Zagrebačka banka dd

2013 Annual Report

Zagrebačka banka dd

Contents

Introduction

The Management Board of Zagrebačka banka dd has pleasure in presenting its Annual Report to the shareholders of the Bank. This comprises Management Board report of condition of the Bank and the Bank's subsidiaries, operating and financial review, the audited financial statements with independent auditor's report, unaudited supplementary reports for the CNB and supplementary statements for the Group and the Bank in EUR. Audited financial statements are presented for the Group and the Bank.

Croatian and English language versions

This document comprises the Annual Report of Zagrebačka banka dd for the year ended 31 December 2013 expressed in English. This report is also published in Croatian for presentation to shareholders at the Annual General Meeting.

Legal status

The annual financial statements and the Report of Condition are hereby submitted to the Annual General Meeting, as required under the provisions of Article 276, paragraph 3 of the Companies Act, while the Report of the Supervisory Board is submitted to the Annual General Meeting as a separate document.

The annual financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia and audited in conformity with International Standards on Auditing.

Abbreviations

In this Annual Report, Zagrebačka banka dd is referred to as "the Bank" or "Zagrebačka banka", and Zagrebačka banka dd together with its subsidiaries and associates are referred to collectively as "the Group" or "the Zagrebačka banka Group".

In this Annual Report UniCredit Bank Austria AG is referred to as "UniCredit Bank Austria", UniCredit Bank Austria AG Group is referred to as "UniCredit Bank Austria Group", UniCredit SpA, Milano is referred to as "UniCredit", UniCredit SpA Group is referred to as "UniCredit Group".

The Bank's main subsidiaries and associates are referred to as follows:

Subsidiaries	**Abbreviations**
UniCredit Bank dd, Mostar	UniCredit Bank BH
Prva stambena štedionica dd, Zagreb	Štedionica
ZB Invest doo, Zagreb	ZB Invest
Centar Kaptol doo, Zagreb	Centar Kaptol
Pominvest dd, Split	Pominvest
Suvremene poslovne komunikacije doo, Zagreb	Suvremene poslovne komunikacije
Zagreb nekretnine doo, Zagreb	ZANE
Zane BH doo, Sarajevo	Zane BH
Istraturist dd, Umag	Istraturist
Istra D.M.C. doo	Istra D.M.C.
ZABA Partner doo	ZABA Partner

Associates	**Abbreviations**
Allianz ZB doo, Zagreb	Allianz ZB – obligatory pension fund management company
Allianz ZB doo, Zagreb	Allianz ZB – voluntary pension funds management company
Multiplus card doo, Zagreb	Multiplus card

Introduction (continued)

Abbreviations (continued)

The central bank, the Croatian National Bank, is referred to as “the CNB”.

In this report, the abbreviations “kuna” and “hrk” are used for Croatian kuna. Further, the abbreviations “HRK thousand”, “HRK million” or “HRK m”, and “HRK billion” or “HRK bn”, “EUR thousand”, “EUR million” or “EUR m”, and “EUR billion” or “EUR bn”, and "USD thousand", “USD million” or “USD m” and “USD billion” or “USD bn” represent thousands, millions and thousands of millions (billions) of Croatian kuna, Euro currency and US dollars respectively.

Exchange rates

The following exchange rates ruling at 31 December 2013 have been used to translate balances in foreign currency at that date:

EUR	1	=	HRK	7.638	(31 December 2012: 7.546 HRK)
USD	1	=	HRK	5.549	(31 December 2012: 5.727 HRK)

Management Board Report of Condition

Management Board Report of Condition of the Bank

Ladies and Gentlemen, Esteemed Clients, Partners and Shareholders,

Economic Environment

Croatian economy in 2013 entered the fifth consecutive year of economic recession, with GDP expected to decrease by 0.8% in 2013. Yet another opportunity for the implementation of pension and health care system reforms, fiscal consolidation and restructuring of public enterprises has been missed. The possibility of economic recovery was additionally impacted by new legal restrictions, changes in regulatory framework, absence of planned investments and failure of the Croatian economy to increase its competitiveness.

The response of global financial institutions to the news of the Croatian budget deficit growth was, as expected, downgrading Croatia's credit rating and increasing the risk premium for Croatian business entities borrowing funds in global markets. The process of the Croatian banks' asset quality review ("AQR"), initiated by the European Central Bank ("ECB"), is currently under way. As a result of this review it can be expected for a number of banks to additionally increase capital, which may impact the decrease of exposure toward regional markets and availability of funds and increased costs of funding.

Continued weakening of the economy, increase of uncollectable placements and stricter regulations had a strong impact on the banking sector performance. According to the unaudited data of the CNB, net profit of the banking sector in 2013 was HRK 756.7 million, 73.0% lower than in 2012, when net profit was HRK 2.8 billion. Banking industry's return on equity ("ROE") went down to unsustainable 1.3% (2012: 4.8%), which is considerably below the average inflation rate and the yield on investments in government bonds. As a result of low lending volume, the real sector restructuring via the procedure of pre-bankruptcy settlement and stricter requirements regarding placement classification, the banks' asset quality has further worsened, and the share of non-performing loans increased from 13.9% in 2012 to 15.6% at the end of 2013.

Despite of an extremely complex environment, the banking sector remained stable due to its high level of capitalization and its ability to deal with losses. However, it can be expected that a number of smaller banks will find it difficult to run sustainable operations and adequate solutions will have to be devised to deal with that issue in the near future.

Global economic developments in the second half of 2013 indicated that the global economy started to recover, which was especially pronounced in the most developed countries. According to the IMF report, economic growth in 2013 was at the annual level of 3.0%. The Eurozone economy recorded a smaller decline than in the previous year (-0.4% against -0.7%), with most Eurozone countries recording an increase in economic activity in the second half of the year. The European Central Bank continued with its relaxed monetary policy aimed at supporting economic recovery, preventing market fragmentation and providing a level-playing field in terms of financial conditions for all the players operating in the Eurozone area. All of the above are reasons for certain optimism regarding the 2014 economic outlook, as the risk of further decrease in external demand, i.e. of the cross-border inflow of adverse developments from foreign markets into the Croatian economy has been considerably reduced.

Strategy Execution

The Zagrebačka banka Group strategy is based on the following four main principles of our corporate management:

- **A balanced business model and continuity in revenue generation:** focus on doing business with all customers segments is a guarantee of strong revenue generating ability and adequate risk diversification

- **Commitment to customers:** in anticipating, recognizing and satisfying their needs in a simple and efficient manner ensures high level of our clients' satisfaction and loyalty

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank (continued)

Strategy Execution (continued)

- **Diversification and accessibility:** regional presence, well-developed network of sales outlets and direct sales channels ensure high service accessibility

- **Focus on fundamentals of stable and sustainable banking operations:** value generation, stable deposit base, strong balance-sheet structure, responsible and knowledgeable risk management, productivity and effectiveness in business processes, continued investment in employee knowledge and competencies, change and innovation supporting company culture.

By following the above-listed principles, integrated within the Group corporate values, we have been able to preserve our leading market position, excellent access to primary sources of funding, high level of customers' satisfaction and the reputation of a stable and reliable business partner.

In 2013 the Group remained the market leader in all its strategic business segments, while its return on capital and assets was above the industry average, as were its productivity, efficiency and capital adequacy ratios. The Bank cost/income ratio (43.8%) was considerably better than the average recorded in the banking industry (54.5%), with Zagrebačka banka recognized as the most efficient universal credit institution in the region. The capital adequacy ratio of the Bank was 23.8%, which is considerably above the legally prescribed level.

Throughout the past year, the Group continued to support its customers in their efforts to overcome difficulties in the business environment, while strengthening its advisory role and acting as a partner with a distinct accessibility and quality of service and continuing investment in knowledge, competencies and innovation to be able to meet the clients' needs.

In order to counteract the impact of the adverse business environment to the extent reasonably possible, the Group was continuously focused on increasing its cost and process efficiency, which, together with the focus on preserving the quality of its loan portfolio, resulted with the achievement of a solid financial result.

Financial Highlights

In the year 2013, **Zagrebačka banka Group** achieved **Profit after tax** in the amount of **HRK 771 million**, which is by HRK 488 million or 38.8% less than in the year 2012, due to lower loan demand, decreased net interest income and higher impairment costs.

Achieved result is primarily under the impact of recessionary environment, increase of impairment costs for non-performing loans, low level of demand for loans and, consequently, lowers interest income, as well as changes in the regulations on the area of placement classification, consumer protection, payment operations, and pre-bankruptcy procedures and settlements.

Group's **Operating income** amounts to HRK 5,111 million and compared to the previous year is lower by HRK 126 million or 2.4%, which was mostly due to lower level of net interest income, while non-interest income was retained at the level of 2012. **Net interest income** was impacted by the increase of non-performing loans and a further decrease in the reference interest rates.

Total operating expenses equalled HRK 2,581 million and were higher by HRK 20 million (+0.8%) in comparison to the previous year. Achieved savings in administrative expenses partially amortised higher cost of deposit insurance due to regulatory changes. Group's Cost to income ratio was 50.5% (48.9% in 2012).

Profit before impairment and other provisions was HRK 2,530 million, which was HRK 146 million (-5.5%) lower than in the previous year, primarily due to lower net interest income, while maintaining expense efficiency at the same level.

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank (continued)

Financial Highlights (continued)

For **Impairment and other provisions** the Group secured an amount of HRK 1,643 million, which is HRK 460 million (+38.9%) more in comparison to the previous year. Higher impairment losses are the result of recessionary environment (high unemployment rate, low level of investment activity, decrease of disposable income), new regulatory requirements related to classification of placements and impairment of non-performing loans and slow implementation of regulation aimed at resolving problems of companies faced with business difficulties.

Group Assets amount to HRK 123,724 million and increased by HRK 3,523 million or 2.9% compared to the end of the previous year:

- **Net liquid assets** (cash and deposits held with CNB, with and placements to banks and liquid securities) equalled HRK 36,973 million and were increased by HRK 732 million (+2.0%) compared to the end of the previous year, mostly as a result of increased deposits held with financial institutions and investments in securities.
- **Net loans to customers** amount to HRK 81,065 million and have increased by HRK 2,336 million (+3.0%) compared to the amount recorded at the end of the previous year, mostly as a result of increased volume of lending to corporate customers. In Retail segment reduced demand for loans is still present due to deleveraging, higher unemployment and decrease in disposable income.
- **Deposits from customers** amount to HRK 75,016 million and compared to the end of 2012 increased by HRK 2,297 million (+3.2%), mostly as a result of increased deposits from Individuals (for HRK 2,281 million), while deposits from Corporate and Government were marginally higher (for HRK 16 million).
- **Deposits from banks and borrowings** amount to HRK 27,783 million and compared to the end of the previous year have increased by HRK 740 million (+2.7%).
- **Capital and reserves** amount to HRK 18,177 million and compared to the end of previous year, slightly increased by HRK 74 million (+0.4%).

The most important contribution to the Group consolidated results was made by the following Group members: Zagrebačka banka dd, UniCredit Bank dd, Mostar, Istraturist dd Umag, ZB Invest doo and Prva stambena štedionica dd.

In 2013, **Zagrebačka banka** recorded a **profit after tax** in the amount of HRK 465 million, which is 47.6% below the previous year, due to increased impairment losses and decreased net interest income. **Profit before impairment and other provisions** amounts HRK 2,131 million, which is 5.9% lower than in 2012 primarily due to lower net interest income.

Total assets of the Bank reached HRK 106,505 million, which represents an increase of 2.8% compared to the end of the previous year. **Net loans to customers** amount HRK 70,835 million and were increased by HRK 1,963 million (+2.9%), while **deposits from customers** amounted to HRK 62,445 million and were up by HRK 1,798 million (+3%) than at the end of year 2012.

The Bank **capital adequacy ratio** was 23.80% (2012: 23.63%).

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank (continued)

Strategic Business Areas' Performance

Retail and SMEs

In 2013, the Bank was able to confirm its leading market position in the retail and SME segment. Its market share in retail loans and deposits was 24.4% while by number of customers in the SME segment it was 24%.

Operating in a difficult environment, the Bank was primarily focused on caring for the needs and requirements of customers in both segments and they have recognized the Bank's efforts, as evidenced by the findings of the customer satisfaction survey.

The Bank loan portfolio quality remained its key priority all through the economic crisis. Due to constant monitoring, collecting and restructuring activities, as well as reasonable credit policy, the quality of the Bank's retail loan portfolio exceeded the quality of the total portfolio held by the Croatian banking sector.

The year 2013 saw the introduction of a number of business activities and the launch of numerous products, including:

- Business campaigns organized together with the Croatian Chamber of Trades and Crafts, aimed at supporting small entrepreneurs;
- New Visa business card offering payment in instalments to small entrepreneurs and legal entities, launched in August;
- MasterCard student card promoted throughout the year;
- New insurance product - Standard protect, in cooperation with Allianz, offering protection to customers in case of extended sick leave or unemployment;
- Cash withdrawal at points of sale in the companies Konzum and Tisak;
- New functionality of m–zaba called m-kupi, offering the possibility of payment by mobile phone at points of sale in the companies Konzum and Tisak;
- The Bank's participation in the Government housing program POS + housing loans reached a share of 40%;
- Continued successful sale of insurance products, packaged products and increased use of bank cards.

The Bank has a strong market position, it enjoys the trust of its customers, it has good market coverage and high-quality staff, it is focused on the customers and it strives for excellence in its products and processes. All these factors represent a good foundation for the Bank's future.

Corporate banking

The fifth consecutive year of economic recession impacted strongly the business operations of all the Bank's corporate customers and of the banking sector as a whole. Despite of adverse macroeconomic environment and stiffer market competition in financing a limited number of quality investment projects, Zagrebačka banka succeeded in maintaining its leading market position, while increasing its market share in all the relevant segments of its operations with corporate customers. At the end of 2013, total loan volume to the corporate sector was HRK 42.7 billion, which brought the relevant market share to 29.6%, while deposits held by corporate customers equalled HRK 18.9 billion, with the market share going up to 25.9%.

In 2013 Zagrebačka banka maintained its position as the leading partner in providing financing to the Government and to large corporate customers in Croatia, and this is a segment of the Bank's operations where its participation in all the relevant market transactions has become a tradition.

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank (continued)

Strategic Business Areas' Performance (continued)

As part of operations with corporate customers, the Bank has provided intensive support to the Croatian SME sector and to projects in the field of renewable energy sources and improved energy efficiency. For stated purposes, in cooperation with well-known international financial institutions and funds (EBRD, DEG, EFSE, GGF), the Bank was able to make more than EUR 100 million available to customers, using a number of credit lines.

The accession of the Republic of Croatia to the European Union enabled the entrepreneurs to have access to almost EUR 1 billion per year from the Cohesion and Structural funds. Zagrebačka banka recognised the needs of its corporate customers who meet the criteria required to be eligible for the use of EU funds and, in addition to banking products aligned with the needs of EU funds users, it started offering support in the form of active information and counselling.

Investment banking and financial markets

In the year 2013, Zagrebačka banka maintained its leading market position in investment banking in Croatia.

In the Capital Market segment, the Bank was a joint lead arranger for the Croatian Government bond issues totalling HRK 2.75 billion and EUR 750 million.

The Bank acted as the arranger of a series of structured financing transactions in the year 2013, most relevant among them were the financing of the construction of a new terminal of the Zagreb International Airport, amounting to HRK 1.5 billion, where the concessionaire is one of the largest global construction companies, Bouygues from France.

During 2013, in the Corporate Financing segment, the Bank was given a mandate to act as an advisor in almost all relevant M&A transactions both in Croatia and in other SEE market, covering a whole range of industries (building materials, tourism, insurance, telecommunications, etc.), where one should mention the advisory role on the buyer’s side in the process of privatization of the insurance company Croatia Osiguranje that is soon going to be successfully completed.

The Bank’s Markets division was able to maintain its dominant position on the domestic secondary market, as it handled more than a third of turnover on the money market and approximately a quarter of the turnover on the forex market and the fixed-income securities market. Sales of the Treasury products to institutional and corporate customers continued to dominate the market with the market share exceeding 40% in derivative transactions, as the Bank was responding to the clients’ specific needs aimed at decreasing their currency and interest related risk.

In the operations dealing with currency and interest-rate related risks, specific products were developed for the purpose of financing renewable energy sources, which was recognized also by the UniCredit Group and adequately rewarded when one of the transactions was proclaimed „CEE CIB Deal of the Quarter“.

Social Responsibility

A socially responsible business operation implies the impact a company can make on the society and the role economy plays in ensuring sustainable development. It is a broad concept that includes meeting quality requirements in doing business internally, in dealing with employees, as well as externally, in dealing with shareholders, customers, partners, the regulator and the community.

In this context it is important to understand the role the banks and financial sector play in a society, as financial flows are the blood circulating in an economy and a stable financial system is the necessary prerequisite for economic advancement.

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank (continued)

Social Responsibility (continued)

The basic role of financial institutions is to efficiently allocate financial assets, with banks acting as intermediaries and ensuring liquidity transfer, information flow, transformation of assets in terms of currency and maturity, risk diversification, primary and secondary market for financial assets and continuous optimization of transaction costs.

By fulfilling their role, financial institutions generate added value for the society, providing:

- safety of savings and increase in financial assets with adequate return on investment;
- counselling and control function in allocation of financial assets by applying expert knowledge and technologies in risk assessment, supervision of purposeful use of placements and monitoring ex post behaviour of debtors if it can negatively impact the probability of collection of placements;
- technological advancement, innovation and multiplying effects on economic growth.

During past year, Zagrebačka banka maintained in all its fields of activity the same strategic focus on socially responsible business operations and care for the environment and the community. Our approach in all our business activities has been marked by the principle of sustainability.

MOJ ZABA START 2013

In 2013, Zagrebačka banka introduced a new approach to its donations. The project called “MOJ ZABA START” was the vehicle the Bank used to allocate a total of HRK 1.2 million to the best entrepreneurial ideas through four contests, with the finalists being offered additional training in the topics such as building organizational capacity, understanding the relevance of business planning and preparing business plans.

The project was initiated primarily to contribute to the implementation of projects that can contribute to the stabilization and strengthening of the Croatian economy. The project MOJ ZABA START rewarded most innovative and market oriented entrepreneurial ideas in the field of social entrepreneurship (the contest “Moja zajednica”), innovative entrepreneurial solutions (contest “Moja prilika”), creative craftsmanship (contest “Moj Motiv 2.0”) and green entrepreneurship (contest “Moja zelena zona”). The project attracted more than 420 project applications, and projects were also submitted by more than ten cities. Zagrebačka banka selected and rewarded 13 winning projects.

MOJ ZABA START is a step forward in socially responsible business operations as it helps create links between different industries and provides expertise and financial assistance in the implementation of the projects that were selected as the most promising in entrepreneurial terms.

Going beyond GDP

In 2013, Zagrebačka banka took part in a project of UniCredit Bank initiated by the European Commission - *Going beyond GDP* – which aims to demonstrate to what extent our business activities affect the community and the welfare and quality of life of the people living in it.

The project consists of reports using quantitative and qualitative data from external sources (such as ISTAT, World Economic Forum, Eurostat, Europe 2020) which are aimed at strengthening externally the Bank reputation among all participants and promoting externally the creation of added values, but also internally, in order to strengthen the motivation and commitment of employees.

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank (continued)

Social Responsibility (continued)

Activities aimed at the wider academic community

In 2013, Zagrebačka banka continued nurturing its strategic partnership with most relevant student associations and good cooperation with the key educational institutions. In this way the Bank contributed to the overall development of our university-educated citizens and by the same token to the competitiveness and long-term sustainability of the business environment in Croatia.

Among the key projects that Zagrebačka banka participated in, in the course of 2013, were Case study competition (teams of students worked on solutions to business cases prepared by sponsoring companies); App Start Contest (teams of students work on application solutions for popular programming platforms used on mobile devices and on the Web) and STARTER conference (assisting students to be better prepared for the employment and to meet the most favoured Croatian employers).

Quality of Human Resources management practices

Zagrebačka banka was again certified as one of the Top Employers Europe in 2013, which demonstrated that its way of managing human resources is considered to be among the best at the European level. The certificate confirmed the excellence of the work environment and work conditions offered by the Bank. Zagrebačka banka is thus the first and so far the only company from Croatia that has been awarded the certificate Top Employers Europe and also one of the few companies in the international market that had the same certificate awarded in two consecutive years.

Outlook for 2014

In spite of improved global macro-economic indicators and the expected Eurozone recovery, the favourable impulse will not be enough to turn around Croatian economy and start its recovery.

Croatia is entering the sixth consecutive recessionary year, with GDP expected to decrease by another 1.0%, due to structural weaknesses and downgraded credit rating risks, degraded investor confidence, low competitiveness and ability to carry out necessary adjustments and transformations, especially in the public sector.

In 2014, Croatian economic policy and business environment will be impacted by the Excessive Deficit Procedure, which will require more decisive fiscal adjustments and the actual start of the required reforms. Short-term results may be unfavourable in terms of economic indicators, but reforms are the necessary precondition for the turnaround towards a sustainable business model, the establishment of an efficient public administration, credible institutional and legal framework and consequently of a prosperous and encouraging business environment.

Croatian financial institutions are strongly integrated into international banking groups which are becoming a part of the banking union with single mechanism supervision ("SSM") and unique recoverability and banks' restructuring mechanism ("SRM"). Banking sector regulations are becoming increasingly complex and require considerable adjustments both by regulators and by banks – this is a challenge that we will be faced with in this and the following years.

In a very challenging business environment our primary focus is to continue to support economic recovery by encouraging lending activity for the purpose of financing investments and projects in the private and the public sectors while assessing risks in an adequate manner. Innovations aimed at improving efficiency and quality of delivery, service excellence and investment in our ability to anticipate the client needs and creation of a sustainable business model, remain the foundations of our strategy in the following period.

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank (continued)

Outlook for 2014 (continued)

I would like to thank our customers, business partners and shareholders for their confidence. I would also like to thank the colleagues, members of the Management Board and the Supervisory Board and members of the Group for their support and cooperation. I would especially like to thank our employees for the dedicated effort, excellence and professional attitude they have invested in the successful performance recorded by the Zagrebačka Banka Group.

Franjo Luković
Chairman of the Management Board

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank's subsidiaries

UniCredit Bank dd, Mostar

Business review

UniCredit Bank dd, Mostar (hereafter under this heading: "the Bank") provides all types of financial services to legal entities and retail customers in Bosnia and Herzegovina. The Bank has more than 900,000 retail customers and 3,600 corporate customers.

The Bank sales network is divided into 10 regions, that are further subdivided into branch offices covering the entire territory of Bosnia and Herzegovina. At the end of 2013, the Bank had 85 branch offices. The Bank has continued to develop its direct distribution channels, and it now has the largest ATM network in Bosnia and Herzegovina with a total of 256 ATMs, while remaining the market leader in the number of bank cards issued and in the area of internet banking services in the retail segment. In 2013, the Bank widened its offer with the introduction of new products such as JES Paket, which includes not only banking products and services but also a range of non-banking services and benefits. Another new product offered to the customers in 2013 was a deposit-related product Osigurana štednja (Insured savings) that offers term savings merged with insurance.

In 2013 the Bank made **profit after tax** in amount of BAM 55.6 million, exceeding by BAM 2.1 million (4%) the profit after tax recorded in 2012. The 2013 increase was the result of increased operating income, improved cost efficiency and keeping the impairment losses and provisions at the same level as in 2012. **Operating income** in 2013 was BAM 205.8 million, which was an increase by BAM 5.7 million (2.9%) compared to the previous year, mostly as a result of increases in net interest income and in net fee and commission income.

Net interest income equalled BAM 139.9 million and exceeded by 2.4% the amount reached in the previous year. The increase in net interest income was the result of an increased lending volumes and customers deposits, on one hand, and, on the other hand, interest rates on asserts and liability side went down, primarily due to lower levels of market interest rates. Compared to the previous year, interest income was lower by 2.6%, and interest expense was lower by 16.4%, thus resulting in increased net interest income by 2.4%.

Net fee and commission income equalled BAM 55.2 million and was by 3.9 million BAM which is 7.6% more than the year before, mostly due to higher fee income from payment transactions.

Operating expenses amounted to BAM 120.5 million and were increased compared to the previous year by BAM 2.6 million (2.2%) due to higher staff and administrative expenses.

Impairment losses and provisions amounted to BAM 22.3 million which is slightly higher than in 2012 (+BAM 0.7 million).

On 31 December 2013, **total assets** amounted to BAM 3,729 million, which is by BAM 14.8 million or 0.4% lower than in 2012. **Net loans to customers**, which account for 62.0% of total assets, grew by BAM 29.9 million, or 1.3%, reaching BAM 2,312 million at the end of the year. Loans to individuals account for 56.0% of total net loans.

Deposits from customers amounted to BAM 2,724 million, which is by BAM 70.3 million more than in the year before, mostly as a result of increased retail deposits.

At the end of the year, **deposits from banks** amounted to BAM 144.4 million, which is BAM 8.4 million, or 5.5 %, lower than the previous year.

Borrowings amounted to BAM 179.8 million and were lower by BAM 34.5 million (-16%) compared to the previous year. Subordinated debt remained at the previous year's level, and amounted to BAM 19.7 million.

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank's subsidiaries (continued)

UniCredit Bank dd, Mostar (continued)

Risk exposure

The main risks to which the Bank is exposed to include: credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk and interest rate risk. The Bank has a risk management system in place, risk management policies, programmes, work procedures and limits.

The Bank is exposed to **credit risk** as a result of its credit operations and placements with other banks. Credit risk is managed in the following way: the exposure on a portfolio basis and exposures to individual customers and groups of associated entities are checked against the prescribed limits set in relation to the Bank's regulatory capital.

Credit risk management also involves regular analysis of borrowers' abilities to discharge their liabilities, timely identification of potentially risky customers and structured relationship management, along with maximisation of recovery of the Bank's receivables from the borrowers/debtors, with a special emphasis on non-performing loans.

In order to minimise credit risks, the Bank applies Collateral Policy. It defines how individual collateral instruments should be treated in the credit risk underwriting process.

Liquidity risk arises in the process of funding the Bank's business activities and managing its liquidity positions. The Bank has access to various sources of funding, including different types of deposits from individuals, companies and other banks, as well as borrowings, bonds and equity. The variety of funding sources available gives the flexibility of funding, reduces the dependence on a single source and, in general, enables better management of funding costs.

Currency risk is the risk of losses caused by adverse exchange rate movements. Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with regulations and internally set limits by UniCredit Group, for each currency and for total assets and liabilities denominated in or linked to foreign currency.

The Bank is exposed to **interest rate risk** to the extent to which interest-earning assets and interest-bearing liabilities become due, or their respective interest rates change at various times or in different amounts. Value-at-Risk method is applied for the purpose of day-to-day monitoring of overall market risk exposure, basis point movements and loss warnings, which limits the maximum position of interest rate risk by currency and period.

In order to ensure an optimum degree of **operational risk** management, the Bank has established its own system based on the standards and principles defined by the local regulator, the UniCredit Group and the Basel Committee. The system in place enables identification, measurement, assessment and monitoring of operational risk aimed at its optimum management at all hierarchical levels within the Bank.

Prva stambena štedionica

Business review

Prva stambena štedionica (hereafter under this heading: "the Company" or "Štedionica") is a credit institution which accepts deposits from individual customers who enter housing savings agreements and are given government subsidies and grants housing loans. On 31 December 2013, the Company's **total assets** amounted to HRK 2.4 billion, or 4.7% more than in the year before.

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank's subsidiaries (continued)

Prva stambena štedionica (continued)

Business review (continued)

The year 2013 was marked by a very high level of customer demand for housing loans with a fixed interest rate over the entire loan repayment period, and the performance recorded in the business segment showed outstanding sales results. The balance of **gross loans granted to individual customers** amounted to HRK 1,382 million at the end of 2013, which is 18.9% more than in the year before, with a parallel increase in the market share.

The impact of the recession continued to be present throughout the year and this fact, coupled with a change in the regulatory framework for housing-related savings operations regarding government subsidies, had a strong impact on the number of new savings agreements entered. Despite of all the above-mentioned circumstances, and due to the synergy effect of cooperation with Zagrebačka banka, Štedionica recorded good sales results in the savings segment and was able to strengthen its leading market position and increase its deposits volume by 2.3%.

In addition to its focus on the sales performance, special attention was paid to preserving the level of quality reached in the loan portfolio and in the collection of due receivables. This was another area of operations where performance was very good and the share of non-performing loans in the portfolio remained well below the market average.

As regards the management of business processes and operating expenses, in the course of 2013 the focus was on improving cost efficiency. In spite of a challenging macroeconomic environment, in 2013 Štedionica recorded **profit before tax** in the amount of HRK 23.2 million.

Development plan

During the year 2014 in Croatia major improvement is not expected in the macroeconomic environment, the recession will continue with a growing high unemployment level, which will affect savings capacity of individuals and will require continued focus on maintaining the credit portfolio quality and efficiency in collection of due receivables. Also, the Government changed the regulatory framework related to operations of housing-related savings institutions and suspended payment of subsidies on savings collected in the year 2014, which forced savings institutions to modify their approach to sales and to focus on the interest rate.

Prva stambena štedionica plans to remain the market leader by pursuing a pro-active business strategy, focusing on identification and creation of business opportunities with continued use of synergy with Zagrebačka banka and development of products adapted to the recognized needs of its clients.

Risk exposure

In performing its business operations, Štedionica is exposed to credit, liquidity and market risks. The market risk involves currency and interest rate risks. The company has a risk management system incorporated in its business policies and procedures, and it has adopted appropriate risk limits.

Štedionica is exposed to credit risk through its lending and investment activities. Counterparty risk is monitored on a continuous basis. The company's policy is to do business with customers of good credit standing, and to require appropriate collateral when and where necessary.

Liquidity risk arises related to funding of business activities and managing the liquidity positions. The main sources of funds are deposits from individuals and shareholders' funds. Štedionica tries to ensure uninterrupted funding from deposits with various maturities.

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank's subsidiaries (continued)

Prva stambena štedionica (continued)

Risk exposure (continued)

The exposure to exchange rate risk is a result of the Company's foreign currency transactions or transactions indexed to a foreign currency. It performs its business activities in such a way as to minimise mismatching between assets and liabilities denominated in or indexed to a foreign currency.

Štedionica is exposed to interest rate risk to the extent to which interest-earning assets and interest-bearing liabilities become due, or their respective interest rates change at various times or in different amounts. A majority of interest-earning assets and all interest-bearing liabilities have a fixed interest rate, which means that Štedionica is exposed to the interest rate risk. This is why Štedionica pays special attention to the interest rate risk management process.

ZB Invest

Business review

ZB Invest (hereafter under this heading: „the Company") is a company set up to manage eight open ended investment funds with public offer, one open ended investment fund with private offer and a large number of security portfolios under discretionary management by individual investors.

Total assets under management by ZB Invest, were valued at HRK 4.2 billion at the end of 2013.

In the investor's structure of ZB Invest open ended investment funds with public offer, individual investors prevail, and the total number of investors are over 65,000.

The 2013 market developments were characterized by important interventions made by central banks, which resulted in higher level of liquidity in the systems for the purpose of encouraging economic growth, which in turn caused a considerable fall in spreads and yields in the bond market. On the other hand, the impact of economic crisis that started in 2008 was still present in the minds of investors and they were not willing to invest in funds as the action includes an element of price volatility. As a consequence, **assets under management from individual investors** during 2013 decreased by HRK 382.1 million.

At the end of 2013, the Company market share in the segment of open ended investment funds with public offer was 30.85% (2012: 34.95%), which confirmed the Company leading position among fund management companies.

In 2013 ZB Invest maintained high level of profitability of operations due to its focus on cost management. **Profit after tax** amounts to HRK 17.1 million, and is by HRK 1.2 million or 6.4% lower compared to the previous year. **Total income** of the Company amounted to HRK 55.9 million (2012: HRK 56.4 million). Most significant share of total income relates to **management fee income** in the amount of HRK 55.6 million (2012: HRK 55.6 million).

As at 31 December 2013 **total assets** of the Company amounted HRK 34.5 million (by the end of 2012, HRK 34.7 million), and their main segments were short-term liquid assets, while **capital and reserves** remained at the level of HRK 29.2 million (2012: HRK 30.4 million).

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank's subsidiaries (continued)

ZB Invest (continued)

Development plan

The Company as a leading company for managing investment funds will continue to be devoted to professional asset management and high quality services to its customers ensure better returns on their financial assets invested in accordance with the Fund's investment strategy and portfolio. The company aims to provide an attractive range of long-term funds and investment products as well as services, with professional management and transparent investment strategies to meet the needs of investors, depending on their investment objectives, investment horizon and risk appetite.

Risk exposure

The Company has been paying special attention to risk management in its operations. Implementation of the risk management system is based on the standards of risk management defined at the level of the UniCredit Group. The most important risk classes that the Company faces in its operations include credit risk, market risk, liquidity risk and operational risk.

On the day of reporting on its financial position, the Company was not exposed to a considerable liquidity or market risks. The largest part of the Company credit exposure was to commercial banks and the amount was HRK 27 million.

Furthermore, the Company has improved its process of operating risk management by adopting various policies and rulebooks to monitor and manage operating risks.

Istraturist

Business review

Istraturist Umag dd (hereafter under this heading: „the Company“) is a parent company in the Istraturist Group, boasting more than 50 years of tradition and experience in tourism. The Company manages 15 tourist facilities and has a portfolio of 22,058 accommodation units in hotels, tourist resorts and camping sites. The majority of these facilities have a four-star ranking and the Sol brand. In addition to accommodation units, the Company also manages restaurants, shops and other facilities for sports and leisure activities.

The Company also manages the licence to organize the international tennis tournament ATP Croatia Open Umag, sponsored by the President of the Republic of Croatia. The tournament has been successfully organized for 24 years and is one of the leading sports events in Croatia.

In 2013, The Istraturist Group recorded good operating performance despite of the fact that it operated in a recessionary environment, the Eurozone recovery was slow, unemployment was up and financial markets were volatile. **Profit after tax** reached the amount of HRK 72.4 million, which is HRK 25.2 million more than in the year before. The result was the consequence of increased operating income and improvements in operating efficiency, reduced net financial expenses and utilisation of tax allowances related to reinvestment of profit, what resulted with profit after tax in the amount of HRK 72.4 million.

Operating revenues of the Group Istraturist in 2013 totalled HRK 467.8 million, which is HRK 14.2 million or 3.1% more than in the year before. **Sales revenue** which represents the bulk of total operating revenues was up by HRK 15.7 million or 6.3%, as a result of increased level of business activity.

Operating expenses of the Istraturist Group reached the amount of HRK 386.2 million, and grew by HRK 6.7 million or 1.8% compared to 2012. The increase was directly connected to the higher sales and operating activity.

Management Board Report of Condition (continued)

Management Board Report of Condition of the Bank's subsidiaries (continued)

Istraturist (continued)

Business review (continued)

Net financing expense amounted to HRK 8.5 million, which is HRK 5.6 million less than the previous year.

Income tax expense totalled HRK 0.6 million, and is by HRK 12.1 million lower than in the year before due to the utilisation of tax allowances in the amount of HRK 14.8 million, related to reinvestment of the profit.

As at 31 December 2013, **total asset** of the Istraturist Group amounted to HRK 1,385 million, which is 6.1% more than by the end of 2012. **Equity** amounted to HRK 847.1 million, and **total liabilities** of the Istraturist Group were HRK 537.5 million (2012: HRK 529.4 million).

Liquidity of the Company was stable throughout 2013.

Risk exposure

The most important risk that Istraturist Group was exposed to was the currency risk, as revenue was earned on foreign markets and the Company long-term loans are denominated in EUR and Swiss Francs. To cover the risks, the Company has been using all available hedging instruments.

Other members of the Group also recorded good business and financial results in the year 2013.

Franjo Luković
Chairman of the Management Board

Business description

Zagrebačka banka dd is a licensed bank operating in Croatia and the holding company for the Zagrebačka banka Group.

The Zagrebačka banka Group is a Croatian based financial services group which provides a full range of corporate and retail banking services for customers in Croatia. The Group serves around 60,000 active corporate clients and small businesses, and around 1.9 million active retail clients.

The Bank provides a full range of banking services, comprising corporate and retail banking, international financing, investment banking and corporate finance services.

Subsidiary and associated companies operations

The Bank's subsidiaries and associated companies as at 31 December 2013 are shown below**:**

Fully consolidated subsidiaries

Company	Address	Country of domicile	Industry	Group ownership %
UniCredit Bank dd, Mostar	Kardinala Stepinca bb 88000 Mostar	Bosnia and Herzegovina	Banking	65.6
Prva stambena štedionica dd	Savska 62 10000 Zagreb	Croatia	Banking	100.0
ZB Invest doo	Ivana Lučića 2a 10000 Zagreb	Croatia	Fund management	100.0
Centar Kaptol doo	Nova Ves 17 10000 Zagreb	Croatia	Property investment	100.0
Pominvest dd	Gundulićeva 26a 21000 Split	Croatia	Property management	88.7
Suvremene poslovne komunikacije doo	Savska cesta 28 10000 Zagreb	Croatia	Publishing	100.0
Zagreb nekretnine doo	Nova Ves 17 10000 Zagreb	Croatia	Real estate agency	100.0
Zane BH doo	Branilaca Sarajeva 20 71000 Sarajevo	Bosnia and Herzegovina	Real estate agency	100.0
Istraturist dd	Jadranska 66 52470 Umag	Croatia	Tourism	93.0
Istra D.M.C. doo	Jadranska 66 52470 Umag	Croatia	Organisation of the ATP tournament	93.0
ZABA Partner doo	Augusta Cesarca 2 10000 Zagreb	Croatia	Insurance intermediation	100.0

On 15 January 2013, the Bank acquired an additional 21.24% of voting rights in Istraturist dd and after the acquisition, the Bank owns 93.0% of Istraturist Umag dd's equity. Consequently, the Bank increased its indirect shareholding in Istra D.M.C. doo up to 93.0%.

On 4 September 2013 the Bank founded ZABA Partner doo, with 100% of voting rights. New subsidiary acts as an insurance and reinsurance intermediate on the Croatian market.

As of 4 June 2012 subsidiary Marketing Zagrebačke banke doo changed its name to Suvremene poslovne komunikacije doo.

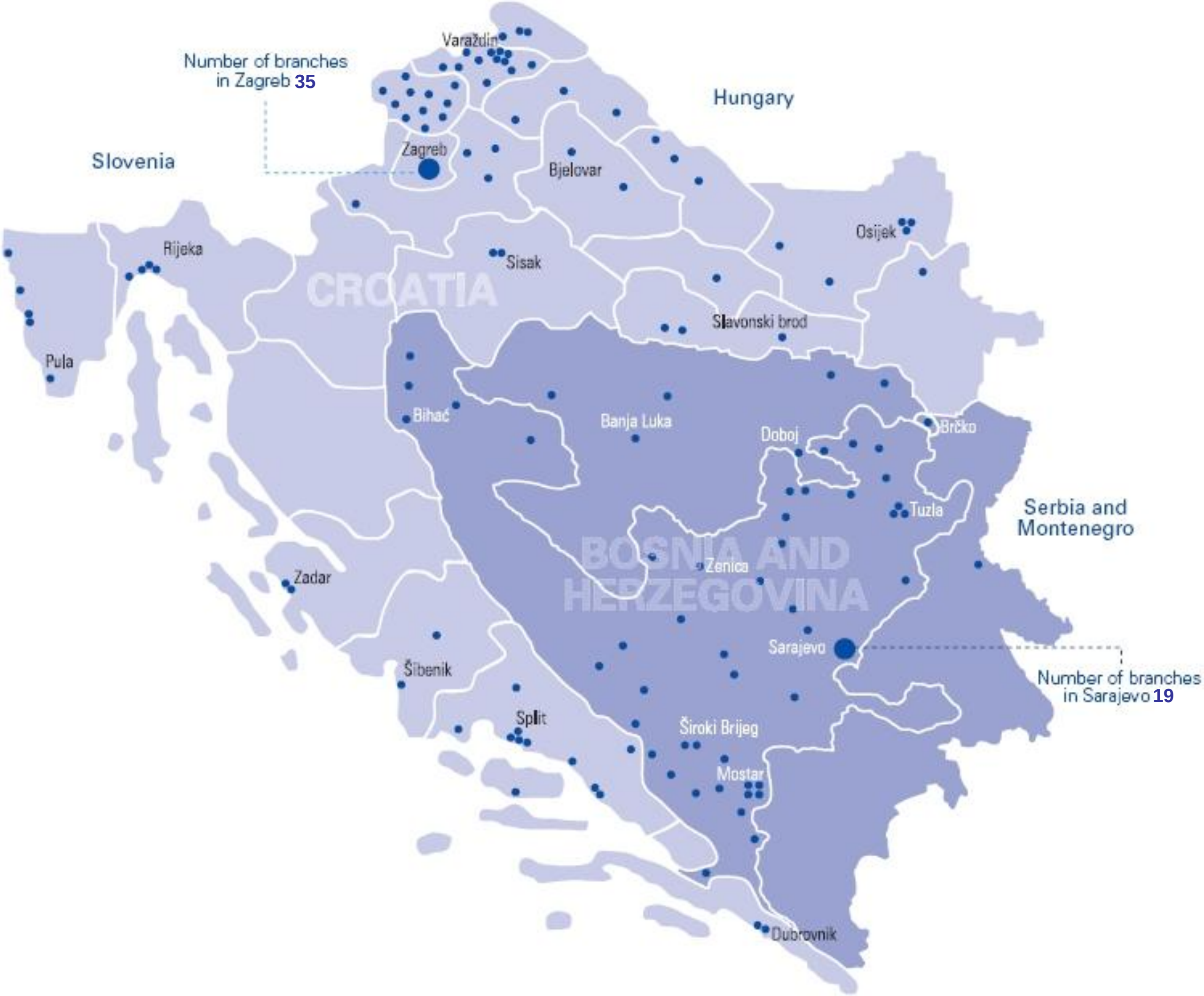
Business description (continued)

Equity accounted associated companies

Company	Address	Country of domicile	Industry	Group ownership %
Allianz ZB doo, Zagreb	Nike Grškovića 31 10000 Zagreb	Croatia	Obligatory pension fund management	49.0
Allianz ZB doo, Zagreb	Ivana Lučića 2a 10000 Zagreb	Croatia	Voluntary pension fund management	49.0
Multiplus card doo, Zagreb	Ivana Lučića 2a 10000 Zagreb	Croatia	Advertising and marketing services	25.0

BRANCH NETWORK MAP

Zagrebačka banka Group number of branches	2013	2012
Croatia	130	132
Bosnia and Herzegovina	85	87
Total	**215**	**219**



Overview of the Croatian economy in 2013

Macroeconomic indicators for Croatia

	2013	2012	2011	2010	2009	2008
Gross domestic product, bln HRK, in current prices	**333.0***	**328.6**	**328.7**	323.8	328.7	343.4
Gross domestic product, % change	**(0.8)***	**(1.9)**	**(0.2)**	(2.3)	(6.9)	2.1
GDP per capita, in EUR	**10,332***	**10,242**	**10,330**	10,360	10,407	11,031
Private consumption, % change	**(1.0)***	**(3.0)**	**0.3**	(1.3)	(7.6)	1.3
Public consumption, % change	**(0.3)***	**(0.8)**	**(1.4)**	(2.1)	0.4	(0.2)
Investment, % change	**(1.0)***	**(4.7)**	**(3.4)**	(15.0)	(14.2)	8.7
Exports of goods and services, % change	**(1.9)***	**0.9**	**1.7**	4.8	(16.2)	1.7
Imports of goods and services, % change	**(2.1)***	**(2.5)**	**2.1**	(2.8)	(21.4)	4.0
Industrial production, % change	**(2.0)***	**(5.5)**	**(1.2)**	(1.4)	(9.2)	1.2
Construction industry, % change	**(5.0)***	**(11.1)**	**(8.5)**	(15.8)	(6.6)	11.9
Tourism (nightstays), % change	**3.3***	**4.0**	**7.0**	2.6	(1.4)	2.0
Unemployment rate (ILO),(% of economically active population)	**17.2***	**15.8**	**13.5**	11.8	9.1	8.4
Consumer prices, % change	**2.2**	**3.4**	**2.3**	1.1	2.4	6.1
General government budget balance (% GDP)	**(5.7)***	**(5.0)**	**(7.8)**	(6.4)	(5.3)	(1.4)
Balance of payments current account balance (% GDP)	**0.5***	**0.0**	**(0.9)**	(1.2)	(5.2)	(9.0)
External debt (% GDP)	**106.5***	**103.0**	**104.2**	105.0	101.4	85.4
Money supply (M1), % change, end of period	**8.0***	**1.6**	**7.5**	2.3	(14.6)	(4.6)
Exchange rate HRK:EUR, year average	**7.57**	**7.52**	**7.43**	7.29	7.34	7.22
Exchange rate HRK:EUR, end of period	**7.64**	**7.55**	**7.53**	7.39	7.31	7.32

Sources: State Bureau of Statistics, Croatian National Bank, Ministry of Finance
* estimate by the Chief Economist of Zagrebačka banka

Further worsening of the situation in the Croatian economy throughout 2013

Croatia entered the year 2013 with adverse economic trends spilled over from the previous year. The continuation of such developments meant that the year 2013 was the fifth consecutive year of uninterrupted worsening economic situation, which started with the global economic crisis. The model of economic growth based primarily on budget deficit-financed domestic consumption and large infrastructure investments by the public sector, which seemed feasible before the crisis thanks to considerable inflows of foreign capital and low level of indebtedness, proved unsustainable after the year 2008. But, since then, the decision makers responsible for economic policy have not succeeded in either changing the model or inspiring credibility by their actions.

Given the circumstances, national GDP continued to decrease in the year 2013 from an already low base level (11% below the level reached in the pre-crisis year 2008) due to a continued declining trend in domestic demand, particularly pronounced in the areas of private and investment consumption. Foreign demand could also not positively impact domestic economic growth since economic recovery in the eurozone and neighbouring countries remained weak. Trends in unemployment were yet another adverse factor, although the pace in unemployment growth was less pronounced than in previous years. As economic activity was considerably below expectations, current budget revenues continued to decrease while lack of decisive action aimed at reducing public spending, together with higher expenses for repayment of accumulated public debt, resulted in additional increases in public sector expenditures, and thus also in the general government budget deficit. According to our calculations, the balance of payments' current account showed a surplus last year due to increased surplus in imports and exports of services and reduced deficit on the factor income account, in spite of a larger deficit in merchandise trade.

Overview of the Croatian economy in 2013 (continued)

As regards to investments, they had already fallen by almost a third in real terms in the previous four crisis years. In 2013, their fall continued at an estimated rate of -1%. This continued decrease was caused, in addition to ever present unfavourable investment climate (evidenced also by a fall in FDIs), by a delayed start in the promoted new public-sector investment cycle. Some of the expected large investment projects were additionally delayed (Plomin thermal power plant, Zagreb airport), there was a considerable slowdown in the road infrastructure construction, while ambitious projects to renovate rail infrastructure were only started in 2013.

Private consumption, already at a very low level before the year 2013 (about 11% lower than in 2008 in real terms), is estimated to have been down by yet another -1%, due to a fall in real disposable income, increase in unemployment, continued deleveraging and general loss of consumer confidence caused by the prolonged crisis.

Unfavourable trends continued in almost all industries, the most relevant being a further decrease in industrial production (-2%), construction (-5%) and turnover in retail trade (-1%). As a result, cumulative decrease since 2008 in manufacturing reached approximately 19%, and in construction industry the decrease was almost 45%. It is only in tourism that volume of business, measured by overnight stays, went up by 3.3% in 2013, i.e. by 13.5% since 2008.

Trends that are expected to continue in the year 2014 remain unfavourable, since the fourth quarter of 2013 is the tenth subsequent quarter with a falling GDP in real terms.

The balance of payments' current account saw a surplus thanks to a fall in domestic demand, increase of surplus in services and reduction in income account deficit.

Revenues earned from exports of goods and services went down by 1.9% in real terms. While revenues from exports of goods went down considerably, there was a simultaneous increase in revenues from exports of services, especially tourism (it is estimated that the ceiling of EUR 7 billion was again exceeded, thus bringing us very close to the performance of the record year 2008). A huge fall in exports of goods is mostly due to halving of exports in shipbuilding, where the level of activity went down considerably due to restructuring and privatization processes. Another reason is a fall in exports to the markets of CEFTA member countries, due to considerably higher customs duties on food and tobacco products after Croatia joined the EU. Expenditures for imports of goods and services went down even more in 2013 (-2.1%), due to decreases in domestic demand, both investment and private. As a consequence of the 2013 trends, there was a mild increase in goods&services account surplus, with the increase of the deficit in trade in goods being more than largely covered by a growing surplus in trade in services (our estimate is that in tourism alone, the increase amounted to EUR 350 million). Overall surplus on the current account was favourably impacted by a decrease in the deficit in factor income account, mostly due to a reduced outflow of repatriated profits.

Public spending was only marginally down and consolidated general government budget deficit was considerably up in 2013, evidencing the fact that urgently needed deep reforms in the public sector have not yet taken place.

Towards the end of 2012 and the beginning of year 2013, it became obvious that the new government was gradually abandoning its initial reform course of a more restrictive fiscal policy aimed at considerable fiscal consolidation, despite negative reactions of the international financial community. These reactions were quickly manifested in the prompt downgrade of Croatian credit rating to non-investment level, immediately after the 2013 budget was adopted at the end of 2012, as it showed no ambition to carry out any reforms. In spite of the budget amendments carried out during the year, the expected start and speeding up of reforms in the public sector failed to materialize.

These were the circumstances prevailing last year, when, according to our calculations, public spending went only slightly down in real terms (by about -0.3%), while increased expenses for repayment of principal and interest on accumulated public debt from previous periods resulted in a considerable increase in the consolidated general government budget deficit (from 5% to about 5.7% of GDP, or to approximately HRK 19 billion).

Overview of the Croatian economy in 2013 (continued)

Public revenues amounted to a much lower amount than was either planned at the start of the year or collected in the previous year, due to a further decrease in economic activity and specific impact caused by the EU entry on VAT revenues (changes in the VAT calculation period and payment for imports of goods from EU since July 2013). The overall fall in revenues was under the strongest impact of reduced payments of profit tax (caused by lower profits earned and no tax obligation on reinvested profit) and social contributions, with a slight increase in revenues from excise duties on oil derivatives (due to increased duty rates). Revenues from EU assistance sources after EU accession and increased use of EU funds were also up. A the same time, public expenditures continued to increase at the rate exceeding 4%, with all the main categories of expenditures going up apart from expenditures for employment and subsidies. Total expenditures went up mostly because of expenses for social benefits, which was by a large extent due to the public health care system rehabilitation carried out in June 2013.

