROUP**
	OPERATING ACTIVITIES	**2013**	**2012**
1.1.	Profit/(loss) before income tax	263	743
1.2.	Allowances and loss provisions	1,305	902
1.3.	Depreciation	74	119
1.4.	Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	34	-
1.5.	Profit/(loss) from sale of tangible assets	17	4
1.6.	Other profit/(losses)	(2,023)	(2,096)
1.	Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	(330)	(328)
2.1.	Deposits with Central Bank	(290)	192
2.2.	Treasury bills of Ministry of Finance and bills of exchange with CB	(28)	223
2.3.	Deposits with banks and loans to financial institutions	140	(1,304)
2.4.	Loans to other customers	(2,476)	(1,697)
2.5.	Securities and other financial instruments held for trading	(92)	87
2.6.	Securities and other financial instruments available for sale	(56)	(164)
2.7.	Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8.	Other operating assets	(153)	167
2.	Net increase/(decrease) of operating assets (2.1. to 2.8.)	(2,955)	(2,496)
3.1.	Demand deposits	2,043	2
3.2.	Savings and term deposits	2,235	1,489
3.3.	Financial derivative liabilities and other liabilities actively traded	(32)	(10)
3.4.	Other liabilities	2,168	2,035
3.	Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	6,414	3,516
4.	Net cash flow from operating activities before income tax (1+2+3)	3,129	692
5.	(Income tax paid)	164	169
6.	Net inflow/(outflow) of cash from operating activities (4-5)	2,965	523
	INVESTING ACTIVITIES		
7.1.	Receipt from sale/(payment for buying) tangible and intangible assets	(71)	(98)
7.2.	Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	-	1
7.3.	Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	(1)	205
7.4.	Dividend income	6	4
7.5.	Other receipts/(payments) from investing activities	-	-
7.	Net cash flow from investing activities (7.1. to 7.5.)	(66)	112
	FINANCIAL ACTIVITIES		
8.1.	Net increase/(decrease) of borrowings	(2,442)	303
8.2.	Net increase/(decrease) issued debt securities	-	302
8.3.	Net increase/(decrease) subordinated and hybrid instruments	3	-
8.4.	Receipts from transmitted share capital	-	-
8.5.	(Dividends paid)	(146)	(182)
8.6.	Other receipts/(payments) from financial activities	-	-
8.	Net cash flow from financial activities (8.1. to 8.6.)	(2,585)	423
9.	Net increase/(decrease) of cash and cash equivalents (6+7+8)	314	1,058
10.	Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11.	Net increase/(decrease) cash and cash equivalents (9+10)	314	1,058
12.	Cash and cash equivalents at the beginning of the year	5,357	4,299
13.	Cash and cash equivalents at the end of the year	5,671	5,357

(All amounts are expressed in HRK million)

Off balance sheet items As at 31 December 2013			**GROUP**
		2013	**2012**
1.	Guarantees	1,642	1,695
2.	Letters of credit	155	201
3.	Bills of exchange	-	1
4.	Undrawn loans and loan commitments	3,840	3,055
5.	Other risk off balance items	47	10
6.	Futures	-	-
7.	Options	68	111
8.	Swap	30,633	28,258
9.	Forwards	6,956	2,803
10.	Other derivatives	-	-

(All amounts are expressed in HRK million)

Income statement For the year end 31 December 2013			**BANK**
		2013	**2012**
1.	Interest income	2,969	3,470
2.	(Interest expense)	1,426	1,821
3.	**Net interest income (1-2)**	**1,543**	**1,649**
4.	Fee and commission income	500	447
5.	(Fee and commission expense)	147	131
6.	**Net fee and commission income (4-5)**	**353**	**316**
7.	Profit/(loss) from investments in subsidiaries, associates and joint ventures	-	-
8.	Profit/(loss) from trading	49	35
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	(27)	61
12.	Profit/(loss) from asset held to maturity	-	-
13.	Profit/(loss) from hedging	-	-
14.	Income from investments in subsidiaries, associates and joint ventures	-	-
15.	Income from other ownership investments	47	35
16.	Profit/(loss) from foreign currency differences	102	104
17.	Other income	40	18
18.	Other expenses	6	6
19.	General administrative expenses and depreciation	817	861
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)**	**1,284**	**1,351**
21.	Expense of value adjustment and loss provisions	1,194	753
22.	**Profit/(loss) before tax (20-21)**	**90**	**598**
23.	Income tax expense	22	115
24.	**Profit/(loss) of the current year (22-23)**	**68**	**483**
25.	Earnings per share		

