HRVATSKA POŠTANSKA BANKA d.d.

Annual report
For the Year Ended December 31 2013

Zagreb, March 2014

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Contents

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Introduction

Annual Report comprises summary of financial information, description of operations and the audited financial statements, including Independent auditors' report for the year ended 31 December 2013, in Croatian and English.

Legal form

Annual Report comprises annual financial statements prepared in accordance with accounting regulations applicable to banks in the Republic of Croatia and audited in accordance with International Standards on Auditing.

Annual Report is prepared in compliance with the Accounting Law and the Companies Act, which prescribe reporting by the Management Board to shareholders at the General Assembly. According to the Accounting Law the statutory financial statements are statement of financial position, income statement with statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the financial statements, and the Companies Act, paragraph 250.a and 250.b, prescribes submission of the Annual Report showing the position of the Bank and other members of the HPB Group and consolidated Annual Report of the Group.

Abbreviations

In the annual financial statements, Hrvatska poštanska banka d.d. is referred to as “the Bank” or “HPB”, Hrvatska poštanska banka Group is referred to as “HPB Group” or “the Group” , the Croatian National Bank as “the CNB”, the Republic of Croatia as “RH” and Croatian Bank for Construction and Development as “HBOR”.

Exchange rates

The following CNB exchange rates were used for translation of foreign currencies into Croatian kuna:

31 December 2013	EUR 1 = HRK 7.637643	USD 1 = HRK 5.549000
31 December 2012	EUR 1 = HRK 7.545624	USD 1 = HRK 5.726794

Summary of operations and key financial indicators

in HRK million

Group	2013	2012	2011	2010	2009
Key indicators					
Net profit/ (loss) for the year	36	102	86	52	(447)
Total assets	18,598	17,266	16,692	14,978	14,108
Loans and advances to customers	11,754	10,769	9,709	8,946	7,869
Deposits	15,103	13,634	12,988	11,381	10,701
Equity	1,445	1,411	1,243	1,182	637
Other indicators					
Return on share capital	3.70%	10.57%	9.10%	5.40%	-68.29%
Return on assets	0.19%	0.59%	0.51%	0.35%	-3.17%
Operating expenses[1]/operating income ratio	63.90%	63.61%	71.03%	71.62%	85.45%

Bank	2013	2012	2011	2010	2009
Key indicators					
Net profit/ (loss) for the year	42	94	88	51	(449)
Total assets	18,357	17,045	16,452	14,787	13,981
Loans and advances to customers	11,656	10,679	9,622	8,873	7,823
Deposits	14,885	13,449	12,766	11,208	10,585
Equity	1,453	1,411	1,255	1,190	647
Other indicators					
Return on share capital	4.39%	9.73%	9.08%	5.26%	-68.59%
Return on assets	0.23%	0.55%	0.53%	0.34%	-3.21%
Operating expenses[1]/operating income ratio	62.48%	63.63%	70.15%	71.00%	85.37%
Regulatory capital	1,573	1,669	1,492	1,654	1,012
Capital adequacy	13.51%	14.89%	14.23%	16.82%	10.13%
Return on capital [2]	3.22%	7.81%	8.00%	5.99%	-59.07%
Return on capital – Croatian banking sector	1.41 %	5.39%	7.85%	6.81%	6.64%

[1] general and administrative expenses, depreciation and other expenses

[2] return on average capital represents a ratio between net profit after tax and average core regulatory capital, calculated according to the methodology prescribed by the Croatian National Bank

President of the Supervisory Board's Statement of Condition

esteemed shareholders, it brings me great pleasure to present financial results for the year ended December 31 2013, on behalf of Supervisory board of Hrvatska poštanska banka.

Apart from taxing unfavourable economic movements, banking sector in Croatia had to bear additional burden of new and more rigid regulation. This is primarily reflected by credit institutions' profit decline by 73.1 percent in 2013 due to provisions for impariment losses. Furthermore, bad loans have increased by 13.4 percent on sector level, which could, absent significant growth, impact proft margins in the future, especially if one takes into account that assets on sector level have decreased by 0.4 percent during 2013.

Considering that owners of foreign subsidiaries expect certain level of return on their invested capital, which did not materialize in 2013, we have witnessed a drop in borrowings from foreign owners by 15.2 percent as well as sector's equity decrease by HRK 1.8 billion.

Contrary to these negative movements, Hrvatska poštanska banka has accomplished a significant assets' growth rate (+7.7 percent), thereby increasing its market share to 4.6 percent. Assets' growth was based on loan activity, as reflected by gross loans spike by 10 percent. Loan support was extended to companies (+8.7 percent), but retail demand was also satisfied (+8.0 percent). Assets' growth was financed mostly by deposits, which have increased by 9.3 percent. Clients' confidence has been retained – retail term savings as per 2013 year-end amount to HRK 5.8 billion, with annual growth rate of 5,9 percent.

We are especially content that the Bank managed to maintain last year's level of operating profit (=HRK 265.8 million). Decrease of total gross income (-4.4 percent) has been wholly compensated with efficient cost management, resulting in a 5.3 percent decrease of total operating expenses. Meanwhile, as mentioned before, regulation changes resulted in an increase of total impairment losses by 29.7 percent. Therefore, net profit amounts to HRK 42.4 million, with earnings per share equaling HRK 48.30.

With Bank's products becoming better, demand for them increases. Bank has therefore invested in partial reconstruction of its business network, as well as Zagreb headquarters, during 2013. Hence, over 600,000 clients has at their disposal Bank's business network of 60 business units as well as distribution network comprised of 344 ATMs.

I would like to express congratulations to all Hrvatska poštanska banka's employees for accomplishing a significant step on the competitive banking market. I would also like to thank the Management Board for leading the Bank well, and would also like to thank my colleagues in the Supervisory Board on their cooperation. Above all, I express my thanks to clients for the confidence that they have put in us, that we have an obligation to justify on mutual satisfaction.

Dražen Kobas
President of the Supervisory Board

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President of the Management Board's Statement of the Bank's Condition

Dear clients and shareholders,

it brings me great pleasure to present to you results of Hrvatska poštanska banka for the year 2013. Our results prove that we have successfully overcome all the challenges of another business year and reflect our business orientation on sustainable growth in stagnant economic conditions that even HPB Group is not immune to. However, through strong and consistent leadership, as well as endurance on operation level, HPB has adjusted itself to negative domestic economic movements. Management Board is confident that innovation that we incite in all employees will contribute to realization of all opportunities and potentials that this proud institution has.

Unconsolidated financial results of Hrvatska poštanska banka

Bank's assets amount to HRK 18.4 billion as per 2013 year-end, representing an annual increase of 7.7 percent. Growth rate that was accomplished in conditions of slight assets decrease on sector level during 2013 (-0.4 percent), has resulted in Bank's market share increase to 4.6 percent. Positive growth trend over the last couple of years has therefore been continued.

Meanwhile, in spite of all external processes that had limiting effects on profitability, Bank has achieved solid profit in 2013 as well. Accordingly, **net profit** for the year amounts to HRK 42.4 million. Profit decline is a consequence of regulation changes prescribing new rules for impairment calculation. Accordingly, despite achieving last year's level of **operating profit** (HRK 265.8 million), 84 percent of operating profit was abstracted for impairment losses, as opposed to 65 percent in 2012.

Lower **interest income** (-5.2 percent) is partially derived from loan interest rates' decrease during the year, which was our response to market competition challenges. Other important factor impacting interest income was the inability to collect interest during prebankrupcy proceedings where Bank is involved as a creditor. However, successful resumption of companies' operations after prebankrupcy settlement should contribute to Bank's results in the future.

At the same time, decline of passive interest rate has resulted in a 7.4 percent decrease in **interest expenses**. **Net interest income** decrease has therefore been reduced to 3.3 percent.

Effective sales management and product development has resulted in **net fee and commission income increase** – by 4.6 percent during 2013. Continous implementation of new card and direct banking products has been acknowledged by the clients. Transaction banking income decline was therefore largely compensated, with the Bank still being among the market leaders – with a 19.8 percent share in total number of transaction carried through NKS (national clearing system in Croatia) during 2013.

In spite of not reaching last year's level of **gains from FX and securities trading** (-3.9 percent), Bank is still successfully trading on the FX and capital markets. Despite lower transaction volume and narrow spreads, gains amounting to HRK 47.1 million have been recorded during 2013.

We have been prepared for adjustments that were needed, which is best reflected by continued rational cost management. This was one of the important tasks set before us when we received mandate to manage Hrvatska poštanska banka. After 6.8 percent decrease during 2012, **general and administrative expenses and amortization** have decreased by further 4.8 percent during 2013. Income decline (-3.0 pecent) was in this way neutralized, which is confirmed by **C/I** efficiency indictor's improvement to 62.5 percent.

Loan business has remained in focus of the Bank's business activities. Accordingly, **gross loans to customers** have increased by 10.0 percent during 2013, wherein corporate loans increased somewhat stronger than retail loans (+10.9% versus +8.0%, respectively). I would like to emphasize that the Bank continued to grow significantly in this segment during a yeaer when the system as a whole achieved a minimal growth rate of 0.8 percent.

Bank is still primarily financed by **deposit** collection, which is a business model applied by almost every credit institution in Croatia, with regard to outflow of foreign sources of funding during last couple of years. In such fierce market conditions, Bank has confirmed its recognizable position as an accessible and innovative national Bank, as reflected by HRK 1.4 billion increase of total deposits during 2013. Total deposits have therefore reached HRK 14.9 billion. As before, I am proud to emphasize retail deposit growth by 3.7 percent.

Capital adequacy ratio equals 13.51 percent as per 2013 year-end, representing a 1.4 percentage point decrease in comparison with 2012, but still being higher than regulatory minimum. Capital adequacy decline in 2013 is a consequence of higher capital requirements, as well as exlusion of hybrid instruments one year before maturity from regulatory capital calculation.