General government debt continued to grow considerably and exceeded the ceiling of HRK 200 billion already in the beginning of the last quarter. According to our estimates, it was above HRK 218 billion and reached 65% of GDP already at the end of last year. The Ministry of Finance addressed both domestic and foreign markets to obtain the funds needed throughout last year. It placed two bonds on the domestic market in June, one with 5-year maturity, in the amount of HRK 2.75 billion and interest rate of 5.25% and the other with 11-year maturity, in the amount of EUR 750 million and interest rate of 5.75%. A foreign bond was placed in April, the amount was USD 1.5 billion, the maturity was 10 years and interest rate was 5.5%. Another bond was placed on the US market at the end of November with maturity of 10 years, amount of USD 1.75 billion and interest rate of 6%. Due to excess liquidity on the domestic market in 2013, interest rates on Treasury bills issued by the Ministry of Finance went further down (1-year bills in HRK pay 2.4% interest, and 1-year bills in EUR pay 0.7%), and the instrument was also used with indebtedness being increased by HRK 5 billion. At the same time, last year saw a decrease in indebtedness based on Treasury bills in EUR to the tune of about HRK 252 million due to lack of interest to subscribe the instrument.

Another reform-lacking budget was adopted at the end of 2013 for the year 2014, with no indication that urgently needed reforms would be finally started, especially those in local and public administration, while the one started in the public health sector progresses too slowly with unclear final savings targets. At the same time, following the EUROSTAT publication of the government budget deficit and indebtedness over the recent years, it was certain that Croatia will be made to enter the Excessive Deficit Procedure in 2014, because it has failed to meet its obligations on keeping the general government budget deficit under 3% of GDP and has failed to control its growing public debt.

Inflation slowed down considerably because of low domestic demand, reduction in the price of energy products and food items

The year 2013 saw an average increase in consumer prices in Croatia to the tune of 2.2%, while the increase was only 0.3% compared to the end of 2012, primarily due to a continued fall in domestic demand. The slowdown in price changes was partly also due to lack of events comparable to a considerable increase in VAT rate in the previous year. External events had mostly a deflatory or neutral effect (global movements in food and energy prices). However, the fact remains that the developments were mostly impacted by slowing domestic demand as is evidenced by the increase in the prices of services of only 0.4% yoy*, although these prices were going up much faster than prices of tangibles over the entire transition period, primarily because of lack of competition from abroad. If energy and food are excluded, prices went up by 0.5% yoy, while food prices went down by -0.2% compared to the end of 2012.

Unemployment continued to grow, though less steeply; real wage and pension benefit levels continued to fall

Registered unemployment went up in the year 2013, with 5,197 newly registered unemployed, which is a much lower figure than the one recorded in 2012 (42,776). The rate of registered unemployment is nevertheless considerably higher due to a fall in the number of employed persons from 20.9% to 21.6%. Survey unemployment rate (using internationally comparable methodology (ILO) went up from 15.8% in 2012 to estimated 17.2% in the year 2013. There was no pressure on gross wages as negative trends in the economy continued to prevail and, according to our estimate, nominal increase in wages in 2013 was only 0.6%, therefore real wages went down compared to those paid in 2012 by about -1.5%, thus lowering the unit cost of labour.

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* "yoy" stands for "year on year"

Overview of the Croatian economy in 2013 (continued)

Monetary policy remained focused on maintenance of price and exchange-rate stability, while at the same time trying to provide incentives for banks to extend credit to the real sector.

The year 2013 was another year in which the CNB endeavoured to maintain high liquidity in the banking sector without jeopardizing the stability of the exchange rate, while at the same time trying to encourage banks to make placements in the real sector in order to help revive the economy. Since measures transferred from the previous year, which were aimed at releasing additional liquidity in the banking system so as to increase placements to the corporate sector proved inefficient, the result was a considerable increase in the system surplus liquidity. This is why funds deposited by the banks at the central bank reached at times amounts exceeding HRK 10 billion. This was the reason why the CNB decided in April to decrease the remuneration rate paid on overnight deposits held by commercial banks from 0.25% to zero.

Increased liquidity with no considerable increase in placements in April resulted in renewed depreciation pressure on the exchange rate, which was countered by the CNB move to sell EUR 214.9 million to banks in the only foreign exchange intervention the CNB staged last year. The HRK/EUR exchange rate was at the level of 7.64 kuna for 1 euro at the end of last year, which is by 1.2% higher than at the end of 2012. Last year, the average exchange rate was somewhat above 7.57 kuna for 1 euro, which represented mild depreciation of 0.8% compared to the 2012 average. Gross international reserves held by the CNB at the end of 2013 reached the amount of over EUR 12 billion, thus exceeding the amount held at the end of the previous year (primarily due to the foreign borrowings incurred by the Ministry of Finance at the end of November which is expected to be used in the course of 2014).

Towards the end of year 2013, the CNB took the decision to decrease the rate applied to calculate obligatory reserve from 13.5% to 12% in order to make additional liquidity available to banks which was expected to be used to finance economic recovery. Also, in line with the overall trend of falling interest rates, the CNB decreased the interest rate charged on lombard loans from 6.25% to 5%. It was estimated that this would decrease the obligatory reserve total by about HRK 4.7 million (3.9 in the HRK segment and 0.8 in the forex segment). But, remembering the lessons learned in the previous years, the CNB simultaneously decided that the banks should use the funds that were thus made available to them to subscribe interest-free non-transferable mandatory bills with three-year maturity that they would however be able to resell to the central bank before maturity, at the end of each month, in the amount equal to 50% of the increase in specific placements made to domestic non-financial enterprises in the preceding month. The decision did not specify any restrictions regarding the interest rate and the placement currency, while only placements made for a period of at least three months could be taken into account. According to the CNB calculations, in case the entire HRK part of the reserve funds thus freed would be used, the amount of loans granted to the business sector would go up by about HRK 7.8 billion.

This may seem like a very ambitious goal, especially taking into account that the loans granted to the business sector in the year 2013 remained almost unchanged, or declined mild -0.1%, and that most of this was mitigated by the exchange rate depreciation effect, although the growth was also adversely affected by a change in the methodology of accounting for loans (netting of deferred (up-front) loan processing fees with total amount of loans since October 2013) and new transaction of selling part of the portfolio to one of the banks.

Total loans granted by commercial banks in 2013 went up by only 0.9%, i.e. by about HRK 2.5 billion, while loans granted to the public sector were up by HRK 5.7 billion or 15.2%. At the same time, loans to the retail sector went down by about HRK 2.2 billion or 1.7% (the already mentioned change in the exchange rate and the methodology should be taken here into account).

In the same period, total deposits held in the banking sector went up by somewhat more than HRK 8.8 billion, i.e. by 3.8%, with the largest increase in deposit amount recorded in the retail segment (HRK 6.9 billion or 3.9%). Deposits held by the corporate sector increased at an even higher rate (+8.0%), while deposits held by general government, non-monetary financial institutions and others were decreased.

Overview of the Croatian economy in 2013 (continued)

Banking sector capitalisation levels ensure its stability, while asset quality and profitability continued to decline

According to the unaudited data from the CNB, banking sector assets decreased by 0.5% in 2013, primarily due to a decrease in deposits held with financial institutions by 10.5%, the majority of them allocated to Ministry of Finance Treasury bills. Loans to individual customers decreased by 1.7% while loans granted to the corporate and public sector increased. As a result, total loans increased by 0.8%. Sluggish loan growth was impacted by several large one-off transactions occurred during 2013: the sale of a part of the non-performing loan portfolio held by a commercial bank both in December 2012 and December 2013, a change in the reporting methodology of the regulator[1], Centar banka bankruptcy and reimbursement of HBOR loan. When these effects are included, loan volumes increased by 2.4% in 2013[2]. Total deposits increased by 2.5% in nominal terms, driven mainly by household sector.

Decline in loans' volumes resulted in decreasing interest revenues of the banking sector, while at the same time the correction in deposit rates influenced the decline in interest costs. Profitability of the banking sector decreased by 73.1% compared to the 2012 (according to the unaudited data of the CNB) due to the strong increase in provisions for non-performing loans, decreasing interest margins and total revenues. The resulting ROE shrinked to 1.9% at the end on 2013, down from 4.8% in 2012. The share of non-performing loans resumed an increase as the economic recovery failed to materialize in 2013, reaching 15.6% (compared to 13.9% at the end of 2012).

By the end of year 2013, banking sector capital adequacy rose to the level of 21.0% (from 20.5% at the end of 2012), driven by the decline in risk weighted assets. This development additionally confirmed already high capitalization level of the Croatian banking sector.

[1] Since 31 October 2013 loans are reported net of on-time up-front fee for loan processing
[2] Loans including financial institutions

Operating and financial review

Group results

Despite continuously difficult economic environment **Zagrebačka banka Group** achieved **profit for the period** in the amount of HRK 771 million, which is HRK 488 million (-38.8%) less than the previous year.

Achieved result is still under the impact of lower demand for loans, lower interest income, still relatively high costs of funding and higher impairment losses. Slow implementation of regulations focused on resolving problems of companies faced with business difficulties and lack of fresh owner's equity necessary for financial restructuring of the companies, affects further increase of non-performing loans.

Operating performance of the Group remained sound and stable and generated **profit before impairment and other provisions** in the amount of HRK 2,530 million which is HRK 146 million (-5.5%) below the previous year.

Group's **operating income** reached HRK 5,111 million and, compared to the previous year, is HRK 126 million or 2.4% lower (2012: HRK 5,237 million), mostly as a result of lower net interest income, while non-interest income was retained at the same level.

Group recorded **net interest income** in the amount of HRK 3,040 million or HRK 126 million (-4%) less than in the year 2012, what is affected mostly by the increase of share of non-performing loans as a result of recessionary environment in conjunction with a decrease of Euribor as reference rate.

Overall non-interest income revenues were relatively stable. **Net fee and commission income** earned in the year 2013 totalled HRK 1,109 million on a consolidated basis, which is HRK 22 million (+2%) more than in the year before. Credit cards and domestic and foreign payment transactions' fees and commissions contributed most to the increase of net fee and commission income.

Net trading income and other income was achieved in the amount of HRK 962 million, which is HRK 22 million (-2.2%) less than in the previous year, mostly as a result of lower net gains from investment securities, while Istraturist dd achieved good operating result from hotel operations.

Total **operating expenses** amounted to HRK 2,581 million and were by HRK 20 million or 0.8%, insignificantly, higher than in 2012. Focus on cost management and continuous implementation of improvements in process efficiency yield tangible savings in administrative expenses. Cost to income ratio ("C/I ratio") amounts 50.5% (2012: 48.9%).

As regards to **impairment losses and other provisions** the Group had to secure a significantly higher amount, HRK 1,643 million, which is HRK 460 million (+38.9%) more in comparison to the previous year. Higher impairment losses are the result of recessionary environment, higher unemployment rate, low level of investment activity, decrease of disposable income and real sector gains as well as new regulatory changes regarding provisioning for non-performing loans.

The strongest contribution to the consolidated Group results was made by Zagrebačka banka dd, UniCredit Bank dd, Mostar, Istraturist dd Umag, ZB Invest doo and Prva stambena štedionica dd.

Group's assets and liabilities

Group's **total assets** confirmed sound position and reached HRK 123,724 million, which is HRK 3,523 million or 2.9% more than at the end date of the previous year.

Net loans to customers amounted to HRK 81,065 million and showed and upward trend with a 3.0% (or HRK 2,336 million) of increase in comparison to the year 2012, owning to corporate loan volume increase.

Operating and financial review (continued)

Group's assets and liabilities (continued)

In the Corporate segment slight increase of loan volume is under the influence of recessionary environment, low level of investment activities and real sector gains, while subdued loan demand is still present with placements to the Retail segment which have continuous decline in volume due to unfavourable market conditions, increasing unemployment, lower disposable income and deleveraging.

Current accounts and deposits from customers reached the amount of HRK 75,016 million at the end of year 2013 representing an increase of HRK 2,297 million compared to 2012, wherein deposits from individuals grew by HRK 2,281 while deposits from corporate and government sector customers increased by HRK 16 million as well.

Deposits from banks and borrowings totalled HRK 27,783 million which also contributed to the financing of asset growth, with an increase of HRK 740 million or 2.7% in comparison to the previous year.

The Group kept very satisfactory **capital position**, retaining total equity at HRK 18,177 million, which is an increase from previous year end by HRK 74 million or 0.4%.

Operating results of Zagrebačka banka dd

In the year ended 31 December 2013, the Bank recorded **profit after taxation** of HRK 465 million, which is HRK 423 million, or 47.6% less than the previous year, due to lower net interest income and increased impairment provisioning.

In a continuously recessionary environment, however, the Bank generated positive and solid **profit before impairment and other provisions**, in the amount of HRK 2,131 million, which is HRK 134 million (-5.9%) below the previous year as a result of lower net interest income, while non-interest income was managed to be increase.

With continuous customers and product range orientation the Bank has reconfirmed its position as a market leader and with the focus on preserving the credit portfolio quality as well as with the focus on product and process excellence, it sustained stable operating profitability.

Bank's firm capital position, with an increased capital adequacy ratio to 23.80% in 2013 and with increased coverage ratio for impaired loans, ensures its customers, savings depositors, partners and creditors foundations for future long-term stability and support in their business and private finances.

Income and expenses

In the year 2013, the Bank **operating income** amounted to HRK 3,792 million, which is HRK 130 million, or 3.3%, less than the year before.

Net interest income

The Bank made net interest income for the year 2013 in the amount of HRK 2,485 million, which is HRK 137 million, or 5.2%, less than for the year before.

In 2013, the Bank generated **interest income** of HRK 5,686 million, which is HRK 2 million more than the previous year. Interest income from derivative instruments increased by HRK 532 million, while interest income from loans to customers and placements with banks decreased in total HRK 497 million, reflecting increased share of non-performing loans and decrease of reference interest rate (Euribor).

Operating and financial review (continued)

Operating results of Zagrebačka banka (continued)

Net interest income (continued)

At the same time, **interest expense** reached HRK 3,201 million, which is HRK 139 million, or 4.5%, more than in 2012, mainly as a result of increased interest expense from derivative instruments while interest expense on deposits from banks and borrowings partially offset these negative effects and were significantly lower (-HRK 294 million) due to lower volume of inter-bank funding throughout the year.

The persistent narrowing of interest margins is continued and net interest margin in 2013 decreased further, in comparison to previous year, to a level of 2.35% (2012: 2.51%).

Net fee and commission income

The Bank generated net fee and commission income in the amount of HRK 852 million, which is HRK 5 million or 0.6% more than the year before.

Fee and commission income totalled HRK 996 million, which is HRK 4 million more than in 2012. Mostly credit cards related fees and commission increased while fee and commission income retained from other services decreased.

Fee and commission expenses in the amount of HRK 144 million are down by HRK 1 million and are kept at the level of the previous year.

Net trading and other income

For the year ended 31 December 2013, net trading and other income remained at the relatively same level as the previous year and amounted to HRK 455 million.

The Bank earned HRK 55 million of dividend income, or HRK 20 million more than the previous year.

Net gains and losses on financial instruments at fair value through profit or loss and from foreign exchange trading and translation of monetary assets and liabilities amounted to HRK 322 million, which is HRK 43 million more than in the year 2012, mostly due to better net result from derivatives transactions.

In 2013 other operating income totalled HRK 71 million, which is HRK 44 million below the previous year's corresponding figure mostly as a result of previous year's one-off effect of proceeds from sale of real estate.

Operating expenses

Total operating expenses amount to HRK 1,661 million and were slightly increased, by HRK 4 million or 0.2% in comparison to the year before.

Personnel costs reached HRK 824 million, which is HRK 33 million, or 4.2%, more than the year before.

Cost management and process excellence efforts proved efficient since they yield tangible savings in administration and marketing expenses (down by HRK 23 million or 4% from 2012) which now totalled HRK 547 million.

The Bank strives to continuously improve process efficiency and therefore, despite the decrease of operating income in 2013, the Bank occurred relatively stable cost-to-income ratio, of 43.8% (2012: 42.3%).

Impairment losses and provisions

At the end of 2013 impairment losses and provisions reached HRK 1,555 million, which is HRK 394 million, or 33.9%, more than in 2012. Significant increase is the result of operating environment dominated by prolonged recession, increasing unemployment rate, decrease of disposable income and slow implementation of regulation aimed at resolving problems of companies faced with business difficulties. Value adjustments, in respect of loans to and receivables from customers, account for HRK 1,509 million or 97% of the total loss amount (2012: HRK 1,091 million).

Operating and financial review (continued)

Bank's assets and liabilities

Bank's assets

As at 31 December 2013, the Bank's assets amounted to HRK 106,505 million, which is an increase of HRK 2,923 million, or 2.8%, from the previous year-end.

Loans to and receivables from customers increased by HRK 1,963 million (+2.9%), to a level of HRK 70,835 million (2012: HRK 68,872 million), contributing most of the total asset's increase. Lending volume increase was entirely driven by loans to corporate and government sectors with an effect of +HRK 2,935 million, or +7.4%, compared to the preceding year, while retail sector continued with a downturn trend, and decreased by HRK 972 million or 3.3%, influenced by deleveraging, high unemployment and decrease in disposable income.

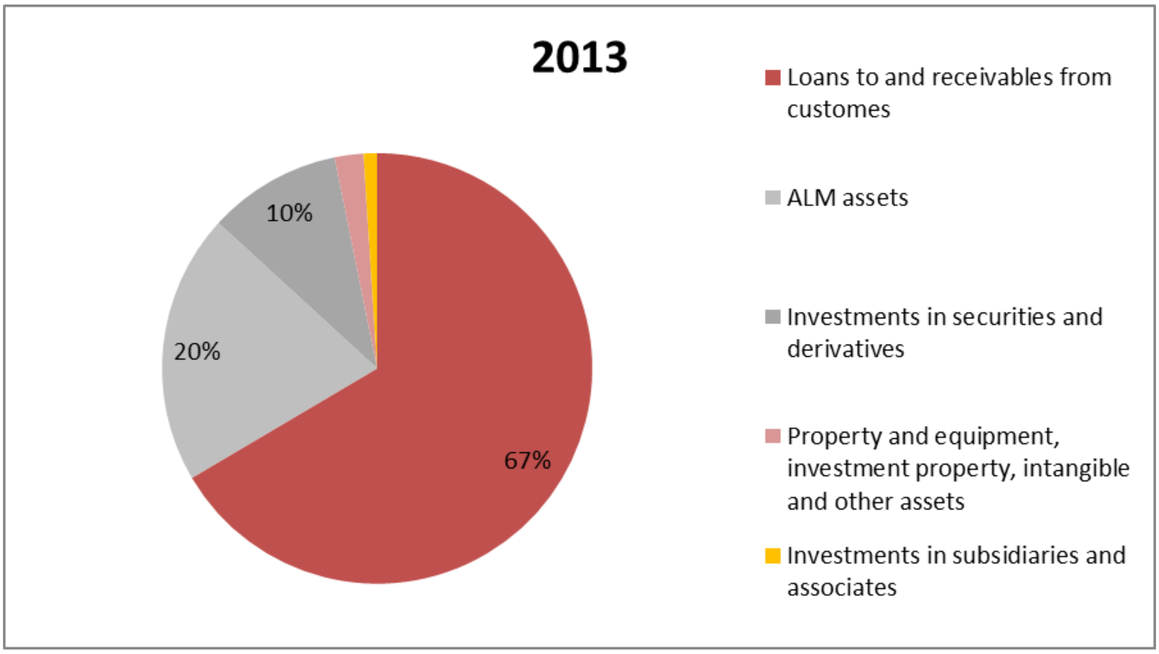
Net liquid assets (comprising cash and deposits with CNB, deposits with and placements to banks and liquid securities) amount to HRK 31,084 million and have increased by HRK 388 million (+1.3%) in comparison to the end of the previous year.

The described increase in assets was financed mainly by the growth of **current accounts and deposits from customers**, which increased by HRK 1,798 million overall during 2013 and reached HRK 62,445 million at the end of the year, mostly impacted by the retail segment.

Further, **current accounts and deposits from banks and borrowings** also grew, by HRK 797 million, to HRK 26,253 million at the year-end.

For the purpose of analysis, the assets are broken down into five categories; their importance and trends in comparison to the previous year are demonstrated in the following diagrams:

Assets structure – importance of categories within the total assets

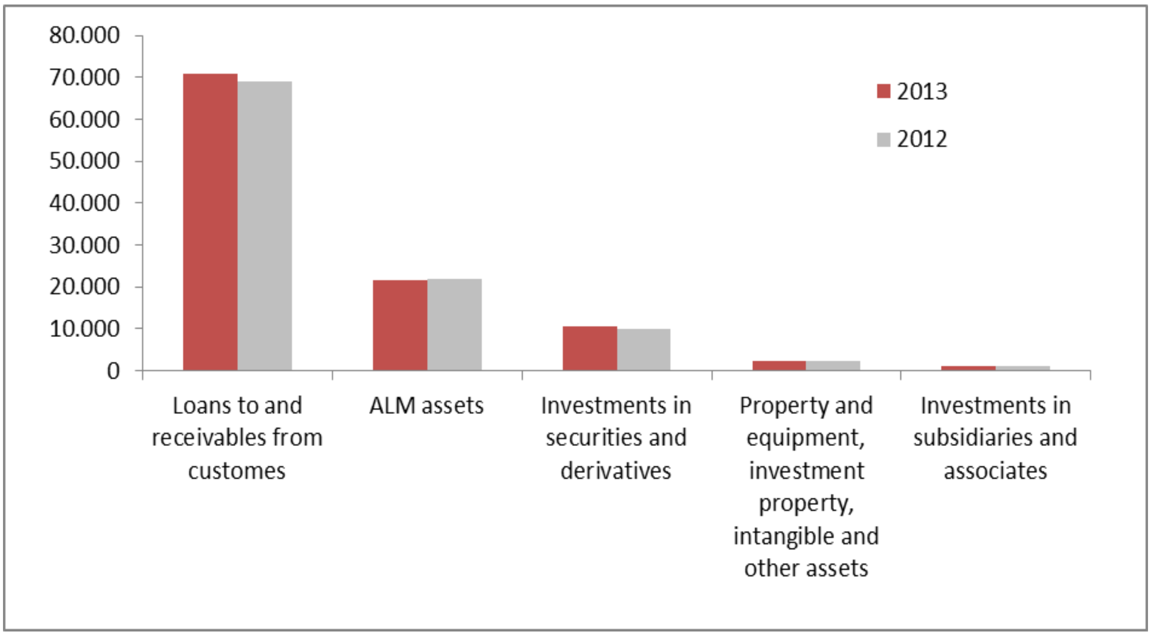


Operating and financial review (continued)

Bank's assets and liabilities (continued)

Bank's assets (continued)

Assets structure – comparison to the previous year



During the year 2013, the strongest growth was measured in respect of loans to and receivables from customers (in total increase of HRK 1,963 million), while also investments in securities and derivatives hold an increase, of HRK 844 million.

Loans to and receivables from customers are the main component of the Bank's statement of financial position and account for 66.5% of total assets (2012: 66.5%).

Operating and financial review (continued)

Bank’s assets and liabilities (continued)

Bank’s assets (continued)

Loan portfolio is well diversified and spread between corporate and Government customers and retail customers.

Structure of loans to and receivables from customers:

		2013 HRK million	2013 %	2012 HRK million	2012 %
Gross loans to and receivables from	Companies, similar organisations and Government	47,453	61.2%	43,335	58.3%
	Individuals and unincorporated business	30,080	38.8%	30,944	41.7%
	Total	**77,533**	**100.0**	**74,279**	**100.0**
Impairment allowance	Companies, similar organisations and Government	(4,719)	70.5%	(3,536)	65.4%
	Individuals and unincorporated business	(1,979)	29.5%	(1,871)	34.6%
	Total	**(6,698)**	**100.0**	**(5,407)**	**100.0**
Net loans to and receivables from	Companies, similar organisations and Government	42,734	60.3%	39,799	57.8%
	Individuals and unincorporated business	28,101	39.7%	29,073	42.2%
	Total	**70,835**	**100.0**	**68,872**	**100.0**

Gross loans to and receivables from companies, similar organisations and the Government grew by HRK 4,118 million reaching HRK 47,453 million by the year-end.

Other segment, individuals and unincorporated business, decreased, by HRK 864 million compared to the year before and on 31 December 2013, they amounted to HRK 30,080 million. More than a half of the loan portfolio continued to relate to housing loans. With a market share of 30.9% (2012: 31%), the Bank has remained the market leader in housing lending in Croatia.

Impairment allowances, as described earlier, increased by HRK 1,291 million relative to the year before, with provisions relating to loans to companies and similar organisations growing by HRK 1,183 million, and those for loans to individuals and unincorporated businesses by HRK 108 million. Slow implementation of regulations focused on resolving problems of companies faced with business difficulties and lack of fresh owner’s equity necessary for financial restructuring of the companies, affects further increase of impairment losses.

The Bank continued with a strong focus on asset quality resulting with prudent classification of risky exposures and increase of coverage ratio for impaired loans.

Operating and financial review (continued)

Bank's assets and liabilities (continued)

Bank's assets (continued)

ALM assets

Total ALM assets remained at the same level as the previous year, and stood at HRK 21,620 million (2012: HRK 21,737 million) which is a slight decrease of 0.5% or HRK 117 million from 2012 year-end. They account for 20.3% of total assets (2012: 21.0%). To the largest extent, this asset category is under the direct impact of the CNB monetary policy measures aimed at sterilisation of monetary assets, restriction of credit expansion and reducing the level of foreign borrowing. These assets can be broken down as follows:

	2013 HRK million	**2012 HRK million**
Cash and cash equivalents	5,628	4,555
Obligatory reserve with the CNB		
- in HRK	5,742	6,364
- in foreign currency	1,395	1,476
Compulsory CNB Treasury Bills	913	-
Loans to and receivables from banks	7,942	9,342
Total	**21,620**	**21,737**

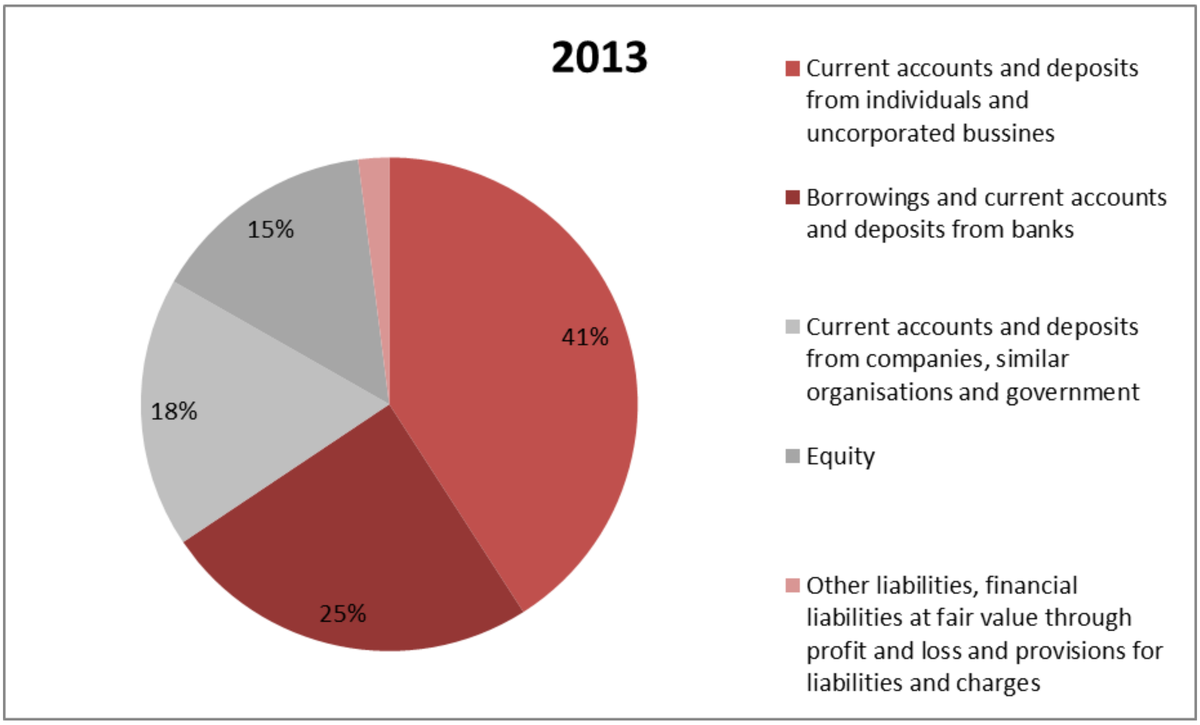
Throughout the year, the Bank maintained necessary liquidity levels and complied with all monetary regulations imposed by the central bank.

Operating and financial review (continued)

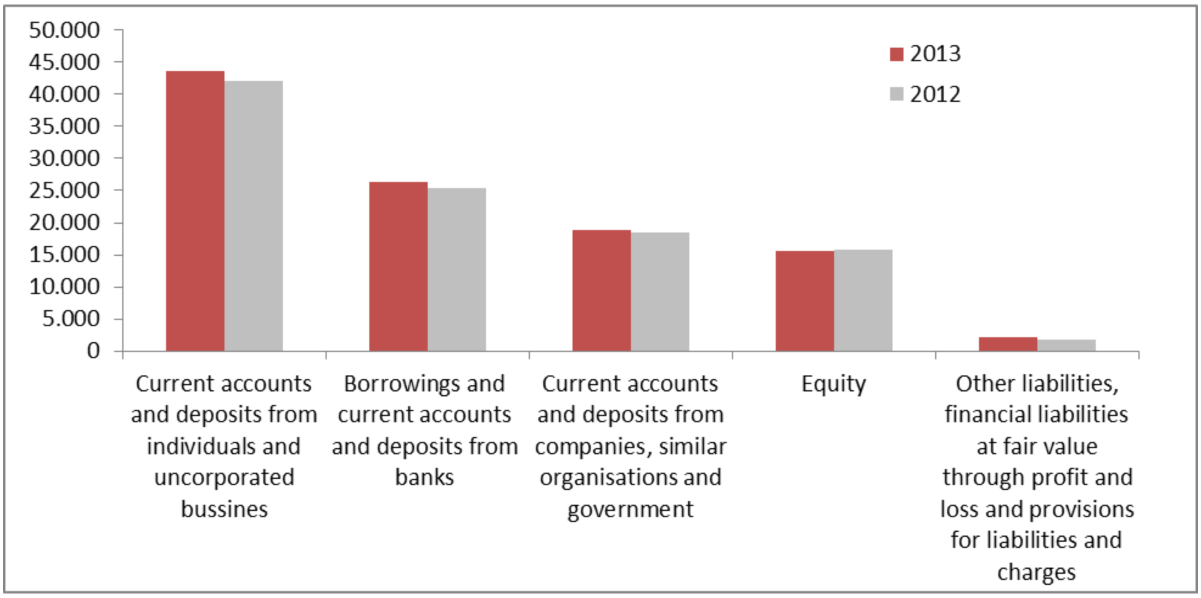
Bank's assets and liabilities (continued)

Bank's liabilities and equity

Structure as at 31 December 2013:



The diagram below shows the changes in the Bank's liabilities and equity:



Operating and financial review (continued)

Bank's assets and liabilities (continued)

Bank's liabilities and equity (continued)

Current accounts and deposits from customers

Current accounts and deposits from customers reached the amount of HRK 62,445 million (2012: HRK 60,647 million), representing an increase of HRK 1,798 million (or 3.0%) and at the year-end in comparison to previous year-end and they represent more than a half of Bank's total liabilities and equity (58.6%, 2012: 58.5%).

Out of total amount of current accounts and deposits from customers, individuals and unincorporated businesses rose by HRK 1,470 million (or 3.5%) amounting HRK 43,582 million (2012: HRK 42,112 million) at the end of the year. Both foreign currency deposits and hrk deposits showed a growth, HRK 716 million and HRK 754 million, respectively. Current accounts and deposits from individuals account for 69.8% of total deposits from customers (2012: 69.4%).

Current accounts and deposits from companies, similar organisations and Government rose by HRK 328 million (or 1.8%) reaching HRK 18,863 million by the end of the year. HRK deposits decreased by HRK 286 million, whereas foreign currency deposits increased by HRK 614 million.

Deposits from banks and borrowings

Deposits from banks and borrowings amounted to HRK 26,253 million, which is HRK 797 million more than the previous year (+3.1%). Compared to the year before, deposits from banks increased by HRK 163 million, a relative small increase of 1.2%, and reached HRK 13,212 million at the end of the year. In the reporting period, borrowings rose by HRK 634 million, or 5.1%, to HRK 13,041 million.

Equity

The Bank's share capital is denominated in HRK and comprises ordinary shares listed on the Zagreb Stock Exchange. The capital and liquidity positions were satisfactory during the year 2013.

In comparison to the year before, equity decreased by HRK 90 million or 0.6% reaching HRK 15,675 million on 31 December 2013 primarily due to the dividend paid by the Bank conducted in November 2013 in the amount of HRK 615 million. Equity accounts for 14.7% of total liabilities (2012: 15.2%).

Capital adequacy ratio reached 23.80 % (2012: 23.63%).

Management and corporate governance

Declaration of application of the Code of Corporate Governance

In accordance with Article 272p of the Companies Act, the Management Board of Zagrebačka banka declares that Zagrebačka banka dd (the Bank) applies the Code of Corporate Governance, as jointly prepared by the Croatian Financial Services Supervisory Agency ("HANFA") and the Zagreb Stock Exchange ("ZSE").

The 2013 Annual Questionnaire which reflects the state and the practice of Corporate Governance is enclosed and forms an integral part of the Declaration, in relation to the recommendations contained in the Code of Corporate Governance, with explanations of certain discrepancies.

Information regarding the internal control and risk management mechanisms can be found in this Annual Report, under the heading: Notes to the financial statements (*Note 37* - Risk Management).

Information on the Bank's shareholders can be found in this Annual Report, under the heading: Notes to the financial statements (*Note 31* – Share capital).

UniCredit Bank Austria AG being the single largest shareholder in the Bank is a member of the international banking group UniCredit S.p.A. and, consequently, the Bank is a member of the same banking group.

The rules governing the appointment and removal of the members of the Management Board are contained in the Bank's Articles of Association. In accordance with them, the Chairman and members of the Management Board are appointed by the Supervisory Board, their term of office being four years, subject to previous approval by the Croatian National Bank.

When appointing the members of the Management Board, the Supervisory Board first designates the Chairman and gives that person the mandate to request the appointment of other members of the Management Board.

The Chairman of the Management Board has the power and duty to request the removal of any member of the Management Board if reasons for such removal arise, as stipulated in the law and the Articles of Association. At the same time, the Chairman will request that a new member of the Management Board be appointed.

The Supervisory Board resolves the removal of a member of the Management Board.

The removal of the Chairman of the Management Board is decided upon by the Supervisory Board following a proposal by the Chairman of the Supervisory Board.

The procedure for making amendments to the Articles of Association is defined in Articles 79 and 80 of the Articles of Association. A proposal for amendment can be submitted by the Management Board or the Supervisory Board or by a shareholder or shareholders holding at least 10% of the Bank's voting shares.

Proposals for amendments to the Articles of Association are submitted to the Supervisory Board which can adopt such proposals and pass them on to the General Meeting for adoption.

The respective scopes of powers of the Supervisory Board and the Management Board are defined in the Articles of Association, in accordance with the relevant provisions of the Companies Act and the Credit Institutions Act.

While the Management Board may not issue new shares of the Bank, it is authorised to approve the Bank's acquisition of its own ordinary shares for the purpose of their allocation to the Bank's employees. The Bank's shares can be allocated to employees in accordance with the decision of the General Meeting concerning the employees' shares of the Bank's profit for a particular year.

Management and corporate governance (continued)

Code of Corporate Governance – Annual questionnaire

All questions contained in this Questionnaire pertain to the period of one year for which the annual financial statements are prepared.

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

   Yes. The Company applies the Corporate Governance Code.

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

   Yes.

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

   Yes.

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

   Yes.

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

   No.

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

   Yes.

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

   Yes.

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

   Yes.

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

   Yes.

Management and corporate governance (continued)

Code of Corporate Governance – Annual questionnaire (continued)

10. **Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, explain)**

    Yes.

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

    Yes.

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

    Yes.

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

    Yes.

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

    No.

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

    No, there was no need for such form of participation and voting.

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

    Yes, pursuant to the Companies Act, the Articles of Association prescribes that anyone intending to participate in the General Meeting has to advise the Company in advance of such his/her intention, which ensures better management of technical aspects of the General Meeting.

Code of Corporate Governance – Annual questionnaire (continued)

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

Yes.

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

No, as there were no legal actions.

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

Yes.

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

Yes.

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

No, in that respect, the company follows the Corporate Governance Rules of the banking and financial services group to which it belongs; the Group exercises its own supervisory powers in accordance with the legal regulations applicable to it.

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

Yes.

The purpose of succession planning is to ensure the continuity of quality management of individual business areas within the company, while at the same time improving HR management quality. Management succession planning is carried out through timely recognition of needs for successors, their identification and preparation to assume the respective powers and duties through systematic implementation of development activities and acquisition of necessary experience.

Sound succession planning is based on:

a) permanent and structured management of performance and development of future managers
b) employee segmentation and segmentation management in order to ensure consistent application of the relevant criteria
c) on-going and structured executive development planning
d) co-operation with top management of individual organisational units to identify future business needs and potential successors at all management levels

Management and corporate governance (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

e) activities directly involving the employees with high performance and potentials, i.e. Growing Resources, as the key element in their career management (special approach to Growing Resources with managerial potential).

The efficiency of such approach is reflected in the fact that in 2013 the Bank satisfied almost all its succession needs for mid and top management levels from so defined internal resources.

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

No. In most cases remuneration is excluded because in line with the rules of the Group of which the Company is a member, the majority shareholder's representatives on the Supervisory Board waive their right to any kind of remuneration, while the remuneration for other members is established in an amount considered to be fair.

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

Yes. It is established by a decision of the General Meeting.

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

Yes. Information on cost reimbursement and remuneration paid by the Company is disclosed in the relevant decision of the General Meeting.

26. Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company 's shares, not later than five trading days, after such a change occurs? (If not, explain)

Yes. The obligation of the members of the Supervisory Board to inform the company of the above is aligned with the Capital Market Act.

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

No. There are no transactions relevant within the meaning of the above.

Management and corporate governance (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

    No.

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

    See the answer under 28.

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

    See the answer under 28.

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

    No.

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

    Yes. The Remuneration Committee has been established.

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

    Yes. The Audit Committee has been established.

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

    Yes.

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

    Yes.

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

    Yes.

Code of Corporate Governance – Annual questionnaire (continued)

37. Has the committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, explain)

Yes, quarterly reports of the Internal Audit presented to the Audit Committee contain a section on professional improvement and training of the Internal Audit employees. Potential constraints and difficulties regarding the budget for those activities are also discussed in this section of the report.

38. If there is no internal audit system in the company, did the committee consider the need to establish it? (If not, explain)

There is an internal audit function within the Company.

39. Did the committee monitor the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, explain)

Yes.

40. Did the committee monitor nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (If not, explain)

No, under the Credit Institutions Act the Company is prohibited from being provided such services by its external auditors.

41. Did the committee prepare rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)

No. It is stipulated by the Law.

42. Did the committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, explain)

Yes, the Audit Committee gives instructions to Internal Audit as regards the monitoring of the implementation of the external auditors' recommendations. Through the quarterly reports Internal Audit then regularly reports on their implementation.

43. Did the audit committee ensure the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (If not, explain)

No, this was not within the competence of the Audit Committee in 2013.

Code of Corporate Governance – Annual questionnaire (continued)

44. Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)

Yes.

45. Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)

Yes.

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

No.

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

Yes. The Company's remuneration policy is outlined below:

REMUNERATION POLICY FOR THE MANAGEMENT BOARD AND SUPERVISORY BOARD

MANAGEMENT BOARD

Key elements of the Management Board remuneration

The Management Board remuneration policy is part of the overall remuneration system of Zagrebačka banka (the Bank), as regulated in the relevant decisions of the Bank's responsible bodies.

The amount of overall remuneration of individual Management Board members is determined by taking into account their respective areas of competence, their track record in managing particular business lines, and the Bank as a whole, as well as information on industry remuneration obtained through market research conducted by independent consultants.

Taking into account market developments prevailing at a time, the Bank's financial standing and individual performance of the Management Board members, their remuneration is regularly reviewed on an annual basis and, if necessary, the amount of the overall remuneration is adjusted accordingly.

Zagrebačka banka Group in the Republic of Croatia undertakes all the measures in order to ensure that the members of the Management Board do not apply personal strategies of risk protection and that they do not enter into contracts of insurance against the loss of income or insurance against the adverse outcome in respect of risks taken.

Components of remuneration of the Management Board members

With respect to the remuneration of the Management Board members, the Bank ensures an appropriate proportion of a variable and a fixed component of the overall remuneration.

Management and corporate governance (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

In the aggregate remuneration, the variable component depends on the Zagrebačka banka Group performance in the Republic of Croatia and performance of the UniCredit Group, the performance of individual business lines within the respective scope of competence of the Management Board members, and their individual performance and it will not be paid exclusively under the condition of the duration of the contractual relationship until the set date, whereas the fixed pay reflects the professional experience, responsibility and complexity of the job. An appropriate proportion between the variable and fixed component of the overall remuneration is set out in such a way that the variable component does not exceed the amount of the fixed component of the overall remuneration, whereas for the employees who carry out the activities of control functions, fixed pay amounts to no less than two thirds of overall remuneration of the respective employee. Fixed pay makes up a substantial part in the overall remuneration and allows for the possibility that the variable component is not paid to the employee, i.e. compensation for professional experience, complexity and responsibility ensure the independence of the employee in respect of variable pay.

The remuneration of the Management Board members is based on their achievement of the specifically defined business targets (quantitative and qualitative) which are clearly defined for a given business year and based on the Zagrebačka banka Group in the Republic of Croatia, taking into account the sustainable performance through a multi-year period, with the strong focus on the appropriate and efficient risk management. The variable pay of the Management Board members who perform the activities of the control functions depends on the achieved goals related to their functions, irrespective of the performance of the business areas falling under their scope of competence.

Monthly pay

The monthly pay is agreed for the entire term of office of the Management Board members.

In addition to the monthly pay, the Management Board members are entitled to incentives as a reward for their successful performance.

Incentives

The incentive system for the Management Board members is an important element of the Bank's sustainable remuneration within the sustainable performance approach, which supports the vision and the mission of the Bank and is aligned with the applicable local and international regulatory requirements. The incentive system for the Management Board members combines the annual and long-term incentive remuneration into a single remuneration system, thus ensuring consistency between the annual targets and the creation of long-term sustainable values.

The incentives for a particular financial year depend on the performance of the Zagrebačka banka Group in the Republic of Croatia and UniCredit Group, performance of the business lines within the scope of competence of the Management Board members and the individual performance of the Management Board members. The performance of the Zagrebačka banka Group in the Republic of Croatia and UniCredit Group is measured in terms of key financial indicators, while the individual performance targets (standards) are set specifically for each member of the Management Board taking into account their respective scope of competence and business targets during a longer time period. The individual targets and indicators used to measure individual performance and to determine the incentives attributable to the Management Board members for a particular business year are defined in advance and agreed upon for the next year, and they are subject to changes and adjustments depending on the performance of the Zagrebačka banka Group in the Republic of Croatia and UniCredit Group during that year.

Management and corporate governance (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

As motivation for achieving the long-term strategic targets and key performance indicators for the Zagrebačka banka Group in the Republic of Croatia and UniCredit Group, and in order to encourage loyalty and retention of the Management Board members, those incentives are paid out in several annual instalments over a predefined period, through cash payment or allocation of financial instruments (the Bank's ordinary shares).

In line with the long-term interests of the Zagrebačka banka Group in the Republic of Croatia, we will undertake all the measures in order to retain the instruments, the deferred and non-deferred variable remuneration, as stipulated by separate by-laws on remuneration system for this group of employees. In this respect we will take into account the length of the assessment period, the length of the deferral period, the impact of the employee on the risk profile of the credit institution, the accuracy of risk adjustments in performance measurement and remuneration determination, the time needed for the materialization of certain relevant risks and other elements, where appropriate and as deemed necessary by the Zagrebačka banka Group in the Republic of Croatia.

In cases when the Management Board Member participated in the activities which resulted in considerable losses for the Zagrebačka banka Group in the Republic of Croatia or if the Management Board Member failed to meet the stipulated or internally set standards of appropriateness, the malus clause (reduction in payouts of remuneration previously earned, but deferred and not yet paid) and the claw back clause (subsequent reduction in payouts of remuneration previously earned and paid) are also applied.

Regulation of remuneration of the Management Board members

In order to ensure that the remuneration of the Management Board members is in line with the uniform remuneration policy and with the Bank's financial position, the Remuneration Committee has been set up within the Bank, consisting of three members being appointed from among the members of the Supervisory Board. Upon the substantiated proposal of HR Management, the Remuneration Committee draws up and presents to the Supervisory Board a proposal of the remuneration principles for the Management Board members and their performance targets for a given financial year, it defines the amount and components of the remuneration for the Management Board members and submits to the Supervisory Board draft contracts of service of the Management Board members stipulating their individual rights and obligations during their term of office.

The remuneration principles are defined in separate decisions of the Supervisory Board which constitute an integral part of the Bank's overall remuneration system.

The rights and obligations of the Management Board members are defined in detail in their respective contracts of service. In accordance with the Bank's Articles of Association, the Management Board members are appointed to a four-year term.

SUPERVISORY BOARD

The Supervisory Board members are entitled to a compensation for their attendance at and participation in the physical meetings and video-conferences.

Besides, the Supervisory Board members are entitled to the reimbursement of their travel and other expenses in connection with Supervisory Board meetings they attend.

Management and corporate governance (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

    In addition to the compensation for attending Supervisory Board meetings and the reimbursement of related costs, the Supervisory Board members are entitled to one-off annual remuneration in accordance with the Decision of the General Meeting for each financial year.

    The proposal of the annual remuneration is submitted to the General Meeting for decision, and it may vary depending on the Bank's performance in the financial year concerned.

    In principle, all Supervisory Board members are paid equal portions of the aggregate remuneration amount as proposed to the General Meeting.

    The amounts paid to the Chair and Deputy Chair of the Supervisory Board are higher 25% and 12.5%, respectively, than the amounts paid to other Supervisory Board members.

    In the proposal of the aggregate amount of the annual remuneration for the Supervisory Board members, it can also be proposed that the Supervisory Board members be compensated for their extra work on the Supervisory Board committees. So, the remuneration for the Supervisory Board members who are at the same time members or Chairs of other Committees of the Supervisory Board may be up to 7.5% higher than the remuneration paid to the Supervisory Board members who are not the Chair or Deputy Chair of the Supervisory Board, or member or the Chair of either of the Committees of Supervisory Board.

    In accordance with the rules of the banking group of which the Bank is a member, the one-off annual remuneration is not paid to those Supervisory Board members who represent the Bank's majority shareholder and those members of the Supervisory Board who cannot be considered independent of the majority shareholder.

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

    Yes, the statement is made available on the Company's website as an integral part of the Annual Report.

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

    No. The annual report contains information on the Company's aggregate costs in respect of the overall remuneration for the Management Board members, in line with the requirements, as set out in the CNB Decision on public disclosure of compliance with prudential requirements by credit institutions and the form for public disclosure of information.

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

    No. In the section of the annual financial statements, notes to the financial statements, transactions with connected persons, the amount of pay for the business year is reported on an aggregate basis for all the members of the Management Board and it is split into fixed and variable components. The amount and the types of variable pay for the business year are reported separately divided by types of variable pay the Bank applies, i.e. cash and the Bank's ordinary shares.

Management and corporate governance (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

No. Those could involve only standard day-to-day transactions performed on terms and conditions generally applicable to the bank's customers; the transactions were not specifically referred to in the Company's reports.

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

Yes.

53. Does the company have an external auditor?

Yes.

54. Is the external auditor of the company related with the company in terms of ownership or interests?

No.

55. Is the external auditor of the company providing to the company, him/herself or through related persons, other services?

No. That is prohibited under the laws governing the operations of credit institutions.

56. Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)

No, the external auditors audited the annual financial statements at a price quoted in the contract made every year for the respective year.

57. Does the company have internal auditors and an internal audit system established? (If not, explain)

Yes.

58. Are the semi-annual, annual and quarterly reports available to the shareholders?

Yes.

59. Did the company prepare the calendar of important events?

Yes.

Management and corporate governance (continued)

Code of Corporate Governance – Annual questionnaire (continued)

60. **Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?**

    Yes.

61. **Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?**

    Yes.

62. **Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company?**

    No.

63. **Did the management of the company hold meetings with interested investors, in the last year?**

    No. Considering that the Company belongs to the Group, such meetings are not held on regular basis.

64. **Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?**

    Yes.

Management and corporate governance (continued)

In accordance with the Companies Act and its Articles of Association, the Bank has a Supervisory Board and Management Board. The two boards are separate and no individual may be a member of both boards. Under Croatian Law, individual members of the Supervisory Board and Management Board must exercise the standard of care of a diligent and prudent businessman in carrying out their duties. They must take into account a broad range of considerations, including the interests of the Bank, its shareholders, employees, creditors, and customers.

Supervisory Board

The principle function of the Supervisory Board is to supervise the Management Board. It is also responsible for appointing and removing members of the Management Board. The Supervisory Board has nine to eleven members, depending on the decision of the Shareholders' Meeting, elected by shareholders at the Shareholder's meeting for a period of four years.

The members of the Supervisory Board during 2013 were as follows:

Erich Hampel	Chairman	UniCredit Bank Austria AG	
Prof Jakša Barbić, PhD	Deputy Chairman	Independent member	
Franco Andreetta	Deputy Chairman	Independent member	
Robert Zadrazil	Member	UniCredit Bank Austria AG	
Fabrizio Onida	Member	Independent member	
Francesco Giordano	Member	UniCredit Bank Austria AG	
Gianfranco Bisagni	Member	UniCredit Bank Austria AG	
Harold Michael Thomas Langley-Poole	Member	Allianz SE München	
Emilio Terpin	Member	Independent member	
Jurgen Kullnigg	Member	UniCredit Bank Austria AG	(Beginning of the term of office on 25 April 2013)
Christoph Metze	Member	Allianz SE München	(Beginning of the term of office on 25 April 2013)
Massimiliano Fossati	Member	UniCredit Bank Austria AG	(End of the term of office on 5 February 2013)
Bruce Anthony Bowers	Member	Allianz SE München	(End of the term of office on 7 March 2013)

Management Board

The Management Board is responsible for managing the business of the Bank and each member of the Management Board is responsible for a portfolio of operational and support functions. Pursuant to the Bank's Articles of Association, the Management Board may consist of five to nine members, the final number to be approved by the Supervisory Board upon the proposal of the Chairman of the Management Board. Prior approval of the CNB must be obtained with respect to candidates for the post of the Chairman and members of the Management Board.