(All amounts are expressed in HRK million)

Statement of financial position			
As at 31 December 2013			**BANK**
	Asset	**2013**	**2012**
1.	CASH AND DEPOSITS WITH Central bank (1.1.+1.2.)	8,272	7,459
1.1.	Cash	821	787
1.2.	Deposits with Central bank	7,451	6,672
2.	DEPOSITS WITH BANKING INSTITUTIONS	1,262	1,645
3.	TREASURY BILLS WITH MINISTRY OF FINANCE AND BILLS OF EXCHANGE WITH CENTRAL BANK	1,067	1,126
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	125	18
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	5,284	5,264
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	194	192
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8.	DERIVATIVE FINANCIAL ASSETS	81	106
9.	LOANS TO FINANCIAL INSTITUTIONS	1,401	1,520
10.	LOANS TO OTHER CUSTOMERS	39,799	38,681
11.	INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES	1,272	1,300
12.	REPOSSESED ASSETS	290	178
13.	TANGIBLE ASSET (MINUS DEPRECIATION)	368	386
14.	INTEREST, FEES AND OTHER ASSETS	710	644
A	**TOTAL ASSETS (1+2+3 up to 14)**	**60,125**	**58,519**
	Liabilities and equity		
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS (1.1.+1.2.)	13,348	15,616
1.1.	Short-term borrowings	1,137	1,136
1.2.	Long-term borrowings	12,211	14,480
2.	DEPOSITS (2.1.+2.2.+2.3.)	37,382	33,111
2.1.	Deposits of gyro and current accounts	6,685	4,833
2.2.	Savings deposits	3,272	2,913
2.3.	Term deposits	27,425	25,365
3.	OTHER BORROWINGS (3.1.+3.2.)	244	566
3.1.	Short-term borrowings	244	565
3.2.	Long-term borrowings	-	1
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	84	140
5.	ISSUED DEBT SECURITIES (5.1.+5.2.)	300	300
5.1.	Short-term issued debt instruments	-	-
5.2.	Long-term issued debt instruments	300	300
6.	ISSUED SUBORDINATED INSTRUMENTS	840	830
7.	ISSUED HYBRID INSTRUMENTS	-	-
8.	INTEREST, FEES AND OTHER LIABILITIES	1,040	993
B	**TOTAL LIABILITIES (1+2+3+4+5+6+7+8)**	**53,238**	**51,556**
	Shareholder's equity		
1.	SHARE CAPITAL	3,500	3,500
2.	PROFIT/(LOSS) OF THE CURRENT YEAR	68	483
3.	RETAINED PROFIT/(LOSS)	3,065	2,729
4.	LEGAL RESERVES	85	85
5.	STATUTORY AND OTHER CAPITAL RESERVES	1	(1)
6.	UNREALISED PROFIT/(LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	168	167
C	**TOTAL EQUITY (1+2+3+4+5+6)**	**6,887**	**6,963**
D	**TOTAL LIABILITIES AND EQUITY (B+C)**	**60,125**	**58,519**
	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 2014:

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 2013										**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	-	84	2,729	483	167	-	**6,963**
2.	Changes in accounting policies and corrections of mistakes	-	-	-	-	-	-	-	**-**
3.	Corrected balance as at 1 January (1+2)	3,500	-	84	2,729	483	167	-	**6,963**
4.	Sale of financial assets available for sale	-	-	-	-	-	1	-	**1**
5.	Change of fair value financial asset available for sale	-	-	-	-	-	-	-	**-**
6.	Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	-	-	**-**
7.	Other profit/(loss) directly recognised in capital and reserves	-	-	2	-	-	-	-	**2**
8.	Net profit/(loss) directly recognised in capital and reserves (4+5+6+7)	-	-	2	-	-	1	-	**3**
9.	Profit/(loss) for the period	-	-	-	-	68	-	-	**68**
10.	Total recognised income and expenses for the period (8+9)	-	-	2	-	68	1	-	**71**
11.	Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
12.	Buy/sell of treasury shares	-	-	-	-	-	-	-	**-**
13.	Other changes	-	-	-	-	-	-	-	**-**
14.	Transfer to reserves	-	-	-	336	(336)	-	-	**-**
15.	Dividends paid	-	-	-	-	(147)	-	-	**(147)**
16.	Distribution on income (14+15)	-	-	-	336	(483)	-	-	**(147)**
17.	Balance as at 31 December (3+10+11+12+13+16)	**3,500**	**-**	**86**	**3,065**	**68**	**168**	**-**	**6,887**