Maintaing high quality of services requires investments in client accessibility. Accordingly, Bank has improved its business network during 2013 by opening new business units (outlet in Sisak, second outlet in Osijek), by moving old units to better locations (Vukovar outlet), and by closing a small number of locations where clients' needs are in most part already covered (old Šibenik outlet and Osijek detached teller). Total number of business units as per 2013 year end equals 60. With over 1,000 postal offices in Croatia where Bank's services are also offered, HPB enables it's clients to have access to most wide-ranging banking network in Croatia. Bank has also continued with simultaneous expansion of ATM network (+8.5%) and EFT-POS terminals (+0.8%).

Consolidated financial results of HPB Group

HPB Group, apart from parent company – Hrvatska poštanska banka, comprises HPB Stambena štedionica, HPB Invest (investment fund management company) and HPB Nekretnine (company specialized in real estate business). Each subsidiary was profitable in 2013. In so doing, HPB Stambena štedionica realized net profit amounting to HRK 0.7 million, HPB Nekretnine HRK 0.7 million, whilst HPB Invest generated a net profit of HRK 0.4 million.

Group's consolidated 2013 after-tax profit amounts to HRK 35.7 million, and is lower than parent's net profit due to certain internal transactions having been eliminated from consolidated results of the Group. Owing to parent's growth, Group's assets have increased by 7.7 percent and and amount to HRK 18,6 billion.

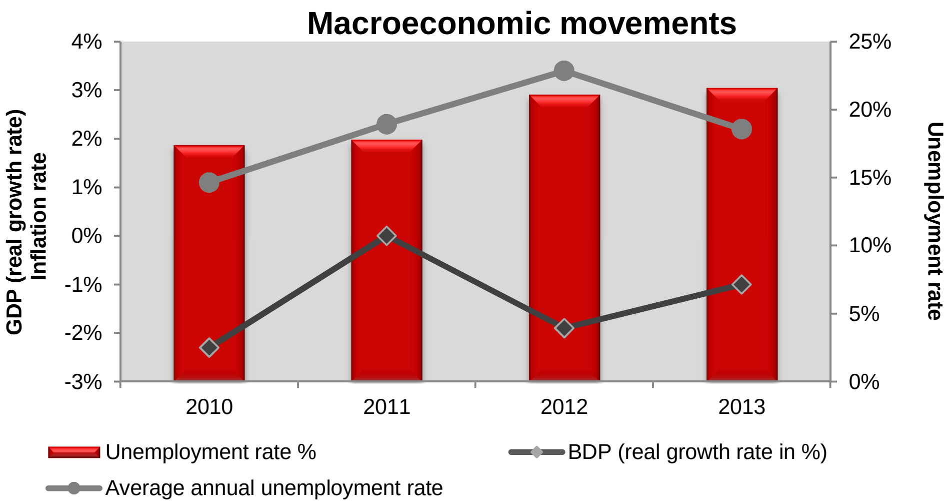
Clients' trust is most important to us, so I thank them for giving it to HPB Group. As a Bank focused on financing corporate and retail clients, we shall continue to endeavour to improve relationship with the clients, and at the same time providing them with products and services that should satisfy their growing needs. I would also like to thank all employees of the Bank and other Group members on their efforts to make Hrvatska poštanska banka what it is today – stable and innovative bank with pronounced social responsibility.

Finally, I thank all shareholders and Supervisory Board members on their support over the years for our endeavours to achieve the best return on invested capital and to create permanent value for Croatian society.

Čedo Maletić
President of the Management Board

Macroeconomic movements in Croatia

World economic growth during 2013 had few impacts on Croatia, where real GDP growth did not occur. Real GDP actually decreased by 0.6 percent during Q4 2013. Such decline of economic activity is derived from decreased exports combined with domestic consumption slump. Taking into account 2013 as a whole, economic activity decreased by 1 percent, representing the fifth year of economic contraction in Croatia.
As a consquence of such movement, employment has fallen further. Inflationary pressures have somewhat abated due to weak consumption and decline in imported inflation. Positive movement of current account balance is induced by decreased goods imports, and is not based on increasing goods exports as in comparable countries.



Source: Croatian Bureau of Statistics, Croatian National Bank

Banking sector in Croatia

Banks' assets has decreased by 0.5 percent during 2013 due to exposure to real sector and individuals decreasing, with available funds directed to sovereign financial instruments. Accordingly, aggregate assets (without housing banks) has amounted to HRK 398.1 billion as per 2013 year-end (2012: 399.9 billion). Increase in financing fiscal needs of general state is visible by 15.0 percent increase in loans compared to last year. Banks' focus on low risk placements clearly reflects banks' orientation on low risk placements to state corporations and to local and central government. Prebankrupcy agreements, whose purpose is to ensure liquidity and solvency of debtors, are also having impact on restructuring process. Only few agreements have been settled so far. In spite of lower costs of foreign debt, which is decreasing after growing in 2012, banks are continuing with optimization of liabilities structure – in absence of loan growth, they are continuing with deleveraging towards owners.
Banks' business results for 2013 are significantly weaker than in previous year due to provisions for impairments, while mentioned focus on safe placements could represent limiting factor on profitability in the long run. Lower interest income combined with higher impairment losses due to enacted rigid regulation on calculation of recoverability of bad loans, have lead to net profit drop by 73 percent.

Labour market

End of 2013 was marked with particularly unfavourable movements on the labour market in line with negative movements of economic activity. Strongest quarterly decrease in number of employed individuals since the beginning of recession has been recorded in Q4 2013. Drop is evident in all industries, and especially in public service, commerce, construction and some service industries. Modest growth of nominal gross wages has been achieved in 2013, but due to consumer prices rising, purchasing power of average wage has continued to decrease for the fourth year in a row.

Inflation

Inflation started to abate by the end of 2013. Accordingly, average inflation rate measured by consumer price index has decreased by 1.2 percent compared to 2012, and equalled 2.2 percent. Due to decreasing prices of food raw ingredients on the world markets and stronger competition on domestic market after EU assension, food contribution to inflation has decreased. Absence of domestic inflationary pressures on cost and demand side is prevalent for some time now. Unfavourable movements in labour market are contributing to this. Meanwhile, slower growth of consumer prices is a result of weakened imported inflation.

Foreign trade

In spite of increased negative current account balance in Q4, a surplus of 1.3 percent of GDP was achieved in 2013 as a whole, owing to positive movements in the first three quarters. Positive result was largely influenced by reduced capital transfers deficit. Due to lower profit realized bx companies and banks in foreigh ownership, paid dividends is lower compared to previous years.

Monetary policy

CNB continued to support high liquidity of the banking system throughout the whole of 2013, thereby continuing its orientation on expansive monetary policy. Obligatory reserve was reduced from 13.5 to 12 percent in December. Meanwhile, banks had to purchase compulsory bills of Croatian national bank which will be released depending on corporate placements' growth during 2014. Average surplus of HRK funds on banks' settlement accounts was around HRK 4.9 billion by the end of 2013. Therefore, average intra-bank interest rate has been on low levels.

As in year before, HRK appreciation towards EUR was temporarily halted during the tourist season, after which EUR appreciated until the end of the year. At annual level, HRK depreciated by 1.2 percent, with EUR/HRK rate equalling 7.637643.

Public finances

According to data available for the first three quarters of 2013, general consolidated state revenue are 0.7 percent lower compared to the same period last year as a consequence of lower income from direct taxes, lower income from social contributions and lower income from taxes on sales of goods and services. State has financed this income drop by new debts. Majority of neccessary funds were secured on domestic capital market. Also, a bond was issued on American capital market, amounting to USD 1.75 billion. Funds collected this way were deposited with the CNB with the purpose to finance needs during 2014. Public dect has increased in 2013, equalling HRK 219.4 billion (or 67 percent of GDP) as per 2013 year end.

Description of the Group's operation

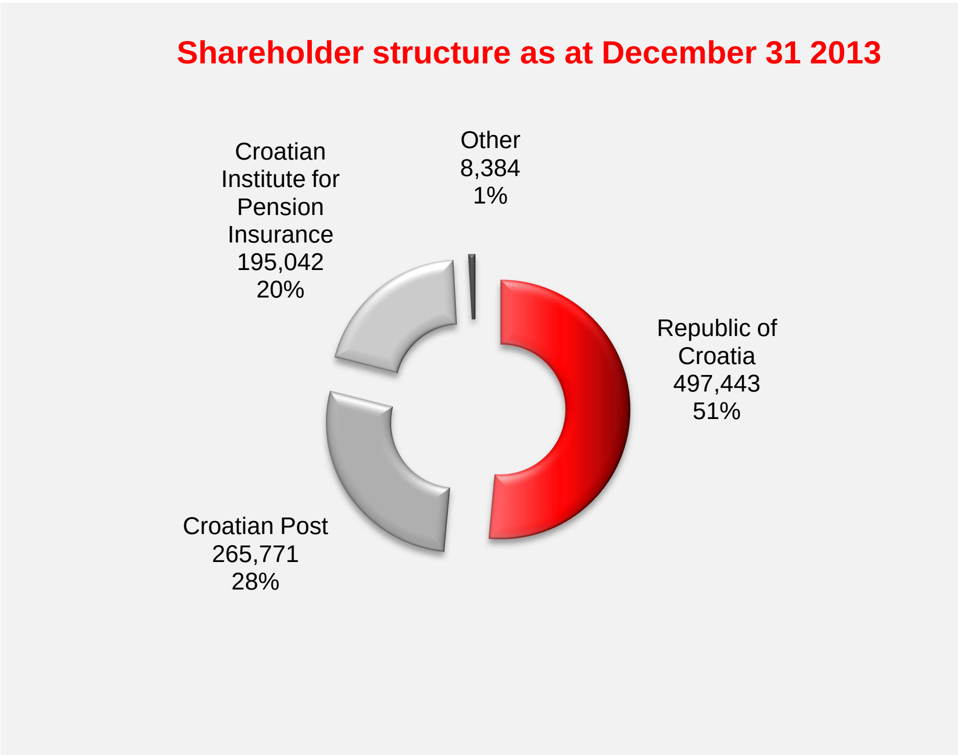
Hrvatska poštanska banka d.d.