The members of the Management Board who served during 2013 were as follows:

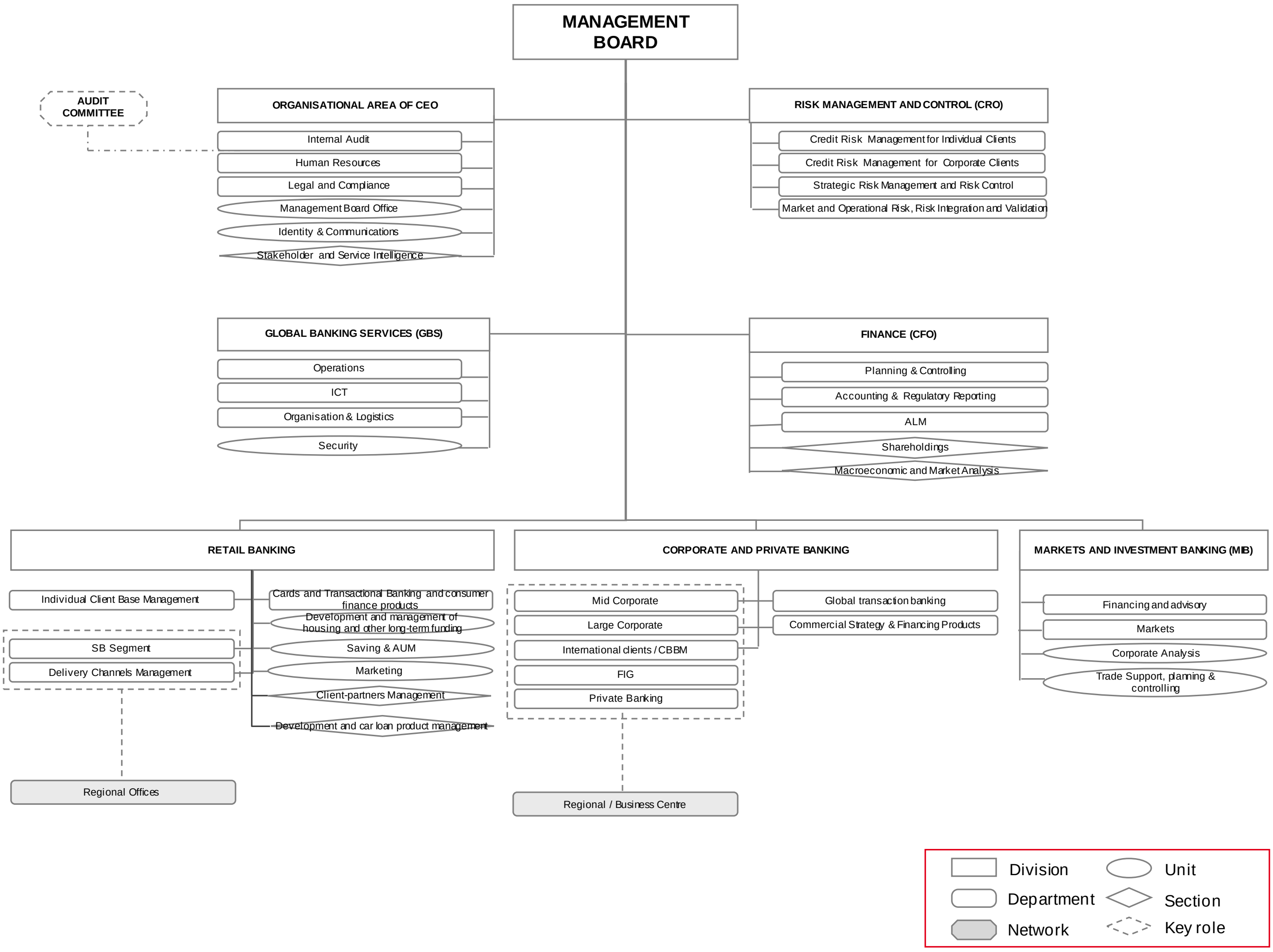
Franjo Luković	Chairman
Milivoj Goldštajn	Member
Sanja Rendulić	Member
Marko Remenar	Member
Miljenko Živaljić	Member
Daniela Roguljić Novak	Member
Nikolaus Maximilian Linarić	Member

None of the above directors performs any significant business activities outside the Group.

Management and corporate governance (continued)

Organisation chart

New organisation chart of the Bank was last set up on 1 November 2013 by which the Bank is organised through seven Divisions as shown below:



Management and corporate governance (continued)

Shareholdings of the Supervisory and Management Board members

The table below details shares in the Bank held by members of the Management Board and Supervisory Board and by companies whose interests are represented by members of the Supervisory Board as at 31 December 2013.

	Number of ordinary shares
Companies represented on the Supervisory Board	
UniCredit Bank Austria AG	270,523,430
Allianz SE	37,523,195
Members of the Supervisory Board	
Erich Hampel	-
Prof. Jakša Barbić	110,770
Franco Andreetta	-
Robert Zadrazil	-
Jürgen Kullnigg	-
Fabrizio Onida	-
Christoph Metze	-
Harold Michael Thomas Langley-Poole	-
Francesco Giordano	-
Gianfranco Bisagni	-
Emilio Terpin	-
Members of the Management Board	
Franjo Luković	314,080
Milivoj Goldštajn	119,165
Sanja Rendulić	203,080
Marko Remenar	-
Miljenko Živaljić	83,509
Daniela Roguljić Novak	37,710
Nikolaus Maximilian Linarić	-

Corporate governance

The duties, responsibilities and authority of the members of the Management and Supervisory Boards are contained in the Companies Act, and clarified within the Bank's Articles of Association. The Management Board meets weekly, and the Supervisory Board meets as required but at least once every quarter.

Employees

As at 31 December 2013 the Group employs 6,274 people throughout head office, the branch network and in subsidiaries (of which 4,790 in Croatia) while the Bank employs 4,248 employees. Policy of continuous learning and internal mobility of existing employees is performed in order to meet the changing requirements of the Bank and the Group, while simultaneously aims to encourage all employees to increase efficiency through maximising usage of their potential and improvement of their long-term necessary competencies. Employees of the Bank recognise possibilities for their professional careers realisations and display their loyalty and commitment to the Bank through high rate of devotion, of even 89%, that they show in the annual employee satisfaction survey, but most importantly in their everyday work.

Management and corporate governance (continued)

Rewarding

Bank's top management and key management employees whose professional activities have materially significant influence on the Bank's risk profile are included in the long-term reward scheme, under which rewards for business year are paid in instalments throughout period of several years, in terms of cash and financial instruments, with which the Bank's strategy and long-term sustainable growth is supported.

Support to the Bank's strategy is also annual reward scheme in which all employees of the Bank have a right of participation, based upon pre-determined standards and criteria.

Rewarding employees in stated rewarding schemes is realised in accordance with achieved results on three levels: individual employee efficacy, efficacy of the organisational unit and Zagrebačka banka Group as a whole.

Rewarding scheme are continuously reviewed and improved and are being aligned with local regulatory demands which promote adequate and efficient risk management, but do not encourage to take on risks that go beyond acceptable level for the Bank.

Substantial shareholdings

The following enterprises held in excess of 1.5% of the share capital of the Bank at 31 December 2013:

UniCredit Bank Austria AG	84.47%
Allianz SE (Germany)	11.72%

Annual General Meeting

At the Annual General Meeting the audited financial statements will be presented to shareholders.

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements

The Management Board of the Bank is required to prepare unconsolidated and consolidated financial statements for each financial year which give a true and fair view of the financial position of the Bank and Group and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank and the Group together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements they are deemed confirmed by the Management Board and Supervisory Board.

The unconsolidated and consolidated financial statements set out on pages 55 to 208 as well as the schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08) were authorised by the Management Board on 25 February 2014 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of Zagrebačka banka dd

Franjo Luković
Chairman of the Management Board

Miljenko Živaljić
Member of the Management Board

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Independent auditor's report

To the owners of Zagrebačka banka dd, Zagreb:

We have audited the accompanying unconsolidated and consolidated financial statements of Zagrebačka banka dd, Zagreb ("Bank") and its subsidiaries (together "the Group") which comprise the unconsolidated and consolidated statements of financial position as at 31 December 2013, the unconsolidated and consolidated statement of profit or loss, unconsolidated and consolidated statement of other comprehensive income, the unconsolidated and consolidated statement of changes in equity and the unconsolidated and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated and consolidated financial statements in accordance with statutory accounting requirement for banks in Croatia, 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 unconsolidated and consolidated 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 unconsolidated and consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Independent auditor's report (continued)

Other legal and regulatory requirements

i. Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these unconsolidated and consolidated financial statements on pages 209 to 224, which comprise the unconsolidated and consolidated balance sheet as of 31 December 2013, and the unconsolidated and consolidated profit and loss account, the unconsolidated and consolidated statement of changes in equity and the unconsolidated and consolidated statement of cash flow for the year then ended, as well as the reconciliation to the unconsolidated and consolidated financial statements. These forms and the accompanying reconciliation to the unconsolidated and consolidated financial statements are the responsibility of the Bank's management, and do not represent components of the unconsolidated and consolidated financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 55 to 208, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Bank and the Group.

ii. The management is also responsible for the preparation of the Annual Report in accordance with the requirements of the Croatian Accounting Law.

Our responsibility is to issue an opinion on the consistency of the Annual Report with the unconsolidated and consolidated financial statements based on our audit. Our procedures have been conducted in accordance with the International Standards on Auditing and limited solely to assessing of whether information disclosed in the Annual Report and presented in the unconsolidated and consolidated financial statements is consistent, in all material respects, with the relevant unconsolidated and consolidated financial statements. We have not audited any data or information other than the financial information obtained from the unconsolidated and consolidated financial statements and accounting ledgers. We believe that the performed audit provides a reasonable basis for our audit opinion.

In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the aforementioned unconsolidated and consolidated financial statements as of 31 December 2013.

Other Matter

The financial statements of the Bank and the Group for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those unconsolidated and consolidated financial statements on 7 March 2013.

Branislav Vrtačnik
President of the Management Board and certified auditor

Deloitte
d.o.o.
Zagrebtower
10 000 Zagreb

Deloitte d.o.o.
Zagreb, 25 February 2014

Financial statements
Group financial statements
Group statement of profit or loss for the year ended 31 December

	Notes	2013 HRK million	2012 HRK million
Interest income	*1a,b*	***6,462***	*6,464*
Interest expense	*1c,d*	***(3,422)***	*(3,298)*
Net interest income		**3,040**	3,166
Fee and commission income	*2a*	***1,265***	*1,245*
Fee and commission expense	*2b*	***(156)***	*(158)*
Net fee and commission income		**1,109**	1,087
Dividend income	*3*	***6***	*13*
Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	*4*	***368***	*321*
Net gains and losses from investment securities	*5*	***7***	*24*
Other operating income	*6*	***581***	*626*
Net trading and other income		**962**	984
Operating income		**5,111**	5,237
Depreciation and amortisation	7	**(280)**	(291)
Other operating expenses	7	**(2,301)**	(2,270)
Operating expenses	7	**(2,581)**	(2,561)
Profit before impairment and other provisions		**2,530**	2,676
Impairment losses on loans to and receivables from customers	15b	**(1,589)**	(1,142)
Other impairment losses and provisions	8	**(54)**	(41)
Total impairment losses and provisions		**(1,643)**	(1,183)
Profit from operations		**887**	1,493
Share of profit from associates	19d	**34**	30
Profit before tax		**921**	1,523
Income tax expense	9a	**(150)**	(264)
Profit for the period		**771**	1,259
Attributable to:			
Equity holders of the Bank		**692**	1,153
Non-controlling interests		**79**	106
Profit for the period		**771**	1,259
		HRK	HRK
Basic and diluted earnings per share	43	**2.16**	3.60

The accounting policies and other notes on pages 69 to 208 form an integral part of these financial statements.

Financial statements (continued)

Group financial statements (continued)

Group statement of other comprehensive income for the year ended 31 December

	Notes	2013 HRK million	2012 HRK million
Profit for the period		**771**	1,259
Other comprehensive income, net of tax			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**26**	4
Net change in fair value		***54***	*103*
Net amount transferred to profit or loss		***(6)***	*(20)*
Available-for-sale financial assets		**48**	83
Other comprehensive income for the period, net of tax		**74**	87
Total comprehensive income for the period		**845**	1,346
Attributable to:			
Equity holders of the Bank		**757**	1,239
Non-controlling interests		**88**	107
Total comprehensive income for the period		**845**	1,346

The accounting policies and other notes on pages 69 to 208 form an integral part of these financial statements.

Financial statements (continued)

Group financial statements (continued)

Group statement of financial position as at 31 December

Assets

	Notes	2013 HRK million	2012 reclassified HRK million
Cash and cash equivalents	11	**7,251**	6,345
Obligatory reserve with the Croatian National Bank	12	**8,050**	7,840
Loans to and receivables from banks	13	**10,813**	12,211
Financial assets at fair value through profit or loss	14	**1,663**	939
Loans to and receivables from customers	15a	**81,065**	78,729
Available-for-sale financial assets	16	**9,196**	8,906
Held-to-maturity investments	17	**1,203**	864
Investments in associates	19c	**83**	78
Investment property	20	**190**	196
Property and equipment	21	**2,645**	2,633
Intangible assets	22	**248**	271
Deferred tax asset	9c	**294**	238
Tax prepayment		**108**	74
Other assets	23	**915**	877
Total assets		**123,724**	120,201

Financial statements (continued)

Group financial statements (continued)

Group statement of financial position as at 31 December (continued)

Liabilities and equity

	Notes	2013 HRK million	2012 reclassified HRK million
Liabilities			
Current accounts and deposits from banks	24	**13,662**	13,393
Current accounts and deposits from customers	25	**75,016**	72,719
Financial liabilities at fair value through profit or loss	26	**1,095**	564
Borrowings	27	**14,121**	13,650
Provisions for liabilities and charges	28	**428**	430
Other liabilities	29	**1,110**	1,240
Subordinated debt	30	**77**	75
Current tax liability		**2**	5
Deferred tax liability	9d	**36**	22
Total liabilities		**105,547**	102,098
Equity			
Issued share capital	31	**6,405**	6,405
Share premium	31	**3,370**	3,370
Treasury shares	31	**(9)**	(9)
Other reserves	32a	**596**	596
Fair value reserve	32b	**108**	60
Retained earnings		**6,869**	6,766
Total equity attributable to equity holders of the Bank		**17,339**	17,188
Non-controlling interests		**838**	915
Total equity		**18,177**	18,103
Total liabilities and equity		**123,724**	120,201

The accounting policies and other notes on pages 69 to 208 form an integral part of these financial statements.

Financial statements (continued)

Group financial statements (continued)

Statement of changes in Group's equity

	Attributable to equity holders of the Bank								
	Issued share capital	**Share premium**	**Treasury shares**	**Other reserves**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	HRK million	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**
Balance as at 1 January 2013	**6,405**	**3,370**	**(9)**	**596**	**60**	**6,766**	**17,188**	**915**	**18,103**
Changes in equity in 2013									
Acquisition of shares from non-controlling interest	-	-	-	-	-	9	**9**	(165)	**(156)**
Dividends paid in 2013	-	-	-	-	-	(615)	**(615)**	-	**(615)**
Currency translation difference on consolidation of foreign subsidiaries	-	-	-	-	-	*17*	***17***	*9*	***26***
Disposal of AFS portfolio (Note 5)	-	-	-	-	*(7)*	-	***(7)***	-	***(7)***
Change in fair value of AFS portfolio	-	-	-	-	*67*	-	***67***	-	***67***
Deferred tax on movements in fair value reserve of AFS portfolio (Note 9g)	-	-	-	-	*(12)*	-	***(12)***	-	***(12)***
Net income recognised directly in other comprehensive income	-	-	-	-	*48*	*17*	***65***	*9*	***74***
Profit for the period	-	-	-	-	-	*692*	***692***	*79*	***771***
Total recognised income and expense for 2013	-	-	-	-	48	709	**757**	88	**845**
Balance as at 31 December 2013	**6,405**	**3,370**	**(9)**	**596**	**108**	**6,869**	**17,339**	**838**	**18,177**

	Attributable to equity holders of the Bank								
	Issued share capital	**Share premium**	**Treasury shares**	**Other reserves**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	HRK million	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**
Balance as at 1 January 2012	**6,405**	**3,370**	**(26)**	**785**	**(23)**	**6,149**	**16,660**	**808**	**17,468**
Changes in equity in 2012									
Distribution of management bonus in shares	-	-	17	-	-	-	**17**	-	**17**
Reappropriation of reserve for general banking risks into retained earnings	-	-	-	(189)	-	189	**-**	-	**-**
Dividends paid in 2012	-	-	-	-	-	(728)	**(728)**	-	**(728)**
Currency translation difference on consolidation of foreign subsidiaries	-	-	-	-	-	*3*	***3***	*1*	***4***
Disposal of AFS portfolio (Note 5)	-	-	-	-	*(24)*	-	***(24)***	-	***(24)***
Change in fair value of AFS portfolio	-	-	-	-	*128*	-	***128***	-	***128***
Deferred tax on movements in fair value reserve of AFS portfolio (Note 9g)	-	-	-	-	*(21)*	-	***(21)***	-	***(21)***
Net income recognised directly in other comprehensive income	-	-	-	-	*83*	*3*	***86***	*1*	***87***
Profit for the period	-	-	-	-	-	*1,153*	***1,153***	*106*	***1,259***
Total recognised income and expense for 2012	-	-	-	-	83	1,156	**1,239**	107	**1,346**
Balance as at 31 December 2012	**6,405**	**3,370**	**(9)**	**596**	**60**	**6,766**	**17,188**	**915**	**18,103**

"AFS" stands for available-for-sale financial assets.

The accounting policies and other notes on pages 69 to 208 form an integral part of these financial statements.

Financial statements (continued)

Group financial statements (continued)

Group statement of cash flows for the year ended 31 December

	Notes	2013 HRK million	2012 HRK million
Operating activities			
Interest receipts		**6,253**	6,241
Fee and commission receipts		**1,288**	1,228
Interest payments		**(3,403)**	(3,198)
Fee and commission payments		**(157)**	(157)
Operating expenses paid		**(2,234)**	(2,314)
Net receipts from derivatives and foreign exchange trading		**185**	189
Realised gains on available-for-sale financial assets	5	**7**	24
Other net receipts		**574**	619
Net cash inflow from operating activities before changes in operating assets and liabilities		***2,513***	*2,632*
(Increase)/decrease in operating assets			
Obligatory reserve with the Croatian National Bank		**(197)**	387
Loans to and receivables from banks		**1,235**	(586)
Loans to and receivables from customers		**(3,300)**	216
Securities at fair value through profit or loss		**(70)**	447
Available-for-sale financial assets		**(170)**	(2,939)
Other assets		**(82)**	(73)
Net increase in operating assets		***(2,584)***	*(2,548)*
(Decrease)/increase in operating liabilities			
Demand deposits		**1,505**	1,220
Savings and time deposits		**692**	(2,912)
Other liabilities		**(35)**	246
Net increase/(decrease) in operating liabilities		***2,162***	*(1,446)*
Net cash inflow/(outflow) from operating activities before income taxes paid		***2,091***	*(1,362)*
Income taxes paid		**(241)**	(456)
Net cash inflow/(outflow) from operating activities		***1,850***	*(1,818)*

Financial statements (continued)

Group financial statements (continued)

Group statement of cash flows for the year ended 31 December (continued)

	Notes	2013 HRK million	2012 HRK million
Investing activities			
Dividend receipts from investments in other equity securities	3	**6**	13
Dividend receipts from associates		**30**	-
Additional investment in investment property		**(3)**	(3)
Net acquisition of property and equipment and intangible assets		**(262)**	(252)
Net acquisition of held-to-maturity investments		**(339)**	(91)
Net cash outflow from investing activities		***(568)***	*(333)*
Financing activities			
Net proceeds from borrowings		**377**	1,917
Increase of investment in subsidiary		**(155)**	-
Dividends paid to equity holders of the Bank		**(614)**	(733)
Net cash (outflow)/inflow from financing activities		***(392)***	*1,184*
Net cash inflow/(outflow)		**890**	(967)
Effect of foreign exchange rate changes on cash and cash equivalents		**16**	13
Net increase/(decrease) in cash and cash equivalents		**906**	(954)
Cash and cash equivalents at the beginning of the year		**6,345**	7,299
Cash and cash equivalents at the end of the year	11	**7,251**	6,345

The accounting policies and other notes on pages 69 to 208 form an integral part of these financial statements.

Financial statements (continued)

Bank financial statements

Bank statement of profit or loss for the year ended 31 December

	Notes	2013 HRK million	2012 HRK million
Interest income	*1a,b*	***5,686***	*5,684*
Interest expense	*1c,d*	***(3,201)***	*(3,062)*
Net interest income		**2,485**	2,622
Fee and commission income	*2a*	***996***	*992*
Fee and commission expense	*2b*	***(144)***	*(145)*
Net fee and commission income		**852**	847
Dividend income	*3*	***55***	*35*
Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	*4*	***322***	*279*
Net gains and losses from investment securities	*5*	***7***	*24*
Other operating income	*6*	***71***	*115*
Net trading and other income		**455**	453
Operating income		**3,792**	3,922
Depreciation and amortisation	7	**(160)**	(174)
Other operating expenses	7	**(1,501)**	(1,483)
Operating expenses	7	**(1,661)**	(1,657)
Profit before impairment and other provisions		**2,131**	2,265
Impairment losses on loans to and receivables from customers	15b	**(1,509)**	(1,091)
Other impairment losses and provisions	8	**(46)**	(70)
Total impairment losses and provisions		**(1,555)**	(1,161)
Profit before tax		**576**	1,104
Income tax expense	9a	**(111)**	(216)
Profit for the period		**465**	888
		HRK	HRK
Basic and diluted earnings per share	43	**1.45**	2.78

The accounting policies and other notes on pages 69 to 208 form an integral part of these financial statements.

Financial statements (continued)

Bank financial statements (continued)

Bank statement of other comprehensive income for the year ended 31 December

	Notes	2013 HRK million	2012 HRK million
Profit for the period		**465**	888
Other comprehensive income, net of tax			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value		***66***	*100*
Net amount transferred to profit or loss		***(6)***	*(20)*
Available-for-sale financial assets		**60**	80
Other comprehensive income for the period, net of tax		**60**	80
Total comprehensive income for the period		**525**	968

The accounting policies and other notes on pages 69 to 208 form an integral part of these financial statements.

Financial statements (continued)

Bank financial statements (continued)

Bank statement of financial position as at 31 December

Assets

	Notes	2013 HRK million	2012 reclassified HRK million
Cash and cash equivalents	11	**5,628**	4,555
Obligatory reserve with the Croatian National Bank	12	**8,050**	7,840
Loans to and receivables from banks	13	**7,942**	9,342
Financial assets at fair value through profit or loss	14	**1,634**	934
Loans to and receivables from customers	15a	**70,835**	68,872
Available-for-sale financial assets	16	**7,830**	8,025
Held-to-maturity investments	17	**1,203**	864
Investments in subsidiaries and associates	19c	**1,075**	918
Investment property	20	**28**	28
Property and equipment	21	**1,132**	1,179
Intangible assets	22	**135**	147
Deferred tax asset	9c	**286**	231
Tax prepayment		**100**	74
Other assets	23	**627**	573
Total assets		**106,505**	103,582

Financial statements (continued)

Bank financial statements (continued)

Bank statement of financial position as at 31 December (continued)

Liabilities and equity

	Notes	2013 HRK million	2012 reclassified HRK million
Liabilities			
Current accounts and deposits from banks	24	**13,212**	13,049
Current accounts and deposits from customers	25	**62,445**	60,647
Financial liabilities at fair value through profit or loss	26	**1,096**	564
Borrowings	27	**13,041**	12,407
Provisions for liabilities and charges	28	**364**	367
Other liabilities	29	**641**	768
Deferred tax liability	9d	**31**	15
Total liabilities		**90,830**	87,817
Equity			
Issued share capital	31	**6,405**	6,405
Share premium	31	**3,370**	3,370
Treasury shares	31	**(9)**	(9)
Other reserves	32a	**596**	596
Fair value reserve	32b	**113**	53
Retained earnings		**5,200**	5,350
Total equity		**15,675**	15,765
Total liabilities and equity		**106,505**	103,582

The accounting policies and other notes on pages 69 to 208 form an integral part of these financial statements.

Financial statements (continued)

Bank financial statements (continued)

Statement of changes in Bank's equity

	Issued share capital HRK million	Share premium HRK million	Treasury shares HRK million	Other reserves HRK million	Fair value reserve HRK million	Retained earnings HRK million	Total HRK million
Balance as at 1 January 2013	**6,405**	**3,370**	**(9)**	**596**	**53**	**5,350**	**15,765**
Changes in equity in 2013							
Dividend paid in 2013	-	-	-	-	-	(615)	**(615)**
Disposal of AFS portfolio (Note 5)	-	-	-	-	*(7)*	-	***(7)***
Change in fair value of AFS portfolio	-	-	-	-	*82*	-	***82***
Deferred tax on movements in fair value reserve of AFS portfolio (Note 9g)	-	-	-	-	*(15)*	-	***(15)***
Net income recognised directly in other comprehensive income	-	-	-	-	*60*	-	***60***
Profit for the period	-	-	-	-	-	*465*	***465***
Total recognised income and expense for 2013	-	-	-	-	60	465	**525**
Balance as at 31 December 2013	**6,405**	**3,370**	**(9)**	**596**	**113**	**5,200**	**15,675**

	Issued share capital HRK million	Share premium HRK million	Treasury shares HRK million	Other reserves HRK million	Fair value reserve HRK million	Retained earnings HRK million	Total HRK million
Balance as at 1 January 2012	**6,405**	**3,370**	**(26)**	**785**	**(27)**	**5,001**	**15,508**
Changes in equity in 2012							
Distribution of management bonus in shares	-	-	17	-	-	-	**17**
Reappropriation of reserve for general banking risks into retained earnings	-	-	-	(189)	-	189	**-**
Dividend paid in 2012	-	-	-	-	-	(728)	**(728)**
Disposal of AFS portfolio (Note 5)	-	-	-	-	*(24)*	-	***(24)***
Change in fair value of AFS portfolio	-	-	-	-	*125*	-	***125***
Deferred tax on movements in fair value reserve of AFS portfolio (Note 9g)	-	-	-	-	*(21)*	-	***(21)***
Net income recognised directly in other comprehensive income	-	-	-	-	*80*	-	***80***
Profit for the period	-	-	-	-	-	*888*	***888***
Total recognised income and expense for 2012	-	-	-	-	80	888	**968**
Balance as at 31 December 2012	**6,405**	**3,370**	**(9)**	**596**	**53**	**5,350**	**15,765**

"AFS" stands for available-for-sale financial assets.

The accounting policies and other notes on pages 69 to 208 form an integral part of these financial statements.

Financial statements (continued)

Bank financial statements (continued)

Bank statement of cash flows for the year ended 31 December

	Notes	2013 HRK million	2012 HRK million
Operating activities			
Interest receipts		**5,476**	5,457
Fee and commission receipts		**1,016**	974
Interest payments		**(3,192)**	(2,951)
Fee and commission payments		**(144)**	(145)
Operating expenses paid		**(1,435)**	(1,515)
Net receipts from derivatives and foreign exchange trading		**145**	147
Realised gains on available-for-sale financial assets	5	**7**	24
Other net receipts		**64**	107
Net cash inflow from operating activities before changes in operating assets and liabilities		***1,937***	*2,098*
(Increase)/decrease in operating assets			
Obligatory reserve with the Croatian National Bank		**(197)**	387
Loans to and receivables from banks		**1,224**	(696)
Loans to and receivables from customers		**(2,968)**	441
Securities at fair value through profit or loss		**(54)**	433
Available-for-sale financial assets		**314**	(2,581)
Other assets		**(92)**	(53)
Net increase in operating assets		***(1,773)***	*(2,069)*
Increase/(decrease) in operating liabilities			
Demand deposits		**1,616**	984
Savings and time deposits		**114**	(3,508)
Other liabilities		**(20)**	264
Net increase/(decrease) in operating liabilities		***1,710***	*(2,260)*
Net cash inflow/(outflow) from operating activities before income taxes paid		***1,874***	*(2,231)*
Income taxes paid		**(190)**	(415)
Net cash inflow/(outflow) from operating activities		***1,684***	*(2,646)*

Financial statements (continued)

Bank financial statements (continued)

Bank statement of cash flows for the year ended 31 December (continued)

	Notes	2013 HRK million	2012 HRK million
Investing activities			
Dividend receipts		**56**	33
Increase of investment in subsidiary		**(157)**	-
Net acquisition of property and equipment and intangible assets		**(103)**	(136)
Net acquisition of held-to-maturity investments		**(339)**	(283)
Net cash outflow from investing activities		***(543)***	*(386)*
Financing activities			
Net proceeds from borrowings		**548**	2,091
Dividends paid to equity holders of the Bank		**(614)**	(733)
Net cash (outflow)/inflow from financing activities		***(66)***	*1,358*
Net cash inflow/(outflow)		**1,075**	(1,674)
Effect of foreign exchange rate changes on cash and cash equivalents		**(2)**	10
Net increase/(decrease) in cash and cash equivalents		**1,073**	(1,664)
Cash and cash equivalents at the beginning of the year		**4,555**	6,219
Cash and cash equivalents at the end of the year	11	**5,628**	4,555

The accounting policies and other notes on pages 69 to 208 form an integral part of these financial statements.

Significant accounting policies

Zagrebačka banka dd Zagreb ("the Bank") is a joint stock company incorporated and domiciled in the Republic of Croatia. The registered office is at Trg bana Jelačića 10, Zagreb. The Bank is the parent of the Zagrebačka banka Group ("the Group"), which has operations in the Republic of Croatia and in Bosnia and Herzegovina. The Group is involved in retail, corporate and investment banking operations and is also active in asset management, investment property management and hotel operations. These financial statements comprise both the separate financial statements of the Bank and the consolidated financial statements of the Group (together "financial statements"), as defined in International Accounting Standard *27 "Consolidated and Separate Financial Statements".*

I Basis of preparation

a) Accounting framework

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

The principal accounting policies applied in the preparation of these financial statements are summarised below. Except for the changes explained in *Note I.d)*, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards ("IFRS" or "Standards"), reference may be made to certain Standards in describing the accounting policies of the Group; unless otherwise stated, these references are to Standards as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") applicable at 31 December 2013.

The accounting regulations based on which these financial statements have been prepared differ from IFRS both in terms of presentation and in terms of recognition and measurement.

Attention is drawn to the following differences between the accounting regulations of the CNB and recognition and measurement requirements of IFRS:

- The CNB requires banks to recognise impairment losses, in statement of profit or loss, on exposures carried at amortised cost not specifically identified as impaired (including certain sovereign risk assets) at prescribed rates. The Group has made portfolio-based provisions of HRK 975 million (2012: HRK 1,015 million) carried in the statement of financial position in compliance with these regulations (HRK 817 million and HRK 882 million respectively in the Bank's statement of financial position at 31 December 2013 and 2012). Based on CNB regulations the Group has recognised a credit of HRK 42 million in relation to these provisions within the charge for impairment losses and provisions for the year (2012: credit of HRK 150 million) (credit to income of HRK 65 million and HRK 43 million in the Bank's statement of profit or loss for 2013 and 2012 respectively). Although, in accordance with IFRS, such provisions should more properly be presented as an appropriation within equity, in accordance with CNB rules the Group continues to recognise such provisions as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of IFRS.

- A further difference between IFRS and the accounting regulations of the CNB relates to the determination of impairment losses by discounting the estimated cash flows of the impaired asset at the instrument's original effective interest rate. The Group calculates impairment losses on individually significant items by estimating the future cash flows and discounting these estimated amounts at the instrument's original effective interest rate. The Group generally recognises the amortisation of such discounts as interest income. In certain cases, however, collections are recognised as interest income once impairment losses are fully reversed.

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

Significant accounting policies (continued)

a) Accounting framework (continued)

These financial statements were authorised for issue by the Management Board on 25 February 2014 for approval by the Supervisory Board.

b) Basis of measurement

The financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss and financial assets available for sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

c) Use of estimates and judgements

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. Actual results may differ from these estimates.

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

Judgements made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in the next year are discussed in *Note 41*.

d) Presentational changes and reclassification of comparative information

The Group has applied the amendments to International Accounting Standard 1 *“Presentation of financial statements”* for the first time in the current year. The amendments to IAS 1 introduced new terminology for the Income statement and the Balance sheet as well as changes in the presentation of the Income statement. Income statement is presented in two statements, as the “Statement of profit or loss” and the “Statement of other comprehensive income” while Balance sheet is renamed as the “Statement of financial position”. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentational changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Certain positions in the comparative financial statements for the year 2012 were reclassified in order to present financial information in line with presentation in the financial statements for the year 2013. Reclassifications, which occurred due to local regulatory changes and alignment with accounting requirements, did not affect the profit for the period.

Significant accounting policies (continued)

d) Presentational changes and reclassification of comparative information (continued)

The following table summarises the adjustments made to the Group's statement of financial position at 31 December 2012 as a result of the reclassifications:

Group statement of financial position as at 31 December

Assets

	Notes	2012 As previously reported HRK million	Reclassifications HRK million	2012 As reclassified HRK million
Cash and cash equivalents		6,345	-	6,345
Obligatory reserve with the Croatian National Bank		7,840	-	7,840
Loans to and receivables from banks	(i),(iii)	12,301	(90)	12,211
Financial assets at fair value through profit or loss	(i)	919	20	939
Loans to and receivables from customers	(i),(ii),(iii)	78,312	417	78,729
Available-for-sale financial assets	(i)	8,881	25	8,906
Held-to-maturity investments		864	-	864
Investments in associates		78	-	78
Investment property		196	-	196
Property and equipment		2,633	-	2,633
Intangible assets		271	-	271
Deferred tax asset		238	-	238
Tax prepayment		74	-	74
Other assets	(i),(ii)	1,849	(972)	877
Total assets		**120,801**	**(600)**	**120,201**

Significant accounting policies (continued)

d) Presentational changes and reclassification of comparative information (continued)

Group statement of financial position as at 31 December (continued)

Liabilities and equity

	Notes	2012 As previously reported HRK million	Reclassifications HRK million	2012 As reclassified HRK million
Liabilities				
Current accounts and deposits from banks	(i),(iii)	14,943	(1,550)	13,393
Current accounts and deposits from customers	(i),(iii),(v)	70,340	2,379	72,719
Financial liabilities at fair value through profit or loss	(i)	558	6	564
Borrowings	(i),(ii)	13,589	61	13,650
Provisions for liabilities and charges	(iv)	449	(19)	430
Other liabilities	(i),(ii),(iv),(v)	2,717	(1,477)	1,240
Subordinated debt		75	-	75
Current tax liability		5	-	5
Deferred tax liability		22	-	22
Total liabilities		**102,698**	**(600)**	**102,098**
Equity				
Issued share capital		6,405	-	6,405
Share premium		3,370	-	3,370
Treasury shares		(9)	-	(9)
Other reserves		596	-	596
Fair value reserve		60	-	60
Retained earnings		6,766	-	6,766
Total equity attributable to equity holders of the Bank		**17,188**	**-**	**17,188**
Non-controlling interests		915	-	915
Total equity		**18,103**	**-**	**18,103**
Total liabilities and equity		**120,801**	**(600)**	**120,201**

Significant accounting policies (continued)

d) Presentational changes and reclassification of comparative information (continued)

Notes:

i) In the financial statements for the year 2012 the Group reclassified accrued interest from position Other assets and interest payable from position Other liabilities to the positions of individual interest-bearing financial instruments on which it has been accrued.

This presentational reclassification has resulted with a decrease of Other assets and Other liabilities in the amount of HRK 970 million and HRK 1,204 million, respectively, and with an increase of the following positions: Loans to and receivables from banks (in the amount of HRK 7 million), Financial assets at fair value through profit or loss (in the amount of HRK 20 million), Loans to and receivables from customers (in the amount of HRK 642 million), Available-for-sale financial assets (in the amount of HRK 25 million), Current accounts and deposits from banks (in the amount of HRK 50 million), Current accounts and deposits from customers (in the amount of HRK 809 million), Financial liabilities at fair value through profit or loss (in the amount of HRK 6 million) and Borrowings (in the amount of HRK 59 million).

Stated reclassifications did not have any impact on profit for the year 2012 or retained earnings of the Group as at 1 January 2012 or 31 December 2012.

ii) Deferred up-front fees paid or received between parties to the loan contract that represent an integral part of the effective interest rate, in accordance with International Accounting Standard 18 "*Revenue*" ("IAS 18"), which were previously presented in Other liabilities in the amount of HRK 322 million and in Other assets in the amount of HRK 2 million were reclassified as at 31 December 2012 to the Loans to and receivables from customers and Borrowings, which resulted with a decrease of those positions in the same amount, respectively.

Stated reclassifications did not have any impact on profit for the year 2012 or retained earnings of the Group as at 1 January 2012 or 31 December 2012.

iii) Positions Loans to and receivables from banks and Current accounts and deposits from banks included amounts related to investment funds clients, which were reclassified as at 31 December 2012 to positions Loans to and receivables from customers and Current accounts and deposits from customers in the amount of HRK 97 million and HRK 1,600 million, respectively.

Stated reclassifications did not have any impact on profit for the year 2012 or retained earnings of the Group as at 1 January 2012 or 31 December 2012.

iv) In accordance with International Accounting Standard 37 *"Provisions, Contingent Liabilities and Contingent Assets"* ("IAS 37") Group's obligation toward its employees for unused holidays and short-term termination payments, as a legal obligation with a high degree of certainty were reclassified from Provisions for liabilities and charges to Other liabilities in the total amount of HRK 19 million as at 31 December 2012.

Stated reclassifications did not have any impact on profit for the year 2012 or retained earnings of the Group as at 1 January 2012 or 31 December 2012.

v) Liabilities in the amount of HRK 30 million were reclassified from Current accounts and deposits from customers to Other liabilities to reflect the nature of obligation.

Stated reclassifications did not have any impact on profit for the year 2012 or retained earnings of the Group as at 1 January 2012 or 31 December 2012.

Significant accounting policies (continued)

d) Presentational changes and reclassification of comparative information (continued)

The following table summarises the adjustments made to the Bank's statement of financial position at 31 December 2012 as a result of the reclassifications:

Bank statement of financial position as at 31 December

Assets

	Notes	2012 As previously reported HRK million	Reclassifications HRK million	2012 As reclassified HRK million
Cash and cash equivalents		4,555	-	4,555
Obligatory reserve with the Croatian National Bank		7,840	-	7,840
Loans to and receivables from banks	(i),(iii)	9,432	(90)	9,342
Financial assets at fair value through profit or loss	(i)	914	20	934
Loans to and receivables from customers	(i),(ii),(iii)	68,462	410	68,872
Available-for-sale financial assets	(i)	8,007	18	8,025
Held-to-maturity investments		864	-	864
Investments in subsidiaries and associates		918	-	918
Investment property		28	-	28
Property and equipment		1,179	-	1,179
Intangible assets		147	-	147
Deferred tax asset		231	-	231
Tax prepayment		74	-	74
Other assets	(i),(ii)	1,484	(911)	573
Total assets		**104,135**	**(553)**	**103,582**

Significant accounting policies (continued)

d) Presentational changes and reclassification of comparative information (continued)

Bank statement of financial position as at 31 December (continued)

Liabilities and equity

	Notes	2012 As previously reported HRK million	Reclassifications HRK million	2012 As reclassified HRK million
Liabilities				
Current accounts and deposits from banks	(i),(iii)	14,595	(1,546)	13,049
Current accounts and deposits from customers	(i),(iii),(v)	58,338	2,309	60,647
Financial liabilities at fair value through profit or loss	(i)	558	6	564
Borrowings	(i),(ii)	12,350	57	12,407
Provisions for liabilities and charges	(iv)	379	(12)	367
Other liabilities	(i),(ii),(iv),(v)	2,135	(1,367)	768
Deferred tax liability		15	-	15
Total liabilities		**88,370**	**(553)**	**87,817**
Equity				
Issued share capital		6,405	-	6,405
Share premium		3,370	-	3,370
Treasury shares		(9)	-	(9)
Other reserves		596	-	596
Fair value reserve		53	-	53
Retained earnings		5,350	-	5,350
Total equity		**15,765**	**-**	**15,765**
Total liabilities and equity		**104,135**	**(553)**	**103,582**

Notes:

i) In the financial statements for the year 2012 the Bank reclassified accrued interest from position Other assets and interest payable from position Other liabilities to the positions of individual interest-bearing financial instruments on which it has been accrued.

This presentational reclassification has resulted with a decrease of Other assets and Other liabilities in the amount of HRK 910 million and HRK 1,134 million, respectively, and with an increase of the following positions: Loans to and receivables from banks (in the amount of HRK 7 million), Financial assets at fair value through profit or loss (in the amount of HRK 20 million), Loans to and receivables from customers (in the amount of HRK 588 million), Available-for-sale financial assets (in the amount of HRK 18 million), Current accounts and deposits from banks (in the amount of HRK 54 million), Current accounts and deposits from customers (in the amount of HRK 739 million), Financial liabilities at fair value through profit or loss (in the amount of HRK 6 million) and Borrowings (in the amount of HRK 58 million).

Stated reclassifications did not have any impact on profit for the year 2012 or retained earnings of the Bank as at 1 January 2012 or 31 December 2012.

Significant accounting policies (continued)

d) Presentational changes and reclassification of comparative information (continued)

Notes (continued):

ii) Deferred up-front fees paid or received between parties to the loan contract that represent an integral part of the effective interest rate, in accordance with International Accounting Standard 18 "*Revenue*" ("IAS 18"), which were previously presented in Other liabilities in the amount of HRK 275 million and in Other assets in the amount of HRK 1 million were reclassified as at 31 December 2012 to the Loans to and receivables from customers and Borrowings, which resulted with a decrease of those positions in the same amount, respectively.

Stated reclassifications did not have any impact on profit for the year 2012 or retained earnings of the Bank as at 1 January 2012 or 31 December 2012.

iii) Positions Loans to and receivables from banks and Current accounts and deposits from banks included amounts related to investment funds clients, which were reclassified as at 31 December 2012 to positions Loans to and receivables from customers and Current accounts and deposits from customers in the amount of HRK 97 million and HRK 1,600 million, respectively.

Stated reclassifications did not have any impact on profit for the year 2012 or retained earnings of the Bank as at 1 January 2012 or 31 December 2012.

iv) In accordance with International Accounting Standard 37 *"Provisions, Contingent Liabilities and Contingent Assets"* ("IAS 37") Bank's obligation toward its employees for unused holidays and short-term termination payments, as a legal obligation with a high degree of certainty, were reclassified from Provisions for liabilities and charges to Other liabilities in the total amount of HRK 12 million as at 31 December 2012.

Stated reclassifications did not have any impact on profit for the year 2012 or retained earnings of the Bank as at 1 January 2012 or 31 December 2012.

v) Liabilities in the amount of HRK 30 million were reclassified from Current accounts and deposits from customers to Other liabilities to reflect its nature of obligation.

Stated reclassifications did not have any impact on profit for the year 2012 or retained earnings of the Bank as at 1 January 2012 or 31 December 2012.

e) Functional and presentational currency

The consolidated and separate financial statements are presented in Croatian kuna ("HRK") which is the Bank's functional and presentational currency. Amounts are rounded to the nearest million (unless otherwise stated).

The exchange rates used for translation at 31 December 2013 and 31 December 2012 include the following rates for the most significant currencies in which the Group and the Bank held assets and liabilities: EUR 1 = HRK 7.638 (2012: EUR 1 = HRK 7.546) and USD 1 = HRK 5.549 (2012: USD 1 = HRK 5.727). During 2013 and 2012 the Convertible Mark, which is the currency of the State of Bosnia and Herzegovina, was pegged to the Euro at the rate of EUR 1 = BAM 1.956.

f) Consolidation

The consolidated financial statements comprise the Bank and its subsidiaries (together "the Group"), together with the Group's share in associates.

Business combinations

From 1 April 2010 the Group has applied IFRS 3 "*Business Combinations"* (2008) in accounting for business combinations. Business combinations that occurred before 1 April 2010 were not restated and the accounting policies applicable to those acquisitions are set out below.

The new accounting policy in respect of business combinations is as follows.

Acquisitions on or after 1 April 2010
Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Significant accounting policies (continued)

f) Consolidation (continued)

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When this total is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Acquisitions prior to 1 April 2010
For acquisitions prior 1 April 2010, goodwill represents the excess of the cost of the acquisition over the Group’s interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisitions.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

In the Bank's separate financial statements investments in subsidiaries are accounted for at cost less any impairment.

Acquisition of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the controlling shareholder of the Group. The components of equity of the acquired entities are added to the same components within Group equity except that any issued capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

Significant accounting policies (continued)

f) Consolidation (continued)

Non-controlling interests

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as owners and therefore no adjustments are made to goodwill and no gain or loss is recognised in profit or loss. The adjustments to non-controlling interests are based on the proportionate amount of the net assets of the subsidiary.

Loss of control

Upon the loss of control of the subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any gain or loss arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments (refer to accounting policy II.10) depending on the level of influence retained.

Transactions eliminated on consolidation

Intra-group balances and transactions, and unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Fund management

The Group manages and administers assets held in mutual funds on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity (there were no such cases at the reporting date). Information about the Group's fund management activities is set out in *Note 34*.

Associates

Associates are entities over which the Group has significant influence but no control. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Bank's separate financial statements investments in associates are accounted at cost less impairment.

The Group's share of its associates' post-acquisition gains or losses is recognised in the statement of profit or loss and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate. Dividends received from associates are treated as a decrease of investment in associate in the Group's consolidated statement of financial position and as a dividend income in the Bank's separate statement of profit or loss.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Significant accounting policies (continued)

g) Foreign currency translation

Transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, which are recognised in other comprehensive income (refer below) and on foreign operations.

Changes in the fair value of securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences on monetary securities available for sale are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary securities denominated in foreign currency classified as available for sale are recognised directly in the statement of other comprehensive income along with other changes, net of deferred tax. The Group does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 "*Financial Instruments: Measurement and Recognition*" ("IAS 39").

Foreign operations

The results and financial position of the Group entities in Bosnia and Herzegovina, where the Convertible Mark ("BAM") is the functional currency, are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the spot exchange rate at the date of that report;

(ii) income and expenses for each statement of profit or loss presented are translated at exchange rates prevailing on the transaction dates; and

(iii) all exchange differences arising on consolidation of foreign subsidiaries are recognised in translation reserve within retained earnings. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

h) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss is restated as if the operation had been discontinued from the start of the comparative period.

When the criteria for presentation as a discontinued operation are no longer met, the Group reclassifies it and restates the comparative financial information in the statement of profit or loss accordingly. The comparative information in the statement of financial position is not restated.

Significant accounting policies (continued)

II Specific accounting policies

1 Interest income and expense

Interest income and expense are recognised in the statement of profit or loss as they occur for all interest-bearing financial instruments, including those measured at amortised cost and those available for sale, using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate for its assets, the Group does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Such income and expense is presented as interest income or interest expense in the statement of profit or loss.

Interest income and expense also include fee and commission income and expense in respect of loans to and receivables from customers and banks, borrowings from other banks, subordinated debt and issued debt securities, premium or discount amortisation as well as other differences between the initial carrying amount of an interest bearing financial instrument and its value at maturity, recognised on an effective interest basis.

Interest income on debt securities at fair value through profit or loss is recognised using the nominal coupon rate and included in interest income. Interest income and expense on derivative financial instruments is also included in interest income and expense.

2 Fee and commission income and expense

Fee and commission income and expense mainly comprise fees and commissions related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and asset management, and are recognised in the statement of profit or loss upon performance of the relevant service, unless they have been included in the effective interest calculation.

Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accruals basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

3 Dividend income

Dividend income on equity securities in the separate financial statements is credited to the statement of profit or loss when the right to receive the dividend is established. In the consolidated financial statements dividend income from subsidiaries is eliminated and dividend income from associates is credited to the carrying value of investment in associates in the consolidated Statement of financial position.

4 Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities

This category includes spreads earned from foreign exchange trading, and realised and unrealised gains and losses from trading debt and equity securities and other financial instruments designated at fair value through profit or loss, and from derivative financial instruments (as explained in accounting policy II.10). Net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency are also classified in this category.

Significant accounting policies (continued)

5 Net gains and losses from investment securities

This category includes gains and losses realised on disposal of available-for-sale debt and equity securities.

6 Revenue from goods sold and non-financial services rendered

Revenue from the sale of goods and services rendered relating to the Group's hotel, tourism and investment property operations is recognised in the statement of profit or loss in the period when the goods are sold or the service is performed. Revenue is stated net of VAT. Rental income from operating lease contracts is recognised on a straight-line basis over the term of the lease.

7 Employee benefits

a) Pension obligations

For defined contribution plans, the Group pays contributions to state-owned institutions and obligatory and voluntary pension funds managed by privately owned management companies, in accordance with legal requirements or individual choice. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits in the statement of profit or loss as they accrue.

b) Long-term employee rewards

Participants and amounts for each cycle of the Zagrebačka banka dd scheme for long-term employee rewards are defined based on clear criteria of contribution to long-term sustainable and increasing Group profitability.
The scheme cycle encompasses four years with a one-year performance review period and payout of the reward in the fourth year of the cycle. Liabilities for long-term employee rewards in the Statement of financial position are discounted using an appropriate discount rate.

c) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

d) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

e) Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date. The projected credit unit method is used for the calculation of the present value of the liability.

8 Direct acquisition costs related to housing savings

Direct acquisition expenses related to housing savings contracts are deferred, to the extent that they are estimated to be recoverable, and amortised to the statement of profit or loss on a straight-line basis over the life of the related contracts.

Significant accounting policies (continued)

9 Leases

Leases in terms of which the Group as lessee assumes substantially all the risks and rewards of ownership are classified as finance leases (at the reporting date the Group did not have any finance leases). All other leases are classified and accounted for as operating leases. For operating leases in which the Group is a lessee the related assets are not recognised on the Group's statement of financial position. For operating leases in which the Group is a lessor, the corresponding asset is recognised on the Group statement of financial position as investment property (refer to accounting policy II.13). Payments made and payments received under operating leases are recognised in the statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received or granted are recognised as an integral part of the total lease expense or income, over the term of the lease.

10 Financial instruments

Classification

Financial instruments are classified in categories depending on the purpose for which the Group initially acquired the financial instrument or upon reclassification (see below) and in accordance with the Group's investment strategy. Financial assets and financial liabilities are classified in the following portfolios: "at fair value through profit or loss"; "held to maturity"; "available-for-sale"; "loans and receivables" and "other financial liabilities".

a) Financial assets and financial liabilities at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the short term, for the purpose of short-term profit-taking, or designated as such by management. The Group designates financial assets and liabilities at fair value through profit or loss when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial instruments at fair value through profit or loss include debt and equity securities and units in investment funds, as well as derivatives.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Group provides money to a debtor with no intention of trading with the receivables and include loans to and receivables from banks, loans to and receivables from customers and the obligatory reserve with the Croatian National Bank.

c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, which do not meet the definition of loans and receivables that the Group has the positive intention and ability to hold to maturity. These include certain debt securities.