(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)

Cash flow statement			
Year ended 31 December 2013			**BANK**
	OPERATING ACTIVITIES	**2013**	**2012**
1.1.	Profit/(loss) before income tax	90	598
1.2.	Allowances and loss provisions	1,194	753
1.3.	Depreciation	46	50
1.4.	Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	30	-
1.5.	Profit/(loss) from sale of tangible assets	15	4
1.6.	Other profit/(losses)	(1,642)	(1,684)
1.	Cash flow from operating activities before changes of operating asset (1.1. to 1.6.)	(267)	(279)
2.1.	Deposits with Central bank	(278)	209
2.2.	Treasury bills of Ministry of Finance and bills of exchange with CB	196	89
2.3.	Deposits with banks and loans to financial institutions	132	(1,073)
2.4.	Loans to other customers	(2,312)	(517)
2.5.	Securities and other financial instruments held for trading	(108)	(13)
2.6.	Securities and other financial instruments available for sale	(18)	(136)
2.7.	Securities and other financial instruments not traded actively, measured at fair value through profit or loss	-	-
2.8.	Other operating assets	(110)	138
2.	Net increase/(decrease) of operating assets (2.1. to 2.8.)	(2,498)	(1,303)
3.1.	Demand deposits	1,852	38
3.2.	Savings and term deposits	2,419	983
3.3.	Financial derivative liabilities and other liabilities actively traded	(32)	(10)
3.4.	Other liabilities	1,645	1,529
3.	Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	5,884	2,540
4.	Net cash flow from operating activities before income tax (1+2+3)	3,119	958
5.	(Income tax paid)	99	112
6.	Net inflow/(outflow) of cash from operating activities (4-5)	3,020	846
	INVESTING ACTIVITIES		
7.1.	Receipt from sale/(payment for buying) tangible and intangible assets	(42)	(32)
7.2.	Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	-	-
7.3.	Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	(3)	168
7.4.	Dividend income	52	35
7.5.	Other receipts/(payments) from investing activities	-	-
7.	Net cash flow from investing activities (7.1. to 7.5.)	7	171
	FINANCIAL ACTIVITIES		
8.1.	Net increase/(decrease) of borrowings	(2,589)	(414)
8.2.	Net increase/(decrease) issued debt securities	-	302
8.3.	Net increase/(decrease) subordinated and hybrid instruments	10	-
8.4.	Receipts from transmitted share capital	-	-
8.5.	(Dividends paid)	(146)	(182)
8.6.	Other receipts/(payments) from financial activities	-	-
8.	Net cash flow from financial activities (8.1. to 8.6.)	(2,725)	(294)
9.	Net increase/(decrease) of cash and cash equivalents (6+7+8)	302	723
10.	Effects of change in foreign exchange rates on cash and cash equivalents	-	-
11.	Net increase/(decrease) cash and cash equivalents (9+10)	302	723
12.	Cash and cash equivalents at the beginning of the year	4,916	4,193
13.	Cash and cash equivalents at the end of the year	5,218	4,916

(All amounts are expressed in HRK million)

Off balance sheet items As at 31 December 2013			**BANK**
		2013	**2012**
1.	Guarantees	1,347	1,510
2.	Letters of credit	155	201
3.	Bills of exchange	-	1
4.	Undrawn loans and loan commitments	2,008	1,556
5.	Other risk off balance items	47	10
6.	Futures	-	-
7.	Options	68	102
8.	Swap	29,778	26,850
9.	Forwards	6,956	2,803
10.	Other derivatives	-	-