Hrvatska poštanska banka d.d., Zagreb, was founded and registered as a joint stock company in accordance with regulations applicable in Republic of Croatia, and is authorized to perform banking activities in the Republic of Croatia. Bank’s Management Board is located in Jurišićeva 4, in Zagreb. As per December 31 2013, Bank operated through eight branches, forty two outlets and ten detached tellers.

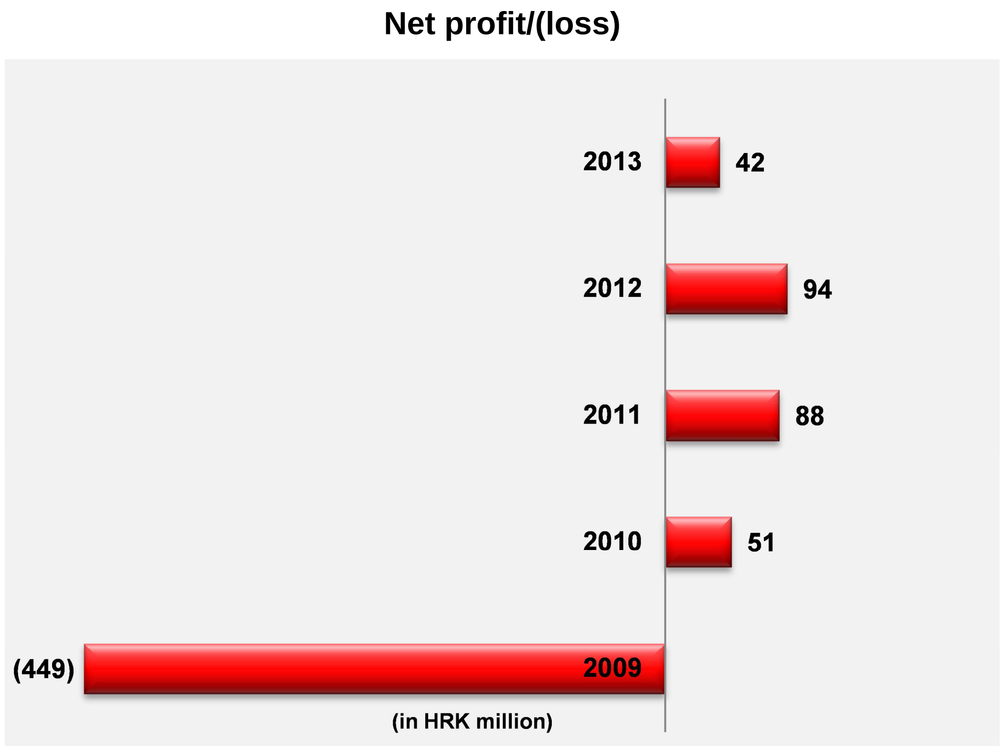
Bank's main activity comprises all kinds of deposit and loan operations for corporate and retail customers in domestic and foreign currency, performing domestic and foreign payment transactions, issue of guarantees, sureties and other forms of guarantees, foreign currency and securities trading, and other banking activities.

As a bank under domestic ownership, HPB is ranked seventh among 30 banks in Croatia, with assets amounting to HRK 18.4 billion.

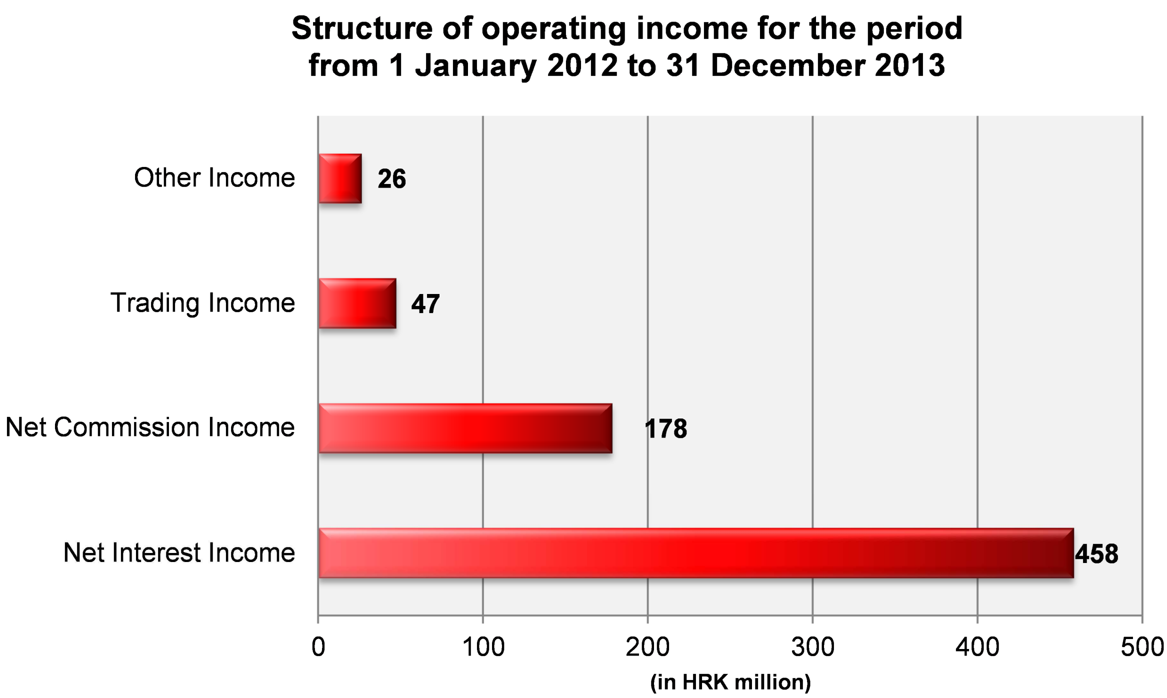
Bank is 100% owner of HPB Stambena štedionica d.d., HPB Invest d.o.o., investment fund management company, and HPB Nekretnine d.o.o., company for real estate and construction, which together form the HPB Group.



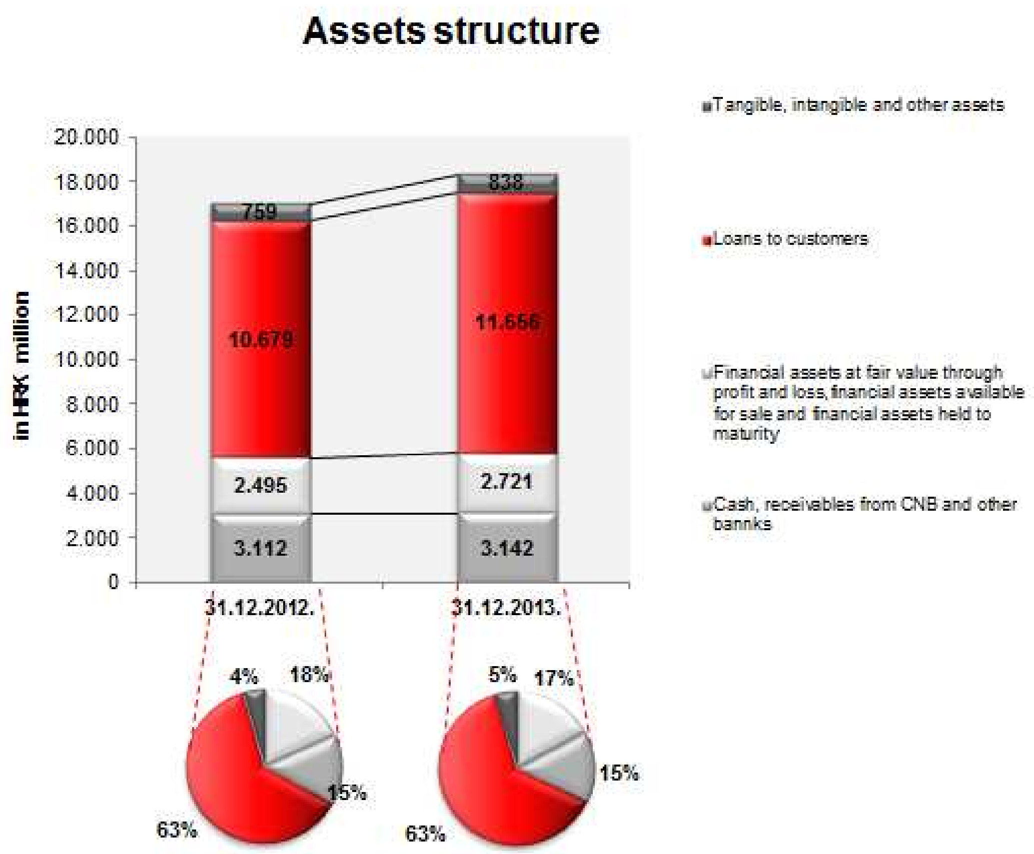
Bank has realized profit after tax in the amount to HRK 42.4 million during 2013. Profit before provisions for impairments amounted to HRK 265.8 million. Provisions for impairment losses on loans and other assets amounted to HRK 237.0 million. Meanwhile, a reversal of provisions for expenses and liabilities has been recorded in amount of HRK 14.0 million.