The Group shall not classify any financial assets as held-to-maturity investments if it has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity during the current financial year or during the two preceding financial years, other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date;
- occur after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Group's control, is non-recurring and could not have been reasonably anticipated by the Group.

Significant accounting policies (continued)

10 Financial instruments (continued)

Classification (continued)

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities.

e) Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not held for trading or designated at fair value through profit or loss.

Recognition and derecognition

The Group initially recognises loans and advances and other financial liabilities on the date at which they are originated, i.e. advanced to borrowers or received from lenders.

Regular way purchases and sales of financial assets are recognised on the settlement date. The settlement date is the date that an asset is delivered to or by the Group and while the underlying asset or liability is not recognised until settlement date, changes in the fair value of the underlying financial assets and liabilities at fair value through profit or loss (other than derivatives) and available-for-sale financial assets are recognised starting from the trade date. All other financial assets and liabilities (derivatives) are recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognised at fair value plus transaction costs for all financial assets and liabilities not at fair value through profit or loss. Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are immediately charged to the statement of profit or loss.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. In addition, any cumulative gain or loss that had been recognised in other comprehensive income is also recognised in the statement of profit or loss.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. If substantially all of the risks and rewards are retained, then the transferred asset is not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. If the terms of a financial liability are significantly modified, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Significant accounting policies (continued)

10 Financial instruments (continued)

Reclassification

No transfers of derivatives and financial instruments initially designated as at fair value through profit or loss are allowed to other portfolios. Financial assets held for trading may be reclassified from this category in the case when both of the following two conditions are met: a change in the intended purpose of the assets and an extraordinary event. In such case, the fair value at the reclassification date becomes the new cost/amortised cost. Reclassification is possible to the available-for-sale portfolio, the held-to-maturity portfolio and the loans and receivables portfolio. Transfers from other portfolios to the portfolio at fair value through profit or loss are not possible, except as explained below.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value. Whenever sales or reclassification of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions described under subheading “Classification”, any remaining held-to-maturity investments shall be reclassified as available for sale.

A financial asset classified as available for sale that would have met the definition of loans and receivables (if it had not been designated as available for sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. In such case, the fair value at the reclassification date becomes the new cost/amortised cost.

Subsequent measurement

After initial recognition, the Group measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortised cost (less any impairment for the assets) using the effective interest method.

Gains and losses

Unrealised gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss, as well as all related realised gains and losses arising upon sale or other derecognition of such assets or liabilities, are recognised in the statement of profit or loss. Interest earned from holding these instruments is recognised as interest income, while dividends earned are recognised as dividend income, in the statement of profit or loss.

Gains and losses from a change in the fair value of available-for-sale financial assets are recognised directly in a fair value reserve within the statement of other comprehensive income, net of deferred tax. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in the statement of profit or loss. Impairment losses on non-monetary available-for-sale assets are also recognised in the statement of profit or loss. Foreign exchange differences on non-monetary financial assets available for sale are recognised in the statement of other comprehensive income, net of deferred tax. Dividend income is recognised in the statement of profit or loss. Upon sale or other derecognition of available-for-sale financial assets, any cumulative gains or losses are transferred from the statement of other comprehensive income to the statement of profit or loss.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the statement of profit or loss, when a financial instrument is derecognised or when its value is impaired.

Significant accounting policies (continued)

10 Financial instruments (continued)

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Interest receivable and interest payable are included in Other assets and Other liabilities.

Fair value measurement

In 2013 the Group has applied IFRS 13 *"Fair value measurement"* and has accordingly adjusted its accounting policy in respect of fair value measurement and disclosure. Fair value measurement and disclosures prior to that date were not restated and accounting policies applicable to those disclosures are set below.

Policy applicable from 1 January 2013

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

When applicable, the Group measures the fair value of an instrument using the quoted prices in the principal market to which the Group has access (Mark to Market).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from a pricing service, dealer, broker or agency that determines prices or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.

If a market for a financial instruments is not active, for unlisted securities, or, if for any reason, fair value cannot be reasonably measured by market price, then the Group establishes fair value using a valuation techniques (except for certain unquoted equity securities) that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads, bond and equity prices, foreign currency exchange rates, equity index prices as well as volatilities and correlations.

Valuation models are subject to revision both during their development and periodically in order to ensure their consistency with the objectives of the valuation.

Reference to these market parameters makes it possible to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Policy applicable before 1 January 2013

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

10 Financial instruments (continued)

Fair value measurement (continued)

Policy applicable before 1 January 2013 (continued)

The fair values of quoted investments are based on current closing bid prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instruments is not active, for unlisted securities, or, if for any reason, fair value cannot be reasonably measured by market price, then the Group establishes fair value using a valuation technique (except for certain unquoted equity securities). Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

Fair value hierarchy

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Impairment of financial assets

Impairment of financial assets identified as impaired

(a) Financial assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

i. significant financial difficulty of the borrower;

ii. a breach of contract, such as a default or delinquency in interest or principal payments;

10 Financial instruments (continued)

Impairment of financial assets (continued)

Impairment of financial assets identified as impaired (continued)

(a) Financial assets carried at amortised cost (continued)

iii. the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that it would not otherwise consider;

iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

v. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investments at both an individual and collective level. All individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Financial assets which are not identified as impaired are subsequently included in the basis for collective impairment assessment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (including amounts recoverable from collaterals) discounted at the financial asset's original effective interest rate. If a loan and receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract at the time when the asset becomes initially impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

For the purposes of a collective evaluation of impairment of individually non-significant exposures, financial assets are grouped on the basis of similar characteristics (i.e. on the basis of asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The amount of the loss is measured in line with the relevant CNB regulations.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss.

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in the statement of profit or loss.

(b) Financial assets carried at fair value

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of profit or loss, is removed from the statement of other comprehensive income and recognised in the statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is subsequently recognised in the statement of other comprehensive income.

Significant accounting policies (continued)

10 Financial instruments (continued)

Impairment of financial assets (continued)

Impairment of financial assets identified as impaired (continued)

(c) Financial assets carried at cost

These include equity securities classified as available for sale for which there is no reliable measure of fair value. The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted by the current market interest rate for similar financial assets. Impairment losses on such instruments, recognised in the statement of profit or loss, are not subsequently reversed through the statement of profit or loss.

Impairment of financial assets not identified as impaired

In addition to the above described impairment losses on financial assets identified as impaired, the Group recognises a provision for impairment losses, in income, on on- and off-balance-sheet credit risk exposures not identified as impaired, at a rate of 0.8%, in accordance with the accounting regulations of the CNB.

Specific instruments

(a) Sale and repurchase agreements

The Group enters into purchases and sales of securities under agreements to resell or repurchase substantially identical securities at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised in the statement of financial position. The amounts paid are recognised in loans to and receivables from either banks or customers. The receivables are presented as collateralised by the underlying security. Securities sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the securities are reported as collateralised liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

(b) Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative trading purposes. No derivatives are accounted for as hedging instruments. All derivatives are classified as financial instruments at fair value through profit or loss – held-for trading instruments.

Derivative financial instruments, including foreign exchange forward contracts, foreign exchange swaps, cross currency interest rate swaps and interest rate swaps, are initially recognised in the statement of financial position and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

Changes in the fair value of derivatives are included in the statement of profit or loss under “Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities”.

Significant accounting policies (continued)

10 Financial instruments (continued)

Specific instruments (continued)

(b) Derivative financial instruments (continued)

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. When the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealised and realised gains and losses recognised in the statement of profit or loss, unless there is no reliable measure of their fair value.

(c) Debt securities

Debt securities are classified as financial assets at fair value through profit or loss, held to maturity, or available for sale, or as loans and receivables depending on the purpose for which the debt security was acquired.

(d) Loans to and receivables from banks

Placements with banks are classified as loans and receivables and are carried at amortised cost less impairment losses.

(e) Loans to and receivables from customers

Loans to and receivables from customers are presented net of impairment allowances to reflect the estimated recoverable amounts.

(f) Equity securities

Equity securities are mainly classified as available for sale and carried at fair value, unless there is no reliable measure of the fair value, in which case equity securities are stated at cost, less impairment. Other equity securities are classified as financial assets at fair value through profit or loss.

(g) Investments in funds

Investments in funds are classified as financial assets designated at fair value through profit or loss.

(h) Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted at cost less impairment in the separate financial statements of the Bank. Investments in subsidiaries are fully consolidated in the consolidated financial statements whilst investments in associates are accounted for under the equity method.

(i) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand, items in the course of collection and current accounts with banks.

(j) Interest-bearing borrowings and subordinated debt

Interest-bearing borrowings and subordinated debt are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the statement of profit or loss over the period of the borrowings on an effective interest basis.

Significant accounting policies (continued)

10 Financial instruments (continued)

Specific instruments (continued)

(k) Current accounts and deposits from banks and customers

Current accounts and deposits are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at their amortised cost using the effective interest method.

(l) Financial guarantees

Issued financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

(m) Loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting regulations, or for gains and losses arising from a group of similar transactions such as in the Group’s trading activity.

Significant accounting policies (continued)

11 Property and equipment

Property and equipment are stated at historical cost or deemed cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property and equipment are tangible items that are held for use in the provision of services, for rental or other administrative purposes.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss during the period in which they are incurred.

Depreciation is provided on all assets except land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset. The estimated useful lives are as follows:

	2013	**2012**
Buildings	50 years	50 years
Motor vehicles	4 years	4 years
Equipment	3 – 14.3 years	3 – 14.3 years
Office furniture	10 years	10 years
Computers	3.3 years	3.3 years

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

When the use of property changes from owner-occupied to rented, the property is reclassified to investment property.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of profit or loss.

12 Intangible assets

a) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the fair value of the Group's share of the underlying net identifiable assets including intangible assets, at the date of acquisition. Upon the legal merger of the Bank's former subsidiaries, goodwill formerly arising on consolidation was transformed into purchased goodwill recognised in the Bank's separate statement of financial position. Goodwill on acquisition of subsidiaries and purchased goodwill is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment at least annually. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Significant accounting policies (continued)

12 Intangible assets (continued)

b) Other intangible assets

Other intangible assets acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Expenditure on development activities is capitalised if all of the features required by International Accounting Standard 38 "*Intangible Assets*" are satisfied.

These intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

	2013	**2012**
Software	5 years	5 years
Leasehold improvements	over the period of the lease	over the period of the lease
Other intangible assets	10 years	10 years

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

13 Investment property

Investment property is carried at cost less accumulated depreciation and any impairment losses. Investment property is property held by the Group to earn rentals or for capital appreciation.

Depreciation is provided on all investment property, except for investment property not yet brought into use, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset as follows:

	2013	**2012**
Car parks	33.3 years	33.3 years
Other buildings	33.3 - 50 years	33.3 - 50 years

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

Transfers are made to and from investment property, when there is a change in use, evidenced by the discontinuation or commencement of owner-occupation, respectively.

14 Non-current assets and disposal groups classified as held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal group of assets and liabilities) are measured at the lower of their carrying amount and fair value less cost to sell.

Any impairment loss on a disposal group first is allocated to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss. At reclassification back, on change of intent or if the conditions required by IFRS 5 cease to be applicable, the Group does not restate comparative information in the statement of financial position. Upon reclassification the valuation is adjusted in accordance with relevant standards, as if the reclassification had not occurred.

Significant accounting policies (continued)

15 Impairment of property and equipment, investment property and intangible assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested for impairment whenever there are indications that these may be impaired or at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

The recoverable amount of property and equipment, investment property and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss in respect of goodwill is not reversed.

Other previously impaired non-financial assets, other than goodwill, are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

16 Inventories

Inventories are recognised at cost and measured at the lower of cost and net realisable value ("NRV"). Costs include purchase price (including taxes, transport and handling) net of trade discounts received and costs incurred in bringing the inventories to their present location and condition. NRV is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Slow-moving and obsolete inventories are written down to their estimated realisable value and the expense is recognised in the statement of profit or loss.

17 Income tax

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised either in other comprehensive income or directly in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the statement of financial position liability method. Deferred income 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 income tax purposes. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which an entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are not discounted and are classified as non-current in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Group reassesses unrecognised potential deferred tax assets and the recoverability of the carrying amount of recognised deferred tax assets.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Significant accounting policies (continued)

18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made, or as required by law in the case of provisions for unidentified losses on off-balance-sheet credit risk exposures.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Provisions for liabilities and charges are maintained at the level that the Group's management considers sufficient for absorption of losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

19 Issued share capital

Issued share capital represents the nominal value of paid-in ordinary shares and is denominated in HRK.

Dividends are recognised as a liability in the period in which they are declared.

20 Treasury shares

When any Group company purchases the Bank's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Bank's equity holders and classified as treasury shares until the shares are cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in equity attributable to the Bank's equity holders.

21 Retained earnings

Any profit for the year retained after appropriations is classified as retained earnings.

22 Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Group enters into credit-related commitments which are recorded in off-balance-sheet accounts and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit-card limits. Such financial commitments are recorded in the Group's statement of financial position if and when they become payable (also refer to accounting policies II.10(m) and II.10(n) above for specific financial instruments).

23 Managed funds for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Group's assets and are excluded from the statement of financial position. For the services rendered the Group charges a fee.

Significant accounting policies (continued)

24 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Management Board of the Bank (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Group and the Bank have identified three primary segments: Retail, Corporate and Investment and Other. The primary segmental information is based on the internal reporting structure of business segments. Segmental results are measured by applying internal prices (*Note 10*).

25 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS are determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

26 Assets acquired in lieu of uncollected receivables

The Group assesses marketability of assets acquired in lieu of uncollected receivables and only marketable assets, the value of which can be measured reliably, are recognised as assets in the statement of financial position. Such assets are stated at the lower of the cost of related loans and the current fair value of that asset. The Group's intention is mainly to sell such assets (such assets are not amortised and are disclosed within *Note 23* Other assets), which, however, in certain limited cases may end up being used by the Group (such assets are amortised and disclosed within *Note 21* Property and equipment) or held by the Group to earn rentals (such assets are amortised and disclosed within *Note 20* Investment property).

Notes to the financial statements

1 Net interest income

a) Interest income - analysis by source

		Group		*Bank*
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Individuals	2,677	2,781	2,159	2,261
Companies	1,632	1,788	1,401	1,552
State and public sector	1,490	1,402	1,463	1,367
Banks and other financial institutions	630	451	630	462
Other organisations	33	42	33	42
	6,462	**6,464**	**5,686**	**5,684**

b) Interest income - analysis by product

		Group		*Bank*
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Obligatory reserve with the Croatian National Bank	1	2	1	2
Loans to and receivables from banks	56	84	53	87
Debt securities	300	328	257	289
Derivative financial instruments	1,209	676	1,214	682
Loans to and receivables from customers	4,896	5,374	4,161	4,624
	6,462	**6,464**	**5,686**	**5,684**

Notes to the financial statements (continued)

1 Net interest income (continued)

c) Interest expense - analysis by recipient

	Group		*Bank*	
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Individuals	1,267	1,306	1,103	1,151
Companies	515	418	488	372
State and public sector	399	283	399	283
Banks and other financial institutions	1,207	1,235	1,176	1,200
Other organisations	34	56	35	56
	3,422	**3,298**	**3,201**	**3,062**

d) Interest expense - analysis by product

	Group		*Bank*	
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Current accounts and deposits from banks	231	449	231	455
Current accounts and deposits from individuals	1,267	1,306	1,103	1,151
Current accounts and deposits from companies and other organisations	395	447	368	401
Derivative financial instruments	1,165	651	1,165	651
Borrowings	364	445	334	404
	3,422	**3,298**	**3,201**	**3,062**

Notes to the financial statements (continued)

2 Net fee and commission income

a) Fee and commission income

		Group		*Bank*
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Lending operations	15	14	6	5
Credit cards	317	303	242	228
Domestic payment transactions	496	490	433	434
Foreign payment transactions	152	143	116	109
Guarantees	82	82	60	62
Investment management, brokerage and consultancy	130	132	97	100
Other	73	81	42	54
	1,265	**1,245**	**996**	**992**

b) Fee and commission expense

		Group		*Bank*
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Credit cards	88	92	88	91
Domestic payment transactions	40	42	37	38
Foreign payment transactions	12	10	9	7
Other	16	14	10	9
	156	**158**	**144**	**145**

Notes to the financial statements (continued)

3 Dividend income

	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Dividends from subsidiaries	-	-	20	21
Dividends from associates *(Note 19d)*	-	-	29	1
Dividends from other equity securities	6	13	6	13
	6	**13**	**55**	**35**

4 Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities

	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Foreign exchange				
Foreign exchange spot trading	181	250	141	209
Net foreign exchange gains from translation of monetary assets and liabilities	60	44	60	46
Net trading gain/(loss) from currency derivatives	18	(46)	18	(46)
Net trading gain from cross-currency interest rate swaps	120	62	120	62
Other derivative financial instruments				
Net trading gains/(losses) from interest rate swaps	(5)	14	(11)	11
Trading debt securities	(10)	(9)	(9)	(10)
Trading equity securities	-	(1)	3	-
Financial assets designated at fair value through profit or loss	4	7	-	7
	368	**321**	**322**	**279**

The Group enters into economic hedges of its open FX position via various derivative financial instruments, but does not apply hedge accounting. Part of the effect on income, which the economic hedges included in the table above are intended to mitigate, is presented within net interest income.

5 Net gains and losses from investment securities

	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Available-for-sale debt securities - realised gain	**7**	**24**	**7**	**24**

Notes to the financial statements (continued)

6 Other operating income

	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Rental income from investment property	25	27	6	5
Gain on disposal of property and equipment	5	59	5	57
Receipts from receivables previously written off	4	7	4	6
Hotel operations	448	432	-	-
Retail trade	1	1	-	-
Property valuations	13	14	-	-
Marketing and publishing services	7	8	-	-
Other	78	78	56	47
	581	**626**	**71**	**115**

Gains on disposal of property and equipment for the Group and the Bank in the year 2012 include HRK 51 million realised on the sale of the Bank's former headquarters building.

7 Operating expenses

	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Depreciation and amortisation *(Notes 20, 21, 22)*	280	291	160	174
Personnel expenses				
Salaries and other personnel expenses	1,158	1,112	808	774
Restructuring expenses	16	17	16	17
Administration and marketing expenses	755	785	547	570
Savings deposit insurance expenses	141	131	110	101
Government contributions	31	31	10	8
Repair and maintenance of investment property	9	10	-	-
Hotel operations	164	159	-	-
Retail trade	5	6	-	-
Other	22	19	10	13
Other operating expenses	2,301	2,270	1,501	1,483
	2,581	**2,561**	**1,661**	**1,657**

Personnel expenses include HRK 190 million (2012: HRK 187 million) and HRK 128 million (2012: HRK 127 million) of defined pension contributions payable into obligatory pension plans for the Group and the Bank respectively. Contributions are calculated as a percentage of employees' gross salaries.

8 Other impairment losses and provisions

The charge/(credit) to the statement of profit or loss in respect of non-loans to customers' impairment losses and other provisions is analysed as follows:

		Group		*Bank*
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Provisions for off-balance-sheet credit risk exposure *(Note 28)*	21	28	18	53
Provisions for court cases *(Note 28)*	1	(6)	1	3
Impairment loss on loans to and receivables from banks *(Note 13a)*	7	-	7	-
Impairment loss on available-for-sale financial assets (*Note 16b and 16d)*	6	8	6	8
Impairment loss on held-to-maturity investments *(Note 17a)*	1	-	1	-
Impairment of property and equipment *(Note 21)*	-	2	-	-
Reversal of impairment losses on property and equipment *(Note 21)*	-	(4)	-	(4)
Impairment loss on intangible assets *(Note 22)*	2	2	2	2
Impairment loss on other assets *(Note 23a)*	16	11	11	8
	54	**41**	**46**	**70**

9 Income tax expense

a) Income tax expense recognised in the statement of profit or loss

Group

	Notes	**2013 HRK million**	**2012 HRK million**
Current income tax charge		205	300
Deferred tax credit	9f	(54)	(35)
Correction of accrued tax from previous years		(1)	(1)
		150	**264**

Bank

	Notes	**2013 HRK million**	**2012 HRK million**
Current income tax charge		166	261
Deferred tax credit	9f	(54)	(44)
Correction of accrued tax from previous years		(1)	(1)
		111	**216**

Notes to the financial statements (continued)

9 Income tax expense (continued)

b) Reconciliation of the accounting profit and income tax expense at 20%

		Group		*Bank*
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Accounting profit before tax	**921**	**1,523**	**576**	**1,104**
Tax calculated at rate of 20% (2012: 20%)	184	305	115	221
Effect of different tax rates in Bosnia and Herzegovina	(24)	(29)	-	-
Income not subject to tax	(20)	(28)	(19)	(18)
Expenses not deductible for tax purposes	21	21	17	15
Tax allowances (reinvestment of profit and double deductions of eligible expenses)	(15)	(2)	(1)	(1)
Tax credit for overpaid income tax in previous years	(1)	(1)	(1)	(1)
Tax charge related to previous years	1	-	-	-
Income tax losses	1	-	-	-
Consolidation adjustments	3	(2)	-	-
Total income tax expense	**150**	**264**	**111**	**216**
Average effective income tax rate	**16.3%**	**17.3%**	**19.3%**	**19.6%**

Notes to the financial statements (continued)

9 Income tax expense (continued)

c) Deferred tax asset

Group

	Total	Timing differences: Tax losses	Deferred fees	Depreciation	Financial instruments at fair value through profit or loss	Long term liabilities to employees	Available-for-sale financial assets in fair value reserve	Other items
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Balance as at 1 January 2013	**238**	**-**	**63**	**-**	**163**	**5**	**-**	**7**
Increase credited to statement of profit or loss	111	-	35	-	74	-	-	2
Utilisation charged to statement of profit or loss	(56)	-	(41)	-	(13)	-	-	(2)
Increase on change in fair value of AFS recognised in OCI	2	-	-	-	-	-	2	-
Transfer to deferred tax liability	(1)	-	-	-	-	-	(1)	-
Balance as at 31 December 2013	**294**	**-**	**57**	**-**	**224**	**5**	**1**	**7**
Balance as at 1 January 2012	**210**	**9**	**65**	**1**	**117**	**4**	**6**	**8**
Increase credited to statement of profit or loss	139	-	42	-	95	1	-	1
Utilisation charged to statement of profit or loss	(107)	(9)	(46)	(1)	(49)	-	-	(2)
Transfer from tax prepayment	2	-	2	-	-	-	-	-
Transfer to deferred tax liability	(6)	-	-	-	-	-	(6)	-
Balance as at 31 December 2012	**238**	**-**	**63**	**-**	**163**	**5**	**-**	**7**

Bank

	Total	Timing differences: Deferred fees	Financial instruments at fair value through profit or loss	Long term liabilities to employees	Available-for-sale financial assets in fair value reserve	Other items
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Balance as at 1 January 2013	**231**	**60**	**162**	**5**	**-**	**4**
Increase credited to statement of profit or loss	108	34	73	-	-	1
Utilisation charged to statement of profit or loss	(53)	(39)	(13)	-	-	(1)
Balance as at 31 December 2013	**286**	**55**	**222**	**5**	**-**	**4**
Balance as at 1 January 2012	**193**	**62**	**115**	**4**	**7**	**5**
Increase credited to statement of profit or loss	136	40	95	1	-	-
Utilisation charged to statement of profit or loss	(93)	(44)	(48)	-	-	(1)
Transfer from tax prepayment	2	2	-	-	-	-
Transfer to deferred tax liability	(7)	-	-	-	(7)	-
Balance as at 31 December 2012	**231**	**60**	**162**	**5**	**-**	**4**

9 Income tax expense (continued)

d) Deferred tax liability

Group

	Total	Timing differences		
		Deferred fees	Available-for-sale financial assets in fair value reserve	Other items
	HRK million	HRK million	HRK million	HRK million
Balance as at 1 January 2013	**22**	**1**	**15**	**6**
Net increase on change in fair value and on disposal of AFS portfolio charged to OCI	14	-	14	-
Increase in deferred tax liability charged to statement of profit or loss	2	2	-	-
Utilisation credited to statement of profit or loss	(1)	(1)	-	-
Transfer from deferred tax asset	(1)	-	(1)	-
Balance as at 31 December 2013	**36**	**2**	**28**	**6**
Balance as at 1 January 2012	**10**	**2**	**-**	**8**
Increase on change in fair value and on disposal of AFS portfolio charged to OCI	21	-	21	-
Utilisation credited to statement of profit or loss	(3)	(1)	-	(2)
Transfer from deferred tax asset	(6)	-	(6)	-
Balance as at 31 December 2012	**22**	**1**	**15**	**6**

Bank

	Total	Timing differences	
		Deferred fees	Available-for-sale financial assets in fair value reserve
	HRK million	HRK million	HRK million
Balance as at 1 January 2013	**15**	**1**	**14**
Net increase on change in fair value and on disposal of AFS portfolio charged to OCI	15	-	15
Increase in deferred tax liability charged to statement of profit or loss	2	2	-
Utilisation credited to statement of profit or loss	(1)	(1)	-
Balance as at 31 December 2013	**31**	**2**	**29**
Balance as at 1 January 2012	**2**	**2**	**-**
Increase on change in fair value and on disposal of AFS portfolio charged to OCI	21	-	21
Utilisation credited to statement of profit or loss	(1)	(1)	-
Transfer from deferred tax assets	(7)	-	(7)
Balance as at 31 December 2012	**15**	**1**	**14**

* “OCI” stands for statement of other comprehensive income

Notes to the financial statements (continued)

9 Income tax expense (continued)

e) Tax losses

As at 31 December 2013, subsidiaries of the Bank in Croatia have unused gross tax losses amounting to HRK 12 million (2012: HRK 7 million). Such tax losses may only be used by the company that incurred the loss to reduce taxable profits for the following 5 years. The expiry dates for unused gross tax losses are as follows:

Group	2013 HRK million	2012 HRK million
31 December 2015	4	4
31 December 2016	1	1
31 December 2017	1	2
31 December 2018	6	-
	12	**7**
The tax benefit of unused unexpired tax losses is as follows:		
Tax losses not recognised as deferred tax asset at 20% in Croatia	**2**	**1**

f) Net deferred tax benefit credited to the statement of profit or loss

	Group		Bank	
	2013 HRK million	2012 HRK million	2013 HRK million	2012 HRK million
Increase in deferred tax asset *(Note 9c)*	111	139	108	136
Decrease in deferred tax asset *(Note 9c)*	(56)	(107)	(53)	(93)
Increase in deferred tax liability *(Note 9d)*	(2)	-	(2)	-
Decrease in deferred tax liability *(Note 9d)*	1	3	1	1
	54	**35**	**54**	**44**

*g) Net deferred tax (charged)/credited to OCI**

	Group		Bank	
	2013 HRK million	2012 HRK million	2013 HRK million	2012 HRK million
Increase in deferred tax asset *(Note 9c)*	2	-	-	-
Increase in deferred tax liability *(Note 9d)*	(16)	(21)	(16)	(21)
Decrease in deferred tax liability *(Note 9d)*	2	-	1	-
	(12)	**(21)**	**(15)**	**(21)**

* “OCI” stands for the statement of other comprehensive income

Notes to the financial statements (continued)

10 Financial information by segment

The Bank has three reportable segments. Customers are classified in separate operating segments and subsegments according to their size, with the goal of providing services of appropriate quality to customers. In measurement of segment business results the Bank applies internal prices, based on specific prices in appropriate currency and maturity with embedded additional adjustments.

Retail segment includes: loans, deposits and other transactions and balances with individuals, unincorporated businesses and small corporate customers.

Corporate and Investment segment includes: loans, deposits and other transactions and balances with medium and large corporate customers and similar organisations including publicly owned customers and the State, and high net worth individuals (private customers), as well as trading activities.

Segment ‘Other’ includes equity, investments in subsidiaries and associates and other assets not assigned to other segments as well as asset and liability management activities. Segment ‘Other’ for the Group includes all subsidiaries other than UniCredit Bank, Mostar (allocated to primary segments), as they are not allocated to primary segments.

The segmentation of statement of financial position captions for segmental analysis differs from the classifications used elsewhere in the financial statements, where the retail segment in addition to individuals and incorporated businesses includes private customers while small business customers are included within corporate.

Segmental statement of profit or loss and statement of financial position are based on the financial statements prepared for the purpose of reporting to the parent company, which use different criteria for credit portfolio valuation as well as different classification.

The analysis by segment is based on information used by the Bank for management purposes.

Notes to the financial statements (continued)

10 Financial information by segment (continued)

a) Segmental statement of profit or loss for 2013 – operating segments

Group

	Retail	Corporate and Investment	Other	Total managerial reporting	Reconciliation to financial statements	Financial statements
	2013 HRK million	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**
Net interest income	2,121	1,359	(477)	3,003	37	3,040
Net fee and commission income	714	356	38	1,108	1	1,109
Dividend income	-	-	5	5	1	6
Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	95	223	92	410	(42)	368
Net gains and losses from investment securities	1	(7)	-	(6)	13	7
Other operating income	8	(5)	525	528	53	581
Operating income	2,939	1,926	183	5,048	63	5,111
Operating expenses (excluding depreciation)	(1,505)	(415)	(355)	(2,275)	(26)	(2,301)
Depreciation	(129)	(15)	(127)	(271)	(9)	(280)
Impairment losses and provisions	(309)	(1,173)	(13)	(1,495)	(148)	(1,643)
Segment result	**996**	**323**	**(312)**	**1,007**	**(120)**	**887**
Share of profit from associates	-	-	34	34	-	34
Income tax expense	-	-	(173)	(173)	23	(150)
Profit/(loss) for the period	**996**	**323**	**(451)**	**868**	**(97)**	**771**
Attributable to:						
Equity holders of the Bank	996	323	(530)	789	(97)	692
Non-controlling interests	-	-	79	79	-	79
Profit/(loss) for the period	**996**	**323**	**(451)**	**868**	**(97)**	**771**

Notes to the financial statements (continued)

10 Financial information by segment (continued)

a) Segmental statement of profit or loss for 2012 – operating segments (continued)

Group

	Retail	Corporate and Investment	Other	Total managerial reporting	Reconciliation to financial statements	Financial statements
	2012 HRK million	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**
Net interest income	2,222	1,390	(472)	3,140	26	3,166
Net fee and commission income	682	368	37	1,087	-	1,087
Dividend income	-	-	13	13	-	13
Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	138	172	12	322	(1)	321
Net gains and losses from investment securities	2	16	54	72	(48)	24
Other operating income	7	4	514	525	101	626
Operating income	3,051	1,950	158	5,159	78	5,237
Operating expenses (excluding depreciation)	(1,480)	(400)	(361)	(2,241)	(29)	(2,270)
Depreciation	(157)	(20)	(101)	(278)	(13)	(291)
(Impairment losses and provisions)/release of impairment losses and provisions	(186)	(989)	11	(1,164)	(19)	(1,183)
Segment result	**1,228**	**541**	**(293)**	**1,476**	**17**	**1,493**
Share of profit from associates	-	-	30	30	-	30
Income tax expense	-	-	(260)	(260)	(4)	(264)
Profit/(loss) for the period	**1,228**	**541**	**(523)**	**1,246**	**13**	**1,259**
Attributable to:						
Equity holders of the Bank	1,228	541	(629)	1,140	13	1,153
Non-controlling interests	-	-	106	106	-	106
Profit/(loss) for the period	**1,228**	**541**	**(523)**	**1,246**	**13**	**1,259**

Notes to the financial statements (continued)

10 Financial information by segment (continued)

a) Segmental statement of profit or loss for 2013 – operating segments (continued)

Bank

	Retail	Corporate and Investment	Other	Total managerial reporting	Reconciliation to financial statements	Financial statements
	2013 HRK million	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**
Net interest income	1,706	1,202	(460)	2,448	37	2,485
Net fee and commission income	558	295	(2)	851	1	852
Dividend income	-	-	54	54	1	55
Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	70	211	83	364	(42)	322
Net gains and losses from investment securities	1	(7)	-	(6)	13	7
Other operating income	7	(4)	15	18	53	71
Operating income	2,342	1,697	(310)	3,729	63	3,792
Operating expenses (excluding depreciation)	(1,165)	(347)	37	(1,475)	(26)	(1,501)
Depreciation	(94)	(12)	(45)	(151)	(9)	(160)
Impairment losses and provisions	(283)	(1,117)	(7)	(1,407)	(148)	(1,555)
Segment result	**800**	**221**	**(325)**	**696**	**(120)**	**576**
Income tax expense	-	-	(134)	(134)	23	(111)
Profit/(loss) for the period	**800**	**221**	**(459)**	**562**	**(97)**	**465**

Notes to the financial statements (continued)

10 Financial information by segment (continued)

a) Segmental statement of profit or loss for 2012 – operating segments (continued)

Bank

	Retail	Corporate and Investment	Other	Total managerial reporting	Reconciliation to financial statements	Financial statements
	2012 HRK million	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**
Net interest income	1,778	1,226	(408)	2,596	26	2,622
Net fee and commission income	542	306	(1)	847	-	847
Dividend income	-	-	35	35	-	35
Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	112	160	8	280	(1)	279
Net gains and losses from investment securities	2	16	54	72	(48)	24
Other operating income	5	1	8	14	101	115
Operating income	2,439	1,709	(304)	3,844	78	3,922
Operating expenses (excluding depreciation)	(1,154)	(335)	35	(1,454)	(29)	(1,483)
Depreciation	(116)	(15)	(30)	(161)	(13)	(174)
Impairment losses and provisions	(163)	(975)	(4)	(1,142)	(19)	(1,161)
Segment result	**1,006**	**384**	**(303)**	**1,087**	**17**	**1,104**
Income tax expense	-	-	(212)	(212)	(4)	(216)
Profit/(loss) for the period	**1,006**	**384**	**(515)**	**875**	**13**	**888**

Notes to the financial statements (continued)

10 Financial information by segment (continued)

b) Segmental statement of financial position for 2013 and 2012 – operating segments

Group

	Retail	Corporate and Investment	Other	Total managerial reporting	Reconciliation to financial statements	Financial statements
	2013 HRK million	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**
Segment assets	35,290	49,659	38,608	123,557	(318)	123,239
Investments in associates	-	-	83	83	-	83
Tax prepayment	-	-	108	108	-	108
Deferred tax asset	-	-	336	336	(42)	294
Total assets	**35,290**	**49,659**	**39,135**	**124,084**	**(360)**	**123,724**
Segment liabilities	46,890	25,952	32,356	105,198	311	105,509
Current tax liability	-	-	2	2	-	2
Deferred tax liability	-	-	205	205	(169)	36
Total liabilities	**46,890**	**25,952**	**32,563**	**105,405**	**142**	**105,547**
Capital expenditure	-	-	268	268	-	268

Group

	Retail	Corporate and Investment	Other	Total managerial reporting	Reconciliation to financial statements	Financial statements
	2012 HRK million	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**
Segment assets	36,189	45,626	38,339	120,154	(343)	119,811
Investments in associates	-	-	78	78	-	78
Tax prepayment	-	-	74	74	-	74
Deferred tax asset	-	-	241	241	(3)	238
Total assets	**36,189**	**45,626**	**38,732**	**120,547**	**(346)**	**120,201**
Segment liabilities	44,289	26,505	31,104	101,898	173	102,071
Current tax liability	-	-	5	5	-	5
Deferred tax liability	-	-	129	129	(107)	22
Total liabilities	**44,289**	**26,505**	**31,238**	**102,032**	**66**	**102,098**
Capital expenditure	-	-	314	-	-	314

Notes to the financial statements (continued)

10 Financial information by segment (continued)

b) Segmental statement of financial position for 2013 and 2012 – operating segments (continued)

Bank

	Retail	Corporate and Investment	Other	Total managerial reporting	Reconciliation to financial statements	Financial statements
	2013 HRK million	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**	**2013 HRK million**
Segment assets	29,845	46,417	29,100	105,362	(318)	105,044
Investments in subsidiaries and associates	-	-	1,075	1,075	-	1,075
Tax prepayment	-	-	100	100	-	100
Deferred tax asset	-	-	328	328	(42)	286
Total assets	**29,845**	**46,417**	**30,603**	**106,865**	**(360)**	**106,505**
Segment liabilities	39,471	22,972	28,045	90,488	311	90,799
Deferred tax liability	-	-	200	200	(169)	31
Total liabilities	**39,471**	**22,972**	**28,245**	**90,688**	**142**	**90,830**
Capital expenditure	-	-	105	105	-	105

Bank

	Retail	Corporate and Investment	Other	Total managerial reporting	Reconciliation to financial statements	Financial statements
	2012 HRK million	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**	**2012 HRK million**
Segment assets	30,867	42,199	29,636	102,702	(343)	102,359
Investments in subsidiaries and associates	-	-	918	918	-	918
Tax prepayment	-	-	74	74	-	74
Deferred tax asset	-	-	234	234	(3)	231
Total assets	**30,867**	**42,199**	**30,862**	**103,928**	**(346)**	**103,582**
Segment liabilities	37,654	23,338	26,637	87,629	173	87,802
Deferred tax liability	-	-	122	122	(107)	15
Total liabilities	**37,654**	**23,338**	**26,759**	**87,751**	**66**	**87,817**
Capital expenditure	-	-	187	187	-	187

Notes to the financial statements (continued)

10 Financial information by segment (continued)

c) Geographical segment information

Group

	Croatia 2013 HRK million	Bosnia and Herzegovina 2013 HRK million	Total 2013 HRK million
External revenue	4,308	803	5,111
Segment assets	109,186	14,538	123,724
Capital expenditure	249	19	268

Group

	Croatia 2012 HRK million	Bosnia and Herzegovina 2012 HRK million	Total 2012 HRK million
External revenue	4,459	778	5,237
Segment assets	105,790	14,411	120,201
Capital expenditure	270	44	314

Geographical segmentation is based on the domicile of Group subsidiaries.

The majority of the Bank's operations and customers are in the Republic of Croatia, hence geographical segment information for the Bank is not presented.

Notes to the financial statements (continued)

11 Cash and cash equivalents

Group

	2013 HRK HRK million	2013 Foreign currency HRK million	2013 Total HRK million	2012 HRK HRK million	2012 Foreign currency HRK million	2012 Total HRK million
Cash in hand	1,003	940	**1,943**	1,142	845	**1,987**
Items in course of collection	-	2	**2**	-	2	**2**
Current accounts with other banks	6	1,236	**1,242**	1	1,730	**1,731**
Current account with the CNB	4,064	-	**4,064**	2,625	-	**2,625**
	5,073	**2,178**	**7,251**	**3,768**	**2,577**	**6,345**

Current accounts with other banks include current accounts of a subsidiary in Bosnia and Herzegovina with the Central Bank of Bosnia and Herzegovina in the amount of HRK 893 million (2012: HRK 1,076 million).

Bank

	2013 HRK HRK million	2013 Foreign currency HRK million	2013 Total HRK million	2012 HRK HRK million	2012 Foreign currency HRK million	2012 Total HRK million
Cash in hand	994	455	**1,449**	1,133	423	**1,556**
Items in course of collection	-	1	**1**	-	1	**1**
Current accounts with other banks	-	114	**114**	-	373	**373**
Current account with the CNB	4,064	-	**4,064**	2,625	-	**2,625**
	5,058	**570**	**5,628**	**3,758**	**797**	**4,555**

12 Obligatory reserve with the Croatian National Bank

		Group		*Bank*
	2013	**2012**	**2013**	**2012**
	HRK million	**HRK million**	**HRK million**	**HRK million**
Obligatory reserve				
- in kuna	5,742	6,364	5,742	6,364
- in foreign currency	1,395	1,476	1,395	1,476
Compulsory CNB Treasury bills	913	-	913	-
	8,050	**7,840**	**8,050**	**7,840**

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

The obligatory reserve requirement as at 31 December 2013 amounted to 12% (2012: 13.50%) of Croatian kuna and foreign currency deposits, borrowings and issued debt securities.

As at 31 December 2013, the required rate for the Croatian kuna part of the obligatory reserve to be deposited with the CNB amounted to 70% (2012: 70%), while the remaining 30% (2012: 30%) had to be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

Of the foreign currency part of the obligatory reserve, 60% (2012: 60%) is deposited with the CNB, while the remaining 40% (2012: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). 75% (2012: 75%) of the foreign currency obligatory reserve is required to be held in Croatian kuna and is added to the Croatian kuna part of the obligatory reserve.

Starting from 11 December 2013 CNB decreased the obligatory reserve requirement from 13.5% to 12% with an aim to make additional liquidity available to the banks for financing economic recovery.

In the total amount of released kuna obligatory reserve requirements the banks were obliged to subscribe obligatory CNB treasury bills, with a three-year maturity. These treasury bills are non interest bearing and non-transferrable. Banks are able to offer them, prior to maturity, at each month-end, for redemption by the CNB. The amount offered is equal to 50% of the increase in certain placements to domestic non-financial enterprises in the previous month. If the increase in related placements is negative, the banks are obligated to re-purchase previously redeemed compulsory CNB bills, in the amount of 50% of decrease in these placements, but not more than net cumulative amount previously redeemed CNB Treasury bills.

Notes to the financial statements (continued)

13 Loans to and receivables from banks

		Group		*Bank*
	2013	**2012**	**2013**	**2012**
	HRK million	**HRK million**	**HRK million**	**HRK million**
Placements with banks	9,421	9,634	6,470	6,765
Loans to banks	1,480	2,661	1,560	2,660
	10,901	12,295	8,030	9,425
Impairment allowance				
- Placements	(31)	(25)	(31)	(24)
- Loans	(57)	(59)	(57)	(59)
	(88)	(84)	(88)	(83)
Net placements with and loans to banks	**10,813**	**12,211**	**7,942**	**9,342**

Loans to and receivables from banks for the Group include obligatory reserve amounts of HRK 949 million (2012: HRK 914 million) held with the Central Bank of Bosnia and Herzegovina.

a) Movement in impairment allowance for loans to and receivables from banks

		Group		*Bank*
	2013	**2012**	**2013**	**2012**
	HRK million	**HRK million**	**HRK million**	**HRK million**
Balance as at 1 January	**84**	**85**	**83**	**83**
Increase in impairment losses *(Note 8)*	7	-	7	-
Amounts written off	-	(1)	-	-
Effect of foreign exchange differences	(3)	-	(2)	-
Balance as at 31 December	**88**	**84**	**88**	**83**

Notes to the financial statements (continued)

14 Financial assets at fair value through profit or loss

	Group 2013 HRK million	2012 HRK million	*Bank* 2013 HRK million	2012 HRK million
Debt securities held for trading	107	58	107	58
Equity securities held for trading	9	5	9	5
Derivative financial instruments – positive fair value	1,417	767	1,425	782
Units in investment funds designated at fair value through profit or loss	128	107	93	89
Equity securities designated at fair value through profit or loss	2	2	-	-
	1,663	**939**	**1,634**	**934**

a) Debt securities held for trading

	Group 2013 HRK million	2012 HRK million	*Bank* 2013 HRK million	2012 HRK million
Republic of Croatia Treasury bills	15	-	15	-
Republic of Croatia bonds	48	-	48	-
Bonds issued by domestic corporate issuers	34	45	34	45
Bonds issued by other domestic issuers	10	10	10	10
Local authority bonds	-	3	-	3
	107	**58**	**107**	**58**
Listed	*92*	*48*	*92*	*48*
Unlisted	*15*	*10*	*15*	*10*
	107	**58**	**107**	**58**

b) Equity securities held for trading

	Group 2013 HRK million	2012 HRK million	*Bank* 2013 HRK million	2012 HRK million
Equity securities of domestic issuers – listed	**9**	**5**	**9**	**5**

Notes to the financial statements (continued)

14 Financial assets at fair value through profit or loss (continued)

c) Derivative financial instruments – positive fair value

Group	2013 Notional amount HRK million	2013 Fair value HRK million	2012 Notional amount HRK million	2012 Fair value HRK million
Derivatives classified as held for trading – OTC products				
Foreign exchange forward and swap contracts	5,722	54	5,188	25
Cross currency interest rate swaps	11,121	1,151	6,894	401
Interest rate swaps	2,291	212	2,476	340
Other derivatives classified as trading	-	-	213	1
	19,134	**1,417**	**14,771**	**767**

Bank	2013 Notional amount HRK million	2013 Fair value HRK million	2012 Notional amount HRK million	2012 Fair value HRK million
Derivatives classified as held for trading – OTC products				
Foreign exchange forward and swap contracts	6,064	54	4,354	25
Cross currency interest rate swaps	11,121	1,151	6,894	401
Interest rate swaps	2,532	220	2,779	355
Other derivatives classified as trading	-		213	1
	19,717	**1,425**	**14,240**	**782**

The Group trades with simple interest rate and foreign exchange derivatives for two main purposes: balance sheet/liquidity management (ALM), and providing solutions for clients' needs. ALM activities are aimed at regulatory cost optimisation and liquidity management: ALM enters into derivatives in order to achieve particular effects on the foreign exchange and liquidity structure of the statement of financial position. As the Bank has not implemented hedge accounting, the related derivatives are classified as financial instruments held for trading. OTC derivatives traded with corporate customers include plain vanilla foreign exchange and interest rate derivatives. The counterparties in the Group's derivative transactions are financial institutions (including related parties) and corporate customers with good credit rating.

d) Units in investment funds designated at fair value through profit or loss

		Group		**Bank**
	2013 HRK million	2012 HRK million	2013 HRK million	2012 HRK million
Units in investment funds managed by related party (quoted)	**128**	**107**	**93**	**89**

Notes to the financial statements (continued)

14 Financial assets at fair value through profit or loss (continued)

e) Equity securities designated at fair value through profit or loss

	Group 2013 HRK million	2012 HRK million	*Bank* 2013 HRK million	2012 HRK million
Equity securities of domestic issuers - listed	**2**	**2**	**-**	**-**

15 Loans to and receivables from customers

a) Loans to and receivables from customers – analysis by sector

	Group 2013 HRK million	2012 HRK million	*Bank* 2013 HRK million	2012 HRK million
Companies and similar organisations and Government (corporate entities)				
- in kuna	30,082	29,321	30,081	29,320
- in foreign currency	21,930	18,556	17,191	13,924
Amounts due from subsidiaries				
- in kuna	-	-	54	50
- in foreign currency	-	-	127	41
Total companies and similar organisations and Government	52,012	47,877	47,453	43,335
Impairment allowance	(5,465)	(4,238)	(4,719)	(3,536)
Net loans to companies and similar organisations and Government	**46,547**	**43,639**	**42,734**	**39,799**
Individuals and unincorporated businesses (retail customers)				
- in kuna	31,454	32,102	30,072	30,939
- in foreign currency	5,422	5,207	8	5
Total individuals and unincorporated businesses	36,876	37,309	30,080	30,944
Impairment allowance	(2,358)	(2,219)	(1,979)	(1,871)
Net loans to individuals and unincorporated businesses	**34,518**	**35,090**	**28,101**	**29,073**
Total gross loans	88,888	85,186	77,533	74,279
Impairment allowance	(7,823)	(6,457)	(6,698)	(5,407)
Total net loans to and receivables from customers	**81,065**	**78,729**	**70,835**	**68,872**
Total impairment allowance as a percentage of gross loans to and receivables from customers	**8.8%**	**7.6%**	**8.6%**	**7.3%**

15 Loans to and receivables from customers (continued)

a) Loans to and receivables from customers – analysis by sector (continued)

Included within the Group's kuna loans are amounts linked to foreign currency, in the net amount of HRK 40,507 million (2012: HRK 41,912 million) which have a EUR, CHF, USD, AUD, CAD or GPB countervalue. Included within the Bank's hrk loans are amounts linked to foreign currency which have a EUR, CHF, USD, AUD, CAD or GPB countervalue, in the net amount of HRK 39,478 million (2012: HRK 40,882 million). Repayments of the principal and interest payments are determined in foreign currency and receivable in the Croatian kuna equivalent using the foreign exchange rate applicable on the date of payment.

b) Movement in impairment allowance for loans to and receivables from customers

The impairment loss on loans to and receivables from customers disclosed in the statement of profit or loss arises from the following movements in impairment allowance for un-collectability of loans to and receivables from customers.

Group

	Corporate entities	Retail customers	Total
	2013 HRK million	2013 HRK million	2013 HRK million
Balance as at 1 January	**4,238**	**2,219**	**6,457**
Increase in impairment losses	1,547	412	1,959
Reversal of impairment losses on upgraded exposures	(86)	(43)	(129)
Collection of amounts previously provided	(88)	(134)	(222)
Net charge/(credit) for collective impairment on performing loans	47	(66)	(19)
Impairment losses recognised in the statement of profit or loss	**1,420**	**169**	**1,589**
Unwinding of discount to interest income	(18)	(19)	(37)
Amounts written off	(227)	(26)	(253)
Effect of foreign exchange differences	38	12	50
Other changes	14	3	17
Balance as at 31 December	**5,465**	**2,358**	**7,823**

Notes to the financial statements (continued)

15 Loans to and receivables from customers (continued)

b) Movement in impairment allowance for loans to and receivables from customers (continued)

Group

	Corporate entities 2012 HRK million	Retail customers 2012 HRK million	Total 2012 HRK million
Balance as at 1 January	**3,383**	**2,062**	**5,445**
Increase in impairment losses	1,143	427	1,570
Reversal of impairment losses on upgraded exposures	(6)	(35)	(41)
Collection of amounts previously provided	(97)	(176)	(273)
Net credit for collective impairment on performing loans	(99)	(15)	(114)
Impairment losses recognised in the statement of profit or loss	**941**	**201**	**1,142**
Unwinding of discount to interest income	(12)	(14)	(26)
Amounts written off	(126)	(37)	(163)
Effect of foreign exchange differences	5	3	8
Other changes	47	4	51
Balance as at 31 December	**4,238**	**2,219**	**6,457**

Bank

	Corporate entities 2013 HRK million	Retail customers 2013 HRK million	Total 2013 HRK million
Balance as at 1 January	**3,536**	**1,871**	**5,407**
Increase in impairment losses	1,461	326	1,787
Reversal of impairment losses on upgraded exposures	(69)	(16)	(85)
Collection of amounts previously provided	(60)	(93)	(153)
Net charge/(credit) for collective impairment on performing loans	35	(75)	(40)
Impairment losses recognised in the statement of profit or loss	**1,367**	**142**	**1,509**
Unwinding of discount to interest income	(18)	(19)	(37)
Amounts written off	(208)	(26)	(234)
Effect of foreign exchange differences	29	8	37
Other changes	13	3	16
Balance as at 31 December	**4,719**	**1,979**	**6,698**

Notes to the financial statements (continued)

15 Loans to and receivables from customers (continued)

b) Movement in impairment allowance for loans to and receivables from customers (continued)

Bank

	Corporate entities	Retail customers	Total
	2012 HRK million	2012 HRK million	2012 HRK million
Balance as at 1 January	**2,681**	**1,728**	**4,409**
Increase in impairment losses	1,036	299	1,335
Reversal of impairment losses on upgraded exposures	(2)	(17)	(19)
Collection of amounts previously provided	(54)	(134)	(188)
Net charge/(credit) for collective impairment on performing loans	(76)	39	(37)
Impairment losses recognised in the statement of profit or loss	**904**	**187**	**1,091**
Unwinding of discount to interest income	(12)	(14)	(26)
Amounts written off	(86)	(35)	(121)
Effect of foreign exchange differences	4	2	6
Other changes	45	3	48
Balance as at 31 December	**3,536**	**1,871**	**5,407**

Notes to the financial statements (continued)

15 Loans to and receivables from customers (continued)

c) Concentration of credit risk by industry

Commercial lending is concentrated on companies domiciled in Croatia and on the Government. The Bank and the Group have a diversified loan portfolio within Croatia and Bosnia and Herzegovina covering all sectors of the economy.