GROUP

ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFERENCE	EXPLANATION
Interest income	3,601	Interest income	3,595	6	3 CNB - Net trading result 2 CNB - Income from other ownership investments 2 CNB - Other income (1) CNB - General administrative expenses and amortization
Interest expense	(1,587)	Interest expense	(1,587)	-	
Share of profit of associates	3	Profit/(loss) from investments in subsidiaries, associates and joint ventures	(1)	4	4 CNB - Income of investment in associates
Fee and commission income	728	Fee and commission income	727	1	1 CNB - Other income
Fee and commission expense	(177)	Fee and commission expense	(177)	-	
Net trading income	154	Profit/(loss) from trading Profit/(loss) from foreign currency differences Profit/(loss) from embedded derivatives	52 105 -	(3)	(3) AR - Interest Income
Personnel expenses	(497)			(497)	(498) CNB – General administrative expenses and depreciation 1 CNB - Other income
Other operating expenses	(450)	General administrative expenses and depreciation	(1,162)	712	11 CNB – Other income 1 AR - Interest Income 129 AR - Other operating result 50 AR - Depreciation of tangible fixed assets 23 AR - Amortization of intangible assets 498 AR - Personnel expenses
Depreciation of tangible fixed assets	(50)			(50)	(50) CNB – General administrative expenses and depreciation
Amortization of intangible assets	(23)			(23)	(23) CNB – General administrative expenses and depreciation
Other operating result Result from financial assets-Available for sale	(248) (2)	Profit/(loss) from asset available for sale Profit/(loss) from asset held to maturity Income from other ownership investments Other income Other expenses	(30) - 6 51 (11)	(266)	(129) CNB - General administrative expenses and amortization (116) CNB - Expense of value adjustment and loss provisions (2) AR - Interest Income (1) AR - Fee and commission income (11) AR - Other operating expenses (2) AR - Interest Income (1) AR - Personnel expenses (4) AR - Share of profit of associates
Provision for loan and investment losses	(1,189)	Expense of value adjustment and loss provisions	(1,305)	116	116 AR - Other operating result
Profit before income tax	263	Profit before income tax	263	-	
Income tax expense	(62)	Income tax expense	(62)	-	
NET PROFIT FOR THE PERIOD	**201**	**NET PROFIT FOR THE PERIOD**	**201**	-	
		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 2013

(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	7,949	Cash and deposits with CNB	8,526	(577)	(577) AR – Amounts due from other banks
Amounts due from other banks	3,021	Deposits with banking institutions	1,753	1,268	577 CNB – Cash and deposits with CNB 631 CNB – Loans to financial institutions 60 CNB – Interest, fees and other assets
Reverse repurchase agreements	838			838	698 CNB – Loans to financial institutions 139 CNB – Loans to other customers 1 CNB – Interest, fees and other assets
Receivables on financial derivative transactions	86	Derivative financial assets	81	5	5 CNB – Interest, fees and other assets
Financial assets held for trading	303	Securities and other financial instruments held for trading	303	-	
Loans and advances to customers	46,426	Loans to financial institutions Loans to other customers	1,401 46,066	(1,041)	(631) AR – Amounts due from other banks (837) AR – Reverse repurchase agreements 427 CNB – Interest, fees and other assets
Financial investments available for sale	6,364	Treasury bills of Ministry of finance and bills of exchange of CNB Securities and other financial instruments available for sale	1,334 5,490	(460)	(559) AR – Financial investments held to maturity 99 CNB – Interest, fees and other assets
Financial investments held to maturity	768	Securities and other financial instruments held to maturity	204	564	559 CNB – Treasury bills of Ministry of finance and bills of exchange of CNB 5 CNB – Interest, fees and other assets
Investments in subsidiaries and associates	39	Investment in associates, subsidiaries and joint ventures	39	-	
Property and equipment	665	Tangible assets (minus depreciation)	685	(20)	(20) AR – Investment property
Investment property	20			20	20 CNB – Tangible assets (minus depreciation)
Intangible assets	746			746	746 CNB – Interest, fees and other assets
Deferred tax assets	191			191	191 CNB – Interest, fees and other assets
Other assets	438	Interest, fees and other assets Repossessed assets	1,681 291	(1,534)	(191) AR – Deferred tax assets (746) AR – Intangible assets (597) AR – Interest on loans, deposits and financial assets and derivatives
TOTAL ASSETS	**67,854**	**TOTAL ASSETS**	**67,854**	-	