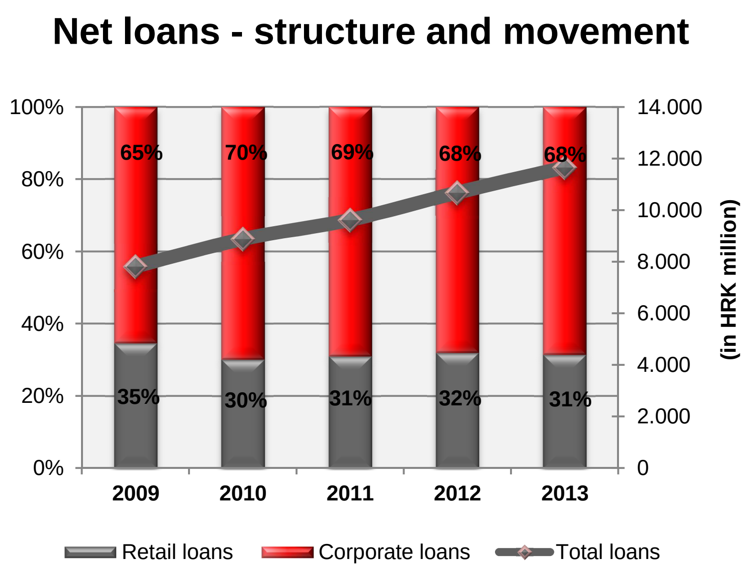
Total operating income decreased by 3.0% compared to 2012. Net interest income, amounting to HRK 457.8 million is generating a share of 64.6% in total operating income.



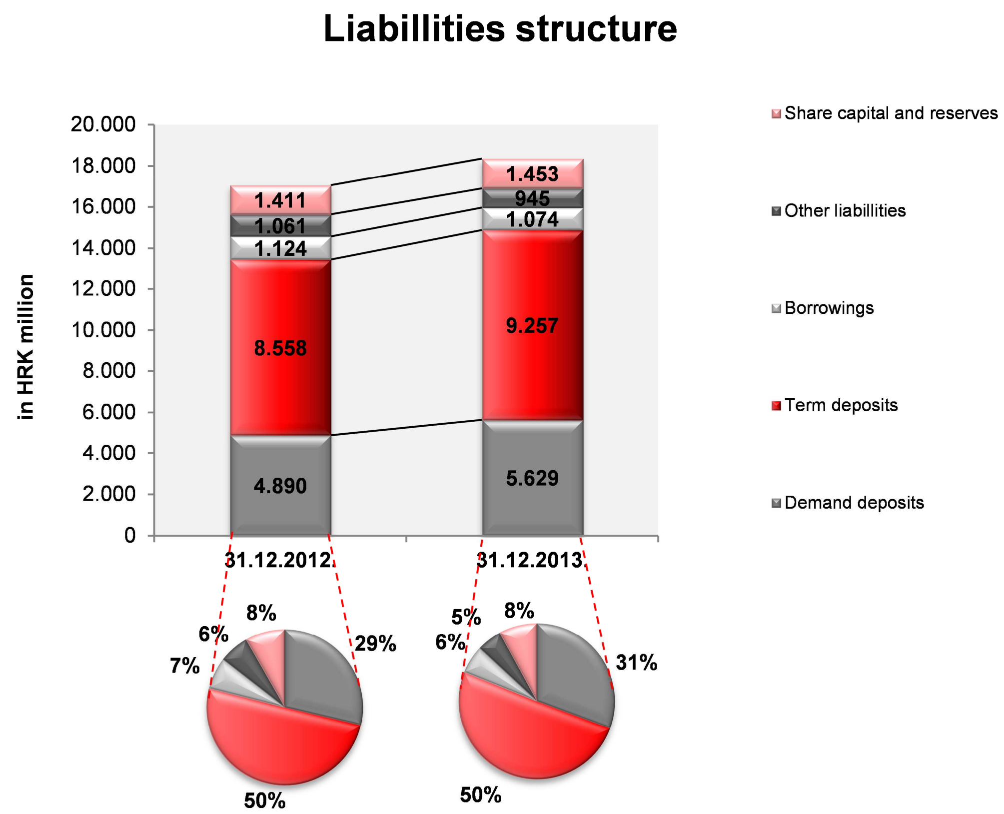
At 2013 year-end, Bank's assets amounted to HRK 18,357 million, representing a HRK 1,312 million increase (+7,7 percent) compared to 2012. Loans and advances to customers represent the majority of Bank's assets with a share of 63.5%. Furthermore, placements with and loans to other banks, CNB obligatory reserve and other cash funds represent 17.1% of assets. Financial assets available for sale follows with a share of 8,8 percent.



Total loans amounted to HRK 11,656 million, having increased by HRK 976,6 million compared to 2012. Increase of corporate loans' share within the structure of net loans to customers is clearly observable and equals 69 percent as per 2013 year-end. Retail loans' share has consequently decreased and equals 31 percent.

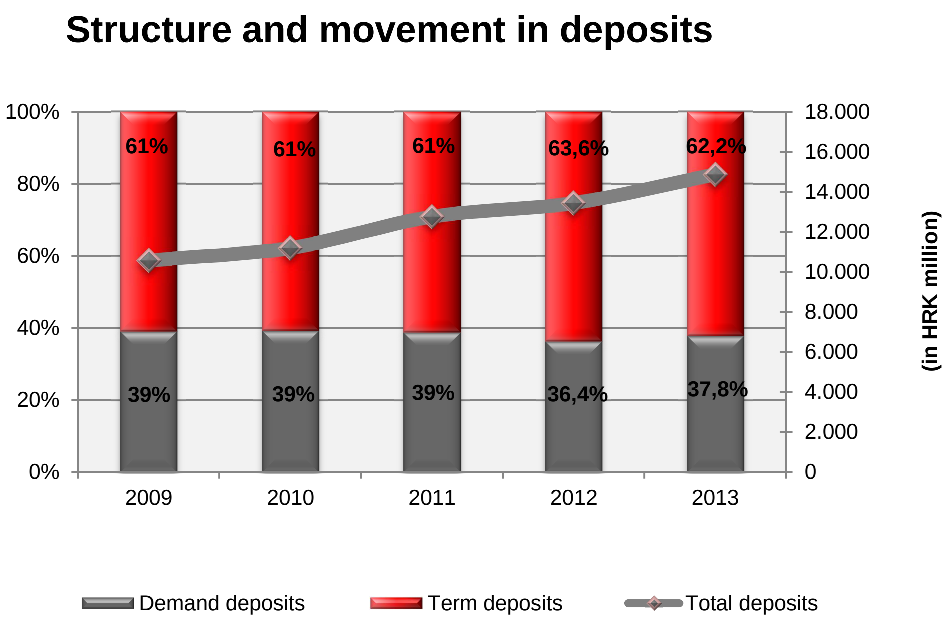


Term deposits form the slight majority within the liabilities' structure with a 50.4 percent share, followed by demand deposits with a 30,1 percent share, representing an increase of 1.4 percentage points compared to 2012.



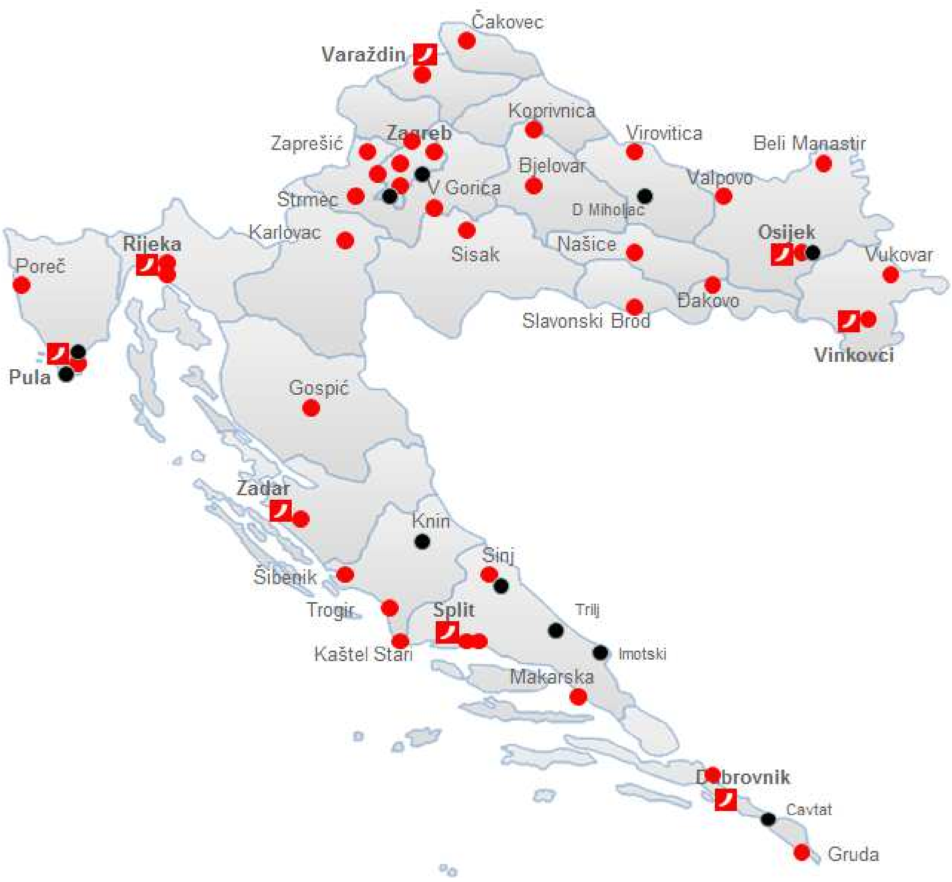
Deposits from customers increased by 9.3% during 2013 (+HRK 1,205 million). Total deposit growth (including deposits received from banks) amounts to HRK 1,436 million or 10,7 percent.

Deposit structure is still dominated by term deposits (62.2%). By increasing 15.1 percent, demand deposits have also increased their share in total deposits from 36.4 to 37.8 percent.



Retail operation

HPB performs retail operation through its own operational network which comprises 8 branches, 42 outlets and 10 detached tellers. Retail services are also offered through more than 1,000 postal offices throughout the territory of Republic of Croatia.