The loan portfolio of the Group and the Bank, net of impairment allowance, is analysed by industry sector in the table below:

		Group		*Bank*
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Loans to companies and similar organisations and Government				
Public administration and obligator social insurance	13,301	10,536	12,973	10,267
Construction of roads and highways	7,032	6,960	7,032	6,945
Construction	3,681	3,752	3,463	3,535
Wholesale and retail trade	5,319	5,595	3,896	4,041
Transport and storage	2,420	2,061	2,156	1,765
Real estate and business activities	1,922	2,273	1,578	2,168
Food and beverages	1,604	1,456	1,424	1,271
Utilities (Energy products)	1,321	1,033	1,213	918
Agriculture	1,050	1,035	1,009	986
Hotels and restaurants	960	957	1,007	932
Financial intermediation and insurance	975	583	937	547
Textiles, Clothes and Footwear	435	349	344	247
Machinery, Electrical, Optical and other equipment	460	627	425	569
Professional, Scientific and Technical activities	573	780	555	763
Education	551	538	550	536
Healthcare and social services	572	609	535	586
Telecommunication	536	483	524	456
Chemicals	515	451	426	376
Administration and supported services	199	230	199	230
Other service activities	429	445	391	399
Mineral based products	356	391	283	286
Arts, Amusement and Recreation	277	306	264	289
Metal Products (exclude machinery and equipment)	274	256	204	199
Vehicles and other transport equipment (exclude Shipbuilding)	221	235	216	233
Tobacco products	144	31	126	-
Wood products	145	142	99	80
Furniture and other goods	96	104	69	73
Rubber and plastic products	140	170	95	115
Paper and pulp	86	91	82	85
Printing and Publishing	159	193	86	88
Shipbuilding	12	260	12	260
Building materials production	17	10	17	10
Recycling (Maintenance of machinery and equipment)	21	19	16	15
Manufacture of basic metals	117	99	6	7
Mining and extraction	92	44	1	-
Refined Petroleum, Coke and Nuclear	2	15	-	11
Other	533	520	521	511
Total loans to companies and similar organisations and Government	**46,547**	**43,639**	**42,734**	**39,799**
Loans to individuals and unincorporated businesses				
Housing loans	19,473	20,007	17,060	17,754
Cash loans	8,832	8,499	5,499	5,426
Other loans	6,213	6,584	5,542	5,893
Total loans to individuals and unincorporated businesses	**34,518**	**35,090**	**28,101**	**29,073**
Total loans to and receivables from customers	**81,065**	**78,729**	**70,835**	**68,872**

Notes to the financial statements (continued)

16 Available-for-sale financial assets

	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Debt securities available for sale	9,091	8,890	7,726	8,010
Impairment allowance	(28)	(28)	(28)	(28)
Net debt securities available for sale	9,063	8,862	7,698	7,982
Equity securities available for sale	148	53	147	52
Impairment allowance	(15)	(9)	(15)	(9)
Net equity securities available for sale	133	44	132	43
	9,196	**8,906**	**7,830**	**8,025**

a) Debt securities available for sale

	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Ministry of Finance – Treasury bills and Euro notes	4,837	5,121	4,492	4,680
Bonds issued by parent company	2,023	1,882	1,908	1,882
Bonds issued by other EU member state governments	502	555	502	508
Republic of Croatia bonds	1,202	730	727	407
Bonds issued by subsidiaries	-	-	-	385
Other securities issued by foreign issuers	430	454	-	-
Other securities issued by domestic issuers	69	120	69	120
	9,063	**8,862**	**7,698**	**7,982**
Listed	*3,796*	*3,308*	*3,206*	*3,322*
Unlisted	*5,267*	*5,554*	*4,492*	*4,660*
	9,063	**8,862**	**7,698**	**7,982**

As at 31 December 2013 exposure to other EU member state governments includes bonds issued by Germany, Austria, Belgium and the Netherlands (2012: Germany, Belgium, and the Netherlands).

HRK 430 million (2012: HRK 454 million) of other securities issued by foreign issuers for the Group relate to debt securities issued by Bosnia and Herzegovina state and state-related entities.

Notes to the financial statements (continued)

16 Available-for-sale financial assets (continued)

b) Movement in impairment allowance for debt securities available for sale

		Group		Bank
	2013 HRK million	2012 HRK million	2013 HRK million	2012 HRK million
Balance as at 1 January	**28**	**20**	**28**	**20**
Increase in impairment losses recognised in statement of profit or loss *(Note 8)*	-	8	-	8
Balance as at 31 December	**28**	**28**	**28**	**28**

c) Equity securities available for sale

		Group		Bank
	2013 HRK million	2012 HRK million	2013 HRK million	2012 HRK million
Unlisted securities	**133**	**44**	**132**	**43**

Unlisted equity securities available for sale comprise a certain number of individual investments carried either at fair value or at cost less impairment. There is no market for those investments.

The principal unlisted investment held by the Group as at 31 December 2013 is:

	Industry	Domicile	Effective holding at 31 December 2013
Allianz Zagreb dd, Zagreb	Insurance	Croatia	16.84%

Investment in Allianz Zagreb dd, Zagreb is carried at fair value which at 31 December 2013 was determined at HRK 123 million (2012: investment in Allianz Zagreb dd was carried at cost). Fair value of Allianz Zagreb dd was determined based on dividend discount model for non-life insurance and market consistent embedded value with value of new business for life insurance as the primary methods, along with trading and transaction multiple methods as backup methods.

Other equity investments are carried at cost less impairment, as they have no material impact on the Bank's financial statements. Management believes that there is no indication of impairment of those securities at the reporting date.

d) Movement in impairment allowance for equity securities available for sale

		Group		Bank
	2013 HRK million	2012 HRK million	2013 HRK million	2012 HRK million
Balance as at 1 January	**9**	**9**	**9**	**9**
Increase in impairment losses recognised in statement of profit or loss *(Note 8)*	6	-	6	-
Balance as at 31 December	**15**	**9**	**15**	**9**

Notes to the financial statements (continued)

16 Available-for-sale financial assets (continued)

e) *Reclassified financial assets*

Based on the Management Board's decision, in 2009 the Group and the Bank reclassified financial assets from the category at fair value through profit or loss (trading financial assets) into financial assets available for sale. Following this reclassification, any further changes in fair value of these securities which would previously have been recognised in profit or loss were recognised in a fair value reserve directly in the statement of other comprehensive income, prior to any impairment effects and effects recognised on disposal. There were no further reclassifications after 2009.

The Group and the Bank made the reclassifications to reduce yield volatility on funds invested and protect themselves from the direct influence of changes in prices of debt securities during the financial crisis.

Group and Bank

	31 December 2013			31 December 2012		
	Amount reclassified HRK million	Carrying value HRK million	Fair value HRK million	Amount reclassified HRK million	Carrying value HRK million	Fair value HRK million
Financial assets at fair value through profit or loss reclassified into available-for-sale financial assets	**78**	**51**	**51**	78	63	63

The following table shows the amounts recognised in the statement of profit or loss and in the statement of other comprehensive income during 2013 related to the reclassified financial assets. The effects of foreign exchange have not been presented as their treatment has not changed due to reclassification.

Group and Bank

	Statement of profit or loss 2013 HRK million	Fair value reserve 2013 HRK million	Statement of profit or loss 2012 HRK million	Fair value reserve 2012 HRK million
Period after reclassification				
Fair value reserve	-	3	-	3
Other impairment losses and provisions - impairment	-	-	(3)	-
	-	**3**	**(3)**	**3**

Notes to the financial statements (continued)

17 Held-to-maturity investments

	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Croatian local authority bonds	-	26	-	26
Bills of exchange and other securities issued by domestic issuers	1,204	838	1,204	838
Impairment allowance	(1)	-	(1)	-
Net investments held to maturity	**1,203**	**864**	**1,203**	**864**
Listed	*-*	*26*	*-*	*26*
Unlisted	*1,203*	*838*	*1,203*	*838*
	1,203	**864**	**1,203**	**864**

a) Movement in impairment allowance for investments held to maturity

	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Balance as at 1 January	**-**	**-**	**-**	**-**
Increase in impairment losses recognised in statement of profit or loss *(Note 8)*	1	-	1	-
Balance as at 31 December	**1**	**-**	**1**	**-**

Notes to the financial statements (continued)

18 Concentration of assets and liabilities

The assets and liabilities of the Group and the Bank are significantly concentrated on amounts directly and indirectly due from and to the Republic of Croatia, as follows:

Group	Notes	2013 HRK million	Reclassified 2012 HRK million
Current account with the Croatian National Bank	11	4,064	2,625
Obligatory reserve with the Croatian National Bank	12	8,050	7,840
Ministry of Finance – Treasury bills and Euro Notes	14a, 16a	4,852	5,121
Republic of Croatia bonds	14a, 16a	1,250	730
Cross currency interest rate swaps – fair value		854	-
Loans		17,808	17,330
Accrued interest and other assets		23	13
Tax prepayment		108	74
Receivables from State for state subsidies for housing savings	23	111	130
Short-term deposits		(135)	(552)
Long-term deposits		(16)	(15)
Current tax liability relating to the Bank and the Bank's subsidiaries in the Republic of Croatia		-	(5)
Other liabilities		(51)	-
		36,918	**33,291**
Off-balance-sheet commitments		**148**	**50**
		37,066	**33,341**

Additionally, HRK 2,310 million (2012: HRK 1,741 million) of balance-sheet and HRK 612 million (2012: HRK 1,386 million) of off-balance-sheet credit exposure of the Group at the reporting date is secured by Government guarantees.

Direct and indirect exposure to the Croatian state, excluding corporate exposures guaranteed by the State (which are not included in the above tables) represents 30% of the total assets of the Group (2012: 28%).

18 Concentration of assets and liabilities (continued)

Bank

	Notes	2013 HRK million	Reclassified 2012 HRK million
Current account with the Croatian National Bank	11	4,064	2,625
Obligatory reserve with the Croatian National Bank	12	8,050	7,840
Ministry of Finance – Treasury bills and Euro notes	14a, 16a	4,507	4,680
Republic of Croatia bonds	14a, 16a	775	407
Cross currency interest rate swaps – fair value		854	-
Loans		17,808	17,330
Tax prepayment		100	74
Other assets		23	13
Short-term deposits		(135)	(552)
Long-term deposits		(16)	(15)
Other liabilities		(50)	-
		35,980	**32,402**
Off-balance-sheet commitments		**148**	**50**
		36,128	**32,452**

Additionally, HRK 2,310 million (2012: HRK 1,741 million) of balance-sheet and HRK 612 million (2012: HRK 1,386 million) of off-balance-sheet credit exposure of the Bank at the reporting date is secured by Government guarantees.

Direct and indirect exposure to the Croatian state, excluding corporate exposures guaranteed by the State (which are not included in the above tables) represents 34% of the total assets of the Bank (2012: 31%).

Notes to the financial statements (continued)

19 Investments in subsidiaries and associates

a) The subsidiaries:

	Industry	Domicile	Group ownership as at 31 December 2013
UniCredit Bank dd, Mostar	Banking	Bosnia and Herzegovina	65.6%
Prva stambena štedionica dd, Zagreb	Banking	Croatia	100.0%
ZB Invest doo, Zagreb	Fund management	Croatia	100.0%
Centar Kaptol doo, Zagreb	Property investment	Croatia	100.0%
Suvremene poslovne komunikacije doo, Zagreb	Publishing	Croatia	100.0%
Pominvest dd, Split	Property management	Croatia	88.7%
Zagreb nekretnine doo, Zagreb	Real estate agency	Croatia	100.0%
ZANE BH doo, Sarajevo	Real estate agency	Bosnia and Herzegovina	100.0%
Istraturist dd, Umag	Tourism	Croatia	93.0%
Istra D.M.C. doo	ATP tournament organisation	Croatia	93.0%
ZABA Partner doo	Insurance intermediation	Croatia	100.0%

The Bank applies discounted cash flow method as primary method and trading and transaction multiple methods as backup methods for impairment loss testing of its subsidiaries. Management is of the opinion that there are no indications of impairment for any of the Bank's investments in subsidiaries, in accordance with the valuations as at the reporting date.

b) The associates:

	Industry	Domicile	Effective holding as at 31 December 2013
Allianz ZB doo Obligatory Pension Fund Management Company, Zagreb	Pension fund management	Croatia	49.0%
Allianz ZB doo Voluntary Pension Funds Management Company, Zagreb	Pension fund management	Croatia	49.0%
MultiPlusCard doo, Zagreb	Advertising and marketing services	Croatia	25.0%

c) Investments in subsidiaries and associates:

		Group		*Bank*
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Subsidiaries	-	-	1,023	866
Associates	83	78	52	52
	83	**78**	**1,075**	**918**

On 15 January 2013, the Bank acquired an additional 21.24% of voting rights in Istraturist dd and after the acquisition, the Bank owns 93% of Istraturist Umag dd's equity. The fair value of the total cash consideration transferred amounted to HRK 155 million, which represents the fair and net carrying value of the total assets and liabilities acquired. No goodwill was recognised upon this acquisition.

In addition, investments in subsidiaries are increased as a result of new subsidiary ZABA Partner doo which was set up on 4 September 2013 and acts as an insurance and reinsurance intermediate on the Croatian market.

Notes to the financial statements (continued)

19 Investments in subsidiaries and associates (continued)

d) Movements in investment in associates

Group

	2013 HRK million	2012 HRK million
Balance as at 1 January	**78**	**49**
Share of profit from associates	34	30
Dividends paid from associates *(Note 3)*	(29)	(1)
Balance as at 31 December	**83**	**78**

e) Associates' financial information

Summarised financial information in respect of the Group's main associates is set out below:

Allianz ZB doo Obligatory Pension Fund Management Company	2013 HRK million	2012 HRK million
Total assets	158	166
Total liabilities	11	24
Net assets	147	142
Group's share of net assets of associates	**72**	**70**
Total income	115	103
Total profit for the period	57	52
Group's share of profits of associates	**28**	**26**

Allianz ZB doo Voluntary Pension Funds Management Company	2013 HRK million	2012 HRK million
Total assets	40	36
Total liabilities	13	15
Net assets	27	21
Group's share of net assets of associates	**13**	**10**
Total income	31	28
Total profit for the period	12	7
Group's share of profits of associates	**6**	**3**

20 Investment property

Group

	Investment property HRK million	Assets acquired, but not brought into use HRK million	Total HRK million
Cost			
Cost as at 1 January 2013	376	1	377
Additions	-	3	3
Brought into use	4	(4)	-
Transfer from property and equipment during the year *(Note 21)*	2	-	2
Cost as at 31 December 2013	**382**	**-**	**382**
Accumulated depreciation			
Accumulated depreciation as at 1 January 2013	181	-	181
Charge for the year	10	-	10
Transfers from property and equipment during the year *(Note 21)*	1	-	1
Accumulated depreciation as at 31 December 2013	**192**	**-**	**192**
Carrying value as at 1 January 2013	195	1	196
Carrying value as at 31 December 2013	**190**	**-**	**190**

During the year the Group reclassified property with cost and accumulated depreciation of HRK 2 million and HRK 1 million, respectively, from Property and equipment *(Note 21)* to Investment property, given that its use was changed during the year.

The estimated fair value of investment property held by the Group at a carrying amount of HRK 190 million amounted to HRK 241 million at the reporting date. The fair value is determined by applying the income approach and is based on the estimated rental value of the properties. Valuation technique used in the model is based on discounting expected future cash flows arising from rental activities at the discount rate that reflect the current market assessment of uncertainty in the amount and timing of future cash flows. Valuations reflect the actual rents and the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the remaining economic life of the property. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Information about the fair value hierarchy as at 31 December 2013 is as follows:

Level 1 HRK million	Level 2 HRK million	Level 3 HRK million	Fair value as at 31 December 2013 HRK million
-	241	-	**241**

There were no transfers between Levels 1 and 2 during the year.

Notes to the financial statements (continued)

20 Investment property (continued)

Group

	Investment property HRK million	Assets acquired, but not brought into use HRK million	Total HRK million
Cost			
Cost as at 1 January 2012	366	3	369
Additions	-	3	3
Brought into use	5	(5)	-
Transfer from property and equipment during the year *(Note 21)*	5	-	5
Cost as at 31 December 2012	**376**	**1**	**377**
Accumulated depreciation			
Accumulated depreciation as at 1 January 2012	171	-	171
Charge for the year	9	-	9
Transfers from property and equipment during the year *(Note 21)*	1	-	1
Accumulated depreciation as at 31 December 2012	**181**	**-**	**181**
Carrying value as at 1 January 2012	195	3	198
Carrying value as at 31 December 2012	**195**	**1**	**196**

During 2012 the Group reclassified property with cost and accumulated depreciation of HRK 5 million and HRK 1 million respectively, from Property and equipment to Investment property *(Note 21)*, given that its use was changed during the year.

The estimated fair value of investment property held by the Group at a carrying amount of HRK 196 million amounted to HRK 198 million at 31 December 2012. The fair value is estimated by discounting expected future cash flows at discount rates that reflect the current market assessment of uncertainty in the amount and timing of future cash flows. No independent valuation was used.

20 Investment property (continued)

Bank

	Investment property HRK million
Cost	
Cost as at 1 January 2013	42
Transfer from property and equipment during the year *(Note 21)*	2
Cost as at 31 December 2013	**44**
Accumulated depreciation	
Accumulated depreciation as at 1 January 2013	14
Charge for the year	1
Transfer from property and equipment during the year *(Note 21)*	1
Accumulated depreciation as at 31 December 2013	**16**
Carrying value as at 1 January 2013	28
Carrying value as at 31 December 2013	**28**

During the year the Bank reclassified property, with cost and accumulated depreciation of HRK 2 million and HRK 1 million, respectively, from Property and equipment *(Note 21)* to Investment property, given that its use was changed during the year.

The estimated fair value of investment property held by the Bank with carrying value HRK 28 million amounted to HRK 29 million at the reporting date. The fair value is determined by applying the income approach and is based on the estimated rental value of the properties. Valuation technique used in the model is based on discounting expected future cash flows arising from rental activities at the discount rate that reflect the current market assessment of uncertainty in the amount and timing of future cash flows. Valuations reflect the actual rents and the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation and the remaining economic life of the property. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Information about the fair value hierarchy as at 31 December 2013 is as follows:

Level 1 HRK million	Level 2 HRK million	Level 3 HRK million	Fair value as at 31 December 2013 HRK million
-	29	-	**29**

There were no transfers between Levels 1 and 2 during the year.

Notes to the financial statements (continued)

20 Investment property (continued)

Bank

	Investment property HRK million
Cost	
Cost as at 1 January 2012	37
Transfer from property and equipment during the year *(Note 21)*	5
Cost as at 31 December 2012	**42**
Accumulated depreciation	
Accumulated depreciation as at 1 January 2012	12
Charge for the year	1
Transfer from property and equipment during the year *(Note 21)*	1
Accumulated depreciation as at 31 December 2012	**14**
Carrying value as at 1 January 2012	25
Carrying value as at 31 December 2012	**28**

During the year the Bank reclassified property, with cost and accumulated depreciation of HRK 5 million and HRK 1 million, respectively, from Property and equipment *(Note 21)* to Investment property, given that its use was changed during the year.

The estimated fair value of investment property held by the Bank with carrying value HRK 28 million amounted to HRK 28 million at the reporting date. The fair value is estimated by discounting expected future cash flows at discount rates that reflect current market assessment of the uncertainty in the amount and timing of cash flows. No independent valuation was used.

Notes to the financial statements (continued)

21 Property and equipment

Group

	Land and buildings	Computers, vehicles and equipment	Assets acquired, but not brought into use	Total
	HRK million	HRK million	HRK million	HRK million
Cost				
Cost as at 1 January 2013	3,065	1,783	81	4,929
Additions	-	-	216	216
Disposals	(4)	(8)	-	(12)
Brought into use	176	78	(254)	-
Write off	-	(78)	-	(78)
Transfer to investment property during the year *(Note 20)*	(2)	-	-	(2)
Transfer to intangible assets during the year *(Note 22)*	-	-	(2)	(2)
Transfer to other asset	-	(4)	-	(4)
Translation differences in respect of foreign operations	2	4	-	6
Cost as at 31 December 2013	**3,237**	**1,775**	**41**	**5,053**
Accumulated depreciation and impairment				
Accumulated depreciation and impairment as at 1 January 2013	895	1,401	-	2,296
Charge for the year	72	126	-	198
Disposal	(2)	(7)	-	(9)
Write off	-	(76)	-	(76)
Transfers to investment property during the year *(Note 20)*	(1)	-	-	(1)
Transfer to other asset	-	(4)	-	(4)
Translation differences in respect of foreign operations	1	3	-	4
Accumulated depreciation and impairment as at 31 December 2013	**965**	**1,443**	**-**	**2,408**
Carrying value as at 1 January 2013	2,170	382	81	2,633
Carrying value as at 31 December 2013	**2,272**	**332**	**41**	**2,645**

Software is classified as either Property and equipment and included in this position or as Intangible assets *(Note 22)*.

During the year, land and buildings with cost and accumulated depreciation of HRK 2 million and HRK 1 million, respectively, was transferred to Investment property *(Note 20)* in accordance with the change in the use of the underlying assets. Further, HRK 2 million of assets acquired but not brought into use was transferred to Intangible assets, while computers, vehicles and equipment with cost and accumulated depreciation of HRK 4 million, respectively, were transferred to Other assets.

The Group wrote off certain assets from property and equipment with cost and accumulated depreciation of HRK 78 million and HRK 76 million, respectively, during the year.

The carrying amount of non-depreciable land within land and buildings is HRK 108 million (2012: HRK 104 million).

Certain properties of the Group, with net carrying value of HRK 720 million, are pledged as collateral for borrowings.

21 Property and equipment (continued)

Group

	Land and buildings	Computers, vehicles and equipment	Assets acquired, but not brought into use	Total
	HRK million	HRK million	HRK million	HRK million
Cost				
Cost as at 1 January 2012	2,940	1,755	263	4,958
Additions	-	-	246	246
Disposals	(141)	(15)	(5)	(161)
Brought into use	272	151	(423)	-
Write off	(1)	(108)	-	(109)
Transfer to investment property during the year *(Note 20)*	(5)	-	-	(5)
Cost as at 31 December 2012	**3,065**	**1,783**	**81**	**4,929**
Accumulated depreciation and impairment				
Accumulated depreciation and impairment as at 1 January 2012	916	1,377	4	2,297
Charge for the year	69	143	-	212
Impairment loss *(Note 8)*	2	-	-	2
Reversal of impairment loss *(Note 8)*	-	-	(4)	(4)
Disposal	(90)	(13)	-	(103)
Write off	(1)	(106)	-	(107)
Transfers to investment property during the year *(Note 20)*	(1)	-	-	(1)
Accumulated depreciation and impairment as at 31 December 2012	**895**	**1,401**	**-**	**2,296**
Carrying value as at 1 January 2012	2,024	378	259	2,661
Carrying value as at 31 December 2012	**2,170**	**382**	**81**	**2,633**

Software is classified as either Property and equipment and included in this position or as Intangible assets *(Note 22)*.

During 2012, property with cost and accumulated depreciation of HRK 5 million and HRK 1 million, respectively, was transferred to Investment property *(Note 20)* in accordance with the change in the use of the underlying assets.

The Group wrote off certain assets from property and equipment with cost and accumulated depreciation of HRK 109 million and HRK 107 million, respectively, during 2012.

The carrying amount of non-depreciable land within land and buildings was HRK 104 million (2011: HRK 104 million).

Certain properties of the Group, with net carrying value of HRK 714 million, are pledged as collateral for borrowings.

Notes to the financial statements (continued)

21 Property and equipment (continued)

Bank

	Land and buildings HRK million	Computers, vehicles and equipment HRK million	Assets acquired, but not brought into use HRK million	Total HRK million
Cost				
Cost as at 1 January 2013	1,249	1,191	69	2,509
Additions	-	-	70	70
Disposals	(4)	(3)	-	(7)
Brought into use	55	51	(106)	-
Write off	-	(64)	-	(64)
Transfers to investment property during the year *(Note 20)*	(2)	-	-	(2)
Cost as at 31 December 2013	**1,298**	**1,175**	**33**	**2,506**
Accumulated depreciation and impairment				
Accumulated depreciation and impairment as at 1 January 2013	360	969	1	1,330
Charge for the year	26	87	-	113
Disposals	(2)	(3)	-	(5)
Write off	-	(63)	-	(63)
Transfers to investment property during the year *(Note 20)*	(1)	-	-	(1)
Accumulated depreciation and impairment as at 31 December 2013	**383**	**990**	**1**	**1,374**
Carrying value as at 1 January 2013	889	222	68	1,179
Carrying value as at 31 December 2013	**915**	**185**	**32**	**1,132**

Software is classified as either Property and equipment and included in this position or as Intangible assets *(Note 22)*.

During the year, property with cost and accumulated depreciation of HRK 2 million and HRK 1 million, respectively, was transferred to Investment property *(Note 20)* in accordance with the change in the use of the underlying assets.

The Bank wrote off certain assets from property and equipment with cost and accumulated depreciation of HRK 64 million and HRK 63 million, respectively, during the year.

The carrying amount of non-depreciable land within land and buildings is HRK 10 million (2012: HRK 6 million).

Notes to the financial statements (continued)

21 Property and equipment (continued)

Bank

	Land and buildings HRK million	Computers, vehicles and equipment HRK million	Assets acquired, but not brought into use HRK million	Total HRK million
Cost				
Cost as at 1 January 2012	1,174	1,187	249	2,610
Additions	-	-	147	147
Disposals	(131)	(14)	(4)	(149)
Brought into use	212	111	(323)	-
Write off	(1)	(93)	-	(94)
Transfers to investment property during the year *(Note 20)*	(5)	-	-	(5)
Cost as at 31 December 2012	**1,249**	**1,191**	**69**	**2,509**
Accumulated depreciation and impairment				
Accumulated depreciation and impairment as at 1 January 2012	423	969	5	1,397
Charge for the year	26	102	-	128
Disposals	(87)	(11)	-	(98)
Write off	(1)	(91)	-	(92)
Reversal of impairment loss *(Note 8)*	-	-	(4)	(4)
Transfers to investment property during the year *(Note 20)*	(1)	-	-	(1)
Accumulated depreciation and impairment as at 31 December 2012	**360**	**969**	**1**	**1,330**
Carrying value as at 1 January 2012	751	218	244	1,213
Carrying value as at 31 December 2012	**889**	**222**	**68**	**1,179**

Software is classified as either Property and equipment and included in this position or as Intangible assets *(Note 22)*.

During 2012, property with cost and accumulated depreciation of HRK 5 million and HRK 1 million, respectively, was transferred to Investment property *(Note 20)* in accordance with the change in the use of the underlying assets.

The Bank wrote off certain assets from property and equipment with cost and accumulated depreciation of HRK 94 million and HRK 92 million, respectively, during the year.

The carrying amount of non-depreciable land within land and buildings is HRK 6 million (2011: HRK 6 million).

Notes to the financial statements (continued)

22 Intangible assets

Group

	Software	Goodwill	Leasehold improvements	Other intangible assets	Assets acquired, but not brought into use	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Cost						
Cost as at 1 January 2013	522	61	220	17	56	876
Additions	-	-	-	-	49	49
Brought into use	47	-	8	-	(55)	-
Write off	(1)	-	(11)	-	-	(12)
Transfers from property and equipment *(Note 21)*	-	-	-	-	2	2
Translation differences in respect of foreign operations	2	-	1	-	-	3
Cost as at 31 December 2013	**570**	**61**	**218**	**17**	**52**	**918**
Accumulated amortisation and impairment						
Accumulated amortisation and impairment as at 1 January 2013	406	12	175	12	-	605
Charge for the year	57	-	15	-	-	72
Impairment loss *(Note 8)*	-	-	-	2	-	2
Write off	(1)	-	(11)	-	-	(12)
Translation differences in respect of foreign operations	1	-	2	-	-	3
Accumulated amortisation and impairment as at 31 December 2013	**463**	**12**	**181**	**14**	**-**	**670**
Carrying value as at 1 January 2013	116	49	45	5	56	271
Carrying value as at 31 December 2013	**107**	**49**	**37**	**3**	**52**	**248**

Software is classified as either intangible assets and included above or as Property and equipment (*Note 21*).

The Group wrote off certain assets from intangible assets, with a cost and accumulated depreciation of HRK 12 million, during the year.

Goodwill represents goodwill arising on the acquisition of UniCredit Bank dd, Mostar (previously Zagrebačka banka BH dd and Universal banka dd, Sarajevo).

Notes to the financial statements (continued)

22 Intangible assets (continued)

Group

	Software	Goodwill	Leasehold improvements	Other intangible assets	Assets acquired, but not brought into use	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Cost						
Cost as at 1 January 2012	504	61	205	17	59	846
Additions	-	-	-	-	64	64
Brought into use	48	-	19	-	(67)	-
Write off	(30)	-	(4)	-	-	(34)
Cost as at 31 December 2012	**522**	**61**	**220**	**17**	**56**	**876**
Accumulated amortisation and impairment						
Accumulated amortisation and impairment as at 1 January 2012	382	12	163	10	-	567
Charge for the year	54	-	16	-	-	70
Impairment loss *(Note 8)*	-	-	-	2	-	2
Write off	(30)	-	(4)	-	-	(34)
Accumulated amortisation and impairment as at 31 December 2012	**406**	**12**	**175**	**12**	**-**	**605**
Carrying value as at 1 January 2012	122	49	42	7	59	279
Carrying value as at 31 December 2012	**116**	**49**	**45**	**5**	**56**	**271**

Software is classified as either intangible assets and included above or as Property and equipment (*Note 21*).

The Group wrote off certain assets from intangible assets, with a cost and accumulated depreciation of HRK 34 million, respectively, during 2012.

Goodwill represents goodwill arising on the acquisition of UniCredit Bank dd, Mostar (previously Zagrebačka banka BH dd and Universal banka dd, Sarajevo).

Notes to the financial statements (continued)

22 Intangible assets (continued)

Bank

	Software HRK million	Leasehold improvements HRK million	Other intangible assets HRK million	Assets acquired, but not brought into use HRK million	Total HRK million
Cost					
Cost as at 1 January 2013	343	110	17	35	505
Additions	-	-	-	36	36
Brought into use	37	4	-	(41)	-
Write off	(1)	(9)	-	-	(10)
Cost as at 31 December 2013	**379**	**105**	**17**	**30**	**531**
Accumulated amortisation and impairment					
Accumulated amortisation and impairment as at 1 January 2013	264	82	12	-	358
Charge for the year	37	9	-	-	46
Impairment loss *(Note 8)*	-	-	2	-	2
Write off	(1)	(9)	-	-	(10)
Accumulated amortisation and impairment as at 31 December 2013	**300**	**82**	**14**	**-**	**396**
Carrying value as at 1 January 2013	79	28	5	35	147
Carrying value as at 31 December 2013	**79**	**23**	**3**	**30**	**135**

Software is classified as either intangible assets and included above or as Property and equipment *(Note 21)*.

The Bank wrote off certain assets from intangible assets, with a cost and accumulated depreciation of HRK 10 million, during the year.

22 Intangible assets (continued)

Bank

	Software HRK million	Leasehold improvements HRK million	Other intangible assets HRK million	Assets acquired, but not brought into use HRK million	Total HRK million
Cost					
Cost as at 1 January 2012	336	103	17	43	499
Additions	-	-	-	40	40
Brought into use	37	11	-	(48)	-
Write off	(30)	(4)	-	-	(34)
Cost as at 31 December 2012	**343**	**110**	**17**	**35**	**505**
Accumulated amortisation and impairment					
Accumulated amortisation and impairment as at 1 January 2012	258	77	10	-	345
Charge for the year	36	9	-	-	45
Impairment loss *(Note 8)*	-	-	2	-	2
Write off	(30)	(4)	-	-	(34)
Accumulated amortisation and impairment as at 31 December 2012	**264**	**82**	**12**	**-**	**358**
Carrying value as at 1 January 2012	78	26	7	43	154
Carrying value as at 31 December 2012	**79**	**28**	**5**	**35**	**147**

Software is classified as either intangible assets and included above or as Property and equipment *(Note 21)*.

During 2012, the Bank wrote off certain assets from intangible assets, with a cost and accumulated depreciation of HRK 34 million, during the year.

Notes to the financial statements (continued)

23 Other assets

	2013 HRK million	*Group* 2012 HRK million	2013 HRK million	*Bank* 2012 HRK million
Receivables in respect of customers' debit and credit cards	475	485	356	367
Assets acquired in lieu of uncollected receivables	174	71	156	54
Accrued interest – due	13	14	13	13
Accrued fees	35	56	31	52
Inventories	15	18	8	11
Receivables in course of collection	8	1	6	-
Deferred interest expense	9	13	4	7
Receivables from State for state subsidies for housing savings	111	130	-	-
Other assets	201	205	124	131
	1,041	993	698	635
Impairment allowance against other assets	(126)	(116)	(71)	(62)
	915	**877**	**627**	**573**

During 2013, the Bank has in lieu of uncollected receivables, through debt-to-asset swap, acquired land and buildings.

a) Movement in impairment allowance against other assets

	2013 HRK million	*Group* 2012 HRK million	2013 HRK million	*Bank* 2012 HRK million
Balance as at 1 January	**116**	**97**	**62**	**57**
Increase in impairment losses	*28*	*20*	*21*	*15*
Reversal of impairment losses	*(12)*	*(9)*	*(10)*	*(7)*
Net charge recognised in statement of profit or loss *(Note 8)*	16	11	11	8
Transfer from off-balance-sheet records	-	11	-	-
Amounts written off	(6)	(3)	(2)	(3)
Balance as at 31 December	**126**	**116**	**71**	**62**

Notes to the financial statements (continued)

24 Current accounts and deposits from banks

		Group		*Bank*
	2013	**2012**	**2013**	**2012**
	HRK million	**HRK million**	**HRK million**	**HRK million**
Demand deposits				
- in kuna	357	366	357	366
- in foreign currency	260	221	243	182
Time deposits				
- in kuna	87	146	87	146
- in foreign currency	12,958	12,660	12,415	12,113
Amounts owed to subsidiaries	-	-	110	242
	13,662	**13,393**	**13,212**	**13,049**

25 Current accounts and deposits from customers

		Group		*Bank*
	2013	**2012**	**2013**	**2012**
	HRK million	**HRK million**	**HRK million**	**HRK million**
Individuals and unincorporated businesses				
Foreign currency savings accounts and time deposits	40,936	39,453	34,158	33,442
HRK savings accounts and time deposits	11,403	10,605	9,424	8,670
	52,339	50,058	43,582	42,112
Companies and similar organisations and Government				
Demand deposits				
- in kuna	6,499	5,698	6,475	5,676
- in foreign currency	5,436	5,699	2,329	2,496
Time deposits				
- in kuna	2,926	3,994	2,926	3,994
- in foreign currency	7,816	7,270	7,106	6,287
Amounts owed to subsidiaries	-	-	27	82
	22,677	22,661	18,863	18,535
	75,016	**72,719**	**62,445**	**60,647**

Included within the Group's and the Bank's kuna deposits from customers are amounts linked to foreign currency, in the amount of HRK 2,216 million and HRK 294 million (2012: HRK 2,477 million and HRK 588 million), respectively, which have a EUR and CHF countervalue. Payments of the principal and interest payments are determined in foreign currency and payable in the Croatian kuna equivalent using the foreign exchange rate applicable on the date of payment.

Notes to the financial statements (continued)

26 Financial liabilities at fair value through profit or loss

Group

	2013 Notional amount HRK million	2013 Fair value HRK million	2012 Notional amount HRK million	2012 Fair value HRK million
Derivatives classified as held for trading – OTC products				
Foreign exchange forward and swap contracts	3,742	50	1,826	18
Cross currency interest rate swaps	10,765	876	7,487	256
Interest rate swaps	2,341	169	2,379	290
Embedded derivatives within structured savings products	-	-	117	-
	16,848	**1,095**	**11,809**	**564**

Bank

	2013 Notional amount HRK million	2013 Fair value HRK million	2012 Notional amount HRK million	2012 Fair value HRK million
Derivatives classified as held for trading – OTC products				
Foreign exchange forward and swap contracts	3,812	51	1,840	18
Cross currency interest rate swaps	10,765	876	7,487	256
Interest rate swaps	2,341	169	2,379	290
Embedded derivatives within structured savings products	-	-	117	-
	16,918	**1,096**	**11,823**	**564**

The Group trades with simple interest rate and foreign exchange derivatives for two main purposes: balance sheet/liquidity management (ALM), and providing solutions for clients' needs. ALM activities are aimed at regulatory cost optimisation and liquidity management: ALM enters into derivatives in order to achieve particular effects on the foreign exchange and liquidity structure of the statement of financial position. As the Bank has not implemented hedge accounting the related derivatives are classified as financial instruments held for trading. Other derivative contracts are customer driven and comprise mainly interest rate swaps. Counterparties of the Group's derivative transactions are financial institutions (including related parties) and corporate customers with good credit rating.

Notes to the financial statements (continued)

27 Borrowings

	Group		Bank	
	2013 HRK million	2012 HRK million	2013 HRK million	2012 HRK million
Domestic sources	2,069	2,201	2,030	2,173
Foreign banks	11,901	11,449	10,860	10,189
Foreign companies	151	-	151	-
Amounts owed to subsidiaries	-	-	-	45
	14,121	**13,650**	**13,041**	**12,407**

As at 31 December 2013 the Group and the Bank did not enter into reverse repurchase agreements (as at 31 December 2012: borrowings from domestic sources included repurchase agreements in the amount of HRK 70 million for the Group and HRK 115 million for the Bank).

28 Provisions for liabilities and charges

Group

	Total HRK million	Provisions for off-balance--sheet credit risk exposure HRK million	Provisions for court cases HRK million	Provisions for other items HRK million
Balance as at 1 January 2013	**430**	**293**	**46**	**91**
Net charge to statement of profit or loss	44	21	1	22
Provisions used during the year	(46)	-	(6)	(40)
Foreign exchange gain/(loss)	-	1	-	(1)
Balance as at 31 December 2013	**428**	**315**	**41**	**72**
Balance as at 1 January 2012	**440**	**265**	**60**	**115**
Net charge/(credit) to statement of profit or loss	37	28	(6)	15
Provisions used during the year	(47)	-	(8)	(39)
Balance as at 31 December 2012	**430**	**293**	**46**	**91**

Notes to the financial statements (continued)

28 Provisions for liabilities and charges (continued)

Bank

	Total	Provisions for off-balance--sheet credit risk exposure	Provisions for court cases	Provisions for other items
	HRK million	HRK million	HRK million	HRK million
Balance as at 1 January 2013	**367**	**265**	**27**	**75**
Net charge to statement of profit or loss	35	18	1	16
Provisions used during the year	(38)	-	(2)	(36)
Balance as at 31 December 2013	**364**	**283**	**26**	**55**
Balance as at 1 January 2012	**339**	**212**	**26**	**101**
Net charge to statement of profit or loss	65	53	3	9
Provisions used during the year	(37)	-	(2)	(35)
Balance as at 31 December 2012	**367**	**265**	**27**	**75**

Provisions for off-balance-sheet credit risk exposure and provisions for court cases are recognised in Other impairment losses and provisions in the statement of profit or loss *(Note 8).*

Provisions for other items are recognised as personnel expenses within Operating expenses *(Note 7).*

Provisions for other items of the Bank and the Group as at 31 December 2013 include HRK 34 million (2012: HRK 52 million) of provisions for long-term employee incentive schemes and HRK 21 million (2012: HRK 23 million) of provisions for jubilee awards and statutory severance payments calculated in accordance with *International Accounting Standard 19 “Employee Benefits”*.

Notes to the financial statements (continued)

29 Other liabilities

	Group		Bank	
	2013 HRK million	2012 HRK million	2013 HRK million	2012 HRK million
Deferred interest income	19	49	13	24
Other deferred income	19	4	2	2
Salaries	135	122	105	86
Payables in course of settlement	229	189	80	53
Payables in respect of customers' debit and credit cards	283	339	253	310
Payables to suppliers	75	64	17	10
Accrued expenses	103	101	59	59
Liabilities to other banks for cash collections	2	-	2	-
Dividends	6	5	5	5
Fees payable	1	2	-	-
Liabilities to customers for State subsidies for housing savings	111	130	-	-
Other liabilities	127	235	105	219
	1,110	**1,240**	**641**	**768**

30 Subordinated debt

Subordinated debt in the amount of EUR 10 million relates to a borrowing by UniCredit Bank dd, Mostar from Bank Polska, Opieki approved on March 2005 in the amount of EUR 10 million, with final maturity of 10 years and a variable interest rate based on six-month EURIBOR + 2.50%.

The repayment of the debt is subordinated to all other liabilities of UniCredit Bank dd, Mostar.

Notes to the financial statements (continued)

31 Share capital

Group and Bank

Authorised and issued	**2013 Ordinary shares**	**2012 Ordinary shares**
Issued share capital (HRK million)	6,405	6,405
Number of shares as at 31 December	320,241,955	320,241,955
Nominal value per share (HRK) as at 31 December	20.00	20.00

Ordinary shares carry voting rights at shareholders' meetings, subject to a minimum shareholding of one share. The Bank does not have preference shares.

The shareholder structure of the Bank at 31 December was as follows:

	2013 % ownership	**2012 % ownership**
UniCredit Bank Austria AG	84.47	84.47
Allianz SE	11.72	11.72
Other	3.81	3.81
	100.00	**100.00**

The Bank's shares are listed on the Zagreb Stock Exchange. At 31 December 2013 the average share price of the Bank's ordinary shares quoted on the Zagreb Stock Exchange was HRK 29.50 (2012: HRK 37.59).

Share premium

As a result of a share issue in March 2007, the Bank recognised share premium in an amount of HRK 3,370 million representing the excess of the paid-in amount over the nominal value of the issued shares.

Treasury shares

At 31 December 2013, the Group and the Bank held 163,342 treasury shares of the Bank (2012: 163,342 treasury shares) with a purchase value of HRK 9 million (2012: HRK 9 million).

Own shares held as collateral

The Bank holds 9,975 (2012: 9,975 shares) of its own shares as collateral for loans to third parties.

Dividends

The Bank paid HRK 615 million of dividends in 2013 (2012: HRK 728 million) (HRK 1.92 per share, 2012: HRK 2.28 per share).

Notes to the financial statements (continued)

31 Share capital (continued)

Regulatory capital

Regulatory capital and capital adequacy ratio according to CNB requirements, calculated and presented for the Bank only (as of the date of issuance of these financial statements information on regulatory capital and risk-weighted assets is unaudited), are as follows:

	2013 HRK million	2012 HRK million
Regulatory capital (unaudited)		
Tier 1 capital		
Issued share capital	6,405	6,405
Share premium	3,370	3,370
Retained earnings (excluding profit for the period)	4,735	4,462
Profit for the period	465	888
Legal, statutory and other reserves	596	596
Deductions in accordance with CNB regulations	(46)	(53)
Total qualifying Tier 1 capital	**15,525**	**15,668**
Tier 2 capital	-	-
Total qualifying Tier 2 capital	-	-
Deductions for investments in banks and financial institutions	(598)	(503)
Total regulatory capital	**14,927**	**15,165**
Capital adequacy ratio according to CNB requirements		
Risk weighted assets (unaudited)		
Credit risk for balance-sheet items	49,880	52,009
Credit risk for off-balance-sheet items	3,582	3,902
Foreign exchange risk	555	-
Position risk	1,361	992
Counterparty risk	1,127	1,135
Operational risk	6,211	6,127
Total risk-weighted assets	**62,716**	**64,165**
Capital adequacy ratio	**23.80%**	**23.63%**

Notes to the financial statements (continued)

32 Other reserves, fair value reserve and retained earnings

a) Other reserves

Group and Bank

	2013 HRK million	**2012 HRK million**
Legal reserve	64	64
Redenomination reserve	283	283
Treasury share reserve	109	109
Capital gains	140	140
	596	**596**

Legal reserve

A legal reserve was originally created in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to this reserve until it reaches 5% of issued share capital. The legal reserve, in the amount of up to 5% of issued share capital, can be used for covering current and prior years losses. No increase in the legal reserve is proposed following the bonus issue of share capital in 2011, as the Bank has capital reserves (including share premium), in excess of 5% of issued share capital.

Redenomination reserve

The share capital of the Bank was originally denominated in DEM. In accordance with a shareholders' decision reached at an Extraordinary General Assembly in February 2002, it was converted into Euro.

At an Extraordinary General Assembly held in December 2004, the share capital of the Bank was converted into Croatian kuna. The nominal value of Class I A, II B, III D and III E shares was converted from EUR 51.13 to HRK 380 each, and the nominal value of Class II C shares was converted from EUR 73.04 to HRK 540.

The surplus of share capital arising on redenomination was recorded in the redenomination reserve.

Treasury share reserve

The reserve from treasury shares arose from previous holdings of treasury shares, subsequently sold at a net premium.

Capital gains

Capital gains result from transactions with treasury shares of the Bank from previous periods.

Notes to the financial statements (continued)

32 Other reserves, fair value reserve and retained earnings (continued)

b) Fair value reserve

Fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets available for sale as well as translation differences on non-monetary financial assets available for sale, net of income tax. As at 31 December 2013 the fair value reserve amounted to HRK 108 million (2012: HRK 60 million) and HRK 113 million (2012: HRK 53 million) for the Group and the Bank respectively.

c) Retained earnings

Retained earnings include accumulated profits from prior years and a translation reserve which is used to record differences arising from the retranslation of assets and liabilities, and income and expense of foreign subsidiaries, on consolidation.

33 Assets sold but not derecognised

Sale and repurchase agreements

The Group enters into transactions in the ordinary course of business, which result in the transfer of financial assets (consisting primarily of debt securities) that continue to be recognised in their entirety. The Group transfers such assets primarily through sale and repurchase agreements.

As at 31 December 2013, the Group and the Bank had no assets sold but not derecognised (31 December 2012: HRK 75 million and HRK 122 million, respectively), comprising available-for-sale debt securities.

34 Managed funds for and on behalf of third parties and custody services

The Bank and the Group provide custody services to banks and customers, including investment and pension funds. The Group also manages regulated open-ended funds in Croatia, which are quoted over the counter. The Group and the Bank earn fee income related to these services. The Bank and the Group also provide portfolio management services to private customers, and also manage a number of loans on behalf of third parties. These assets are not assets of the Bank and the Group and are not recognised in the Bank's and the Group's statement of financial positions.

Group

	2013 HRK million	2012 HRK million
Assets under custody	31,134	36,600
Investment fund assets under management	4,089	4,472
Assets under portfolio management	190	111
Loans managed on behalf of third parties	478	455
	35,891	**41,638**

Fees earned in relation to custody services, assets under management in investment funds managed by the Group, portfolio management and loans managed on behalf of third parties amounted to HRK 90 million (2012: HRK 103 million). Custody fees are related to custodian activities provided to companies, banks and individuals, and investment and pension funds. Portfolio management fees are related to portfolio management for and on behalf of customers.

Bank

	2013 HRK million	2012 HRK million
Assets under custody	30,388	34,828
Loans managed on behalf of third parties	317	287
	30,705	**35,115**

Fees earned in relation to custody services and loans managed on behalf of third parties for the Bank amounted to HRK 31 million (2012: HRK 43 million).

Notes to the financial statements (continued)

35 Commitments and contingencies

a) Off-balance-sheet exposure

The aggregate amounts of outstanding guarantees, letters of credit, undrawn lending commitments and unused credit card limits at the year end were:

Group

	2013 HRK million	2012 HRK million
Foreign currency guarantees	3,426	3,843
HRK guarantees	2,462	2,280
Foreign currency letters of credit	230	419
Undrawn lending commitments	7,901	8,770
Credit card limits and other items	4,924	5,528
	18,943	**20,840**

Bank

	2013 HRK million	2012 HRK million
Foreign currency guarantees	2,448	2,903
HRK guarantees	2,460	2,278
Foreign currency letters of credit	187	337
Undrawn lending commitments	7,308	8,329
Credit card limits and other items	3,781	4,412
	16,184	**18,259**

b) Litigation

The Group and the Bank are subject to a number of legal actions taken against them. In the opinion of the Management Board the claims which are likely to be lost are fully provided for and, including principal and accrued interest, in the amount of HRK 41 million for the Group (2012: HRK 46 million) and HRK 26 million for the Bank (2012: HRK 27 million), as presented in *Note 28.*

c) Contingent liability

In 2012 the citizen's association "Potrošač – Hrvatski savez, udruga za zaštitu potrošača" has started a lawsuit for protection of collective interest of consumers against eight largest banks in Croatia (including Zagrebačka banka) claiming that they have violated interests and rights of the customers by contracting:

- loan agreements with foreign currency clause, linked to CHF, without prior informing the customers on all necessary parameters relevant for them to make valid decision in loan contracting process,

- interest rate that is variable upon unilateral decision of the Bank and without clearly defined parameters that influence the variability of the interest rate. By doing so, the plaintiff claims that there was a misbalance in the right and obligations of the parties to the loan agreement (i.e. Bank and the customers).

Notes to the financial statements (continued)

35 Commitments and contingencies (continued)

c) Contingent liability (continued)

As at 4 July 2013 the Commercial court in Zagreb has reached first degree not binding judgment whereby it confirmed that the Bank has violated the rights of the customers. The Court decided that sued banks need to offer to the customers, within 60 days as of the date of judgment, amended terms, converting the outstanding principal amount to kuna (HRK) at the CHF/HRK exchange prevailing on the date that loan agreement was signed and substituting the variable interest rate for the fixed applicable at the date the specific loan was drawn down.

As at 12 July 2013 the Bank has filed an appeal to this court decision.