GROUP

ANNUAL REPORT (AR)	in mln HRK	Form 'Statement of financial position' (CNB)	in mln HRK	DIFFERENCE	EXPLANATION
Amounts due to other banks	22,680	Borrowings from financial institutions	19,761	2,919	(730) AR – Repurchase agreements (26) AR – Other borrowed funds 3,542 CNB – Deposits 133 CNB – Interest, fees and other liabilities
Repurchase agreements	974			974	730 CNB – Borrowings from financial institutions 244 CNB – Other borrowings
Payables on financial derivative transactions	89	Derivative financial liabilities and other liabilities held for trading	84	5	5 CNB – Interest, fees and other liabilities
Amounts due to customers	34,824	Deposits	37,471	(2,647)	(3,542) AR – Amounts due to other banks (4) AR – Other liabilities 899 CNB – Interest, fees and other liabilities
Other borrowed funds	349	Other borrowings Issued debt securities	265 300	(216)	(244) AR – Repurchase agreements 26 CNB – Borrowings from financial institutions 2 CNB – Interest, fees and other liabilities
Current tax liabilities	17			17	17 CNB – Interest, fees and other liabilities
Deferred tax liabilities	11			11	11 CNB – Interest, fees and other liabilities
Other liabilities	449	Interest, fees and other liabilities	1,741	(1,292)	(1,085) AR – Interest on amounts due to other banks, payables on financial derivative transactions, amounts due to customers, other borrowed funds, and subordinated debt 4 CNB – Deposits (211) AR – Provisions
Provisions	211			211	211 CNB – Interest, fees and other liabilities
Subordinated debt	881	Issued subordinated instruments	863	18	18 CNB – Interest, fees and other liabilities
Total shareholders' equity	7,319	Shareholder's equity	7,369	(50)	(50) AR – Non- controlling interest
Non- controlling interest	50	Non-controlling interest		50	50 CNB - Shareholder's equity
TOTAL LIABILITIES AND EQUITY	**67,854**	**TOTAL LIABILITIES AND EQUITY**	**67,854**	**-**	

BANK

ANNUAL REPORT (AR)	in mln HRK	Form 'Income statement' (CNB)	in mln HRK	DIFFERENCE	EXPLANATION
Interest income	3,016	Interest income	2,969	47	2 CNB - Net trading result 44 CNB - Income from other ownership investments 2 CNB - Other income (1) CNB - General administrative expenses and amortization
Interest expense	(1,426)	Interest expense	(1,426)	-	
Share of result of associates	-	Profit/(loss) from investments in subsidiaries, associates and joint ventures	-	-	
Fee and commission income	500	Fee and commission income	500	-	
Fee and commission expense	(147)	Fee and commission expense	(147)	-	
Net trading income	149	Profit/(loss) from trading Profit/(loss) from foreign currency differences Profit/(loss) from embedded derivatives	49 102 -	(2)	(2) AR - Interest Income
Personnel expenses	(364)			(364)	(369) CNB – General administrative expenses and amortization 5 CNB - Other income
Other operating expenses	(308)	General administrative expenses and depreciation	(817)	509	13 CNB - Other income 1 AR - Interest Income 80 AR - Other operating result 30 AR - Depreciation of tangible fixed assets 16 AR - Amortization of intangible assets 369 AR - Personnel expenses
Depreciation of tangible fixed assets	(30)			(30)	(30) CNB – General administrative expenses and amortization
Amortization of intangible assets	(16)			(16)	(16) CNB – General administrative expenses and amortization
Other operating result Result from financial assets-Available for sale	(206) 1	Profit/(loss) from asset available for sale Profit/(loss) from asset held to maturity Income from other ownership investments Other income Other expenses	(27) - 47 40 (6)	(259)	(80) CNB - General administrative expenses and amortization (115) CNB - Expense of value adjustment and loss provisions (2) AR - Interest Income (13) AR - Other operating expenses (44) AR - Interest Income (5) AR - Personnel expenses
Provision for loan and investment losses	(1,079)	Expense of value adjustment and loss provisions	(1,194)	115	115 AR - Other operating result
Profit before income tax	90	Profit before income tax	90	-	
Income tax expense	(22)	Income tax expense	(22)	-	
NET PROFIT FOR THE PERIOD	**68**	**NET PROFIT FOR THE PERIOD**	**68**	-	
		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 2013