Bank has enabled access to its products and services to clients by opening new business units, and by moving existing units to better locations, while simultaneously increasing functions and services' palette in new organizational units. Accordingly, Bank's business network comprises 60 business units as per 2013 year-end. Bank has also continued to improve its distribution channels of direct banking services by installing 27 new ATMs and 15 EFTPOS terminals. At the end of 2013, Bank had its own network of 344 ATMs and 1,930 EFTPOS terminals.

Implementation of new loan and savings products has contined in 2013, with products being adjusted to clients' needs. Also, sales promotions are regularly held and quality of service has increased. Bank has in this way secured clients' loyalty and acquired new clients. Last year was also marked with reconciliation between legal regulations with European directives after Croatian assension to the EU.

Retail deposit constitute 54.3 percent within overall deposit structure. They have increased by 3.7 percent during 2013 and amount to HRK 8,08 billion as per 2013 year-end. Therein, demand deposits amount to HRK 2.22 billion, and term deposit amount to HRK 5.86 billion, representing a 5.85 percent increase.

Growth of term deposits was driven by quality of service, clients' loyalty, excellent marketing campaign, and Bank's recognition as a safe financial player within Croatian banking industry.

Gross retail loan portfolio amounted to HRK 4.1 billion at December 31 2013. Within total gross loans structure, retail loans have a share of 31.6 percent.
Within retail loans structure, major part relates to commercial loans followed by overdrafts. Meanwhile, share of housing loans is increasing, with a growth rate of 13.4 percent (+HRK 90.0 million) during 2013.

By implementing special offer of products and services, Bank has created conditions for direct presentation and active sales to targeted client groups. Owing to this, range of cooperation with state institutions has expanded.

Significant growth of product sales has occurred during 2013, as reflected by weekly sales average of 5.81 products per one employee in business network.

Among other retail activities, we would like to emphasize continuous improvement of business cooperation with Hrvatska pošta and Financijska agencija.

Corporate operations

Corporate division provides banking services for more than 9,400 active clients, ever striving to improve services and introduce innovations in order to meet customer needs better.

Corporate operations were primarily impacted by continuation of economic crisis and slow economic recovery in Croatia. However, even during this macroeconomically challenging period, many positive developments have been achieved in this segment.

Accordingly, gross corporate loans increased by 10.9% compared to 2012, and at the end of 2013 amount to HRK 8.8 billion.

Loan structure is dominated by loans to companies with a share of 63.8%, followed by loans to government units representing 31.9% of total corporate loans. Remainder of corporate loans is comprised of loans to financial institutions.

As per 31 December 2012 total deposits of corporate entities (excluding bank deposits) amounted to HRK 6.1 billion, wherein demand deposits increased by 25.6 percent and term deposits by 9.7 percent during 2013.

As always, Bank will continue to intensively collaborate with and offer loan support to corporate entities, state units and local-municipal units, while maintaing high standards in credit risk management.

Operations on financial markets

Treasury

Bank’s and Treasury’s operations on money market during 2013 was very challenging, due to extremely high liquidity of the system and low interest rates on domestic and international money markets. Bank has additionaly improved its cooperation with open-end investment funds management companies. Meanwhile, aiming to achieve higher returns, Treasury’s cooperation with foreign partners has also been expanded in short-term and long-term securities segment.

Bank has the whole time maintained its position as one of the leading banks in domestic money market, while simultaneously keeping coefficients and liquidity ratios within prescribed limits.

Apart from usual FX rate fluctuations during summer months, 2013 was marked by EUR/HRK rate increase. Despite this, volatility was not pronounced as in previous years.

Sales section and Foreign currency trading section within the Treasury have increased the volume of activities in cooperation with corporate clients, through brokered FX spot and and FX swap contracts.

Bank is also continuously trying to improve cash management. In so doing, it offers competitive trading and cash-supply services in cooperation with *FINA gotovinski servis*. With broad branch and certified currency convertors, Bank remains one of the most significant participants on Croatian cash market.

Investment banking

Combined with financial intermediation services on domestic, regional and world capital markets, Bank has enhanced its activities in the segment of electronic trading and electronic trade-orders. Apart from easier access to information and easier placing of trade orders, this also represents a cheaper solution for the clients as well as for the Bank. Recorded increase in trade volumes is induced mostly by international markets’ growth, whilst domestic and regional markets, despite growing slightly, are still below pre-crisis levels.

Aiming to increase trading volume, Bank has enabled its clients to access international markets at lower rates, with additional liquidity. Namely, margin loan offer was improved by introducing margin loans to clients of companies that the Bank cooperates with.

Bank is still participating as one of the issuing agents in Croatian bond issues, and has therefore participated in bond issue by Croatian Ministry of finance during 2013.

In line with new regulation changes and requirements, Bank has improved its custody and depository services during 2013. Furthermore, by increasing significantly during 2013, assets under custody reached the level of HRK 4.04 billion.

Internal controls system and internal audit

Internal controls are a constituent part of the managing process of the management and all employees of the Bank and represent a reasonable guarantee that business goals will be achieved in a scheduled manner within a given time frame, by applying current regulations.

Additionally, goal of internal controls and control procedures is to ensure the precision and reliability of the Bank's financial data, and are divided to administrative-accounting controls, detection controls and correction controls.

Supervision of elements of internal control, which are established by internal acts and procedural documents, is carried out by accountable persons in business areas and by function of internal audit.

Application controls are largely incorporated within bank's processes. This ensures that these processes are carried out appropriately.

Principles of the internal control system are reflected through:

- clear lines of responsibility;
- separation of duties and activities;
- specific control procedures; and
- internal audit function.

Internal audit

Internal audit is organized as an independent organizational part, and is based on professional principles of internal auditing, alongside associated regulations.

Internal audit procedures are performed in accordance with general internal audit standards and regulatory requirements, in four phases, as follows:

- planning;
- research;
- reporting; and
- results monitoring.

Planning is based on documented risk assessment. Yearly Operational Program is adopted by the Management Board with prior consent of the Audit Committee and the Supervisory Board.

Report on audit results is submitted to accountable person within the subject of internal audit, and member of the Bank's Management Board in-charge, and Audit Committee. Audit reports on information system are submitted to the Operational Risk Committee and are subsequently submitted to the Management Board and the Audit Committee.

Development plan

Previous year was marked with continuation of economic crisis, lasting already several years in a row. Meanwhile, Bank has successfully answered these challenging conditions, as reflected by achieved business expansion. Sustainable growth in all segments, especially in loan operations and product sales, is a fundamental characteristic of the Bank's business model, and will remain our goul in spite of expected economic stagnation during 2014.

In line with our vision and mission, most significant benefit realized by the Bank during 2014 for its shareholders will be its position as a more relevant market participant. Meanwhile, continuous support to corporations will create benefits for the society as a whole. Bank's management is aware that current macroeconomic conditions are demanding, but through higher employee productivity and service quality improvements accomplished during last couple of years, these goals represent a frame that the Bank strives to achieve.

Bank's business network was comprised of 60 business units as per 2013 year-end. Bank is going to expand its operations during 2014 by opening 6 new outlets in areas where best return on investment is expected. Parallel to branch network expansion, significant increase of distribution channels is also planned – especially ATM network.

Bank will invest a part of funds in IT system, in order to meet demands of growing number of clients. Despite new investments, share of fixed assets in total assets will not increase during 2014.

Settlement of prebrankrupcy proceeding where the Bank is involved as a creditor, should result in limited increase of Bank's ownership stakes in companies. Considering that long-term focus is on loan operation, Bank does not intend to hold these ownership stakes, and will endeavor to sell them as soon as possible.

Regulation changes in 2014 combined with placements' growth, signify an increasing need for capital. Bank's management will therefore suggest that net profit for 2013 be allocated to retained earnings, after subtracting statutory reserve.

As a result of strategic partnership with Hrvatska pošta, Bank is one of the leaders in the transaction banking in Croatia. Bank's comparative advantage over other competitors is derived from synergistic effects arising from this partnership. As in previous years, Bank will undertake steps to increase efficiency and benefits in mutual operations.

Moves made by the Bank's management in previos period have resulted in improved operational efficiency and internalization of a large number of business processes. Within the given regulation frame, achieved cost efficiency, combined with planned business expansion and increased number of clients and products sold, should enable the Bank to confirm a long-term positive business trend in 2014 as well.

Risks exposure

Most important types of risks to which the Bank is exposed to are: credit risk, liquidity risk, market risk, currency risk, operational risk and interest rate risk in the non-trading book. Market risk includes risk of changes in FX rates, risk of changes in interest rates and risk of changes in prices of financial instruments.

Bank is subject to credit risk through its lending and investing activities and in situations where it acts as an intermediary on behalf of customers or other third parties. Bank's primary exposure to credit risk arises from loans and advances to customers. Amount of credit exposure in this regard, and in respect of held-to-maturity debt securities valued at amortized cost, is represented by the carrying amounts of the assets in the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance-sheet items, through commitments arising from undisbursed loans and guarantees issued.

Main categories of liquidity risk to which the Bank is exposed are: liquidity financing risk (structural liquidity risk) and market liquidity risk.

Exposure to market risk occurs in respect of balance sheet and off-balance-sheet positions recognized at market (fair) value, including financial assets held for trading, financial assets available for sale and positions denominated in foreign currency (including placements and liabilities linked to foreign currencies via foreign currency clause).

Exposure to interest rate risk in the non-trading book arises as a consequence of mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps) and various natures of interest rates (referent interest rates), by which the Bank brokers placements and sources of funding.

Operational risk is attributable to all of business activities, processes, products and systems of the Bank. Operational risk is a risk of an event which inflicts losses on the Bank, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk.

Detailed description of risk management of the Group and the Bank is outlined in note 2, within financial reports.

HPB Invest d.o.o.

HPB Invest d.o.o. (in further text referred to as Company) is a company for investment funds management, which was founded on July 19 2005 and is 100% owned by Hrvatska poštanska banka. Company started with operations on October 5 2005, and shareholder's capital amounts to HRK 5.0 million.