The Management of the Bank does not consider there is a present obligation requiring creation of specific provision. At this moment, 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. Therefore no provisions have been made in the financial statements as of 31 December 2013. This event is treated as contingent liability with the outcome that is uncertain.

Notes to the financial statements (continued)

36 Related party transactions

The Bank is the parent of the Zagrebačka banka Group. The ultimate controlling party of the Group and the Bank's ultimate parent is UniCredit S.p.A. The key shareholders of the Bank and of the Group are UniCredit Bank Austria AG (a subsidiary of UniCredit S.p.A.) and Allianz SE with holdings of 84.47% (2012: 84.47%) and 11.72% (2012: 11.72%) of the Bank’s shares respectively at year end. The remaining 3.81% (2012: 3.81%) of the shares are publicly held. The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its subsidiaries and associates; the investment funds managed by one of its subsidiaries, ZB Invest; the pension funds managed by its associates; Supervisory Board members, Management Board members and other executive management (together “key management personnel”); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 *“Related Party Disclosures”* (“IAS 24”). Other immediate related parties mainly comprise UniCredit S.p.A. and its other affiliates.

a) Key transactions with immediate related parties

The Bank had borrowings of HRK 9,693 million (2012: HRK 9,443 million) and deposits of HRK 12,479 million (2012: HRK 12,175 million) from UniCredit Bank Austria AG as at 31 December 2013. As a result, the Bank recorded HRK 477 million (2012: HRK 762 million) of interest expense in relation to UniCredit Bank Austria AG.

In 2013 and 2012 the Bank entered into derivative financial transactions in the form of interest rate swaps, cross-currency interest rate swaps and FX swaps with UniCredit Bank AG resulting in the recognition of a loss of HRK 183 million (2012: loss of HRK 53 million) in the Bank’s statement of profit or loss.

In 2013 and 2012 the Bank entered into a derivative financial transactions in the form of a cross-currency interest rate swap and FX swaps with UniCredit Bank Austria AG resulting in the recognition of a loss of HRK 592 million in the Bank’s statement of profit or loss (2012: loss of HRK 285 million).

Notes to the financial statements (continued)

36 Related party transactions (continued)

a) Key transactions with immediate related parties (continued)

The Bank earned dividend income and income from distribution services provided to related parties engaged in insurance, leasing and pension fund management as follows:

	Income from distribution		Dividend income	
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Allianz Zagreb (insurance)	21	16	6	12
Allianz ZB – obligatory pension fund management company	-	-	26	1
Allianz ZB – voluntary pension fund management company	5	4	3	-
UniCredit Leasing Croatia	1	1	-	-
	27	**21**	**35**	**13**

The above amounts are not eliminated on consolidation but are presented either as income or as a deduction against the carrying value of investments in the Group financial statements, and as income in the Bank's separate financial statements.

The Bank also earns income and incurs expense on transactions with its subsidiaries, which are eliminated on consolidation. These include distribution fee income earned from ZB Invest, which manages regulated investment funds in Croatia, and fees payable to Zagreb nekretnine for property valuations. In 2013 the Bank recognised dividend income from subsidiaries in the amount of HRK 20 million (2012: HRK 21 million). The majority of other income and expense with subsidiaries represents interest income and expense.

The majority of exposure to subsidiaries represents lending, and in the case of ZB Invest, includes investments into investment funds managed by ZB Invest.

Key management personnel held 253,666 shares in the Bank (2012: 372,608 shares) at year end. Included in loans to and receivables from customers are HRK 42 million (2012: HRK 45 million) in respect of loans and receivables granted to key management personnel. During 2013 the Bank recognised HRK 2 million (2012: HRK 2 million) of interest income from loans to key management personnel granted at annual interest rates from 4.65% to 12.00% (2012: from 4.65% to 12.00%). Included in current accounts and deposits from customers are HRK 71 million of deposits from key management personnel (2012: HRK 94 million). During 2013 the Bank recognised interest expense of HRK 2 million (2012: HRK 2 million) on these liabilities at annual interest rates from 0.05% to 5.80% (2012: from 0.05% to 5.80%).

Notes to the financial statements (continued)

36 Related party transactions (continued)

b) Amounts arising from transactions with immediate related parties (Bank)

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the year ended 31 December 2013, arising from key transactions with related parties, were as follows:

	2013 Exposure* HRK million	2013 Liabilities HRK million	2013 Income HRK million	2013 Expense HRK million
Immediate and ultimate parent companies				
UniCredit Bank Austria AG	3,619	22,842	72	1,086
UniCredit S.p.A.	111	2	4	3
Other shareholders or fellow subsidiaries				
UniCredit Bank Austria AG Group - other	38	3	3	6
UniCredit Group - other	77	59	2	4
UniCredit Bank AG	54	158	193	62
UniCredit Bank AG Group - other	-	4	-	-
Allianz SE Group	128	42	60	-
Total key shareholders	**4,027**	**23,110**	**334**	**1,161**
Subsidiaries				
Prva stambena štedionica	86	84	3	3
UniCredit Bank dd, Mostar	6	26	7	1
Istraturist	215	12	12	9
ZB Invest	2	7	22	-
Zagreb nekretnine	-	3	-	2
Centar Kaptol	22	1	-	-
Suvremene poslovne komunikacije	-	2	-	3
Pominvest	-	3	-	3
Total subsidiaries	**331**	**138**	**44**	**21**
Key management personnel*				
Supervisory Board members	**-**	**8**	**-**	**-**
Other key management personnel	**49**	**73**	**2**	**2**
Total key management personnel	**49**	**81**	**2**	**2**
Total	**4,407**	**23,329**	**380**	**1,184**

*Exposure comprises loans, interest and other receivables and HRK 489 million (2012: HRK 299 million) of off-balance-sheet exposures, whereof HRK 6 million (2012: HRK 8 million) relates to key management personnel.
**Expense amounts relating to key management personnel do not include remuneration. Information on management remuneration is disclosed in *Note 36c*.

In addition to the direct exposure to ZB Invest, at year end the Group and Bank had investments of HRK 128 million and HRK 93 million (2012: HRK 107 million and HRK 89 million) in investment funds managed by ZB Invest.

In addition to direct exposure to subsidiaries, the Bank's investment in subsidiaries at year end amounted to HRK 1,023 million (2012: HRK 866 million).

Notes to the financial statements (continued)

36 Related party transactions (continued)

b) Amounts arising from transactions with immediate related parties (Bank) (continued)

	2012 Exposure HRK million	2012 Liabilities HRK million	2012 Income HRK million	2012 Expense HRK million
Immediate and ultimate parent companies				
UniCredit Bank Austria AG	3,860	21,797	85	1,052
UniCredit S.p.A.	122	1	5	3
Other shareholders or fellow subsidiaries				
UniCredit Bank Austria AG Group - other	7	11	2	3
UniCredit Group - other	27	32	2	5
UniCredit Bank AG	36	298	92	153
UniCredit Bank AG Group - other	-	12	-	-
Allianz SE Group	35	31	34	-
Total key shareholders	**4,087**	**22,182**	**220**	**1,216**
Subsidiaries				
Prva stambena štedionica	5	254	12	12
UniCredit Bank dd, Mostar	394	33	10	1
Istraturist	136	48	9	6
ZB Invest	2	25	22	1
Zagreb nekretnine	-	3	-	1
Centar Kaptol	22	1	-	-
Suvremene poslovne komunikacije	-	2	-	3
Pominvest	-	2	-	3
Total subsidiaries	**559**	**368**	**53**	**27**
Key management personnel**				
Supervisory Board members	**-**	**8**	**-**	**-**
Other key management personnel	**54**	**98**	**2**	**2**
Total key management personnel	**54**	**106**	**2**	**2**
Total	**4,700**	**22,656**	**275**	**1,245**

**Expense amounts relating to key management personnel do not include remuneration. Information on management remuneration is disclosed in *Note 36c.*

Notes to the financial statements (continued)

36 Related party transactions (continued)

c) Remuneration paid during the year to Management Board and other key management personnel

Management Board	2013 HRK million	2012 HRK million
Short-term benefits		
- salaries paid during current year in respect of current year	12	12
- bonuses paid during current year in respect of prior year	-	5
Long-term benefits		
- insurance policies paid during current year	1	-
- paid during current year in respect of earlier years	17	6
Distribution of management bonus in shares		
- bonuses paid during current year in respect of prior year	-	2
- paid during current year in respect of earlier years	-	6
Total	**30**	**31**

Other key management personnel	2013 HRK million	2012 HRK million
Short-term benefits		
- salaries paid during current year in respect of current year	24	24
- bonuses paid during current year in respect of prior year	-	5
Long-term benefits		
- insurance policies paid during current year	2	2
- paid during current year in respect of earlier years	14	9
Distribution of management bonus in shares		
- bonuses paid during current year in respect of prior year	-	4
- paid during current year in respect of earlier years	-	5
Total	**40**	**49**

Included in other key management personnel are 50 key employees (2012: 51 key employees).

Remuneration paid to the Management Board and other key management personnel includes HRK 6 million (2012: HRK 6 million) of defined pension contributions payable into obligatory pension plans.
Remuneration paid to Supervisory Board members amounted to HRK 1 million (2012: HRK 1 million).

d) Shareholdings of the Supervisory and Management Board members

The table below details shares in the Bank held by members of the Management Board and Supervisory Board and by companies whose interests are represented by members of the Supervisory Board at 31 December 2013.

	Number of ordinary shares
Companies represented on the Supervisory Board	
UniCredit Bank Austria AG	270,523,430
Allianz SE	37,523,195
Member of the Supervisory Board	
Prof Jakša Barbić, PhD	110,770
Members of the Management Board	
Franjo Luković	314,080
Milivoj Goldštajn	119,165
Sanja Rendulić	203,080
Marko Remenar	-
Miljenko Živaljić	83,509
Daniela Roguljić Novak	37,710
Nikolaus Maximilian Linarić	-

37 Risk management

This section provides details of the Group's exposure to risk and describes the methods used by management to identify, measure and manage risk in order to safeguard capital. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, market risk and operating risk.

An integrated system of risk management has been established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group and monitoring its implementation. The limits are set according to the amount of regulatory capital and apply to all types of risk. Additionally, the Group sets limits for annual potential loss measured by Value-at-Risk techniques for interest rate, credit spread, exchange rate and equity price risk. The Group has also developed methodologies and models for operational risk management.

Accepted principles of risk management have been implemented in all subsidiaries.

37.1. Credit risk

The Group is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group evaluates debtors' creditworthiness and in order to minimise credit risk, obtains collateral.

At the reporting date the Group credit risk exposure to derivative financial instruments classified at fair value through profit or loss is represented by the positive fair value of these instruments, as recorded on the statement of financial position. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties in derivative transactions and do not measure the Group's exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Group's primary exposure to credit risk arises from loans to and receivables from customers and banks. The amount of credit exposure in this regard, is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Group is exposed to credit risk in respect of the off-balance-sheet items through commitments arising from unused facilities and guarantees issued, as disclosed in *Note 35a*.

Exposure to credit risk is managed in accordance with the Group's policies and with the regulatory requirements of the Croatian National Bank. Credit exposures to portfolios and individual client/group exposures are reviewed on a regular basis taking into account limits set. Any proposed substantial increase in credit exposure is reviewed by Risk Management prior to the granting and during the monitoring phase and is authorised at an appropriate decision-making level. The Credit Committee is regularly informed of all significant changes in quantity and quality of the portfolio, including proposed impairment losses. Credit risk is continuously monitored and reported, thus facilitating the early identification of impairment in the credit portfolio. The Group continually develops methods and models in the process of credit risk assessment.

The majority of credit risk exposures are secured with collateral in the form of cash, guarantees, mortgages and other forms of security.

Notes to the financial statements (continued)

37 Risk management (continued)

37.1 Credit risk (continued)

Maximum exposure to credit risk

Credit risk exposure relating to on-balance-sheet assets is as follows:

	Notes	*Group* 2013 HRK million	2012 HRK million	*Bank* 2013 HRK million	2012 HRK million
Current accounts with CNB and other banks	11	5,306	4,356	4,178	2,998
Obligatory reserve with the Croatian National Bank	12	8,050	7,840	8,050	7,840
Loans to and receivables from banks	13	10,813	12,211	7,942	9,342
Financial assets at fair value through profit or loss					
Debt securities held for trading	14a	107	58	107	58
Derivative financial instruments	14c	1,417	767	1,425	782
Loans to and receivables from customers	15a	81,065	78,729	70,835	68,872
Debt securities available for sale	16a	9,063	8,862	7,698	7,982
Held-to-maturity investments	17	1,203	864	1,203	864
Other assets		709	774	453	501
Total credit risk exposure relating to on-balance-sheet assets		**117,733**	**114,461**	**101,891**	**99,239**

Credit risk exposure relating to off-balance sheet items is as follows:

	Notes	*Group* 2013 HRK million	2012 HRK million	*Bank* 2013 HRK million	2012 HRK million
Guarantees	35a	5,888	6,123	4,908	5,181
Letters of credit	35a	230	419	187	337
Undrawn lending commitments, credit card limits and other items	35a	12,825	14,298	11,089	12,741
Total credit risk exposure relating to off-balance-sheet items		**18,943**	**20,840**	**16,184**	**18,259**
Total credit risk exposure		**136,676**	**135,301**	**118,075**	**117,498**

The table above shows the maximum credit risk exposure for the Group and the Bank as at 31 December 2013 and 31 December 2012, without taking into account collateral held. On-balance-sheet assets, shown above, are based on carrying amounts as reported in the statement of financial position, net of impairment allowance. Off-balance-sheet items are based on the approved amount, except for undrawn lending commitments and credit cards limits, which are based on the unused approved amount.

67.2% (2012: 67.2%) and 66.7% (2012: 66.6%) of the maximum exposure is derived from loans to and receivables from banks and customers for the Group and the Bank, respectively. Undrawn lending commitments, credit card limits and other items represent 9.4% (2012: 10.6%) and 9.4% (2012: 10.8%) of the maximum exposure for the Group and the Bank, respectively.

Management is confident in its ability to continue to control and manage exposure to credit risk for the Group resulting from both its loan portfolio and undrawn lending commitments based on the following:

- 84.0% (2012: 86.6%) of loans to and receivables from customers for the Group and 83.3% (2012: 86.4%) for the Bank are classified into risk category A (performing loans);
- 80.9% (2012: 82.8%) of gross loans to and receivables from customers for the Group and 80.4% (2012: 82.7%) for the Bank are considered to be neither past due nor impaired;
- 16.0% (2012: 13.4%) of gross loans to and receivables from customers for the Group and 16.7% (2012: 13.6%) for the Bank are considered to be impaired;
- loans to and receivables from customers are backed by various forms of collateral;
- management considers loans to and receivables from customers to be sufficiently covered by impairment allowance and collateral.

Notes to the financial statements (continued)

37 Risk management (continued)

37.1 Credit risk (continued)

Impairment and provisioning policies

Group's rating	2013		2012	
	HRK million		HRK million	
	Loans to and receivables from customers	Impairment allowance	Loans to and receivables from customers	Impairment allowance
A	74,653	826	73,793	845
B1	5,386	857	3,908	473
B2	4,236	2,002	4,097	1,990
B3	2,257	1,782	1,264	1,025
C	2,356	2,356	2,124	2,124
Total	**88,888**	**7,823**	**85,186**	**6,457**

Bank's rating	2013		2012	
	HRK million		HRK million	
	Loans to and receivables from customers	Impairment allowance	Loans to and receivables from customers	Impairment allowance
A	64,614	693	64,144	734
B1	5,303	840	3,819	458
B2	4,159	1,975	3,666	1,773
B3	1,577	1,310	1,063	855
C	1,880	1,880	1,587	1,587
Total	**77,533**	**6,698**	**74,279**	**5,407**

- Impairment allowance for A graded loans relates to the collective impairment on performing loans.
- Impairment allowance as a percentage of gross loans and receivables from customers amounted to 8.8% (2012: 7.6%) for the Group and 8.6% (2012: 7.3%) for the Bank.
- The increase in the rate of impairment allowance in 2013 reflects the effect of the continued difficult economic environment.

Notes to the financial statements (continued)

37 Risk management (continued)

37.1 Credit risk (continued)

Loans to and receivables from customers: analysis by performance

Loans to retail customers		***Group***		***Bank***
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Neither past due nor impaired	31,599	32,640	25,507	26,956
Past due but not impaired	1,909	1,985	1,605	1,672
Impaired	3,368	2,684	2,968	2,316
Gross	**36,876**	**37,309**	**30,080**	**30,944**
Less: impairment allowance	(2,358)	(2,219)	(1,979)	(1,871)
Net	**34,518**	**35,090**	**28,101**	**29,073**

Loans to corporate entities		***Group***		***Bank***
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Neither past due nor impaired	40,280	37,874	36,825	34,450
Past due but not impaired	865	1,294	677	1,066
Impaired	10,867	8,709	9,951	7,819
Gross	**52,012**	**47,877**	**47,453**	**43,335**
Less: impairment allowance	(5,465)	(4,238)	(4,719)	(3,536)
Net	**46,547**	**43,639**	**42,734**	**39,799**

Loans to corporate entities include loans to the Croatian state, state funds and loans to other entities guaranteed by the state, in the amount of HRK 20,118 million (2012: HRK 17,572 million) for the Group and the Bank. Excluding such state risks the impairment allowance for corporate entities represents 17.1% (2012: 14.0%) of the corporate portfolio of the Group and 17.3% (2012: 13.7%) of the Bank.

37 Risk management (continued)

37.1 Credit risk (continued)

Loans to and receivables from customers: analysis by performance (continued)

The total impairment allowance for loans and receivables from customers amounted to HRK 7,823 million (2012: HRK 6,457 million) for the Group, out of which HRK 6,997 million (2012: HRK 5,612 million) represents specific provisions for impairment losses and the remaining amount of HRK 826 million represents the collective impairment on performing exposures (2012: HRK 845 million) calculated in accordance with CNB requirements.

The total impairment allowance for loans to and receivables from customers amounted to HRK 6,698 million (2012: HRK 5,407 million) for the Bank of which HRK 6,005 million (2012: HRK 4,673 million) represents specific provisions and the remaining amount of HRK 693 million represents the collective impairment on performing loans (2012: HRK 734 million).

Further information and movement in the impairment allowance for loans to and receivables from customers is shown in *Note 15b*.

a) Loans to and receivables from customers neither past due nor impaired

The credit quality of the portfolio that was neither past due nor impaired can be assessed by the internal rating system adopted by the Group as follows:

Group's rating	Grade	Description of the grade
1	Standard monitoring	Customers with regular repayment and below average ratio of exposure and income
2	Special monitoring	Customers with occasional defaults in repayment of loan

All loans and receivables from customers neither past due nor impaired are regularly monitored and systematically reviewed in order to identify any anomaly or warning signals and to react accordingly. The analysis of gross exposures which are neither past due nor impaired by type of loan or borrower is as provided below:

Loans to retail customers	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Cash and consumer loans	8,374	8,234	5,177	5,266
Credit cards and overdrafts	3,076	3,106	2,478	2,501
Housing loans	17,811	18,649	15,515	16,539
Loans to unincorporated businesses	788	880	787	879
Other loans	1,550	1,771	1,550	1,771
Total	**31,599**	**32,640**	**25,507**	**26,956**

Loans to corporate entities	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Large	28,469	24,537	26,591	22,686
Medium	9,395	10,169	8,201	9,450
Small	2,416	3,168	2,033	2,314
Total	**40,280**	**37,874**	**36,825**	**34,450**

Notes to the financial statements (continued)

37 Risk management (continued)

37.1 Credit risk (continued)

a) Loans to and receivables from customers neither past due nor impaired (continued)

Group	*Retail customers*						*Corporate entities*			
As at 31 December 2013	**Cash and consumer loans HRK million**	**Credit cards and overdrafts HRK million**	**Housing loans HRK million**	**Loans to unincorporated businesses HRK million**	**Other loans HRK million**	**Total HRK million**	**Large HRK million**	**Medium HRK million**	**Small HRK million**	**Total HRK million**
Standard monitoring	8,374	3,076	17,653	683	1,550	**31,336**	27,873	8,635	2,177	**38,685**
Special monitoring	-	-	158	105	-	**263**	596	760	239	**1,595**
Total	**8,374**	**3,076**	**17,811**	**788**	**1,550**	**31,599**	**28,469**	**9,395**	**2,416**	**40,280**

Group	*Retail customers*						*Corporate entities*			
As at 31 December 2012	**Cash and consumer loans HRK million**	**Credit cards and overdrafts HRK million**	**Housing loans HRK million**	**Loans to unincorporated businesses HRK million**	**Other loans HRK million**	**Total HRK million**	**Large HRK million**	**Medium HRK million**	**Small HRK million**	**Total HRK million**
Standard monitoring	8,234	3,106	18,495	806	1,771	**32,412**	24,109	9,672	2,825	**36,606**
Special monitoring	-	-	154	74	-	**228**	428	497	343	**1,268**
Total	**8,234**	**3,106**	**18,649**	**880**	**1,771**	**32,640**	**24,537**	**10,169**	**3,168**	**37,874**

Bank	*Retail customers*						*Corporate entities*			
As at 31 December 2013	**Cash and consumer loans HRK million**	**Credit cards and overdrafts HRK million**	**Housing loans HRK million**	**Loans to unincorporated businesses HRK million**	**Other loans HRK million**	**Total HRK million**	**Large HRK million**	**Medium HRK million**	**Small HRK million**	**Total HRK million**
Standard monitoring	5,177	2,478	15,515	682	1,550	**25,402**	26,335	7,463	1,808	**35,606**
Special monitoring	-	-	-	105	-	**105**	256	738	225	**1,219**
Total	**5,177**	**2,478**	**15,515**	**787**	**1,550**	**25,507**	**26,591**	**8,201**	**2,033**	**36,825**

Bank	*Retail customers*						*Corporate entities*			
As at 31 December 2012	**Cash and consumer loans HRK million**	**Credit cards and overdrafts HRK million**	**Housing loans HRK million**	**Loans to unincorporated businesses HRK million**	**Other loans HRK million**	**Total HRK million**	**Large HRK million**	**Medium HRK million**	**Small HRK million**	**Total HRK million**
Standard monitoring	5,266	2,501	16,539	805	1,771	**26,882**	22,446	8,982	2,075	**33,503**
Special monitoring	-	-	-	74	-	**74**	240	468	239	**947**
Total	**5,266**	**2,501**	**16,539**	**879**	**1,771**	**26,956**	**22,686**	**9,450**	**2,314**	**34,450**

Notes to the financial statements (continued)

37 Risk management (continued)

37.1 Credit risk (continued)

b) Loans to and receivables from customers past due but not impaired

Loans and receivables from customers less than 90 days due are not considered impaired, unless other information confirms otherwise. It is also possible for loans and receivables from customers to be past due over 90 days without the need to be impaired, due to collateral held and other information available. The gross amount of loans and receivables with customers that were past due but not impaired for the Group and the Bank were as follows:

Group	***Retail customers***						***Corporate entities***			
As at 31 December 2013	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Loans to unincorporated businesses**	**Other loans**	**Total**	**Large**	**Medium**	**Small**	**Total**
	HRK million	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**
Past due up to 30 days	417	181	778	38	70	**1,484**	105	214	81	**400**
Past due 31 – 60 days	91	15	181	68	19	**374**	-	311	40	**351**
Past due 61 – 90 days	4	7	1	5	-	**17**	51	39	13	**103**
Past due over 90 days	13	1	16	2	2	**34**	1	2	8	**11**
Total	**525**	**204**	**976**	**113**	**91**	**1,909**	**157**	**566**	**142**	**865**

Group	***Retail customers***						***Corporate entities***			
As at 31 December 2012	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Loans to unincorporated businesses**	**Other loans**	**Total**	**Large**	**Medium**	**Small**	**Total**
	HRK million	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**
Past due up to 30 days	429	184	799	44	101	**1,557**	144	107	120	**371**
Past due 31 – 60 days	83	19	203	25	27	**357**	8	331	56	**395**
Past due 61 – 90 days	4	7	3	4	-	**18**	5	131	7	**143**
Past due over 90 days	12	1	25	10	5	**53**	320	46	19	**385**
Total	**528**	**211**	**1,030**	**83**	**133**	**1,985**	**477**	**615**	**202**	**1,294**

Notes to the financial statements (continued)

37 Risk management (continued)

37.1 Credit risk (continued)

b) Loans to and receivables from customers past due but not impaired (continued)

Bank	***Retail customers***						***Corporate entities***			
As at 31 December 2013	**Cash and consumer loans HRK million**	**Credit cards and overdrafts HRK million**	**Housing loans HRK million**	**Loans to unincorporated businesses HRK million**	**Other loans HRK million**	**Total HRK million**	**Large HRK million**	**Medium HRK million**	**Small HRK million**	**Total HRK million**
Past due up to 30 days	289	126	698	38	69	**1,220**	4	147	70	**221**
Past due 31 – 60 days	74	9	168	68	20	**339**	-	308	35	**343**
Past due 61 – 90 days	2	6	-	5	-	**13**	51	39	12	**102**
Past due over 90 days	13	1	15	2	2	**33**	1	2	8	**11**
Total	**378**	**142**	**881**	**113**	**91**	**1,605**	**56**	**496**	**125**	**677**

Bank	***Retail customers***						***Corporate entities***			
As at 31 December 2012	**Cash and consumer loans HRK million**	**Credit cards and overdrafts HRK million**	**Housing loans HRK million**	**Loans to unincorporated businesses HRK million**	**Other loans HRK million**	**Total HRK million**	**Large HRK million**	**Medium HRK million**	**Small HRK million**	**Total HRK million**
Past due up to 30 days	315	133	697	44	101	**1,290**	15	78	100	**193**
Past due 31 – 60 days	74	9	187	25	27	**322**	2	317	27	**346**
Past due 61 – 90 days	1	6	-	4	-	**11**	5	131	6	**142**
Past due over 90 days	12	1	21	10	5	**49**	320	46	19	**385**
Total	**402**	**149**	**905**	**83**	**133**	**1,672**	**342**	**572**	**152**	**1,066**

Notes to the financial statements (continued)

37 Risk management (continued)

37.1 Credit risk (continued)

c) Loans to and receivables from customers past due and impaired

The breakdown of the individually impaired loans and receivables from customers shown net of specific impairment allowance are as follows:

Group	*Retail customers*						*Corporate entities*			
As at 31 December 2013	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Loans to unincorporated businesses**	**Other loans**	**Total**	**Large**	**Medium**	**Small**	**Total**
	HRK million	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**
Impaired loans	271	14	805	147	99	**1,336**	3,294	2,025	583	**5,902**

Group	*Retail customers*						*Corporate entities*			
As at 31 December 2012	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Loans to unincorporated businesses**	**Other loans**	**Total**	**Large**	**Medium**	**Small**	**Total**
	HRK million	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**
Impaired loans	97	14	521	107	118	**857**	2,895	1,535	494	**4,924**

Bank	*Retail customers*						*Corporate entities*			
As at 31 December 2013	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Loans to unincorporated businesses**	**Other loans**	**Total**	**Large**	**Medium**	**Small**	**Total**
	HRK million	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**
Impaired loans	238	10	756	147	99	**1,250**	3,150	1,951	563	**5,664**

Bank	*Retail customers*						*Corporate entities*			
As at 31 December 2012	**Cash and consumer loans**	**Credit cards and overdrafts**	**Housing loans**	**Loans to unincorporated businesses**	**Other loans**	**Total**	**Large**	**Medium**	**Small**	**Total**
	HRK million	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**
Impaired loans	72	9	476	107	118	**782**	2,738	1,506	436	**4,680**

Management Board considers impaired loans to and receivables from customers to be sufficiently covered with impairment allowance and collateral.

Notes to the financial statements (continued)

37 Risk management (continued)

37.1 Credit risk (continued)

d) Estimated value of collaterals

The Bank has implemented a credit risk mitigation system which aims to ensure optimal collateral management and to achieve positive effect on the level of potential credit losses.

The framework of the credit risk mitigation system is defined by internal acts and technological support that allows data record of acceptable credit protection instruments and appropriate control of parameters affecting their evaluation. Evaluation is possible only for high quality credit protection that meets all the requirements for recognition, with an emphasis on the legal certainty, marketability and other characteristics indicating payment possibility.

Evaluation of credit protection instruments is subject to the fulfilment of the minimum recognition requirements while calculation of collateral material value requires for regular monitoring of market values as well as application of the correction factor in accordance with Bank's internal guidelines.

Retail customers		***Group***		***Bank***
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Uncovered	19,106	16,542	13,995	11,881
Covered	17,770	20,767	16,085	19,063
Deposits	675	784	610	677
State guarantees	3	33	3	33
Mortgage on property	15,047	17,604	13,456	16,083
Other	2,045	2,346	2,016	2,270
	36,876	**37,309**	**30,080**	**30,944**

Corporate customers		***Group***		***Bank***
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Uncovered	19,069	14,191	16,197	12,205
Covered	32,943	33,686	31,256	31,130
Deposits	515	394	412	352
State guarantees	20,377	17,334	20,198	17,132
Mortgage on property	10,148	13,125	8,986	11,100
Other	1,903	2,833	1,660	2,546
	52,012	**47,877**	**47,453**	**43,335**

Additional explanations regarding presented table:

• collateral coverage report shows the value of the collateral reduced by applying the correction factor (depending on the type of collateral) while collateral coverage is shown maximum up to the exposure amount;

• compared to the previous reporting period reduce in the level of coverage on 31 December 2013 is the result of implementation of the new system for credit protection evaluation that requires regularly monitored market value to be reduced by application of collateral correction factors (i.e. haircuts) in accordance with the Bank and Group standards;

• within the retail exposures most important type of credit protection instrument is a pledge over residential real estate property while exposure to companies is mostly covered by government guarantees and pledge over commercial real estate properties.

Notes to the financial statements (continued)

37 Risk management (continued)

37.2 Liquidity risk

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including various types of retail and corporate deposits, borrowings, issued debt securities, subordinated debt and equity. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funding.

The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as a part of its liquidity risk management strategy.

The Group adjusts its business activities in compliance with liquidity risk according to legislation and internal policies for maintenance of liquidity reserves, matching of assets and liabilities, set limits and preferred liquidity ratios. Needs for short-term liquidity are planned every month for a period of six months and controlled and maintained daily. The Asset and Liability Management function ("ALM") manages liquidity reserves daily, ensuring also the accomplishment of all customer needs.

The table below provides an analysis of expected outflows (including future interest payments at current rates, where variable) of financial liabilities recorded at 31 December 2013 and 31 December 2012.

Group	Up to 1 month 2013 HRK million	1 month to 3 months 2013 HRK million	3 months to 1 year 2013 HRK million	1 year to 5 years 2013 HRK million	Over 5 years 2013 HRK million	Total 2013 HRK million
Liabilities						
Current accounts and deposits from banks and borrowings	2,231	2,099	4,563	18,358	1,388	**28,639**
Current accounts and deposits from customers	11,989	5,821	12,861	32,536	14,482	**77,689**
Financial liabilities at fair value through profit or loss	1	21	35	403	635	**1,095**
Subordinated debt	-	-	-	79	-	**79**
Other liabilities	1,051	25	20	14	-	**1,110**
Total expected outflow	**15,272**	**7,966**	**17,479**	**51,390**	**16,505**	**108,612**

Group	Up to 1 month 2012 HRK million	1 month to 3 months 2012 HRK million	3 months to 1 year 2012 HRK million	1 year to 5 years 2012 HRK million	Over 5 years 2012 HRK million	Total 2012 HRK million
Liabilities						
Current accounts and deposits from banks and borrowings	2,129	731	2,509	21,214	990	**27,573**
Current accounts and deposits from customers	10,606	8,529	22,217	16,112	17,880	**75,344**
Financial liabilities at fair value through profit or loss	6	11	6	211	330	**564**
Subordinated debt	-	2	1	79	-	**82**
Other liabilities	1,196	2	19	11	12	**1,240**
Total expected outflow	**13,937**	**9,275**	**24,752**	**37,627**	**19,212**	**104,803**

Notes to the financial statements (continued)

37 Risk management (continued)

37.2 Liquidity risk (continued)

The table below provides an analysis of expected outflows (including future interest payments at current rates, where variable) of financial liabilities recorded at 31 December 2013 and 31 December 2012.

Bank	Up to 1 month 2013 HRK million	1 month to 3 months 2013 HRK million	3 months to 1 year 2013 HRK million	1 year to 5 years 2013 HRK million	Over 5 years 2013 HRK million	Total 2013 HRK million
Liabilities						
Current accounts and deposits from banks and borrowings	1,829	2,118	4,273	17,430	1,299	**26,949**
Current accounts and deposits from customers	9,479	5,146	11,275	28.980	9,605	**64,485**
Financial liabilities at fair value through profit or loss	2	21	35	403	635	**1,096**
Other liabilities	633	1	2	5	-	**641**
Total expected outflow	**11,943**	**7,286**	**15,585**	**46,818**	**11,539**	**93,171**

Bank	Up to 1 month 2012 HRK million	1 month to 3 months 2012 HRK million	3 months to 1 year 2012 HRK million	1 year to 5 years 2012 HRK million	Over 5 years 2012 HRK million	Total 2012 HRK million
Liabilities						
Current accounts and deposits from banks and borrowings	1,927	668	2,448	19,972	886	**25,901**
Current accounts and deposits from customers	8,142	7,608	20,635	12,917	13,314	**62,616**
Financial liabilities at fair value through profit or loss	6	11	6	211	330	**564**
Other liabilities	757	1	2	7	1	**768**
Total expected outflow	**10,832**	**8,288**	**23,091**	**33,107**	**14,531**	**89,849**

37.2.1 Structural liquidity

Structural liquidity and liquidity gap profile as of 31 December 2013 are shown in the tables below based on the remaining contractual maturity, with the following exceptions:

- certain items in the statement of financial position are modified by using replication portfolio methodology: sight and savings deposits, overdrafts and revolving loans of retail and corporate customers, retail term deposits in portfolio of Zagrebačka banka with contractual maturity up to 1 year and retail term deposits of Prva stambena štedionica;
- liquid debt securities eligible for central bank refinancing, held within trading and non-trading portfolios, as well as collateral from reverse repo transactions are classified in the overnight bucket with predefined haircuts;
- the obligatory reserve should be classified in the tables below according to the time buckets of the funds representing the base for its calculation; however, due to its perceived short-term illiquidity, it is presented, for reasons of prudence, starting from the period over three months, with the exception of the obligatory reserve of UniCredit Bank dd, Mostar in the Group financial statements, which is presented within the overnight bucket;

Notes to the financial statements (continued)

37 Risk management (continued)

37.2 Liquidity risk (continued)

37.2.1 Structural liquidity (continued)

- investments in subsidiaries and associates, which have no contractual maturity, are classified according to Group plans;
- other assets and liabilities, excluding accrued interest, have been presented in the three months to one year bucket;
- notional amounts of interest rate swaps, presented within off-balance-sheet derivatives, are only included in column 'Total' i.e. they have not been apportioned between different time buckets, as these positions have no influence on cash flows;
- guarantees, unused credit lines and undrawn lending commitments, presented within off-balance sheet lines and contingent liabilities in the tables below have been presented based on the timing and amount of expected cash flows, while in the remaining part of the financial statements they are presented in the amount of the outstanding commitment;
- impaired loans, equity and provisions are classified, according to standard mapping set by the Bank, to the longest maturity bucket (impaired loans for the purpose of this disclosure are loans with assigned internal client rating of 8-, 9 or 10).

The classification of assets, liabilities and off-balance-sheet items in the tables below differs from the information presented elsewhere in these financial statements, as they have been prepared using management reports. Detailed reconciliation is impractical, while some of the main sources of differences in the tables below compared to the financial statements in other parts of this report are listed below:

- assets are presented on a gross basis i.e. without deduction of impairment allowances;
- the obligatory reserve at the Group level (presented as a sub-caption of loans to and receivables from banks) also includes the obligatory reserve of UniCredit Bank dd, Mostar (a further exception at the Group level is that for UniCredit Bank dd, this position also includes free cash held with the Central Bank of Bosnia and Herzegovina), while the obligatory reserve presented as such in the statement of financial position includes only amounts held by the Bank with the Croatian National Bank;
- impaired loans are classified as a separate line item within other assets;
- intercompany transactions and other consolidation adjustments with impact on structural liquidity have been eliminated at the Group level in the tables below, while other items (such as investments in subsidiaries) have not been eliminated;
- the fair value of derivatives is presented within other assets and other liabilities, as appropriate;
- deferred up-front fee charged on loans to customers is presented within other liabilities;
- other assets include property and equipment, intangible assets and investment property, but exclude most of interest receivable, which are presented together with the related principal amounts (the same applies for interest payable within liabilities);
- cash in the tables below includes only cash in hand and items in the course of collection, with current accounts being presented within loans to and receivables from banks.

Notes to the financial statements (continued)

37 Risk management (continued)

37.2 Liquidity risk (continued)

37.2.1 Structural liquidity (continued)

Group 31 December 2013

In HRK million

	Total	Overnight	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 3 years	3 years to 10 years	Over 10 years
Gap	**-**	**10,574**	**2,716**	**(2,153)**	**(1,165)**	**(4,830)**	**(4,527)**	**(615)**
Assets	**173,136**	**17,346**	**14,980**	**6,637**	**27,637**	**22,244**	**48,466**	**30,925**
Statement of financial position	***133,522***	***17,407***	***10,339***	***5,319***	***20,708***	***22,244***	***31,064***	***26,441***
Loans to and receivables from customers	*60,392*	*3,179*	*1,438*	*4,150*	*10,872*	*18,093*	*21,689*	*971*
Retail	14,925	225	272	639	2,146	4,045	7,386	212
Corporate	45,467	2,954	1,166	3,511	8,726	14,048	14,303	759
Mortgage loans to customers	*18,145*	*172*	*6*	*184*	*833*	*2,202*	*6,710*	*8,038*
Retail	18,145	172	6	184	833	2,202	6,710	8,038
Securities	*9,240*	*5,850*	*72*	*276*	*2,855*	*70*	*24*	*93*
Financial assets at fair value through profit or loss	115	49	-	-	23	33	10	-
Available-for-sale and held-to-maturity financial assets	9,125	5,801	72	276	2,832	37	14	93
Loans to and receivables from banks	*23,882*	*6,235*	*8,823*	*709*	*2,722*	*1,879*	*2,641*	*873*
Current accounts	4,393	4,393	-	-	-	-	-	-
Deposits	9,597	-	8,819	709	69	-	-	-
Obligatory reserve	9,892	1,842	4	-	2,653	1,879	2,641	873
Other assets	*21,863*	*1,971*	-	-	*3,426*	-	-	*16,466*
Cash	1,971	1,971	-	-	-	-	-	-
Impaired loans	12,207	-	-	-	-	-	-	12,207
Investments in subsidiaries and associates	1,382	-	-	-	-	-	-	1,382
Other assets	6,303	-	-	-	3,426	-	-	2,877
Off-balance-sheet	***39,613***	***(61)***	***4,641***	***1,318***	***6,929***	***-***	***17,402***	***4,484***
Derivatives	*39,613*	*-*	*4,580*	*1,318*	*6,929*	*-*	*17,402*	*4,484*
Unused credit lines	*-*	*(61)*	*61*	*-*	*-*	*-*	*-*	*-*
Liabilities and equity	**173,136**	**6,772**	**12,264**	**8,790**	**28,802**	**27,074**	**52,993**	**31,540**
Statement of financial position	***133,522***	***6,500***	***7,691***	***7,473***	***21,324***	***27,074***	***36,405***	***27,055***
Demand deposits	*25,877*	*3,165*	*1,393*	*1,168*	*2,496*	*3,177*	*14,478*	-
Retail	12,662	1,444	450	405	894	1,213	8,256	-
Corporate	13,215	1,721	943	763	1,602	1,964	6,222	-
Time deposits	*48,554*	*2,832*	*4,589*	*4,344*	*9,530*	*17,773*	*9,167*	*319*
Retail	38,555	2,663	2,712	2,674	5,994	15,806	8,529	177
Corporate	9,999	169	1,877	1,670	3,536	1,967	638	142
Current accounts and deposits from banks	*27,696*	*503*	*1,709*	*1,961*	*4,421*	*6,124*	*12,760*	*218*
Borrowings	10,449	482	39	15	1,049	1,519	7,334	11
Current accounts and deposits	17,247	21	1,670	1,946	3,372	4,605	5,426	207
Other liabilities and equity	*31,395*	-	-	-	*4,877*	-	-	*26,518*
Equity	19,091	-	-	-	-	-	-	19,091
Other liabilities	4,877	-	-	-	4,877	-	-	-
Provisions	7,427	-	-	-	-	-	-	7,427
Off-balance-sheet	***39,613***	***272***	***4,573***	***1,317***	***7,478***	***-***	***16,588***	***4,484***
Derivatives	*39,613*	*-*	*4,573*	*1,317*	*6,936*	*-*	*17,402*	*4,484*
Contingent liabilities	*-*	*272*	*-*	*-*	*542*	*-*	*(814)*	*-*

Notes to the financial statements (continued)

37 Risk management (continued)

37.2 Liquidity risk (continued)

37.2.1 Structural liquidity (continued)

Group 31 December 2012

In HRK million

	Total	Overnight	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 3 years	3 years to 10 years	over 10 years
Gap	**-**	**8,994**	**5,664**	**(4,840)**	**(4,598)**	**1,017**	**(3,032)**	**(3,205)**
Assets	**155,553**	**13,829**	**19,137**	**5,651**	**24,881**	**20,826**	**44,258**	**21,812**
Statement of financial position	***127,112***	***13,793***	***13,840***	***4,219***	***23,946***	***18,753***	***30,749***	***21,812***
Loans to and receivables from customers	*59,491*	*1,573*	*4,409*	*3,429*	*12,335*	*14,981*	*21,479*	*1,285*
Retail	15,130	200	260	624	2,268	4,210	7,370	198
Corporate	44,361	1,373	4,149	2,805	10,067	10,771	14,109	1,087
Mortgage loans to customers	*19,132*	*96*	*5*	*188*	*851*	*2,252*	*6,929*	*8,811*
Retail	19,132	96	5	188	851	2,252	6,929	8,811
Securities	*9,026*	*4,915*	*395*	-	*3,533*	*20*	*163*	-
Financial assets at fair value through profit or loss	150	-	-	-	103	-	47	-
Available-for-sale and held-to-maturity financial assets	8,876	4,915	395	-	3,430	20	116	-
Loans to and receivables from banks	*23,244*	*5,196*	*9,031*	*602*	*3,989*	*1,500*	*2,178*	*748*
Current accounts	3,206	3,206	-	-	-	-	-	-
Deposits	10,208	-	9,031	602	575	-	-	-
Obligatory reserve	9,830	1,990	-	-	3,414	1,500	2,178	748
Other assets	*16,219*	*2,013*	-	-	*3,238*	-	-	*10,968*
Cash	2,013	2,013	-	-	-	-	-	-
Impaired loans	8,353	-	-	-	-	-	-	8,353
Investments in subsidiaries and associates	962	-	-	-	-	-	-	962
Other assets	4,891	-	-	-	3,238	-	-	1,653
Off-balance-sheet	***28,441***	***36***	***5,297***	***1,432***	***935***	***2,073***	***13,509***	***-***
Derivatives	*28,441*	-	*5,333*	*1,432*	*935*	*2,073*	*13,509*	-
Unused credit lines	-	*36*	*(36)*	-	-	-	-	-
Liabilities and equity	**155,553**	**4,835**	**13,473**	**10,491**	**29,479**	**19,809**	**47,290**	**25,017**
Statement of financial position	***127,112***	***4,550***	***8,143***	***9,054***	***28,002***	***17,742***	***34,604***	***25,017***
Demand deposits	*24,024*	*2,954*	*1,322*	*1,108*	*2,367*	*2,997*	*13,276*	-
Retail	11,496	1,298	411	370	815	1,107	7,495	-
Corporate	12,528	1,656	911	738	1,552	1,890	5,781	-
Time deposits	*48,443*	*1,199*	*5,096*	*7,281*	*19,325*	*7,757*	*7,375*	*410*
Retail	37,595	1,191	2,772	4,915	15,904	5,391	7,216	206
Corporate	10,848	8	2,324	2,366	3,421	2,366	159	204
Current accounts and deposits from banks	*26,296*	*397*	*1,725*	*665*	*2,292*	*6,988*	*13,953*	*276*
Borrowings	12,578	361	90	24	1,890	2,405	7,604	204
Current accounts and deposits	13,718	36	1,635	641	402	4,583	6,349	72
Other liabilities and equity	*28,349*	-	-	-	*4,018*	-	-	*24,331*
Equity	18,041	-	-	-	-	-	-	18,041
Other liabilities	4,018	-	-	-	4,018	-	-	-
Provisions	6,290	-	-	-	-	-	-	6,290
Off-balance-sheet	***28,441***	***285***	***5,330***	***1,437***	***1,477***	***2,067***	***12,686***	***-***
Derivatives	*28,441*	-	*5,330*	*1,437*	*939*	*2,067*	*13,509*	-
Contingent liabilities	-	*285*	-	-	*538*	-	*(823)*	-

Notes to the financial statements (continued)

37 Risk management (continued)

37.2 Liquidity risk (continued)

37.2.1 Structural liquidity (continued)

Bank 31 December 2013

In HRK million

	Total	Overnight	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 3 years	3 years to 10 years	over 10 years
Gap	**-**	**9,082**	**1,435**	**(2,507)**	**(1,354)**	**(5,095)**	**(2,581)**	**1,021**
Assets	**153,344**	**14,129**	**11,850**	**5,636**	**25,075**	**19,666**	**44,181**	**27,906**
Statement of financial position	***114,361***	***14,129***	***7,880***	***4,338***	***18,147***	***19,666***	***26,779***	***23,422***
Loans to and receivables from customers	*52,212*	*3,162*	*1,026*	*3,220*	*9,563*	*15,888*	*18,386*	*967*
Retail	10,556	215	146	429	1,455	2,743	5,423	145
Corporate	41,656	2,947	880	2,791	8,108	13,145	12,963	822
Mortgage loans to customers	*16,067*	*157*	-	*153*	*689*	*1,829*	*5,728*	*7,511*
Retail	16,067	157	-	153	689	1,829	5,728	7,511
Securities	*7,888*	*5,154*	-	*276*	*2,271*	*70*	*24*	*93*
Financial assets at fair value through profit or loss	115	49	-	-	23	33	10	-
Available-for-sale and held-to-maturity financial assets	7,773	5,105	-	276	2,248	37	14	93
Loans to and receivables from banks	*19,944*	*4,206*	*6,854*	*689*	*2,802*	*1,879*	*2,641*	*873*
Current accounts	4,206	4,206	-	-	-	-	-	-
Deposits	7,688	-	6,850	689	149	-	-	-
Obligatory reserve	8,050	-	4	-	2,653	1,879	2,641	873
Other assets	*18,250*	*1,450*	-	-	*2,822*	-	-	*13,978*
Cash	1,450	1,450	-	-	-	-	-	-
Impaired loans	11,477	-	-	-	-	-	-	11,477
Investments in subsidiaries and associates	1,206	-	-	-	-	-	-	1,206
Other assets	4,117	-	-	-	2,822	-	-	1,295
Off-balance-sheet	***38,983***	***-***	***3,970***	***1,298***	***6,928***	***-***	***17,402***	***4,484***
Derivatives	*38,983*	-	*3,970*	*1,298*	*6,928*	-	*17,402*	*4,484*
Unused credit lines	-	-	-	-	-	-	-	-
Liabilities and equity	**153,344**	**5,047**	**10,415**	**8,143**	**26,429**	**24,761**	**46,762**	**26,885**
Statement of financial position	***114,361***	***4,785***	***6,452***	***6,846***	***18,982***	***24,761***	***30,134***	***22,401***
Demand deposits	*18,863*	*2,000*	*1,068*	*881*	*1,871*	*2,423*	*10,620*	-
Retail	8,771	796	351	305	656	919	5,744	-
Corporate	10,092	1,204	717	576	1,215	1,504	4,876	-
Time deposits	*43,109*	*2,230*	*4,175*	*4,016*	*8,693*	*16,830*	*7,023*	*142*
Retail	33,740	2,065	2,362	2,362	5,358	15,142	6,451	-
Corporate	9,369	165	1,813	1,654	3,335	1,688	572	142
Current accounts and deposits from banks	*26,055*	*555*	*1,209*	*1,949*	*4,182*	*5,508*	*12,491*	*161*
Borrowings	10,285	555	2	3	980	1,437	7,297	11
Current accounts and deposits	15,770	-	1,207	1,946	3,202	4,071	5,194	150
Other liabilities and equity	*26,334*	-	-	-	*4,236*	-	-	*22,098*
Equity	15,841	-	-	-	-	-	-	15,841
Other liabilities	4,236	-	-	-	4,236	-	-	-
Provisions	6,257	-	-	-	-	-	-	6,257
Off-balance-sheet	***38,983***	***262***	***3,963***	***1,297***	***7,447***	***-***	***16,628***	***4,484***
Derivatives	*38,983*	-	*3,963*	*1,297*	*6,935*	-	*17,402*	*4,484*
Contingent liabilities	-	*262*	-	-	*512*	-	*(774)*	-

Notes to the financial statements (continued)

37 Risk management (continued)

37.2 Liquidity risk (continued)

37.2.1 Structural liquidity (continued)

Bank 31 December 2012

In HRK million

	Total	Overnight	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 3 years	3 years to 10 years	over 10 years
Gap	**-**	**7,479**	**4,455**	**(4,687)**	**(5,278)**	**892**	**(1,548)**	**(1,313)**
Assets	**137,683**	**10,679**	**16,195**	**4,678**	**22,062**	**18,425**	**40,093**	**20,393**
Statement of financial position	***110,083***	***10,679***	***11,509***	***3,402***	***21,164***	***16,352***	***26,584***	***20,393***
Loans to and receivables from customers	*51,410*	*1,562*	*3,949*	*2,700*	*10,850*	*12,932*	*18,229*	*1,188*
Retail	10,973	192	134	415	1,557	2,915	5,619	141
Corporate	40,437	1,370	3,815	2,285	9,293	10,017	12,610	1,047
Mortgage loans to customers	*17,283*	*87*	*-*	*158*	*717*	*1,900*	*6,014*	*8,407*
Retail	17,283	87	-	158	717	1,900	6,014	8,407
Securities	*8,158*	*4,476*	*383*	*-*	*3,116*	*20*	*163*	*-*
Financial assets at fair value through profit or loss	150	-	-	-	103	-	47	-
Available-for-sale and held-to-maturity financial assets	8,008	4,476	383	-	3,013	20	116	-
Loans to and receivables from banks	*19,044*	*2,997*	*7,177*	*544*	*3,900*	*1,500*	*2,178*	*748*
Current accounts	2,997	2,997	-	-	-	-	-	-
Deposits	8,207	-	7,177	544	486	-	-	-
Obligatory reserve	7,840	-	-	-	3,414	1,500	2,178	748
Other assets	*14,188*	*1,557*	*-*	*-*	*2,581*	*-*	*-*	*10,050*
Cash	1,557	1,557	-	-	-	-	-	-
Impaired loans	7,734	-	-	-	-	-	-	7,734
Investments in subsidiaries and associates	961	-	-	-	-	-	-	961
Other assets	3,936	-	-	-	2,581	-	-	1,355
Off-balance-sheet	***27,600***	***-***	***4,686***	***1,276***	***898***	***2,073***	***13,509***	***-***
Derivatives	*27,600*	*-*	*4,686*	*1,276*	*898*	*2,073*	*13,509*	*-*
Unused credit lines	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Liabilities and equity	**137,683**	**3,200**	**11,740**	**9,365**	**27,340**	**17,533**	**41,641**	**21,706**
Statement of financial position	***110,083***	***2,923***	***7,057***	***8,084***	***25,925***	***15,466***	***28,922***	***21,706***
Demand deposits	*17,392*	*1,833*	*1,000*	*826*	*1,757*	*2,262*	*9,714*	*-*
Retail	8,100	731	324	283	607	850	5,305	-
Corporate	9,292	1,102	676	543	1,150	1,412	4,409	-
Time deposits	*42,926*	*592*	*4,670*	*6,651*	*18,386*	*7,072*	*5,319*	*236*
Retail	33,078	584	2,437	4,593	15,323	4,875	5,234	32
Corporate	9,848	8	2,233	2,058	3,063	2,197	85	204
Current accounts and deposits from banks	*25,117*	*498*	*1,387*	*607*	*2,328*	*6,132*	*13,889*	*276*
Borrowings	11,815	498	53	4	1,815	1,701	7,540	204
Current accounts and deposits	13,302	-	1,334	603	513	4,431	6,349	72
Other liabilities and equity	*24,648*	*-*	*-*	*-*	*3,454*	*-*	*-*	*21,194*
Equity	16,009	-	-	-	-	-	-	16,009
Other liabilities	3,454	-	-	-	3,454	-	-	-
Provisions	5,185	-	-	-	-	-	-	5,185
Off-balance-sheet	***27,600***	***277***	***4,683***	***1,281***	***1,415***	***2,067***	***12,719***	***-***
Derivatives	*27,600*	*-*	*4,683*	*1,281*	*902*	*2,067*	*13,509*	*-*
Contingent liabilities	*--*	*277*	*-*	*-*	*513*	*-*	*(790)*	*-*

37 Risk management (continued)

37.3 Market risk

Market risk is defined as the effect of changes in market prices on the statement of profit or loss and statement of financial position of the Group. Basic risk factors include:

- interest rate risk,
- credit spread risk,
- currency risk and
- equity risk.