(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	7,695	Cash and deposits with CNB	8,272	(577)	(577) AR - Amounts due from other banks
Amounts due from other banks	2,524	Deposits with banking institutions	1,262	1,262	577 CNB - Cash and deposits with CNB 631 CNB – Loans to financial institutions 54 CNB – Interest, fees and other assets
Reverse repurchase agreements	1,002			1,002	698 CNB – Loans to financial institutions 303 CNB – Loans to other customers 1 CNB – Interest, fees and other assets
Receivables on financial derivative transactions	86	Derivative financial assets	81	5	5 CNB – Interest, fees and other assets
Financial assets held for trading	125	Securities and other financial instruments held for trading	125	-	
Loans and advances to customers	39,912	Loans to financial institutions Loans to other customers	1,401 39,799	(1,288)	(631) AR – Amounts due from other banks (1,001) AR – Reverse repurchase agreements 344 CNB – Interest, fees and other assets
Financial investments available for sale	6,146	Treasury bills of ministry of finance and bills of exchange of CNB Securities and other financial instruments available for sale	1,067 5,284	(205)	(300) AR – Financial investments held to maturity 95 CNB – Interest, fees and other assets
Financial investments held to maturity	499	Securities and other financial instruments held to maturity	194	305	5 CNB – Interest, fees and other assets 300 CNB – Treasury bills of ministry of finance and bills of exchange of CNB
Investments in subsidiaries and associates	1,272	Investment in associates, subsidiaries and joint ventures	1,272	-	
Property and equipment	348	Tangible assets (minus depreciation)	368	(20)	(20) AR - Investment property
Intangible assets	37			37	37 CNB – Interest, fees and other assets
Investment property	20			20	20 CNB - Tangible assets (minus depreciation)
Deferred tax assets	37			37	37 CNB – Interest, fees and other assets
Other assets	422	Interest, fees and other assets Repossessed assets	710 290	(578)	(37) AR – Deferred tax asset (37) AR – Intangible assets (504) AR – Interest on loans, deposits, securities and derivatives
TOTAL ASSETS	**60,125**	**TOTAL ASSETS**	**60,125**	-	

BANK

ANNUAL REPORT (AR)	**in mln HRK**	**Form 'Statement of financial position' (CNB)**	**in mln HRK**	**DIFFERENCE**	**EXPLANATION**
Amounts due to other banks	16,652	Borrowings from financial institutions	13,348	3,304	(403) AR – Repurchase agreements 3,587 CNB – Deposits 120 CNB – Interest, fees and other liabilities
Repurchase agreements	647		-	647	403 CNB – Borrowings from financial institutions 244 CNB – Other borrowings
Payables on financial derivative transactions	89	Derivative financial liabilities and other liabilities held for trading	84	5	5 CNB – Interest, fees and other liabilities
Amounts due to customers	34,175	Deposits	37,382	(3,207)	(3,587) AR – Amounts due to other banks (4) AR – Other liabilities 384 CNB – Interest, fees and other liabilities
Issued bonds and other borrowed funds	302	Other borrowings Issued debt securities	244 300	(242)	2 CNB – Interest, fees and other liabilities (244) AR – Repurchase agreements
Current tax liabilities	-			-	
Other liabilities	324	Interest, fees and other liabilities	1,040	(716)	4 CNB – Deposits (529) AR – Interest on borrowed funds, amounts due to customers and banks and payables on financial derivative transactions (191) AR – Provisions
Provisions	191			191	191 CNB – Interest, fees and other liabilities
Subordinated debt	858	Issued subordinated instruments	840	18	18 CNB – Interest, fees and other liabilities
Total shareholders' equity	6,887	Shareholder's equity	6,887	-	
TOTAL LIABILITIES AND EQUITY	**60,125**	**TOTAL LIABILITIES AND EQUITY**	**60,125**	**-**	