As per December 31 2013, the Company manages five open-end investment funds with public offer. Company also manages Umirovljenički fond, which is a special purpose fund, established by Croatian government, for repayment of pensioners' debt.

Total assets under management by the Company amount to HRK 548 million, representing a 12.8 percent increase from the beginning of the year.

Structure of assets under management is as follows:

Fund	**Assets under management HRK '000**	**Yield from the beginning of the year %**
HPB Dionički fond	23,611	9.23%
HPB Global fond	50,909	-3.57%
HPB Novčani fond	443,682	1.34%
HPB Obveznički fond	17,898	0.12%
HPB Euronovčani	12,274	2.78%

As per December 31 2013, balance sheet of the Company amounted to HRK 7.5 million. Company has achieved net earnings amounting to HRK 434 thousand.

Company had 14 employees as per 2013 year-end.

Development plan

Goal of the Company is investment fund management and growth of assets under management parallel to market share growth. Achievement of competitive yields and stronger sales activities directly targeting clients and distribution channels, represents a prerequisite for the above mentioned goals. Company will continue to be devoted to professional asset management as well as to providing high quality services to its clients in order to ensure the preservation of sustainable value growth of their financial assets. With continuous investment in development policy of the Company, which implies continuous professional, personnel, organizational and technological advancements, parallel to more and more demanding legal and regulatory adjustment of operations, long lasting and attractive range of funds and investment products should be ensured, that can, depending on investment goals, horizon and clients' risk appetite, with professional management and adequate yields, meet the needs of investors.

Risks

Most significant types of financial risks that the Company is exposed to are: credit risk, liquidity risk, market risk and operating risk. Market risk includes exchange rate risk, interest rate change risk and price risk. Company is not significantly exposed to liquidity risk, and according to assessment of the Company, no risk exists that it will not be able to settle its short term obligations. Most of the Company's assets are interest bearing, whilst most of the financial liabilities do not bear interest. Interest rate risk is linked with exposure to placements to banks. Company manages operational risks by its own.

HPB Stambena štedionica d.d.

HPB Stambena štedionica (in further text: “Štedionica“) is a credit institution which collects long-term savings with a purpose to resolve housing needs of depositors. Furthermore, it approves housing loans bearing fixed interest rates and with state subsidies.

As the fifth savings-bank on the market, Štedionica was founded in 2006. As per 2013 year-end it has 96,362 registered savings contracts, with a value of EUR 431.5 million.
Operations are performed through the branch network of Hrvatska poštanska banka, through postal offices of Hrvatska poštaand through authorized agents. HPB Stambena štedionica has 18 full-time employees.

Štedionica has brokered 13,873 new housing savings contracts during 2013. Hrvatska poštanska banka is defined as a primary sales channel, through which 11,579 contracts (84 percent) were contracted. Remainder of the contracts was brokered through Hrvatska pošta (1,989 contracts – 14 percent), with 305 contracts (2 percent) having been brokered through authorized agents.

Value of housing savings contracts that was approved during 2013 is higher by 136 percent compared to the previous year.

Štedionica has recorded an operating profit amounting to HRK 0.8 million during 2013, with net profit amounting to HRK 0.9 million.

As per 2013 year-end total assets of Štedionica amounted to HRK 306.4 million, representing an annual decrease of 7.0 percent.

Development plan

Further development of collaboration with Hrvatska pošta d.d., improvement of coordination in achieving mutual goals and developing products with Hrvatska poštanska banka, and development of IT support represent main foundations of Štedionica's business development. Štedionica continues with endeavours to positively contribute to Group's results.

Risks exposure

Risk management system in HPB Stambena štedionica is accomplished through internal risk management acts, through organizational structure with clearly defined responsibilities and authorizations with regard to risk management, through risk management process and through effective internal control system. Štedionica expresses its risk tolerance by defining targeted risk profile, while taking into account all demands impacting adequacy of available regulatory capital.
Most significant types of risks which could have impact on HPB Stambena štedionica are: interest rate risk in non-trading book, liquidity risk, market risks, credit risk and operational risk.

HPB Stambena štedionica evaluates interest rate risk in the non-trading book from two perspectives:

- perspective of economic value, e.g. possible market value deacrease of the non-trading book due to interest rate changes
- earnings perspective, potential decrease of net interest income due to interest rate changes on the market.

When measuring interest rate risk from the economic value perspective, simplified calculus is used for assessment of economic value of the non-trading book as prescribed by CNB's Decision on managing interest rate risk in the non-trading book, which takes into account adjusted entry data i.e. Adjusted model, which is applied by savings banks from October 20 2011.

When measuring interest rate risk from the earnings perspective, Štedionica applies basic simulation of parallel interest rate changes (positive and negative) observed over a time horizon of twelve months, and effects on realized annualized net interest income during the observed period (from the beginning of the year).

Liquidity risk management comprises assessment and measurement of liquidity risk exposure, setting liquidity risk limits, reporting, monitoring and controlling those limits. Liquidity risk management is realized through operative management of daily and short-term liquidity, as well as through structural liquidity management.

For assessment and measuring of exposure to market risks internal model of Hrvatska poštanska banka d.d. is used. This model is based on risk value method, which measures maximum potential loss that could be inflicted on Štedionica in a specific time period, with statistical reliability.

Credit risk management is based on evaluation of loan capacity of the debtor. Quality and value of the collateral obtained are also assessed, as well as historical regularity of debt repayment.

Quality of the loan portfolio is monitored by Risk control function, which reports quarterly to Štedionica's Management about the quality of loan portfolio with regard to risk group qualification and impairments made. Reports about the loan portfolio also comprise overview of quality by loan type, by large exposures, by loan concentration and geographical concentration.

In order to determine and estimate operational risk exposure, Štedionica collects and analyses internal data about certain events caused by operational risk. Also performed are self-assessments of exposure to operational risk and self-assessment of control quality, estimation of risks linked to externalization, risk assessment regarding IT system and analysis of effects of unavailability of resources for critical processes within the business continuity scope.

Štedionica's exposure to risks has been within limits defined by the law throughout the whole year.

HPB Nekretnine d.o.o.

HPB Nekretnine d.o.o. is a company specialized in real estate business which started its business activities in August 2005, and is fully owned by the Bank. Shareholders' capital amounts to HRK 0.5 million.

Primary business activities of HPB Nekretnine are: real estate value estimation, advisory services, project development and real estate transactions.

As per 31 December 2013, balance sheet of HPB Nekretnine amounted to HRK 33.2 million, with net profit for 2013 amounting to HRK 102 thousand.

Development plan

In the upcoming period focus will be on the active market promotion and on further improvements in quality of services rendered. Company's business and development policy will be built on expected rise in market demand for specific services which the Company offers, as well as for new services of energy certification. Company should therefore contribute to Group becoming more recognizable, and a synergy effect will be accomplished.

Risks exposure

Most significant types of risk that the Company is exposed to are: credit risk, liquidity risk, market risk and operational risk. Market risk includes exchange rate changes, risk of interest rate gaps and price risk. The Company manages its risks according to prescribed policies and procedures of Hrvatska poštanska banka, described in Note 2.

Statement on the application of the Corporate Governance Codex

Application of the Corporate Governance Codex

In accordnace with article 272 of Commercial Companies Law and Regulations of the Zagreb Stock Exchange, the Management Board and the Supervisory Board state that the Bank voluntarily implements the Corporate Governance Codex which was established by Hrvatska agencija za nadzor financijskih usluga (“HANFA”) and Zagreb Stock Exchange (Zagrebačka burza d.d. – „ZSE“). Also, the Bank implemented the Corporate Governance Codex for Commercial Companies in which Republic of Croatia has shares or stakes which was established by the Croatian Government („Narodne novine“, number 112/2010).

During 2013 business year the Bank deviated from the recommendations in stated Codes in sections which refer to calendar announcement of important occurrences on Bank’s web pages because it comprised general deadlines, whereat all important occurrences were publicly announced immediately after accurate dates had been set. Also, the Bank did not publish General Assembly's agenda, relevant information and documents in English, considering that over 99 percent of shares are owned by Croatian government, as well as due to minority shareholder structure. According to the Statute, Bank sets the condition for registration to participate in the General Assembly and verifying authorization, to ensure optimal organization of the General Assembly and to determine validity of voting authorization. Furthermore, participation and voting in the General Assembly by using modern communication technology is not possible, because no such requirements were made by shareholders. Supervisory Board did not determine long term succession plan due to regulations which determine appointment of management board members in credit institutions, or jurisdiction of management bodies over appointment of officials in legal entities with special government interest. In addition, Supervisory Board members’ fee is not determinated according to their contribution to the Company's performance, because it is regulated by Croatian Government's decision on fees to supervisory and management board members. During 2013, the Supervisory Board did not set up an appointment committee because of regulations which determinate authoritization for appointments in companies with majority state ownership. Furthermore, most of the auditing committee members are independent members who are not Supervisory Board members, and the commission's work departs from the recommendations for delivering financial statements and related documents to the auditing committee before public announcement, considering that these statements are submited to the Supervisory Board. A detailed explanation regarding implementation of stated Codes is presented in annual questionnaire which is publicly published and delivered to Zagreb Stock Exchange together with annual financial statements, and is also available on the Bank's web page.

Together with recommendations outlined in codes, and in accordance with credit institutions regulations, active efforts are made to improve corporate management of the Bank, by taking into account structure and Bank's organization, strategy and business goals, distribution of authorizations and responsibility with particular emphasis on efficient procedures for determination, measurement, monitoring and reporting on risks in Bank’s operations, as well as establishing corresponding internal control mechanisms.

A description of basic characteristics of internal supervision in the Company and risk management with respect to financial reporting is provided in descriptions of Bank’s operations in Note 2.