Market risk measurement techniques

a) Value at Risk

The Group applies a Value-at-Risk methodology (VaR) to its trading and non-trading portfolios to estimate the market risk of the positions held and the maximum loss expected. The Management Board, in cooperation with UniCredit Bank Austria AG, sets limits on the value of risk that may be accepted for the Group, for trading and non-trading activities separately, monitored on a daily basis by Market Risk Management and Control.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the expected maximum amount that the Group might lose, to a predefined level of confidence and for a certain holding period until positions could be closed.

The Group uses a risk model, developed internally by UniCredit S.p.A, based on historical simulations.

Used model covers:

- general market risk for foreign currency positions;
- general and specific market risk for debt instruments;
- general and specific market risk for equities;
- interest rate risk of banking book positions and
- option risk.

The risk model calculates the VaR for a one-day holding period and a confidence level of 99%. The model uses historical simulation based on the most recent 500 observations of daily returns. The use of historical simulation allows the implicit incorporation of historically observed correlations between the individual risk categories into the model. The quality of the VaR model is continuously monitored by backtesting.

The VaR limit ensures a uniform and comparable risk/income-oriented risk measurement tool. VaR limits are observed separately for Trading Book and Banking Book as well as on the overall level. They are supplemented by position limits across risk categories (Basis Point Value, FX volume, issuer limit, etc.).

VaR development

Average Total Group VaR in 2013 decreased by around 7% compared to average total VaR in 2012. Reason for this reduction is mostly driven by changes in interest rate sensitivity of balance sheet positions due to regulatory changes, which caused decrease in sensitivity to short-term and generally more volatile interest rates, which also reduced VaR.

Notes to the financial statements (continued)

37 Risk management (continued)

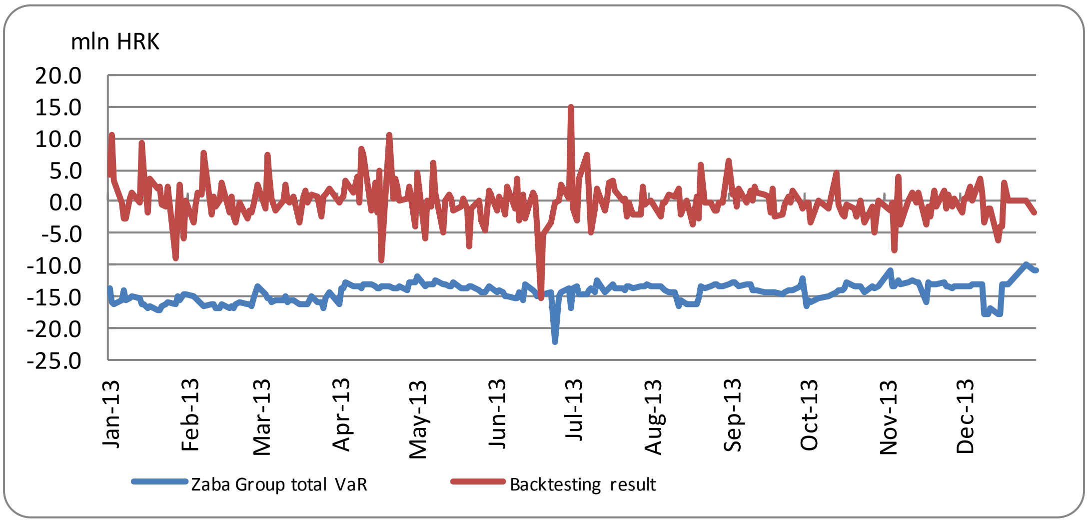
37.3 Market risk (continued)

a) Value at Risk (continued)

Group VaR by risk type

Group	Minimum 2013 HRK million	Average 2013 HRK million	Maximum 2013 HRK million	Year end 2013 HRK million	Minimum 2012 HRK million	Average 2012 HRK million	Maximum 2012 HRK million	Year end 2012 HRK million
Interest rate risk	6	9	14	7	7	12	18	9
Credit spread risk	4	7	15	8	5	8	20	7
Exchange rate risk	-	1	7	1	-	1	3	1
Equity risk	1	2	2	1	2	2	2	2
Total VaR	*10*	*14*	*22*	*11*	*11*	*15*	*24*	*14*

Backtesting results in 2013



Backtesting is performed by calculating the synthetic change of the value of a portfolio. All negative synthetic changes in market value (synthetic losses) which exceed the corresponding VaR-level are treated as backtesting violations.

During the observed period of one year (250 observations) one backtesting violation was recorded.

Notes to the financial statements (continued)

37 Risk management (continued)

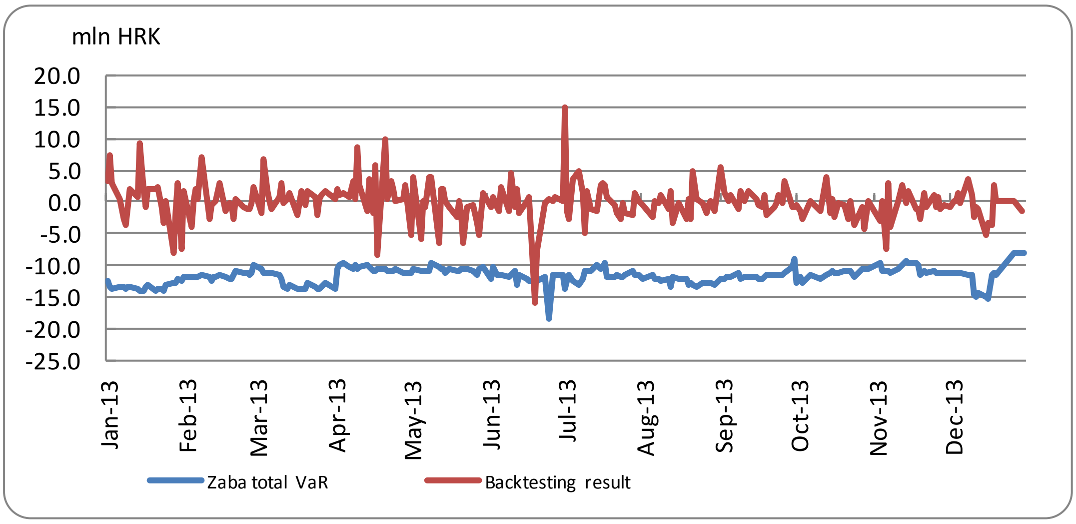
37.3 Market risk (continued)

a) Value at Risk (continued)

Bank VaR by risk type

Bank	**Minimum 2013 HRK million**	**Average 2013 HRK million**	**Maximum 2013 HRK million**	**Year end 2013 HRK million**	**Minimum 2012 HRK million**	**Average 2012 HRK million**	**Maximum 2012 HRK million**	**Year end 2012 HRK million**
Interest rate risk	6	9	13	6	7	12	19	8
Credit spread risk	2	5	11	6	4	7	19	6
Exchange rate risk	-	1	7	2	-	1	3	1
Equity risk	1	2	2	1	2	2	2	2
Total VaR	*8*	*12*	*19*	*8*	*9*	*14*	*24*	*12*

Backtesting results in 2013



During the observed period of one year (250 observations) one backtesting violation was recorded.

37 Risk management (continued)

37.3 Market risk (continued)

b) Stress tests

Stress-testing is used to evaluate the effect of market risks on the Group's portfolio, total positions and limits in extraordinary circumstances (market shocks).

In the market-risk-related stress-testing process, the Group currently covers the following risk categories:

- *foreign exchange risk for single currencies and currency groups* - stress test includes 5%, 10% and 30% shocks (appreciation and depreciation) for single major currencies and groups of currencies against HRK in terms of foreign exchange net open position;
- *interest rate risk* per currency for both the Group's total positions and portfolio positions - the scenarios used include parallel shift of interest rates by 200 basis points, shifts, turns, rises in money market rates, tilts and peaks.

In addition, the standard stress test report includes two macroeconomic stress scenarios - a local depreciation scenario and a financial crisis scenario (resembling the 2008 financial crisis).

Stress testing is performed on a monthly basis and the results form a part of regular Asset and Liability Committee ("ALCO") reports. The results are discussed in ALCO meetings or at least among the board members responsible for trading and risk management.

37.3.1. Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with regulations and internally set limits, for each currency and for the total statement of financial position denominated in or linked to foreign currency.

The Group's main foreign operations are in Bosnia and Herzegovina. The functional currency of these operations is BAM, currently pegged to EUR. As the presentational currency of the consolidated financial statements is HRK, the Group financial statements are affected by movements in the exchange rates between HRK and BAM.

The Group manages its currency risk by setting principles and limits for foreign currency exposures and monitoring against these limits. The Group directs its business activities simultaneously trying to optimise the gap between assets and liabilities denominated in or linked to foreign currency and maintaining daily business activities with information on daily potential loss limits measured by Value-at-Risk techniques.

Currency risk management is further analysed in *Note 40*.

37 Risk management (continued)

37.3 Market risk (continued)

37.3.2. Interest rate risk

Interest rate risk represents the Group's exposure to adverse interest rate changes. Interest rate changes affect the net present value of future cash flows and consequently net interest income and other cash flows sensitive to interest change.

Primary interest rate change risk sources are:

- repricing risk resulting from unfavourable changes in the fair value of assets and liabilities in the remaining period until the next interest rate change (fixed interest rate positions are classified according to their remaining maturity);
- yield curve risk as the risk of changes in the shape and slope of yield curve; and
- basis risk as the risk of different base rates of corresponding asset and liabilities positions with the same currency, repricing period and frequency of change, but different base rates (e.g. 3M EURIBOR and 3M LIBOR).

Risk is measured by calculating the net present value of a change in the value of the portfolio in a scenario where the interest rate changes by 1 basis point as a sensitivity measure with the basis point value (BPV) limit applied.

Interest rate risk management is further analysed in *Notes 38* and *39*.

37.3.3. Credit spread risk

Credit spread risk is measured for debt securities and represents the risk of changes in bond prices resulting from changes in credit risk of the issuer (i.e. markup for credit risk charged by the market).

Risk is quantified and limited by credit spread basis point value (CPV) limits, which are by nature similar to BPV, and measure the impact of a credit spread change by 1 basis point on the change in the value of the bond portfolio. BPV limits the total interest rate sensitivity of the Group, while CPV additionally limits bond investments by volume and duration.

37.3.4. Price risk

Price risk is the possibility that prices will fluctuate, affecting the fair value of investments and other instruments that derive their value from a particular investment.

The primary exposure to price risk arises from the Group's holding of equity investments at fair value through profit or loss and available for sale.

37.4. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors.

The Group is exposed to operational risk in all its business activities and seeks to manage its operational risk in accordance with defined principles and policies, with the purpose of mitigating or avoiding operational risk.

Group is managing operational risk by controlling, mitigating and transferring the risk to third parties or avoiding it.

The Group aligns its standards of operational risk management with UniCredit Group guidelines and local regulatory requirements. This includes collection of loss data, monitoring of operational risk indicators, performing scenario analyses, performing operational risk assessment when introducing new products, business changes or projects.

Process of identification, evaluation and control system of operational risk adequacy reflects risk profile and allows a timely detection and communication to the top management.

Notes to the financial statements (continued)

38 Interest rate sensitivity analysis

The tables below show sensitivity to interest rate changes (BPV) for the Group and the Bank, representing the net present value of all future cash flows in the case of an interest rate increase by 1 basis point. In the tables below related to individual currency exposures and the combination of the basket of currencies, increases in the net present value of all future cash flows are shown as a positive number and decreases as a negative number.

The sensitivity calculation for every position is based upon contractual dates of future interest rate changes. For positions without contractual dates for interest rate changes or without contractual maturity, the Group uses assumptions which are considered as appropriate.

Group basis point values (BPV) overview

Group	**Minimum**	**Average**	**Maximum**	**Year end**
	HRK	**HRK**	**HRK**	**HRK**
	thousand	**thousand**	**thousand**	**thousand**
2013	826	1,243	1,779	1,398
2012	649	1,025	1,497	1,405

Group basis point values (BPV) per currency as at 31 December

Group	**Up to 3 months**	**3 months to 1 year**	**1 year to 3 years**	**3 years to 10 years**	**Over 10 years**	**Total**
	2013	**2013**	**2013**	**2013**	**2013**	**2013**
	HRK	**HRK**	**HRK**	**HRK**	**HRK**	**HRK**
	thousand	**thousand**	**thousand**	**thousand**	**thousand**	**thousand**
CHF	52	76	9	-	(1)	136
EUR	257	414	124	484	(359)	920
HRK	-	25	(285)	132	(46)	(174)
USD	4	51	41	(79)	(6)	11
Other	20	28	86	31	1	157
Total	**333**	**594**	**545**	**726**	**413**	**1,398**

Group	**Up to 3 months**	**3 months to 1 year**	**1 year to 3 years**	**3 years to 10 years**	**Over 10 years**	**Total**
	2012	**2012**	**2012**	**2012**	**2012**	**2012**
	HRK	**HRK**	**HRK**	**HRK**	**HRK**	**HRK**
	thousand	**thousand**	**thousand**	**thousand**	**thousand**	**thousand**
CHF	73	7	1	2	3	86
EUR	217	193	(41)	225	(102)	492
HRK	57	(84)	(198)	(385)	(9)	(619)
USD	1	15	15	31	-	62
Other	10	33	72	31	-	146
Total	**358**	**332**	**327**	**674**	**114**	**1,405**

Notes to the financial statements (continued)

38 Interest rate sensitivity analysis (continued)

Bank basis point values (BPV) overview

Bank	**Minimum HRK thousand**	**Average HRK thousand**	**Maximum HRK thousand**	**Year end HRK thousand**
2013	437	965	1,536	1,223
2012	493	935	1,320	899

Bank basis point values (BPV) per currency as at 31 December

Bank	**Up to 3 months**	**3 months to 1 year**	**1 year to 3 years**	**3 years to 10 years**	**Over 10 years**	**Total**
	2013	**2013**	**2013**	**2013**	**2013**	**2013**
	HRK thousand	**HRK thousand**	**HRK thousand**	**HRK thousand**	**HRK thousand**	**HRK thousand**
CHF	52	75	8	1	(1)	135
EUR	255	405	130	258	(134)	914
HRK	1	27	(265)	165	(10)	(82)
USD	4	48	35	(101)	(6)	(20)
Other	4	25	35	14	1	72
Total	**316**	**580**	**473**	**539**	**152**	**1,223**

Bank	**Up to 3 months**	**3 months to 1 year**	**1 year to 3 years**	**3 years to 10 years**	**Over 10 years**	**Total**
	2012	**2012**	**2012**	**2012**	**2012**	**2012**
	HRK thousand	**HRK thousand**	**HRK thousand**	**HRK thousand**	**HRK thousand**	**HRK thousand**
CHF	73	6	-	2	3	84
EUR	191	191	(20)	(166)	12	208
HRK	57	(80)	(192)	(352)	1	(566)
USD	2	12	11	(7)	-	18
Other	2	23	-	-	-	25
Total	**325**	**312**	**223**	**527**	**16**	**901**

Notes to the financial statements (continued)

39 Average effective interest rates

The average effective interest rates for interest-earning financial assets and interest-bearing financial liabilities during the year calculated on average quarterly balances for the Group and average monthly balances for the Bank are as follows:

		Group		***Bank***
	2013 Effective interest rate	**2012 Effective interest rate**	**2013 Effective interest rate**	**2012 Effective interest rate**
Cash and cash equivalents	0.05%	0.05%	0.05%	0.05%
Obligatory reserve with the Croatian National Bank	0.01%	0.03%	0.01%	0.07%
Loans to and receivables from banks	0.05%	0.68%	0.64%	1.31%
Debt securities	3.23%	3.80%	3.07%	3.41%
Loans to and receivables from customers	6.13%	6.83%	5.96%	7.00%
Current accounts and deposits from banks	1.68%	2.95%	1.69%	3.05%
Current accounts and deposits from customers	2.32%	2.50%	2.48%	2.56%
Borrowings	2.63%	3.24%	2.67%	2.95%
Subordinated debt	2.90%	3.65%	-	-

Notes to the financial statements (continued)

40 Currency risk analysis

The Group and Bank had the following foreign exchange positions as at 31 December 2013 and 31 December 2012. The Group has a number of contracts which are in domestic currency but are linked to foreign currencies. The domestic currency value of the principal balances and interest payments are therefore determined by movements in foreign currencies. These balances, which have foreign exchange risk, are included as foreign currency in the tables below. The most significant currency to which such contracts are linked to is EUR.

Group	EURO	EURO linked	EURO and EURO linked total	USD and USD linked	Other foreign currencies and other foreign currencies linked	HRK	Total
	2013 HRK million	2013 HRK million	2013 HRK million	2013 HRK million	2013 HRK million	2013 HRK million	2013 HRK million
Assets							
Cash and cash equivalents	574	1,259	1,833	86	259	5,073	7,251
Obligatory reserve with the Croatian National Bank	1,394	-	1,394	1	-	6,655	8,050
Loans to and receivables from banks	4,229	1,039	5,268	2,858	1,204	1,483	10,813
Financial assets at fair value through profit or loss	221	130	351	-	1	1,311	1,663
Loans to and receivables from customers	15,797	43,996	59,793	320	5,501	15,451	81,065
Available-for-sale financial assets	3,355	1,839	5,194	130	-	3,872	9,196
Held-to-maturity investments	-	-	-	-	-	1,203	1,203
Investments in associates	-	-	-	-	-	83	83
Investment property	-	-	-	-	-	190	190
Property and equipment		208	208	-	-	2,437	2,645
Intangible assets	-	56	56	-	-	192	248
Deferred tax asset	-	-	-	-	-	294	294
Tax prepayment	-	-	-	-	-	108	108
Other assets	55	133	188	1	1	725	915
Total assets	**25,625**	**48,660**	**74,285**	**3,396**	**6,966**	**39,077**	**123,724**
Liabilities and equity							
Current accounts and deposits from banks and customers	53,684	7,541	61,225	3,390	5,076	18,987	88,678
Financial liabilities at fair value through profit or loss	163	-	163	-	8	924	1,095
Borrowings	7,863	1,247	9,110	13	2,148	2,850	14,121
Provisions for liabilities and charges	65	91	156	7	24	241	428
Other liabilities	102	235	337	9	6	758	1,110
Subordinated debt	77	-	77	-	-	-	77
Current tax liability	-	1	1	-	-	1	2
Deferred tax liability	-	5	5	-	-	31	36
Equity	-	1,945	1,945	-	-	16,232	18,177
Total liabilities and equity	**61,954**	**11,065**	**73,019**	**3,419**	**7,262**	**40,024**	**123,724**
Net foreign exchange position	**(36,329)**	**37,595**	**1,266**	**(23)**	**(296)**	**(947)**	**-**

Notes to the financial statements (continued)

40 Currency risk analysis (continued)

Group	EURO	EURO linked	EURO and EURO linked total	USD and USD linked	Other foreign currencies and other foreign currencies linked	HRK	Total
	2012 HRK million	2012 HRK million	2012 HRK million	2012 HRK million	2012 HRK million	2012 HRK million	2012 HRK million
Assets							
Cash and cash equivalents	608	1,389	1,997	65	515	3,768	6,345
Obligatory reserve with the Croatian National Bank	598	-	598	878	-	6,364	7,840
Loans to and receivables from banks	4,462	1,061	5,523	1,249	1,696	3,743	12,211
Financial assets at fair value through profit or loss	333	76	409	5	1	524	939
Loans to and receivables from customers	12,545	45,302	57,847	874	6,218	13,790	78,729
Available-for-sale financial assets	4,266	1,821	6,087	15	-	2,804	8,906
Held-to-maturity investments	-	26	26	-	-	838	864
Investments in associates	-	-	-	-	-	78	78
Investment property	-	-	-	-	-	196	196
Property and equipment	-	227	227	-	-	2,406	2,633
Intangible assets	-	70	70	-	-	201	271
Deferred tax asset	-	-	-	-	-	238	238
Tax prepayment	-	-	-	-	-	74	74
Other assets	55	137	192	10	1	674	877
Total assets	**22,867**	**50,109**	**72,976**	**3,096**	**8,431**	**35,698**	**120,201**
Liabilities and equity							
Current accounts and deposits from banks and customers	51,077	7,934	59,011	3,075	5,829	18,197	86,112
Financial liabilities at fair value through profit or loss	276	-	276	1	15	272	564
Borrowings	7,198	1,230	8,428	14	2,214	2,994	13,650
Provisions for liabilities and charges	50	61	111	-	18	301	430
Other liabilities	91	230	321	8	5	906	1,240
Subordinated debt	75	-	75	-	-	-	75
Current tax liability	-	-	-	-	-	5	5
Deferred tax liability	-	6	6	-	-	16	22
Equity	-	1,704	1,704	-	-	16,399	18,103
Total liabilities and equity	**58,767**	**11,165**	**69,932**	**3,098**	**8,081**	**39,090**	**120,201**
Net foreign exchange position	**(35,900)**	**38,944**	**3,044**	**(2)**	**350**	**3,392**	**-**

Notes to the financial statements (continued)

40 Currency risk analysis (continued)

Bank	EURO	EURO linked	EURO and EURO linked total	USD and USD linked	Other foreign currencies and other foreign currencies linked	HRK	Total
	2013 HRK million	2013 HRK million	2013 HRK million	2013 HRK million	2013 HRK million	2013 HRK million	2013 HRK million
Assets							
Cash and cash equivalents	395	-	395	54	121	5,058	5,628
Obligatory reserve with the Croatian National Bank	1,394	-	1,394	1	-	6,655	8,050
Loans to and receivables from banks	2,877	61	2,938	2,349	1,173	1,482	7,942
Financial assets at fair value through profit or loss	221	128	349	-	9	1,276	1,634
Loans to and receivables from customers	15,713	33,958	49,671	320	5,501	15,343	70,835
Available-for-sale financial assets	3,240	746	3,986	130	-	3,714	7,830
Held-to-maturity investments	-	-	-	-	-	1,203	1,203
Investments in subsidiaries and associates	-	-	-	-	-	1,075	1,075
Investment property	-	-	-	-	-	28	28
Property and equipment	-	-	-	-	-	1,132	1,132
Intangible assets	-	-	-	-	-	135	135
Deferred tax asset	-	-	-	-	-	286	286
Tax prepayment	-	-	-	-	-	100	100
Other assets	53	2	55	1	-	571	627
Total assets	**23,893**	**34,895**	**58,788**	**2,855**	**6,804**	**38,058**	**106,505**
Liabilities and equity							
Current accounts and deposits from banks and customers	48,559	372	48,931	2,865	4,913	18,948	75,657
Financial liabilities at fair value through profit or loss	163	-	163	-	8	925	1,096
Borrowings	7,086	1,185	8,271	13	1,907	2,850	13,041
Provisions for liabilities and charges	62	38	100	7	24	233	364
Other liabilities	45	35	80	2	5	554	641
Deferred tax liability	-	-	-	-	-	31	31
Equity	-	-	-	-	-	15,675	15,675
Total liabilities and equity	**55,915**	**1,630**	**57,545**	**2,887**	**6,857**	**39,216**	**106,505**
Net foreign exchange position	**(32,022)**	**33,265**	**1,243**	**(32)**	**(53)**	**(1,158)**	**-**

Notes to the financial statements (continued)

40 Currency risk analysis (continued)

Bank	EURO	EURO linked	EURO and EURO linked total	USD and USD linked	Other foreign currencies and other foreign currencies linked	HRK	Total
	2012 HRK million	2012 HRK million	2012 HRK million	2012 HRK million	2012 HRK million	2012 HRK million	2012 HRK million
Assets							
Cash and cash equivalents	359	-	359	43	395	3,758	4,555
Obligatory reserve with the Croatian National Bank	598	-	598	878	-	6,364	7,840
Loans to and receivables from banks	3,192	-	3,192	738	1,672	3,740	9,342
Financial assets at fair value through profit or loss	333	75	408	5	16	505	934
Loans to and receivables from customers	12,464	35,553	48,017	874	6,218	13,763	68,872
Available-for-sale financial assets	4,219	757	4,976	14	385	2,650	8,025
Held-to-maturity investments	-	26	26	-	-	838	864
Investments in subsidiaries and associates	-	-	-	-	-	918	918
Investment property	-	-	-	-	-	28	28
Property and equipment	-	-	-	-	-	1,179	1,179
Intangible assets	-	-	-	-	-	147	147
Deferred tax asset	-	-	-	-	-	231	231
Tax prepayment	-	-	-	-	-	74	74
Other assets	53	1	54	9	1	509	573
Total assets	**21,218**	**36,412**	**57,630**	**2,561**	**8,687**	**34,704**	**103,582**
Liabilities and equity							
Current accounts and deposits from banks and customers	46,479	744	47,223	2,544	5,693	18,236	73,696
Financial liabilities at fair value through profit or loss	276	-	276	1	15	272	564
Borrowings	6,294	1,195	7,489	13	1,911	2,994	12,407
Provisions for liabilities and charges	47	9	56	-	18	293	367
Other liabilities	34	35	69	5	5	689	768
Deferred tax liability	-	-	-	-	-	15	15
Equity	-	-	-	-	-	15,765	15,765
Total liabilities and equity	**53,130**	**1,983**	**55,113**	**2,563**	**7,642**	**38,264**	**103,582**
Net foreign exchange position	**(31,912)**	**34,429**	**2,517**	**(2)**	**1,045**	**(3,560)**	**-**

Notes to the financial statements (continued)

40 Currency risk analysis (continued)

FX net open position analysis

Group EUR open position overview (including both balance-sheet and off-balance-sheet exposures)

Group	**Minimum 2013 HRK million**	**Average 2013 HRK million**	**Maximum 2013 HRK million**	**Year end 2013 HRK million**	**Minimum 2012 HRK million**	**Average 2012 HRK million**	**Maximum 2012 HRK million**	**Year end 2012 HRK million**
Long	1	258	692	447	5	181	560	79
Short	10	183	1,515	-	8	183	599	-

Bank EUR open position overview

Bank	**Minimum 2013 HRK million**	**Average 2013 HRK million**	**Maximum 2013 HRK million**	**Year end 2013 HRK million**	**Minimum 2012 HRK million**	**Average 2012 HRK million**	**Maximum 2012 HRK million**	**Year end 2012 HRK million**
Long	-	202	570	354	1	218	598	42
Short	1	182	1,595	-	12	133	529	-

FX net open position overview at year end (including both balance-sheet and off-balance-sheet exposures)

In the table below long positions are presented as positive numbers and short positions are presented as negative numbers.

	Group		***Bank***	
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
BAM	(105)	(31)	-	-
CHF	2	21	2	21
EUR	532	79	439	42
GBP	-	1	-	1
HRK	(411)	(76)	(422)	(70)
USD	4	6	4	7
Other	(22)	-	(23)	-

41 Accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's credit risk portfolio and, as part of this, the estimation of the fair value of real estate collateral represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

a) Impairment losses on loans and receivables

The Group monitors the creditworthiness of its customers on an ongoing basis. The necessity for value adjustments is assessed on a continuous basis, at least once a month. Impairment losses are made mainly against the carrying value of loans to and receivables from corporate and retail customers (summarised in *Note 15b*), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees, letters of credit and unused credit card limits (summarised in *Note 28*). Impairment losses are also considered for credit risk exposures to banks (summarised in *Note 13a*), financial assets available for sale and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

In addition to losses on an individual basis, the Group continuously monitors and recognises impairments which are known to exist at the reporting date, but which have not yet been specifically identified. In estimating unidentified impairment losses existing in collectively assessed portfolios, the Group seeks to collect reliable data on appropriate loss rates based on historical experience related to and adjusted for current conditions, and the emergence period for the identification of these impairment losses. The Group also has regard to the impairment loss rates of 0.8% prescribed by the CNB to be calculated on all credit risk exposures except those carried at fair value, including off-balance-sheet amounts and Croatian sovereign risk.

The collective impairment on performing balance and off-balance sheet exposures at 31 December 2013 amounted to HRK 975 million (2012: HRK 1,015 million) for the Group and HRK 817 million (2012: HRK 882 million) for the Bank, of the relevant on- and off-balance-sheet exposure, in accordance with the applicable regulatory requirements.

Financial assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The Group estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgement in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Group also has regard to the ranges of specific impairment loss rates prescribed by the CNB.

The uncertainty related to the estimation of the fair value of real estate collateral is described in *Note 37.1.*

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

a) Impairment losses on loans and receivables (continued)

Financial assets carried at amortised cost (continued)

At the year end, the gross value of impaired loans and receivables from customers and rate of recognised impairment loss were as follows:

Group	**2013 Corporate and State HRK million**	**2013 Retail HRK million**	**2013 Total HRK million**	**2012 Corporate and State HRK million**	**2012 Retail HRK million**	**2012 Total HRK million**
Gross exposure	10,867	3,368	**14,235**	8,709	2,684	**11,393**
Impairment rate	46%	60%	**49%**	43%	68%	**49%**

Bank	**2013 Corporate and State HRK million**	**2013 Retail HRK million**	**2013 Total HRK million**	**2012 Corporate and State HRK million**	**2012 Retail HRK million**	**2012 Total HRK million**
Gross exposure	9,951	2,968	**12,919**	7,819	2,316	**10,135**
Impairment rate	43%	58%	**46%**	40%	66%	**46%**

A change in the impairment rate of 1pp on the gross non-performing loans identified above as impaired at 31 December 2013, would lead to a charge/reversal of an impairment loss of HRK 142 million (2012: HRK 113 million) for the Group and HRK 129 million (2012: HRK 101 million) for the Bank.

Pre-bankruptcy settlements

On 28 September 2012 a new Law on Financial Transactions and Pre-bankruptcy Settlement (National Gazette 108/2012) ("the Law") was enacted. The Law came into force on 1 October 2012 and was subsequently amended by Regulation on Amendments and Additions to the Law (National Gazette 144/2012, 81/2013, 112/2013).

The Law sets out certain criteria for the determination of when management has an obligation to commence the process of pre-bankruptcy settlement. In accordance with the Law, an application for pre-bankruptcy settlement should be filed with the Financial Agency, an administrative body of the State overseen by the Ministry of Finance. An application for commencement of the process of pre-bankruptcy settlement has to include a restructuring plan. If no settlement is reached within 120 days from the acceptance of an application for commencement of a regular process of pre-bankruptcy settlement (or within 60 days in the case of an expedited process) the process of pre-bankruptcy settlement is terminated. If upon such termination there are reasons to commence bankruptcy proceedings, the Financial Agency has an obligation to commence the same.

During the period of pre-bankruptcy preparation, the company or business is generally protected from its creditors (with the exception of some special categories of creditors such as secured creditors who attained their special status at least 60 days prior to the commencement of pre-bankruptcy proceedings), who are unable during this period to block bank accounts or take steps to push the debtor into bankruptcy or otherwise seek to realise collateral.

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

a) Impairment losses on loans and receivables (continued)

Pre-bankruptcy settlements (continued)

As of 31 December 2013, 389 (2012: 13) applications from Bank's customers, with gross loan and off-balance-sheet exposure at that date of HRK 3,378 million and HRK 486 million (2012: HRK 465 million and HRK 482 million), respectively, were filed for pre-settlement proceeding to the Financial Agency. At the reporting date the related loan and off-balance-sheet exposure have been provided for at an average rate 45% and 18% (2012: 46% and 6%), respectively. By the respective number of applications, 52% of overall Bank's gross exposure filed in pre-bankruptcy proceeding is considered completed as a result of signed pre-bankruptcy settlement or as a result of Agreement between Creditors, 37% is still in proceeding, while 11% ended with insolvency.

By the 20 February 2014, a total of 410 (February 2013: 221) applications from debtors of the Bank at 31 January 2014, with gross loans and off-balance-sheet exposure at that date of HRK 3,411 million and HRK 466 million (HRK 2,138 million and HRK 644 million), respectively, have been filed by the Financial Agency. At the reporting date the related loans and off-balance-sheet exposure have been provided for at an average rate of 45% and 19%, respectively.

Further to the presented statistics and due to short time period for the effects of the concluded settlement agreements to be quantified, the impact of Law, on the credit risk exposure is still not visible. The first marked effects on credit-risk exposures are expected to be visible by the end of 2014.

b) Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the nominal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

c) Fair value

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads, bond and equity prices, foreign currency exchange rates, equity index prices as well as volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

When measuring fair values the Group takes into account the IFRS 13 fair value hierarchy that reflects the significance of the inputs used in making the measurements. Each instrument is evaluated in detail on a separate basis. The levels are determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The financial instruments carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy as follows:

- Level 1 – Instruments valued using quoted prices in active markets: These are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets.

41 Accounting estimates and judgements in applying accounting policies (continued)

c) Fair value (continued)

- Level 2 – Instruments valued with valuation techniques using observable market data. These are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable.

- Level 3 – Instruments valued using valuation techniques using market data which is not directly observable on an active market: these are instruments where the fair value cannot be determined directly by reference to market-observable information, and some other pricing technique must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

We hereby provide additional information about fair value hierarchy disclosure for different types of financial instruments that the Group holds in its portfolio.

Fixed Income Securities

Fixed Income Securities are priced in a two tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed in reference to Fair Value Hierarchy under Level 1. Instruments not traded in active markets are marked to model that maximise the use of observable input and minimizes the use of unobservable inputs. With this respect, depending on significance of unobservable input used, the bonds are disclosed as Level 2 or Level 3.

OTC Derivatives

Market value of OTC derivatives is calculated through widely recognised valuation models, which are using inputs that are usually available in the market for simple over the counter derivatives like FX outrights and interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Depending on the observability and availability of inputs used, as well as general conditions in the financial markets, OTC derivatives are disclosed as Level 2 or Level 3.

Equity Instruments

Equity Instruments are assigned to level 1 when a quoted price is available on a market and to level 3 when no quotations are available or quotations have been suspended indefinitely (equity instruments are disclosed as level 2 only in the case when the market where the equity is quoted is significantly small).

Investment Funds

The Company holds investments in certain investment funds that calculate net asset value (“NAV”) per share, and since NAV prices used for daily revaluation are of a binding nature (i.e. one can sell its investment at that price), they are disclosed in reference to Fair Value Hierarchy under Level 1.

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

c) Fair value (continued)

Summary information for the Group and the Bank at year end and at 31 December 2012 is presented in the tables below.

Group

	Level 1 2013 HRK million	Level 2 2013 HRK million	Level 3 2013 HRK million	Total 2013 HRK million	Level 1 2012 HRK million	Level 2 2012 HRK million	Level 3 2012 HRK million	Total 2012 HRK million
Financial assets at fair value through profit or loss								
Debt securities held for trading *(Note 14a)*	-	63	44	**107**	-	-	58	**58**
Equity securities held for trading *(Note 14b)*	9	-	-	**9**	4	1		**5**
Derivative financial instruments *(Note 14c)*								
Forward and swap foreign exchange contracts	-	*39*	*15*	***54***	-	*5*	*20*	***25***
Cross currency interest rate swaps	-	*1,151*	-	***1,151***	-	*401*	-	***401***
Interest rate swaps	-	*212*	-	***212***	-	*331*	*9*	***340***
Other derivatives classified as trading	-	-	-	**-**	-	-	*1*	***1***
Total derivative financial instruments	-	1,402	15	**1,417**	-	737	30	**767**
Units in investment funds designated at fair value through profit or loss *(Note 14d)*	128	-	-	**128**	107	-	-	**107**
Equity securities designated at fair value through profit or loss *(Note 14e)*	2	-	-	**2**	2	-	-	**2**
	139	**1,465**	**59**	**1,663**	**113**	**738**	**88**	**939**
Available-for-sale financial assets								
Debt securities available for sale *(Note 16a)*	638	8,356	69	**9,063**	1,286	7,495	81	**8,862**
Equity securities available for sale measured at fair value *(Note 16c)*	-	-	133	**133**	-	-	38	**38**
	638	**8,356**	**202**	**9,196**	**1,286**	**7,495**	**119**	**8,900**
Total financial assets measured at fair value	**777**	**9,821**	**261**	**10,859**	**1,399**	**8,233**	**207**	**9,839**
Financial liabilities at fair value through profit or loss								
Foreign exchange forward and swap contracts *(Note 26)*	-	3	47	**50**	-	4	14	**18**
Cross currency interest rate swaps *(Note 26)*	-	876	-	**876**	-	254	2	**256**
Interest rate swaps *(Note 26)*	-	169	-	**169**	-	290	-	**290**
Total financial liabilities measured at fair value	**-**	**1,048**	**47**	**1,095**	**-**	**548**	**16**	**564**

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

c) Fair value (continued)

Bank

	Level 1 2013 HRK million	Level 2 2013 HRK million	Level 3 2013 HRK million	Total 2013 HRK million	Level 1 2012 HRK million	Level 2 2012 HRK million	Level 3 2012 HRK million	Total 2012 HRK million
Financial assets at fair value through profit or loss								
Debt securities held for trading *(Note 14a)*	-	63	44	**107**	-	-	58	**58**
Equity securities held for trading *(Note 14b)*	9	-	-	**9**	4	1	-	**5**
Derivative financial instruments *(Note 14c)*								
Forward and swap foreign exchange contracts	-	*39*	*15*	***54***	-	*5*	*20*	***25***
Cross currency interest rate swaps	-	*1,151*	-	***1,151***	-	*401*	-	***401***
Interest rate swaps	-	*220*	-	***220***	-	*346*	*9*	***355***
Other derivatives classified as trading	-	-	-	**-**	-	-	*1*	***1***
Total derivative financial instruments	-	1,410	15	**1,425**	-	752	30	**782**
Units in investment funds designated at fair value through profit or loss *(Note 14d)*	93	-	-	**93**	89	-	-	**89**
	102	**1,473**	**59**	**1,634**	**93**	**753**	**88**	**934**
Available-for-sale financial assets								
Debt securities available for sale *(Note 16a)*	638	6,991	69	**7,698**	914	6,601	467	**7,982**
Equity securities available for sale measured at fair value *(Note 16c)*	-	-	132	**132**	-	-	37	**37**
	638	**6,991**	**201**	**7,830**	**914**	**6,601**	**504**	**8,019**
Total financial assets measured at fair value	**740**	**8,464**	**260**	**9,464**	**1,007**	**7,354**	**592**	**8,953**
Financial liabilities at fair value through profit or loss								
Foreign exchange forward and swap contracts *(Note 26)*	-	3	48	**51**	-	4	14	**18**
Cross currency interest rate swaps *(Note 26)*	-	876	-	**876**	-	254	2	**256**
Interest rate swaps *(Note 26)*	-	169	-	**169**	-	290	-	**290**
Total financial liabilities measured at fair value	**-**	**1,048**	**48**	**1,096**	**-**	**548**	**16**	**564**

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

c) Fair value (continued)

Transfers between Level 1 and Level 2

During the year 2013, no transfers from Level 1 to Level 2 or from Level 2 to Level 1 occurred, as market activity of financial instruments in the Group's portfolios remained unchanged.

Reconciliation of movement in financial assets classified in Level 3 during 2013

Group				**In HRK million**
	Financial assets at FV through profit or loss		**Available-for-sale financial asset**	
	Debt securities held for trading	Derivative financial instruments	Debt securities	Equity securities
Balance as at 1 January 2013	**58**	**30**	**81**	**38**
Increases	**1,913**	**127**	**8**	**95**
Purchases	1,910	-	-	-
Gains recognised in statement of profit or loss	3	127	6	-
of which unrealised gains	-	*15*	-	-
of which interest income	*3*	*10*	*6*	-
Gains recognised in OCI	-	-	1	95
Foreign exchange differences	-	-	1	-
Decreases	**(1,927)**	**(142)**	**(20)**	**-**
Sales	(1,874)	-	-	-
Redemptions	(44)	(129)	(19)	-
Losses recognised in statement of profit or loss	(9)	(13)	-	-
of which unrealised losses	-	-	-	-
Losses recognised in OCI	-	-	(1)	-
Impairment losses	-	-	-	-
Foreign exchange differences	-	-	-	-
Balance as at 31 December 2013	**44**	**15**	**69**	**133**

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

c) Fair value (continued)

Reconciliation of movement in financial assets classified in Level 3 during 2012

Group				**In HRK million**
	Financial assets at FV through profit or loss		**Available-for-sale financial asset**	
	Debt securities held for trading	Derivative financial instruments	Debt securities	Equity securities
Balance as at 1 January 2012	**82**	**53**	**99**	**34**
Increases	**837**	**269**	**18**	**4**
Purchases	827	-	15	4
Gains recognised in statement of profit or loss	10	269	-	-
of which unrealised gains	*3*	*26*	-	-
of which interest income	*6*	*9*	-	-
Gains recognised in OCI	-	-	3	-
Foreign exchange differences	-	-	-	-
Decreases	**(861)**	**(292)**	**(36)**	**-**
Sales	(826)	-	-	-
Redemptions	(8)	(277)	(24)	-
Losses recognised in statement of profit or loss	(27)	(15)	-	-
of which unrealised losses	*(27)*	-	-	-
Losses recognised in OCI	-	-	(3)	-
Impairment losses	-	-	(8)	-
Foreign exchange differences	-	-	(1)	-
Balance as at 31 December 2012	**58**	**30**	**81**	**38**

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

c) Fair value (continued)

Reconciliation of movement in financial assets classified in Level 3 during 2013

Bank				**In HRK million**
	Financial assets at FV through profit or loss		**Available-for-sale financial asset**	
	Debt securities held for trading	Derivative financial instruments	Debt securities	Equity securities
Balance as at 1 January 2013	**58**	**30**	**467**	**37**
Increases	**1,913**	**127**	**17**	**95**
Purchases	1,910	-	-	-
Gains recognised in statement of profit or loss	3	127	10	-
of which unrealised gains	-	*15*	-	-
of which interest income	*3*	*10*	*10*	-
Gains recognised in OCI	-	-	2	95
Foreign exchange differences	-	-	5	-
Decreases	**(1,927)**	**(142)**	**(415)**	**-**
Sales	(1,874)	-	-	-
Redemptions	(44)	(129)	(414)	-
Losses recognised in statement of profit or loss	(9)	(13)	-	-
of which unrealised losses	-	-	-	-
Losses recognised in OCI	-	-	(1)	-
Impairment losses	-	-	-	-
Foreign exchange differences	-	-	-	-
Balance as at 31 December 2013	**44**	**15**	**69**	**132**

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

c) Fair value (continued)

Reconciliation of movement in financial assets classified in Level 3 during 2012

Bank	**Financial assets at FV through profit or loss**		**Available-for-sale financial asset**	
				In HRK million
	Debt securities held for trading	Derivative financial instruments	Debt securities	Equity securities
Balance as at 1 January 2012	**82**	**53**	**483**	**33**
Increases	**837**	**269**	**41**	**4**
Purchases	827	-	15	4
Gains recognised in statement of profit or loss	10	269	18	-
of which unrealised gains	*3*	*26*	-	-
of which interest income	*6*	*9*	*18*	-
Gains recognised in OCI	-	-	7	-
Foreign exchange differences	-	-	1	-
Decreases	**(861)**	**(292)**	**(57)**	**-**
Sales	(826)	-	-	-
Redemptions	(8)	(277)	(45)	-
Losses recognised in statement of profit or loss	(27)	(15)	-	-
of which unrealised losses	*(27)*	-	-	-
Losses recognised in OCI	-	-	(3)	-
Impairment losses	-	-	(8)	-
Foreign exchange differences	-	-	(1)	-
Balance as at 31 December 2012	**58**	**30**	**467**	**37**

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

c) Fair value (continued)

Reconciliation of movement in financial liabilities classified in Level 3

Financial liabilities at FV through profit or loss

		Group		***Bank***
	2013 HRK million	**2012 HRK million**	**2013 HRK million**	**2012 HRK million**
Balance as at 1 January	**16**	**43**	**16**	**43**
Increases	**159**	**293**	**160**	**293**
Issuance	-	-	-	-
Losses recognised in statement of profit or loss	159	293	160	293
of which unrealised losses	*47*	*14*	*48*	*14*
of which interest expense	-	-	-	-
Losses recognised in OCI	-	-	-	-
Foreign exchange differences	-	-	-	-
Decreases	**(128)**	**(320)**	**(128)**	**(320)**
Redemptions	(123)	(312)	(123)	(312)
Gains recognised in statement of profit or loss	(5)	(8)	(5)	(8)
of which unrealised gains	-	*(5)*	-	*(5)*
Gains recognised in OCI	-	-	-	-
Foreign exchange differences	-	-	-	-
Balance as at 31 December	**47**	**16**	**48**	**16**

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

c) Fair value (continued)

Sensitivity analysis for Level 3 instruments

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Therefore, for fair value measurements in Level 3, sensitivity analysis is performed with respect to the following unobservable categories of model inputs:

- Credit spreads: for instruments exposed to issuer risk the unobservable input is mainly the issuer credit spread. Sensitivity analysis effects are calculated based on the assumption of increasing credit spreads by 100 bps.

- Interest rates: in the absence of liquid interest rate and FX swap markets, the term structure of the yield curve is linked to indicative quotations which, at the given moment, due to their indicative nature, don't have to accurately describe the current market. Sensitivity analysis effects are calculated based on the assumption of negative change in interest rates (by 100 bps increase\decrease depending on active or passive positions).

The table below shows the results of negative scenarios of sensitivity analysis for Level 3 instruments.

	Effects on profit or loss	**Effects on other comprehensive income**
Level 3 instruments	**HRK million**	**HRK million**
Fixed income securities - held for trading	(1.15)	-
Fixed income securities - available for sale	-	(1.44)
	(1.15)	**(1.44)**
Derivatives		
HRK	(0.88)	-
Other	(0.01)	-
	(0.89)	**0.00**
	(2.04)	**(1.44)**

d) Held-to-maturity investments

The Group follows the guidance of International Accounting Standard 39 *"Financial Instruments: Recognition and Measurement"* on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement where Group evaluates its intention and ability to hold such investments to maturity.

e) Taxation

The Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia and Federation of Bosnia and Herzegovina. Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records.

Notes to the financial statements (continued)

41 Accounting estimates and judgements in applying accounting policies (continued)

f) Regulatory requirements

The CNB, the Banking Agency of the Federation of Bosnia and Herzegovina and the Croatian Financial Services Agency are entitled to carry out regulatory inspections of the Group's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

g) Litigation and claims

The Group makes individual assessment of all court cases for which the value of the case is above HRK 70 thousand. All court cases below HRK 70 thousand are monitored and provided for on a portfolio basis. The assessment is made by the Legal Department of the Bank or of its relevant subsidiaries. In certain cases external lawyers are engaged.

As stated in *Notes 28* and *35b* the Group and the Bank provided HRK 41 million (2012: HRK 46 million) and HRK 26 million (2012: HRK 27 million) respectively for principal and interest in respect of liabilities for court cases, which the management estimates as sufficient. It is not practicable for management to estimate the financial impact of changes to the assumptions based on which management assesses the need for provisions.

h) Fair value of investment property

The Group uses the cost model for its investment property. Carrying values are at least annually reviewed for impairment via discounted cash flow analyses. The management considers that there are no indications of impairment at the reporting date based on these analyses.

i) Fair value of illiquid debt investments

The Group has developed internal models for estimating the fair value of illiquid debt investments. Such models use valuation techniques that include all parameters (with maximum use of observable market inputs) that market participants would take into account when pricing an instrument in usual market conditions.

Notes to the financial statements (continued)

42 Fair value of financial instruments not measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Financial instruments available for sale and at fair value through profit or loss are measured at fair value, hence are excluded from the tables below.

Financial instruments not measured at fair value

The table below summarises management's estimation of fair values at year end.