Significant shareholders and limitations on share rights

Republic of Croatia is shareholder with a share equalling 51.46 percent. Together with Hrvatski zavod za mirovinsko osiguranje and Hrvatska pošta, Republic of Croatia holds over 99% of total share capital and voting rights at the General Assembly, thereby entirely controlling the Bank. Besides this, there are no shareholders in Bank’s ownership structure with special controlling rights. According to Bank’s Statute, voting rights are not limited in any way, nor are there any other limitations with respect to the realization of voting rights.

Rules for the appointment and removal of Management Board members, bringing amendments to the Statute and certain Management Board authorizations

In accordance with Bank’s Statute, the Management Board consists of a minimum of two and a maximum of five members. Decision of the Supervisory Board from November 3 2011 outlines that the Management Board has four members. Members and the President of the Management Board are appointed by the Supervisory Board for a period of up to five years, and can be reappointed with no restrictions. Only individuals who meet the criteria prescribed by the law and sub-law regulations regarding bank operations, and who have the prior approval of Hrvatska narodna banka can be appointed as Management Board members. Supervisory Board can bring a decision to remove the President of the Management Board and Members of the Board when there are valid grounds for such a decision. President and Members of the Management Board can also resign by submitting their resignation in written form.

Statute can only be amended by General Assembly’s decision. A decision is considered brought if voted for by at least three quarters of share capital represented at the General Assembly. A proposed Decision on amendments to the Statue is submitted by the Management Board to the Supervisory Board, which is authorized to accept the proposal and submit it to the General assembly for consideration.

Bank’s Management Board is authorized, with prior written approval by the Supervisory Board, during the period of up to five years from December 30 2010, to bring one or more decisions to increase the Bank’s share capital with a cash payment, by issuing new shares where the total amount of such share capital increase must not exceed HRK 450,000,000.00. Bank’s Management Board is authorized, with the prior written approval of the Supervisory Board, with respect to shares issued based on the abovementioned authorization, to exclude priority in the subscription of new shares. Decisions regarding scope of rights from the shares issued based on the above-mentioned authorization, and of the terms and conditions for the issue of such shares, are made by the Management Board with prior written approval by the Supervisory Board. It is Supervisory Board’s obligation to grant all approvals based on a majority vote of all it’s members. In line with the decisions made in XXXI. General Assembly of the Bank, held on December 15 2010, Management Board is authorized to acquire Bank's treasury shares on regulated market or outside regulated market during a period of up to five years, where total amount of such capital regarding treasury shares, together with treasury shares that the Bank already owns, must not exceed one tenth of share capital.

Supervisory Board members and activities

Supervisory Board’s authorizations are regulated by Commercial Companies Act, Credit Institutions Act and the Bank’s Statute.
Supervisory Board has set up an Audit Committee as a supporting body.

Supervisory Board had following members during 2013:

Dražen Kobas	President
dr.sc. Nada Karaman Aksentijević	Deputy President
Sanja Martinko	Member
Marin Palada	Member
mr. sc. Niko Raič	Member

Members of the Supervisory Board do not possess Bank's shares or any other securities issued by the Bank.

Structure and operations of the Management Board

Authorizations, obligations and responsibility of the Management Board in managing Bank’s operations and representation of the Bank are as prescribed by Companies Act, Credit Institutions Act, Bank’s Statute and Rules of procedure of the Management Board.

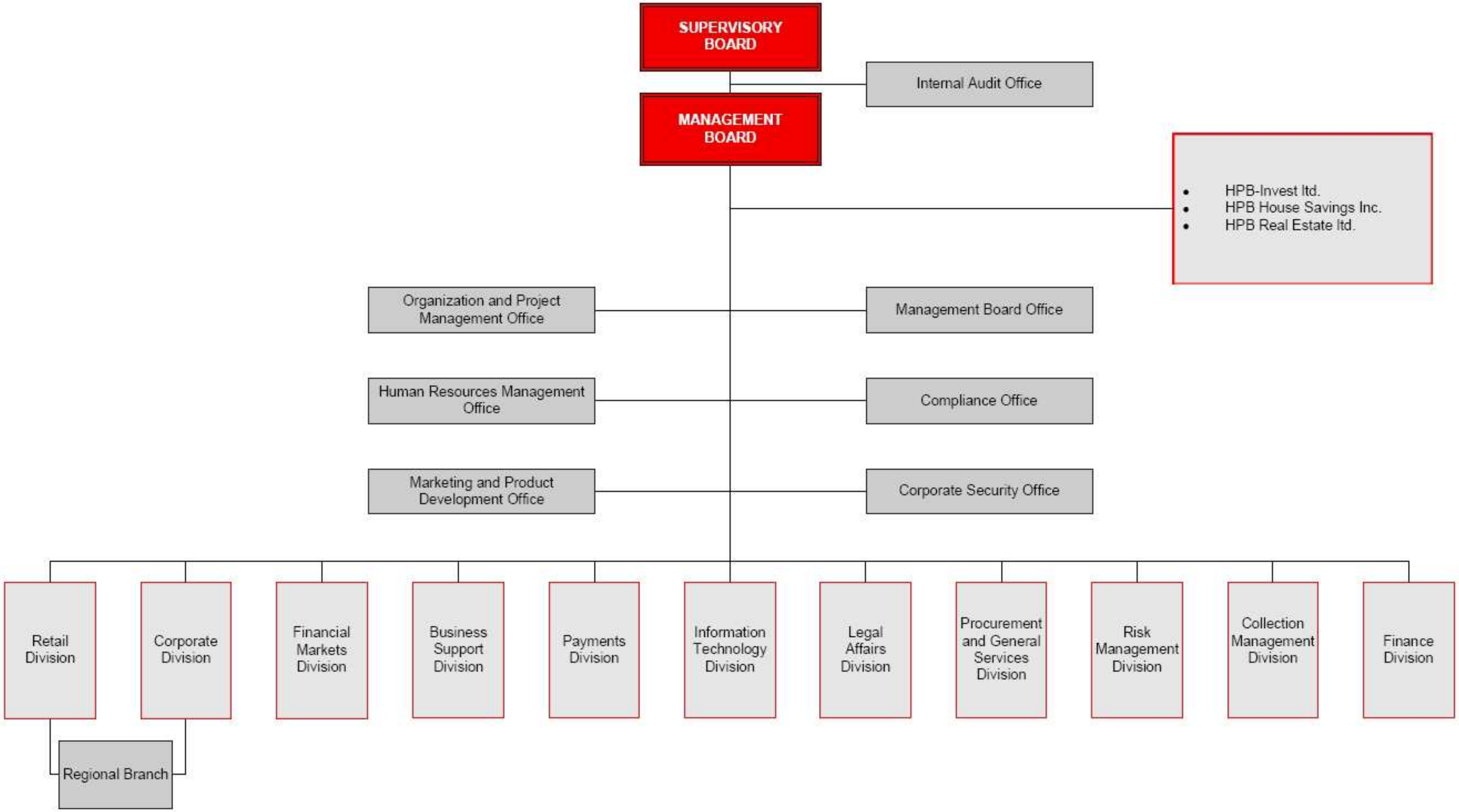
Management Board sets up permanent and temporary committees and delegations with respect to requirements of business processes. Permanent committees are: Loan Approval Committee, Assets and Liability Management Committee and Operational Risk Committee.

In 2013 the Management Board consisted of the following members:

Čedo Maletić	President
Dubravka Kolarić	Member
Tanja Šimunović	Member
Boženka Mostarčić	Member

The members of the Management Board do not possess the Bank's shares or any other securities issued by the Bank.

Organizational scheme of Hrvatska poštanska banka d.d.



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

Management Board of the Bank is required to prepare unconsolidated and consolidated financial statements of Hrvatska poštanska banka d.d. ("Bank") and its subsidiaries ("Group") for each financial year. These statements give a true and fair view of financial position of the Bank and the Group and of the results of their operations and cash flows, in accordance with applicable accounting standards. Management Board is also responsible for maintaining proper accounting records needed for preparation of such financial statements at any given time. Management Board has a general responsibility for taking available measures aiming to safeguard Bank's and Group's assets, and to prevent and detect fraud and other irregularities.

Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgments 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.

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

Unconsolidated and consolidated financial statements set out on pages between 41 and 157 were approved by the Management Board on March 25 2014 for their issue to the Supervisory Board, which is confirmed by the signature below:

In name of
Hrvatska poštanska banka d.d.:

Čedo Maletić
President of the Management Board

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Independent Auditor's Report

To the Shareholders of Hrvatska poštanska banka d.d. Zagreb:

We have audited the accompanying unconsolidated financial statements of Hrvatska poštanska banka d.d. Zagreb ('the Bank') and the consolidated financial statements of the Hrvatska poštanska banka d.d. Group ('the Group'), set out on pages 41 to 157, which comprise the statements of financial position at 31 December 2013, and the related statements of income, of other comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The Management Board of the Bank is also responsible for the preparation and fair presentation of the unconsolidated and consolidated financial statements in accordance with statutory accounting requirements for banks in the Republic of Croatia and for such internal controls the Management Board considers necessary for 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the unconsolidated and conslidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the 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 the Group's internal controls. 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 unconsolidated and conslidated financial statements.

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

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Independent Auditor's Report (continued)

Opinion

In our opinion, the unconsolidated and consolidated financial statements set out on pages 41 to 157 present fairly, in all material respects, the financial position of the Bank and the Group at 31 December 2013, and the results of their operations and their cash flows for the year then ended in accordance with the statutory accounting requirements for banks in the Republic of Croatia.

Other legal and regulatory requirements

i. Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Annual Financial Statements of Banks (Official Gazette No. 62/08; hereinafter: 'the Decision') the Management Board of the Bank has prepared reporting forms, set out on pages 158 to 173, which comprise the unconsolidated balance sheet at 31 December 2013, the unconsolidated income statement, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows for the year then ended, together with the notes about the reconciliations with the unconsolidated statutory financial statements. These forms and the notes thereto are the responsibility of the Bank's Management Board and they do not constitute a part of the financial statements prepared under the statutory accounting requirements for banks in Croatia, which are set out on pages 41 to 157, but rather a requirement imposed by the above-mentioned decision. The financial information provided in those forms have been derived from the statutory financial statements of the Bank.

ii. Pursuant to the Accounting Act, the Management Board is also responsible for preparing the Annual Report. 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 is consistent, in all material respects, with the information presented in the 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 at 31 December 2013.