Group

						Fair value				Fair value	
	Notes	**Book value**		**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
		HRK million	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**
		2013	**2012**				**2013**				**2012**
Financial assets											
Loans to and receivables from banks	13	10,813	12,211	-	10,763	-	10,763	-	-	12,211	12,211
Loans to and receivables from customers	15a	81,065	78,729	-	62,890	20,431	83,321	-	-	78,630	78,630
Held-to-maturity investments	17	1,203	864	-	1,198	-	1,198	-	-	882	882
Financial liabilities											
Current accounts and deposits from banks	24	13,662	13,393	-	13,696	-	13,696	-	-	13,393	13,393
Current accounts and deposits from customers	25	75,016	72,719	-	75,706	-	75,706	-	-	72,872	72,872
Borrowings	27	14,121	13,650	-	14,155	-	14,155	-	-	13,651	13,651

Bank

						Fair value				Fair value	
	Notes	**Book value**		**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
		HRK million	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**	**HRK million**
		2013	**2012**				**2013**				**2012**
Financial assets											
Loans to and receivables from banks	13	7,942	9,342	-	7,893	-	7,893	-	-	9,342	9,342
Loans to and receivables from customers	15a	70,835	68,872	-	52,583	19,839	72,422	-	-	68,809	68,809
Held-to-maturity investments	17	1,203	864	-	1,198	-	1,198	-	-	882	882
Financial liabilities											
Current accounts and deposits from banks	24	13,212	13,049	-	13,249	-	13,249	-	-	13,049	13,049
Current accounts and deposits from customers	25	62,445	60,647	-	63,129	-	63,129	-	-	60,808	60,808
Borrowings	27	13,041	12,407	-	13,078	-	13,078	-	-	12,407	12,407

The main methods used and assumptions made by management in the assessment of fair values of financial assets and liabilities are further analysed below. Assumptions used for estimate and measurement of fair value of particular financial instruments for 2013 are based on requirements of IFRS 13, by applying the methodology developed on UniCredit Group level.

42 Fair value of financial instruments not measured at fair value (continued)

Loans to and receivables from banks

Policy applied from 1 January 2013
Loans to and receivables from banks are presented net of impairment allowance. The estimated fair value of loans to and receivables from banks measured on statement of financial position at amortized cost is mainly determined using a risk adjusted net present value approach. The approach is based on discounting expected future cash flows with risk-free interest rates increased by credit spread. Credit spread represents the excess return a market participant asks for a risky investment and is calculated as a cost of both expected loss and capital needed to cover unexpected losses. For impaired loans and receivables fair value is determined as amount of loans net of provisions.

Policy applied before 1 January 2013
Loans and receivables are presented net of impairment allowance. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine their fair values. Taking into account their short maturity management believes that the fair value does not differ from the carrying value. The fair value of short-term loans to and receivables from banks equals their book value.

Loans to and receivables from customers

Policy applied from 1 January 2013
Loans to and receivables from customers are presented net of impairment allowance. The estimated fair value of loans to and receivables from customers measured on statement of financial position at amortized cost is mainly determined using a risk adjusted net present value approach. The approach is based on discounting expected future cash flows with risk-free interest rates increased by credit spread. Credit spread represents the excess return a market participant asks for a risky investment and is calculated as a cost of both expected loss and capital needed to cover unexpected losses. For impaired loans and receivables fair value is determined as amount of loans net of provisions.

Policy applied before 1 January 2013
Loans to and receivables from customers are presented net of impairment allowance. Their estimated fair value represents the discounted amount of estimated future cash flows expected to be received and this was calculated for loans with fixed interest rates only, by using current market interest rates. Expected cash flows are discounted at current market rates to determine their fair values. Expected future losses are not taken into account nor is any adjustment made for uncertainties as to the collectability (including timing) of past due and rescheduled exposures or for loans which are not past due but require special monitoring as described in *Note 37.1*. The fair value of short-term loans to and receivables from customers equals their book value.

Held-to-maturity investments

Policy applied from 1 January 2013
Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations in case of securities, while for other type of asset applying a risk adjusted net present value approach. The approach is based on discounting expected future cash flows with risk-free interest rates increased by credit spread. Credit spread represents the excess return a market participant asks for a risky investment and is calculated as a cost of both expected loss and capital needed to cover unexpected losses.

Policy applied before 1 January 2013
Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations.

Current accounts and deposits from banks

Policy applied from 1 January 2013
The estimated fair value of current accounts and deposits from banks represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with current risk-free interest rates increased by liquidity costs.

42 Fair value of financial instruments not measured at fair value (continued)

Current accounts and deposits from banks (continued)

Policy applied before 1 January 2013
The estimated fair value of fixed-interest term deposits is based on expected cash flows discounted using rates currently offered for deposits of similar remaining maturities, but cannot be lower than the nominal amount which depositors are entitled to receive on demand.

Current accounts and deposits from customers

Policy applied from 1 January 2013
The estimated fair value of current accounts and deposits from customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with current risk-free interest rates increased by liquidity costs.

Policy applied before 1 January 2013
The estimated fair value of fixed-interest term deposits is based on expected cash flows discounted using rates currently offered at the market for deposits of similar remaining maturities, however, fair value cannot be lower of the nominal value which depositors are entitled to receive on demand. No value is ascribed to the benefit of the customer base.

Borrowings

Policy applied from 1 January 2013
The estimated fair value of borrowings represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with current risk-free interest rates increased by liquidity costs.

Policy applied before 1 January 2013
The estimated fair value of fixed-interest borrowings is based on expected cash flows discounted using rates currently applicable in the market for borrowings of similar remaining maturities and purpose.

Notes to the financial statements (continued)

43 Basic and diluted earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic earnings per share was 320,078,613.

Group

	2013 HRK million	**2012 HRK million**
Profit attributable to equity holders of the Bank	692	1,153
Weighted average number of ordinary shares in issue	320,078,613	319,970,779
Basic and diluted earnings per share (expressed in HRK per share)	**2.16**	**3.60**

Bank

	2013 HRK million	**2012 HRK million**
Profit attributable to equity holders of the Bank	465	888
Weighted average number of ordinary shares in issue	320,078,613	319,970,779
Basic and diluted earnings per share (expressed in HRK per share)	**1.45**	**2.78**

Supplementary schedules for CNB

Supplementary financial statements of the Group and the Bank prepared in accordance with the framework for reporting set out in the CNB Decision on the Structure and Content of Annual Financial Statements of Banks are presented below.

Certain positions in the comparative financial statements for the year 2012 were reclassified in order to present financial information in line with presentation in the financial statements for the year 2013. Reclassifications, which occurred due to local regulatory changes and alignment with accounting requirements, did not affect the profit for the period.

a) Balance sheet

		Group		***Bank***
	2013	**2012**	**2013**	**2012**
	HRK million	**HRK million**	**HRK million**	**HRK million**
Assets				
Cash and deposits with the CNB	14,059	13,954	13,564	13,522
- cash	1,944	1,990	1,449	1,557
- deposits with the CNB	12,115	11,964	12,115	11,965
Deposits with banking institutions	10,632	9,841	6,553	5,614
Treasury bills and CNB bills	4,852	5,121	4,507	4,680
Securities and other financial instruments held for trading	101	62	101	62
Securities and other financial instruments available for sale	4,359	3,785	3,338	3,345
Securities and other financial instruments held to maturity	1,203	864	1,203	864
Securities and other financial instruments which are not actively traded, but are designated at fair value through profit or loss	130	109	93	89
Derivative financial assets	1,417	768	1,425	782
Loans to financial institutions	1,423	2,601	1,503	2,602
Loans to other customers	81,065	78,729	70,835	68,872
Investments in subsidiaries, associates and joint ventures	83	78	1,075	918
Foreclosed assets*	159	56	156	53
Tangible assets (net of depreciation)	3,083	3,100	1,295	1,354
Interest, fees and other assets	1,158	1,133	857	825
Total assets	**123,724**	**120,201**	**106,505**	**103,582**

*Relates to assets acquired in lieu of uncollected receivables presented in *Note 23* Other assets

Supplementary schedules for CNB (continued)

a) Balance sheet (continued)

	2013 HRK million	*Group* 2012 HRK million	2013 HRK million	*Bank* 2012 HRK million
Liabilities and equity				
Borrowings from financial institutions	13,970	13,650	12,890	12,407
- short-term borrowings	508	807	292	617
- long-term borrowings	13,462	12,843	12,598	11,790
Deposits	88,678	86,112	75,657	73,696
- giro and current accounts	17,247	15,604	12,316	10,754
- savings deposits	9,185	9,042	7,776	7,786
- term deposits	62,246	61,466	55,565	55,156
Other borrowings	151	-	151	-
- short-term borrowings	-	-	-	-
- long-term borrowings	151	-	151	-
Liabilities arising from derivatives and other liabilities held for trading	1,095	564	1,096	564
Issued debt securities	-	-	-	-
- short-term issued debt securities	-	-	-	-
- long-term issued debt securities	-	-	-	-
Issued subordinated instruments	77	75	-	-
Issued hybrid instruments	-	-	-	-
Interest, fees and other liabilities	1,576	1,697	1,036	1,150
Total liabilities	**105,547**	**102,098**	**90,830**	**87,817**
Equity				
Share capital	6,405	6,405	6,405	6,405
Current year profit/(loss)	771	1,259	465	888
Retained earnings/(loss)	6,936	6,422	4,735	4,462
Legal reserves	64	64	64	64
Statutory and other capital reserves	3,893	3,893	3,893	3,893
Unrealised gain/(loss) on value adjustment of available-for-sale financial assets	108	60	113	53
Total equity	**18,177**	**18,103**	**15,675**	**15,765**
Total equity attributable to equity holders of the Bank	17,339	17,188	-	-
Minority interest	838	915	-	-
Total liabilities and equity	**123,724**	**120,201**	**106,505**	**103,582**

Supplementary schedules for CNB (continued)

b) Income statement

	Group 2013 HRK million	Group 2012 HRK million	Bank 2013 HRK million	Bank 2012 HRK million
Interest income	6,462	6,464	5,686	5,684
(Interest expense)	(3,422)	(3,298)	(3,201)	(3,062)
Net interest income	**3,040**	**3,166**	**2,485**	**2,622**
Income from fees and commissions	1,265	1,245	996	992
(Expenses on fees and commissions)	(156)	(158)	(144)	(145)
Net income from fees and commissions	**1,109**	**1,087**	**852**	**847**
Gains/(losses) from investment in subsidiaries, associates and joint ventures	34	30	-	-
Gains/(losses) from trading activities	105	66	99	63
Gains/(losses) from embedded derivatives	-	-	-	-
Gains/(losses) from assets which are not traded, but are designated at fair value through profit or loss	4	7	4	7
Gains/(losses) from activities related to available-for-sale financial assets	7	24	7	24
Gains/(losses) from activities related to held to maturity investments	-	-	-	-
Gains/(losses) from hedging transactions	-	-	-	-
Income from investments in subsidiaries, associates and joint ventures	-	-	49	22
Income from other equity investments	6	13	6	13
Gains/(losses) from foreign exchange differences	259	248	219	209
Other income	581	626	71	115
Other expenses	(199)	(187)	(130)	(122)
General administrative expenses and depreciation	(2,382)	(2,374)	(1,531)	(1,535)
Net income from operations before impairment and other provisions	**2,564**	**2,706**	**2,131**	**2,265**
Impairment losses and provisions	(1,643)	(1,183)	(1,555)	(1,161)
Profit/(loss) before tax	**921**	**1,523**	**576**	**1,104**
Income tax expense	(150)	(264)	(111)	(216)
Profit/(loss) for the period	**771**	**1,259**	**465**	**888**
Attributable to:				
Equity holders of the Bank	692	1,153	-	-
Minority interest	79	106	-	-
Earnings per share (in HRK)	**2.16**	**3.60**	**1,45**	**2.78**

Supplementary schedules for CNB (continued)

c) Cash flow statement

		Group		*Bank*
	2013	**2012**	**2013**	**2012**
	HRK million	**HRK million**	**HRK million**	**HRK million**
Operating activities				
Interest receipts	6,253	6,241	5,476	5,457
Fee and commission receipts	1,288	1,228	1,016	974
Interest payments	(3,403)	(3,198)	(3,192)	(2,951)
Fee and commission payments	(157)	(157)	(144)	(145)
Operating expenses paid	(2,234)	(2,314)	(1,435)	(1,515)
Net gains/(losses) from financial instruments at fair value through profit or loss	185	189	145	147
Other receipts	581	643	71	131
Other payments	-	-	-	-
Cash flows from operating activities	**2,513**	**2,632**	**1,937**	**2,098**
Deposits with the CNB	(197)	387	(197)	387
Ministry of Finance treasury bills and CNB treasury bills	4,597	(1,776)	4,650	(1,838)
Deposits with financial institutions and loans to financial institutions	1,235	(586)	1,224	(696)
Loans to other customers	(3,300)	216	(2,968)	441
Securities and other held-for-trading financial assets	(54)	433	(54)	433
Securities and other available-for-sale financial assets	(4,767)	(1,163)	(4,336)	(743)
Securities and other financial assets which are not actively traded, but are designated at fair value through profit or loss	(16)	14	-	-
Other assets	(82)	(73)	(92)	(53)
Net (increase)/decrease of operating assets	**(2,584)**	**(2,548)**	**(1,773)**	**(2,069)**
Demand deposits	1,505	1,220	1,616	984
Savings and time deposits	692	(2,912)	114	(3,508)
Derivative financial liabilities and other trading liabilities	-	-	-	-
Other liabilities	(35)	246	(20)	264
Net increase/(decrease) of operating liabilities	**2,162**	**(1,446)**	**1,710**	**(2,260)**
Net cash flows from operating activities before income taxes paid	**2,091**	**(1,362)**	**1,874**	**(2,231)**
Paid income tax	**(241)**	**(456)**	**(190)**	**(415)**
Net cash inflow/(outflow) from operating activities	**1,850**	**(1,818)**	**1,684**	**(2,646)**

Supplementary schedules for CNB (continued)

c) Cash flow statement (continued)

	Group		Bank	
	2013 HRK million	2012 HRK million	2013 HRK million	2012 HRK million
Investment activities				
Receipts from sale of/(payments to acquire) tangible and intangible assets	(265)	(255)	(103)	(136)
Receipts from sale/(payments for purchase) of investments in subsidiaries, associates and joint ventures	(155)	-	(157)	-
Receipts from sale/(payments to acquire) of securities and other investments held to maturity	(339)	(91)	(339)	(283)
Received dividends	36	13	56	33
Other receipts from/(payments for) from investment activities	-	-	-	-
Net cash inflow/(outflow) from investment activities	**(723)**	**(333)**	**(543)**	**(386)**
Financial activities				
Net increase/(decrease) in borrowings	377	1,917	548	2,091
Net increase/(decrease) of issued debt securities	-	-	-	-
Net increase/(decrease) of subordinated and hybrid instruments	-	-	-	-
Receipts from issue of share capital	-	-	-	-
Payment of dividends	(614)	(733)	(614)	(733)
Other receipts/(payments) from financial activities	-	-	-	-
Net cash inflow/(outflow) from financial activities	**(237)**	**1,184**	**(66)**	**1,358**
Net cash inflow/(outflow)	**890**	**(967)**	**1,075**	**(1,674)**
Effects of foreign exchange differences on cash and cash equivalents	**16**	**13**	**(2)**	**10**
Net increase/(decrease) in cash and cash equivalents	**906**	**(954)**	**1,073**	**(1,664)**
Cash and cash equivalents at the beginning of the year	**6,345**	**7,299**	**4,555**	**6,219**
Cash and cash equivalents at the year end	**7,251**	**6,345**	**5,628**	**4,555**

Supplementary schedules for CNB (continued)

d) Statement of changes in equity for the Group

	Share capital	Treasury shares	Legal, statutory, and other reserves	Retained earnings/ (loss)	Profit/(loss) for the year	Unrealised gain/(loss) from revaluation of AFS financial assets	Minority interest	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Balance at 1 January 2013	**6,405**	**(9)**	**3,966**	**5,613**	**1,153**	**60**	**915**	**18,103**
Changes in accounting policies and errors	-	-	-	-	-	-	-	-
Restated balance at 1 January 2013	**6,405**	**(9)**	**3,966**	**5,613**	**1,153**	**60**	**915**	**18,103**
Disposal of available-for-sale portfolio	-	-	-	-	-	(8)	-	(8)
Change in fair value of available-for-sale portfolio	-	-	-	-	-	68	-	68
Deferred tax on movements in fair value reserve of available-for-sale portfolio	-	-	-	-	-	(12)	-	(12)
Other gains/losses directly recognised in equity	-	-	-	17	-	-	9	26
Net gains/losses directly recognised in equity	**-**	**-**	**-**	**17**	**-**	**48**	**9**	**74**
Profit/(loss) for the period	-	-	-	-	**692**	**-**	**79**	**771**
Total recognised income and expense for 2013	**-**	**-**	**-**	**17**	**692**	**48**	**88**	**845**
Increase/decrease of share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Acquisition /disposal of treasury shares	-	-	-	-	-	-	-	-
Other movements	-	-	-	9	-	-	(165)	(156)
Transfer to reserves	-	-	-	1,153	(1,153)	-	-	-
Dividends paid	-	-	-	(615)	-	-	-	(615)
Distribution of profit	**-**	**-**	**-**	**538**	**(1,153)**	**-**	**-**	**(615)**
Balance at 31 December 2013	**6,405**	**(9)**	**3,966**	**6,177**	**692**	**108**	**838**	**18,177**
Balance at 1 January 2012	**6,405**	**(26)**	**4,155**	**4,733**	**1,416**	**(23)**	**808**	**17,468**
Changes in accounting policies and errors	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Restated balance at 1 January 2012	**6,405**	**(26)**	**4,155**	**4,733**	**1,416**	**(23)**	**808**	**17,468**
Disposal of available-for-sale portfolio	-	-	-	-	-	(24)	-	(24)
Change in fair value of available-for-sale portfolio	-	-	-	-	-	128	-	128
Deferred tax movements in fair value reserve of available-for-sale portfolio	-	-	-	-	-	(21)	-	(21)
Other gains/losses directly recognised in equity	-	-	-	3	-	-	1	4
Net gains/losses directly recognised in equity	**-**	**-**	**-**	**3**	**-**	**83**	**1**	**87**
Profit/(loss) for the period	-	-	-	-	**1,153**	**-**	**106**	**1,259**
Total recognised income and expense for 2012	**-**	**-**	**-**	**3**	**1,153**	**83**	**107**	**1,346**
Increase/decrease of share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Acquisition /disposal of treasury shares	-	17	-	-	-	-	-	17
Other movements	-	-	(189)	189	-	-	-	-
Transfer to reserves	-	-	-	1,416	(1,416)	-	-	-
Dividends paid	-	-	-	(728)	-	-	-	(728)
Distribution of profit	**-**	**-**	**-**	**688**	**(1,416)**	**-**	**-**	**(728)**
Balance at 31 December 2012	**6,405**	**(9)**	**3,966**	**5,613**	**1,153**	**60**	**915**	**18,103**

Supplementary schedules for CNB (continued)

d) Statement of changes in equity for the Bank

	Share capital	Treasury shares	Legal, statutory, and other reserves	Retained earnings/ (loss)	Profit/(loss) for the year	Unrealised gain/(loss) from revaluation of AFS financial assets	Total
	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million	HRK million
Balance at 1 January 2013	**6,405**	**(9)**	**3,966**	**4,462**	**888**	**53**	**15,765**
Changes in accounting policies and errors	-	-	-	-	-	-	-
Restated balance at 1 January 2013	**6,405**	**(9)**	**3,966**	**4,462**	**888**	**53**	**15,765**
Disposal of available-for-sale portfolio	-	-	-	-	-	(7)	(7)
Change in fair value of available-for-sale portfolio	-	-	-	-	-	82	82
Deferred tax on movements in fair **value** reserve of available-for-sale portfolio	-	-	-	-	-	(15)	(15)
Other gains/losses directly recognised in equity	-	-	-	-	-	-	-
Net gains/losses directly recognised in equity	**-**	**-**	**-**	**-**	**-**	**60**	**60**
Profit/(loss) for the period	-	-	-	-	465	-	465
Total recognised income and expense for 2013	**-**	**-**	**-**	**-**	**465**	**60**	**525**
Increase/decrease of share capital	-	-	-	-	-	-	-
Acquisition /disposal of treasury shares	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-
Transfer to reserves	-	-	-	888	(888)	-	-
Dividends paid	-	-	-	(615)	-	-	(615)
Distribution of profit	**-**	**-**	**-**	**273**	**(888)**	**-**	**(615)**
Balance at 31 December 2013	**6,405**	**(9)**	**3,966**	**4,735**	**465**	**113**	**15,675**
Balance at 1 January 2012	**6,405**	**(26)**	**4,155**	**3,685**	**1,316**	**(27)**	**15,508**
Changes in accounting policies and errors	-	-	-	-	-	-	-
Restated balance at 1 January 2012	**6,405**	**(26)**	**4,155**	**3,685**	**1,316**	**(27)**	**15,508**
Disposal of available-for-sale portfolio	-	-	-	-	-	(24)	(24)
Change in fair value of available-for-sale portfolio	-	-	-	-	-	125	125
Deferred tax on movements in fair **value** reserve of available-for-sale portfolio	-	-	-	-	-	(21)	(21)
Other gains/losses directly recognised in equity	-	-	-	-	-	-	-
Net gains/losses directly recognised in equity	**-**	**-**	**-**	**-**	**-**	**80**	**80**
Profit/(loss) for the period	-	-	-	-	888	-	888
Total recognised income and expense for 2012	**-**	**-**	**-**	**-**	**888**	**80**	**968**
Increase/decrease of share capital	-	-	-	-	-	-	-
Acquisition /disposal of treasury shares	-	17	-	-	-	-	17
Other movements	-	-	(189)	189	-	-	-
Transfer to reserves	-	-	-	1,316	(1,316)	-	-
Dividends paid	-	-	-	(728)	-	-	(728)
Distribution of profit	**-**	**-**	**-**	**588**	**(1,316)**	**-**	**(728)**
Balance at 31 December 2012	**6,405**	**(9)**	**3,966**	**4,462**	**888**	**53**	**15,765**

Supplementary schedules for CNB (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

a) Reconciliation of the balance sheet as at 31 December 2013

			Group			***Bank***
	CNB Schedules HRK million	**Financial statements HRK million**	**Difference HRK million**	**CNB Schedules HRK million**	**Financial statements HRK million**	**Difference HRK million**
Assets						
Cash and deposits with the CNB	14,059	-	14,059	13,564	-	13,564
- cash	1,944	-	1,944	1,449	-	1,449
- deposits with the CNB	12,115	-	12,115	12,115	-	12,115
Deposits with banking institutions	10,632	-	10,632	6,553	-	6,553
Cash and cash equivalents	-	*7,251*	*(7,251)*	-	*5,628*	*(5,628)*
Obligatory reserve with the CNB	-	*8,050*	*(8,050)*	-	*8,050*	*(8,050)*
Loans to and receivables from banks	-	*10,813*	*(10,813)*	-	*7,942*	*(7,942)*
Treasury bills and CNB bills	4,852	-	4,852	4,507	-	4,507
Securities and other financial instruments held for trading	101	-	101	101	-	101
Securities and other financial instruments available for sale	4,359	9,196	(4,837)	3,338	7,830	(4,492)
Securities and other financial instruments held to maturity	1,203	1,203	-	1,203	1,203	-
Securities and other financial instruments which are not actively traded, but are designated at fair value through profit or loss	130	-	130	93	-	93
Derivative financial assets	1,417	-	1,417	1,425	-	1,425
Financial assets at fair value through profit or loss	-	*1,663*	*(1,663)*	-	*1,634*	*(1,634)*
Loans to financial institutions	1,423	-	1,423	1,503	-	1,503
Loans to other customers	81,065	81,065	-	70,835	70,835	-
Investments in subsidiaries, associates and joint ventures	83	83	-	1,075	1,075	-
Foreclosed assets*	159	-	159	156	-	156
Tangible assets (net of depreciation)	3,083	2,645	438	1,295	1,132	163
Investment property	-	*190*	*(190)*	-	*28*	*(28)*
Intangible assets	-	*248*	*(248)*	-	*135*	*(135)*
Interest, fees and other assets	1,158	915	243	857	627	230
Deferred tax asset	-	*294*	*(294)*	-	*286*	*(286)*
Tax prepayment	-	*108*	*(108)*	-	*100*	*(100)*
Total assets	**123,724**	**123,724**	**-**	**106,505**	**106,505**	**-**

*Relates to assets acquired in lieu of uncollected receivables presented in *Note 23* Other assets

Supplementary schedules for CNB (continued)

a) Reconciliation of the balance sheet as at 31 December 2013 (continued)

			Group			*Bank*
	CNB Schedules HRK million	**Financial statements HRK million**	**Difference HRK million**	**CNB Schedules HRK million**	**Financial statements HRK million**	**Difference HRK million**
Liabilities and equity						
Borrowings from financial institutions	13,970	-	13,970	12,890	-	12,890
- short-term borrowings	508	-	508	292	-	292
- long-term borrowings	13,462	-	13,462	12,598	-	12,598
Borrowings	-	*14,121*	*(14,121)*	-	*13,041*	*(13,041)*
Deposits	88,678	-	88,678	75,657	-	75,657
- giro and current accounts	17,247	-	17,247	12,316	-	12,316
- savings deposits	9,185	-	9,185	7,776	-	7,776
- term deposits	62,246	-	62,246	55,565	-	55,565
Current accounts and deposits from banks	-	*13,662*	*(13,662)*	-	*13,212*	*(13,212)*
Current accounts and deposits from customers	-	*75,016*	*(75,016)*	-	*62,445*	*(62,445)*
Other borrowings	151	-	151	151	-	151
- short-term borrowings	-	-	-	-	-	-
- long-term borrowings	151	-	151	151	-	151
Liabilities arising from derivatives and other liabilities held for trading	1,095	1,095	-	1,096	1,096	-
Issued debt securities	-	-	-	-	-	-
- short-term issued debt securities	-	-	-	-	-	-
- long-term issued debt securities	-	-	-	-	-	-
Issued subordinated instruments	77	77	-	-	-	-
Issued hybrid instruments	-	-	-	-	-	-
Interest, fees and other liabilities	1,576	1,110	466	1,036	641	395
Provisions for liabilities and charges	-	*428*	*(428)*	-	*364*	*(364)*
Current tax liability	-	*2*	*(2)*	-	-	-
Deferred tax liability	-	*36*	*(36)*	-	*31*	*(31)*
Total liabilities	**105,547**	**105,547**	**-**	**90,830**	**90,830**	**-**
Equity						
Share capital	6,405	6,405	-	6,405	6,405	-
Share premium	-	*3,370*	*(3,370)*	-	*3,370*	*(3,370)*
Treasury shares	-	*(9)*	*9*	-	*(9)*	*9*
Current year profit/(loss)	771	-	771	465	-	465
Retained earnings/(loss)	6,936	6,869	67	4,735	5,200	(465)
Legal reserves	64	596	(532)	64	596	(532)
Statutory and other capital reserves	3,893	-	3,893	3,893	-	3,893
Unrealised gain/(loss) on value adjustment of available-for-sale financial assets	108	108	-	113	113	-
Minority interest	-	*838*	*(838)*	-	-	-
Total equity	**18,177**	**18,177**	**-**	**15,675**	**15,675**	**-**
Total liabilities and equity	**123,724**	**123,724**	**-**	**106,505**	**106,505**	**-**

Differences between statement of financial position disclosed in the financial statements and the structure and contents prescribed by the Decision of the CNB relate to the following categories:

Assets

Cash and deposits with the CNB, Deposits with banking institutions and Loans to financial institutions are presented separately in the CNB schedule, while in the financial statements they are included within Cash and cash equivalents, Obligatory reserve with the CNB and Loans to and receivables from banks.

Supplementary schedules for CNB (continued)

a) Reconciliation of the balance sheet as at 31 December 2013 (continued)

Assets (continued)

Treasury bills are presented separately in the CNB schedule in position Treasury bills and CNB bills, while in the financial statements they are included within Financial assets at fair value through profit or loss or Available-for-sale financial assets.

Securities and other financial instruments held for trading, Securities and other financial instruments which are not actively traded, but are designated at fair value through profit or loss and Derivative financial assets are presented separately in the CNB schedule, while in the financial statements they are included in Financial assets at fair value through profit or loss.

Tangible assets (net of depreciation) in the CNB schedule in addition to Property and equipment also include Investment property and Intangible assets, while in the financial statements these items are presented separately. Foreclosed assets are presented separately in the CNB schedule, while in the financial statements they are presented within Other assets.

Interest, fees and other assets in the CNB schedule include Deferred tax asset and Tax prepayment while in the financial statements these items are presented separately on the face of the balance sheet.

Liabilities and equity

Borrowings from financial institutions (short-term and long-term) and Other long-term borrowings are presented separately in the CNB schedule while in the financial statements they are all included within Borrowings.

Deposits on giro and current accounts, Savings deposits and Term deposits are presented separately in the CNB schedule, while in the financial statements they are presented within Current accounts and deposits from banks and Current accounts and deposits from customers. Deposits on giro and current accounts in the amount of HRK 17,247 million for the Group and HRK 12,316 million for the Bank are shown in the CNB schedule, while in the financial statements they are shown within Current accounts and deposits from banks in the amount of HRK 956 million for the Group and HRK 972 million for the Bank, and Current accounts and deposits from customers in the amount of HRK 16,291 million for the Group and HRK 11,344 million for the Bank. Savings deposits in the amount of HRK 9,185 million for the Group and HRK 7,776 million for the Bank are presented separately in the CNB schedule, while in the financial statements they are shown within Current accounts and deposits from banks in the amount of HRK 150 million for the Group and HRK 150 million for the Bank and Current accounts and deposits from customers in the amount of 9,035 million for the Group and HRK 7,626 million for the Bank. Term deposits in the amount of HRK 62,246 million for the Group and HRK 55,565 million for the Bank are presented separately in the CNB schedule, while in the financial statements they are presented within Current accounts and deposits from banks in the amount of HRK 16,031 million for the Group and HRK 13,602 million for the Bank and Current accounts and deposits from customers in the amount of HRK 46,215 million for the Group and HRK 41,963 million for the Bank.

Interest, fees and other liabilities in the CNB schedule include Provisions for liabilities and charges, Current tax liability and Deferred tax liability, while these items are presented separately in the financial statements.

Current year profit/(loss) is presented separately in the CNB schedule, while in the financial statements it is included in Retained earnings. Other reserves from the financial statements in the amount of HRK 596 million include Legal reserves in the amount of HRK 64 million and Other reserves in the amount of HRK 532 million for the Group and the Bank. In the CNB schedule Legal reserves are shown separately, while the remaining amount of HRK 532 million for the Group and the Bank is included within Statutory and other capital reserves. In addition, Statutory and other capital reserves in the CNB schedule include Share premium and Treasury shares which are shown separately in the financial statements. Due to the specific layout of the balance sheet schedule in the CNB schedules, which does not have Minority interests presented as a separate line within Equity, Current year profit/(loss) and Retained earnings in the CNB schedule for the Group also include shares of Minority interests of HRK 79 million and HRK 838 million, respectively.

Supplementary schedules for CNB (continued)

b) Reconciliation of the income statement for the year ended 31 December 2013

	CNB Schedules HRK million	Financial statements HRK million	*Group* Difference HRK million	CNB Schedules HRK million	Financial statements HRK million	*Bank* Difference HRK million
Interest income	6,462	6,462	-	5,686	5,686	-
(Interest expense)	(3,422)	(3,422)	-	(3,201)	(3,201)	-
Net interest income	**3,040**	**3,040**		**2,485**	**2,485**	
Income from fees and commissions	1,265	1,265	-	996	996	-
(Expenses on fees and commissions)	(156)	(156)	-	(144)	(144)	-
Net income from fees and commissions	**1,109**	**1,109**	**-**	**852**	**852**	**-**
Gains/(losses) from investments in subsidiaries, associates and joint ventures	34	-	34	-	-	-
Gains/(losses) from trading activities	105	-	105	99	-	99
Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	*-*	*368*	*(368)*	*-*	*322*	*(322)*
Gains/(losses) from embedded derivatives	-	-	-	-	-	-
Gains/(losses) from assets which are not traded, but are designated at fair value through profit or loss	4	-	4	4	-	4
Gains/(losses) from activities related to available for sale financial assets	7	-	7	7	-	7
Net gains and losses from investment securities	*-*	*7*	*(7)*	*-*	*7*	*(7)*
Gains/(losses) from activities related to held to maturity investments	-	-	-	-	-	-
Gains/(losses) from hedging transactions	-	-	-	-	-	-
Income from investment in subsidiaries, associates and joint ventures	-	-	-	49	-	49
Income from other equity investments	6	-	6	6	-	6
Dividend income	*-*	*6*	*(6)*	*-*	*55*	*(55)*
Gains/(losses) from foreign exchange differences	259	-	259	219	-	219
Other income	581	581	-	71	71	-
Other expenses	(199)	-	(199)	(130)	-	(130)
General administrative expenses and depreciation	(2,382)	-	(2,382)	(1,531)	-	(1,531)
Operating expenses	*-*	*(2,581)*	*2,581*	*-*	*(1,661)*	*1,661*
Net income from operations before impairment and other provisions	**2,564**	**2,530**	**34**	**2,131**	**2,131**	**-**
Impairment losses and provisions	(1,643)	-	(1,643)	(1,555)	-	(1,555)
Impairment losses on loans to and receivables from customers	*-*	*(1,589)*	*1,589*	*-*	*(1,509)*	*1,509*
Other impairment losses and provisions	*-*	*(54)*	*54*	*-*	*(46)*	*46*
Share of profit from associates	*-*	*34*	*(34)*	*-*	*-*	*-*
Profit/(loss) before tax	**921**	**921**	**-**	**576**	**576**	**-**
Income tax expense	(150)	(150)	-	(111)	(111)	-
Profit/(loss) for the period	**771**	**771**	**-**	**465**	**465**	**-**
Attributable to:						
Equity holders of the Bank	692	692	-	-	-	-
Minority interest	79	79	-	-	-	-
Earnings per share (in HRK)	**2.16**	**2.16**	**-**	**1.45**	**1.45**	**-**

Supplementary schedules for CNB (continued)

b) Reconciliation of the income statement for the year ended 31 December 2013 (continued)

			Group			*Bank*
	CNB Schedules HRK million	**Financial statements HRK million**	**Difference HRK million**	**CNB Schedules HRK million**	**Financial statements HRK million**	**Difference HRK million**
Profit for the period	*771*	*771*	*-*	*465*	*465*	*-*
Other comprehensive income, net of tax						
Items that are or may be reclassified subsequently to profit or loss:						
Foreign currency translation differences for foreign operations	*-*	*26*	*(26)*	*-*	*-*	*-*
Net change in fair value	*-*	*54*	*(54)*	*-*	*66*	*(66)*
Net amount transferred to profit or loss	*-*	*(6)*	*6*	*-*	*(6)*	*6*
Available-for-sale financial assets	*-*	*48*	*(48)*	*-*	*60*	*(60)*
Other comprehensive income for the period, net of tax	*-*	*74*	*(74)*	*-*	*60*	*(60)*
Total comprehensive income for the period	*771*	*845*	*(74)*	*465*	*525*	*(60)*
Attributable to:						
Equity holders of the Bank	*-*	*757*	*(757)*	*-*	*-*	*-*
Non-controlling interests	*-*	*88*	*(88)*	*-*	*-*	*-*
Total comprehensive income for the period	*771*	*845*	*(74)*	*465*	*525*	*(60)*

Supplementary schedules for CNB (continued)

b) Reconciliation of the income statement for the year ended 31 December 2013 (continued)

Differences between the income statement positions disclosed in the financial statements and the structure and contents prescribed by the Decision of the CNB relate to the following categories:

Gains/(losses) from trading activities, Gains/(losses) from embedded derivatives, Gains/(losses) from assets which are not traded, but are designated at fair value through profit or loss and Gains/(losses) from foreign exchange differences are presented separately in the CNB schedule, while in the financial statements they are included in Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities.

Gains/(losses) from activities related to available-for-sale financial assets in the CNB schedule are presented separately while in the financial statements they are included within Net gains and losses from investment securities.

Income from investments in subsidiaries, associates and joint ventures and Income from other equity investments are presented separately in the CNB schedule, while they are included within Dividend income in the financial statements.

Other expenses and General administrative expenses and depreciation are presented separately in the CNB schedule while in the financial statements they are included within Operating expenses.

Impairment losses and provision in the CNB schedule include Impairment losses on loans to and receivables from customers and Other impairment losses and provisions while in the financial statements these items are presented separately.

Profit from associates is presented separately within Share of profit from associates in the financial statements while in the CNB schedule it is included in the position Gains/(losses) from investments in subsidiaries, associates and joint ventures.

Statement of other comprehensive income as presented in financial statements is not a part of the structure and contents prescribed by the Decision of the CNB.

Supplementary schedules for CNB (continued)

c) Reconciliation of the cash flow statement for the year ended 31 December 2013

	CNB Schedules HRK million	Financial statements HRK million	*Group* Difference HRK million	CNB Schedules HRK million	Financial statements HRK million	*Bank* Difference HRK million
Operating activities						
Interest receipts	6,253	6,253	-	5,476	5,476	-
Fee and commission receipts	1,288	1,288	-	1,016	1,016	-
Interest payments	(3,403)	(3,403)	-	(3,192)	(3,192)	-
Fee and commission payments	(157)	(157)	-	(144)	(144)	-
Operating expenses paid	(2,234)	(2,234)	-	(1,435)	(1,435)	-
Net gains/(losses) from financial instruments at fair value through profit or loss	185	185	-	145	145	-
Realised gains on AFS financial assets	-	*7*	*(7)*	-	*7*	*(7)*
Other receipts	581	574	7	71	64	7
Other payments	-	-	-	-	-	-
Cash flows from operating activities	**2,513**	**2,513**	**-**	**1,937**	**1,937**	**-**
Deposits with the CNB	(197)	(197)	-	(197)	(197)	-
Ministry of Finance treasury bills and CNB bills	4,597	-	4,597	4,650	-	4,650
Deposits with financial institutions and loans to financial institutions	1,235	1,235	-	1,224	1,224	-
Loans to other customers	(3,300)	(3,300)	-	(2,968)	(2,968)	-
Securities and other held-for-trading financial assets	(54)	-	(54)	(54)	-	(54)
Securities and other available-for-sale financial assets	(4,767)	(170)	(4,597)	(4,336)	314	(4,650)
Securities and other financial assets which are not actively traded, but are designated at fair value through profit or loss	(16)	-	(16)	-	-	-
Securities at fair value through profit or loss	-	*(70)*	*70*	-	*(54)*	*54*
Other assets	(82)	(82)	-	(92)	(92)	-
Net (increase)/decrease of operating assets	**(2,584)**	**(2,584)**	**-**	**(1,773)**	**(1,773)**	**-**
Demand deposits	1,505	1,505	-	1,616	1,616	-
Savings and time deposits	692	692	-	114	114	-
Derivative financial liabilities and other trading liabilities	-	-	-	-	-	-
Other liabilities	(35)	(35)	-	(20)	(20)	-
Net increase/(decrease) of operating liabilities	**2,162**	**2,162**	**-**	**1,710**	**1,710**	**-**
Net cash inflow/(outflow) from operating activities before income taxes paid	**2,091**	**2,091**	**-**	**1,874**	**1,874**	**-**
Paid income tax	**(241)**	**(241)**	**-**	**(190)**	**(190)**	**-**
Net cash inflow/(outflow) from operating activities	**1,850**	**1,850**	**-**	**1,684**	**1,684**	**-**

Supplementary reports for CNB (continued)

c) Reconciliation of the cash flow statement for the year ended 31 December 2013 (continued)

	CNB Schedules HRK million	Financial statements HRK million	*Group* Difference HRK million	CNB Schedules HRK million	Financial statements HRK million	*Bank* Difference HRK million
Investment activities						
Additional investment in investment property	-	*(3)*	*3*	-	-	-
Receipts from sale of/(payments to acquire) tangible and intangible assets	(265)	(262)	(3)	(103)	(103)	-
Receipts from sale/(payments for purchase) of investments in subsidiaries, associates and joint ventures	(155)	-	(155)	(157)	(157)	-
Receipts from sale/(payments to acquire) of securities and other investments held to maturity	(339)	(339)	-	(339)	(339)	-
Received dividends	36	36	-	56	56	-
Other receipts/(payments) from investment activities	-	-	-	-	-	-
Net cash inflow/(outflow) from investment activities	**(723)**	**(568)**	**(155)**	**(543)**	**(543)**	**-**
Financial activities						
Net increase/(decrease) in borrowings	377	377	-	548	548	-
Net increase/(decrease) of issued debt securities	-	-	-	-	-	-
Net increase/(decrease) of subordinated and hybrid instruments	-	-	-	-	-	-
Increase of investment in subsidiary	-	*(155)*	*155*	-	-	-
Receipts from issue of share capital	-	-	-	-	-	-
Payment of dividends	(614)	(614)	-	(614)	(614)	-
Dividends paid to minority interests	-	-	-	-	-	-
Other receipts/(payments) from financial activities	-	-	-	-	-	-
Net cash inflow/(outflow) from financial activities	**(237)**	**(392)**	**155**	**(66)**	**(66)**	**-**
Net cash inflow/(outflow)	**890**	**890**	**-**	**1,075**	**1,075**	**-**
Effects of foreign exchange differences on cash and cash equivalents	**16**	**16**	**-**	**(2)**	**(2)**	**-**
Net increase/(decrease) in cash and cash equivalents	**906**	**906**	**-**	**1,073**	**1,073**	**-**
Cash and cash equivalents at the beginning of the year	**6,345**	**6,345**	**-**	**4,555**	**4,555**	**-**
Cash and cash equivalents at the year end	**7,251**	**7,251**	**-**	**5,628**	**5,628**	**-**

Differences between Cash flows in the financial statements and the CNB Schedule are as follows:

Realised gains on AFS financial assets and other net receipts are shown collectively in the CNB Cash flow statement, as opposed to being shown separately in the financial statements.

In the financial statements Ministry of Finance Treasury bills are shown within Securities at fair value through profit or loss and Available-for-sale financial assets, while within the CNB Schedule they are disclosed separately.

Supplementary reports for CNB (continued)

c) Reconciliation of the cash flow statement for the year ended 31 December 2013 (continued)

In the financial statements Securities and other financial assets which are not actively traded, but are designated at fair value through profit or loss are shown within Securities at fair value through profit or loss, while within the CNB Schedule they are disclosed separately.

In the financial statements cash flows related to investment property are shown separately while within the CNB Schedule they are disclosed within Receipts from sale/(payments to acquire) of tangible and intangible assets.

d) Reconciliation of statement of changes in equity for the year ended 31 December 2013

Retained earnings in 2013 and 2012 in the financial statements include current year profit which is presented in a separate position in the CNB Schedule. Item Share premium in the financial statements is included within Legal, statutory and other reserves in the CNB Schedule.

Supplementary EUR financial statements - unaudited

Basis of preparation of supplementary EUR financial statements

The supplementary information is provided for illustrative purposes only and does not form part of the audited financial statements.

The statements of profit or loss and statements of other comprehensive income for the Group and the Bank for 2013 and comparative information for 2012, have been translated into EUR at average foreign exchange rates for 2013 (EUR 1 = HRK 7.574) and 2012 (EUR 1 = HRK 7.518), respectively.

The statement of financial positions for the Group and the Bank as at 31 December 2013 and comparative information as at 31 December 2012, have been translated into EUR at respective foreign exchange rates ruling at 31 December 2013 and 31 December 2012.

Supplementary EUR financial statements - unaudited (continued)

Group statement of profit or loss for the year ended 31 December

	2013 EUR million	2012 EUR million
Interest income	***853***	*860*
Interest expense	***(452)***	*(439)*
Net interest income	**401**	421
Fee and commission income	***167***	*166*
Fee and commission expense	***(21)***	*(21)*
Net fee and commission income	**146**	145
Dividend income	***1***	*2*
Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	***49***	*43*
Net gains and losses from investment securities	***1***	*3*
Other operating income	***77***	*83*
Net trading and other income	**128**	131
Operating income	**675**	697
Depreciation and amortisation	**(37)**	(39)
Other operating expenses	**(304)**	(302)
Operating expenses	**(341)**	(341)
Profit before impairment and other provisions	**334**	356
Impairment losses on loans to and receivables from customers	**(210)**	(152)
Other impairment losses and provisions	**(7)**	(5)
Total impairment losses and provisions	**(217)**	(157)
Profit from operations	**117**	199
Share of profit from associates	**5**	4
Profit before tax	**122**	203
Income tax expense	**(20)**	(35)
Profit for the period	**102**	168
Attributable to:		
Equity holders of the Bank	**91**	154
Non-controlling interests	**11**	14
Profit for the period	**102**	168

Supplementary EUR financial statements - unaudited (continued)

Group statement of other comprehensive income for the year ended 31 December

	2013 EUR million	2012 EUR million
Profit for the period	**102**	168
Other comprehensive income, net of tax		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	**4**	1
Net change in fair value	***7***	*14*
Net amount transferred to profit or loss	***(1)***	*(3)*
Available-for-sale financial assets	**6**	11
Other comprehensive income for the period, net of tax	**10**	12
Total comprehensive income for the period	**112**	180
Attributable to:		
Equity holders of the Bank	**100**	166
Non-controlling interests	**12**	14
Total comprehensive income for the period	**112**	180

Group statement of financial position as at 31 December

Assets

	2013 EUR million	2012 reclassified EUR million
Cash and cash equivalents	**949**	841
Obligatory reserve with the Croatian National Bank	**1,054**	1,039
Loans to and receivables from banks	**1,416**	1,618
Financial assets at fair value through profit or loss	**218**	125
Loans to and receivables from customers	**10,614**	10,434
Available-for-sale financial assets	**1,204**	1,180
Held-to-maturity investments	**157**	114
Investments in associates	**11**	10
Investment property	**25**	26
Property and equipment	**346**	349
Intangible assets	**32**	36
Deferred tax asset	**39**	32
Current tax asset and tax prepayment	**14**	10
Other assets	**120**	116
Total assets	**16,199**	15,930

Supplementary EUR financial statements - unaudited (continued)

Group statement of financial position as at 31 December (continued)

Liabilities and equity

	2013	**2012 reclassified**
	EUR million	**EUR million**
Liabilities		
Current accounts and deposits from banks	**1,789**	1,775
Current accounts and deposits from customers	**9,822**	9,637
Financial liabilities at fair value through profit or loss	**144**	75
Borrowings	**1,849**	1,809
Provisions for liabilities and charges	**56**	57
Other liabilities	**145**	164
Subordinated debt	**10**	10
Current tax liability	**-**	1
Deferred tax liability	**4**	3
Total liabilities	**13,819**	13,531
Equity		
Issued share capital	**839**	849
Share premium	**441**	447
Treasury shares	**(1)**	(1)
Other reserves	**78**	79
Fair value reserve	**14**	8
Translation differences	**(1)**	-
Retained earnings	**900**	896
Total equity attributable to equity holders of the Bank	**2,270**	2,278
Non-controlling interests	**110**	121
Total equity	**2,380**	2,399
Total liabilities and equity	**16,199**	15,930

Supplementary EUR financial statements - unaudited (continued)

Bank statement of profit or loss for the year ended 31 December

	2013 EUR million	2012 EUR million
Interest income	***751***	*756*
Interest expense	***(423)***	*(407)*
Net interest income	**328**	349
Fee and commission income	***131***	*132*
Fee and commission expense	***(19)***	*(19)*
Net fee and commission income	**112**	113
Dividend income	***7***	*5*
Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation of monetary assets and liabilities	***43***	*37*
Net gains and losses from investment securities	***1***	*3*
Other operating income	***9***	*15*
Net trading and other income	**60**	60
Operating income	**500**	522
Depreciation and amortisation	**(21)**	(23)
Other operating expenses	**(198)**	(197)
Operating expenses	**(219)**	(220)
Profit before impairment and other provisions	**281**	302
Impairment losses on loans to and receivables from customers	**(199)**	(145)
Other impairment losses and provisions	**(6)**	(9)
Total impairment losses and provisions	**(205)**	(154)
Profit before tax	**76**	148
Income tax expense	**(15)**	(29)
Profit for the period	**61**	119

Supplementary EUR financial statements - unaudited (continued)

Bank statement of other comprehensive income for the year ended 31 December

	2013 EUR million	2012 EUR million
Profit for the period	**61**	119
Other comprehensive income, net of tax		
Items that are or may be reclassified subsequently to profit or loss:		
Net change in fair value	***9***	*13*
Net amount transferred to profit or loss	***(1)***	*(3)*
Available-for-sale financial assets	**8**	10
Other comprehensive income for the period, net of tax	**8**	10
Total comprehensive income for the period	**69**	129

Bank statement of financial position as at 31 December

Assets

	2013 EUR million	2012 reclassified EUR million
Cash and cash equivalents	**737**	604
Obligatory reserve with the Croatian National Bank	**1,054**	1,039
Loans to and receivables from banks	**1,040**	1,238
Financial assets at fair value through profit or loss	**214**	124
Loans to and receivables from customers	**9,274**	9,127
Available-for-sale financial assets	**1,025**	1,063
Held-to-maturity investments	**158**	114
Investments in subsidiaries and associates	**141**	122
Investment property	**4**	4
Property and equipment	**148**	156
Intangible assets	**18**	19
Deferred tax asset	**37**	31
Tax prepayment	**13**	10
Other assets	**82**	76
Total assets	**13,945**	13,727

Supplementary EUR financial statements - unaudited (continued)

Bank statement of financial position as at 31 December (continued)

Liabilities and equity

	2013 EUR million	2012 reclassified EUR million
Liabilities		
Current accounts and deposits from banks	**1,730**	1,737
Current accounts and deposits from customers	**8,176**	8,037
Financial liabilities at fair value through profit or loss	**143**	75
Borrowings	**1,707**	1,636
Provisions for liabilities and charges	**48**	48
Other liabilities	**84**	102
Deferred tax liability	**4**	2
Total liabilities	**11,892**	11,637
Equity		
Issued share capital	**839**	849
Share premium	**441**	447
Treasury shares	**(1)**	(1)
Other reserves	**78**	79
Fair value reserve	**15**	7
Retained earnings	**681**	709
Total equity	**2,053**	2,090
Total liabilities and equity	**13,945**	13,727

Shareholders' information

Share information

The security code for the ordinary shares is as follows:

Shares (Class)	Symbol	ISIN Code
Ordinary Shares	ZABA-R-A	HRZABARA0009

Shares performance in 2013 on the Zagreb Stock Exchange:

	ZABA-R-A
High (HRK)	40.90
Low (HRK)	24.70
Last (HRK)	29.00
Trading Volume / No. of Shares	1,050,980

Bank shareholders' structure 31 December 2013

International investors	**96.28%**
- UniCredit Bank Austria AG	*84.47%*
- Allianz SE	*11.72%*
- Other	*0.09%*
Companies in private ownership	**1.87%**
Individuals	**1.51%**
Public sector	**0.29%**
Treasury shares	**0.05%**

Ratings

		31.12.2013	**31.01.2014 *(update)***
Standard & Poor's	Counterparty Credit Rating	BB+/Negative /--	BB/Stable
Fitch Ratings Ltd.	Long Term Issuer Default Rating	BBB	BBB
	Short Term Rating	F3	F3
	Viability	bb+	bb+
	Support	2	2
	Outlook	Negative	Negative

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