Deloitte d.o.o.

Branislav Vrtačnik, certified auditor and President of the Management Board

Zagreb, 25 March 2014

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	Notes	Group 2013 HRK '000	Group 2012 HRK '000
ASSETS			
Cash and amounts due from banks	5	1,177,543	1,130,569
Obligatory reserve with Croatian National Bank	6	1,442,045	1,231,884
Loans to and receivables from banks	7	522,772	754,612
Financial assets at fair value through profit or loss	8	343,841	581,219
Financial assets available for sale	9	1,715,416	1,371,044
Financial assets held to maturity	10	821,305	685,417
Loans and receivables from customers	11	11,753,691	10,769,490
Assets held for sale	12	41,551	21,551
Property and equipment	14	147,987	146,462
Investment property	15	9,938	10,194
Intangible assets	16	168,709	195,350
Deferred tax assets, net	17	22,869	21,875
Tax prepayment		50	127
Other assets	18	430,070	346,435
TOTAL ASSETS		**18,597,787**	**17,266,229**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	8	370
Deposits from banks	20	741,207	509,518
Customer deposits	21	14,361,365	13,124,858
Borrowings	22	1,074,013	1,124,110
Hybrid instruments	23	410,802	410,148
Provisions for liabilities and expenses	24	42,748	57,596
Other liabilities	25	522,150	628,971
TOTAL LIABILITIES		**17,152,293**	**15,855,571**
EQUITY			
Share capital	26	966,640	966,640
Capital reserve	26	228,136	228,136
Treasury shares	26	(874)	(874)
Statutory reserve	26	8,458	3,755
Fair value reserve	26	45,941	46,788
Revaluation reserve	26	1,189	1,244
Retained earnings	26	196,004	164,969
TOTAL EQUITY		**1,445,494**	**1,410,658**
TOTAL LIABILITIES AND EQUITY		**18,597,787**	**17,266,229**

The significant accounting policies and other notes on pages 51-157 form an integral part of these financial statements.

	Notes	Group 2013 HRK '000	Group 2012 HRK '000
Interest and similar income	27	848,221	895,464
Interest and similar expense	28	(385,440)	(415,770)
Net interest income		**462,781**	**479,694**
Fee and commission income	29	549,742	554,844
Fee and commission expense	30	(356,729)	(370,750)
Net fee and commission income		**193,013**	**184,094**
Gains less losses arising from securities at fair value through profit or loss	31	2,594	15,517
Gains less losses arising from securities available for sale	32	8,607	4,225
Gains less losses arising from dealing in foreign currencies		36,088	37,772
Other operating income	33	15,007	35,763
Trading and other (expense)/ income		**62,296**	**93,277**
Operating income		**718,090**	**757,065**
General and administrative expenses	34	(405,876)	(422,644)
Depreciation and amortisation	14.15,16	(53,006)	(58,956)
Impairment losses on loans and receivables to customers and other assets	35	(236,917)	(149,295)
Provisions for liabilities and expenses	24	14.077	(24,269)
Operating expenses		**(681,722)**	**(655,164)**
PROFIT/(LOSS) BEFORE TAX		**36,368**	**101,901**
Income tax expense	17, 36	(630)	299
PROFIT/(LOSS) FOR THE YEAR		**35,738**	**102,200**

The significant accounting policies and other notes on pages 51-157 form an integral part of these financial statements.

	Group 2013 HRK '000	Group 2012 HRK '000
Profit for the year	**35,738**	**102,200**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation reserve	(69)	(69)
Income tax relating to items that will not be reclassified subsequently	14	23
	(55)	**(46)**
Items that may be reclassified subsequently to profit or loss:		
(Loss)/gain from financial assets available for sale	(2,103)	81,370
Income tax relating to items that may be reclassified subsequently	1,256	(16,274)
	(847)	**65,096**
Other comprehensive (loss)/ gain for the year	**(902)**	**65,050**
Other comprehensive income for the year, net of income tax	**34,836**	**167,250**

The significant accounting policies and other notes on pages 51-157 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2013

Group	Share capital HRK '000	Capital reserve HRK '000	Treasury shares HRK '000	Legal reserves HRK '000	Fair value reserve HRK '000	Revaluation reserve HRK '000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2012	**966,640**	**228,136**	**(874)**	**-**	**(18,308)**	**1,290**	**66,524**	**1,243,408**
Revaluation reserve	-	-	-	-	-	(69)	-	**(69)**
Change in the fair value of financial assets available for sale	-	-	-	-	81,370	-	-	**81,370**
Deferred tax	-	-	-	-	(16,274)	23	-	**(16,251)**
Net profit /(loss) for 2012	-	-	-	-	-	-	102,200	**102,200**
Total comprehensive income for the year 2012	-	-	-	-	**65,096**	**(46)**	**102,200**	**167,250**
Transfer to statutory reserve	-	-	-	3,755	-	-	(3,755)	-
Balance at 31 December 2012	**966,640**	**228,136**	**(874)**	**3,755**	**46,788**	**1,244**	**164,969**	**1,410,658**
Balance at 1 January 2013	**966,640**	**228,136**	**(874)**	**3,755**	**46,788**	**1,244**	**164,969**	**1,410,658**
Revaluation reserve	-	-	-	-	-	(69)	-	**(69)**
Change in the fair value of financial assets available for sale	-	-	-	-	(2,103)	-	-	**(2,103)**
Deferred tax	-	-	-	-	1,256	14	-	**1,270**
Net profit /(loss) for 2013	-	-	-	-	-	-	35,738	**35,738**
Total comprehensive income for the year 2013	-	-	-	-	**(847)**	**(55)**	**35,738**	**34,836**
Transfer to statutory reserve	-	-	-	4,703	-	-	(4,703)	-
Balance at 31 December 2013	**966,640**	**228,136**	**(874)**	**8,458**	**45,941**	**1,189**	**196,004**	**1,445,494**

The significant accounting policies and other notes on pages 51-157 form an integral part of these financial statements.

	Notes	Group 2013 HRK '000	Group 2012 HRK '000
Cash flows from operating activities			
Profit before taxation		36,368	101,901
Adjusted by:			
- Depreciation and amortisation	14,15,16	53,006	58,956
- Foreign exchange (gains)/ losses	33	(5,756)	(3,637)
- Impairment losses on loans and receivables from customers and other assets	35	236,917	149,295
- Impairment losses on provisions for liabilities and expenses	24	(14,077)	24,269
- Net unrealised losses / (gains) on financial assets at fair value through profit or loss	31	1,859	(3,038)
Changes in operating assets and liabilities			
Net decrease/(increase) in loans to and receivables from banks		130,863	(138,732)
Net (increase)/decrease in financial assets at fair value through profit or loss		235,519	(144,043)
Net increase in loans to and receivables from customers		(1,239,304)	(1,199,912)
Net increase in other assets		(120,141)	(90,677)
Net decrease in deposits from banks		231,689	445,925
Net increase in customer deposits		1,236,507	200,803
Net (decrease)/increase in other liabilities		(50,151)	52,720
Net cash (outflow)/inflow from operating activities before tax		**733,299**	**(546,170)**
Income tax received/(paid)		(173)	(135)
Net cash (outflow)/inflow from operating activities		**733,126**	**(546,305)**
Cash flows from investing activities			
Purchases of property, equipment and intangible assets		(18,226)	(42,981)
Disposal of financial assets available for sale		399,782	554,779
Acquisition of financial assets available for sale		(737,381)	(393,334)
Maturity/(acquisition) of financial assets held to maturity		(132,137)	784
Dividends received		3,112	3,067
Net cash outflow from investing activities		**(484,850)**	**122,315**
Cash flows from financing activities			
Increase in hybrid instruments			(200,400)
Increase in borrowings		706,242	1,034,798
Repayments of borrowings		(751,483)	(1,151,596)
Net cash (outflow)/inflow from financing activities		**(45,241)**	**(317,198)**
Effect of foreign exchange differences on cash and cash equivalents		481	1,342
Net (decrease) / increase in cash and cash equivalents		**203,516**	**(739,846)**
Cash and cash equivalents at the beginning of the year	39	**2,776,434**	**3,519,280**
Cash and cash equivalents at the end of the year	39	**2,979,950**	**2,779,434**

The significant accounting policies and other notes on pages 51-157 form an integral part of these financial statements.

Unconsolidated Statement of Financial Position
At 31 December 2013

	Notes	Bank 2013 HRK '000	Bank 2012 HRK '000
ASSETS			
Cash and amounts due from banks	5	1,177,540	1,129,940
Obligatory reserve with Croatian National Bank	6	1,442,045	1,231,884
Loans to and receivables from banks	7	522,772	749,811
Financial assets at fair value through profit or loss	8	277,046	513,224
Financial assets available for sale	9	1,623,041	1,296,101
Financial assets held to maturity	10	821,305	685,417
Loans and receivables from customers	11	11,655,515	10,678,855
Assets held for sale	12	41,551	21,551
Investments in subsidiaries	13	45,490	53,990
Property and equipment	14	147,861	146,299
Intangible assets	16	168,519	194,967
Deferred tax assets, net	17	21,951	21,241
Other assets	18	412,442	322,173
TOTAL ASSETS		**18,357,078**	**17,045,453**
LIABILITIES			
Financial liabilities at fair value through profit or loss	19	8	370
Deposits from banks	20	741,207	509,518
Customer deposits	21	14,144,022	12,939,403
Borrowings	22	1,074,013	1,124,110
Hybrid instruments	23	410,802	410,148
Provisions for liabilities and expenses	24	41,789	56,522
Other liabilities	25	491,847	594,397
TOTAL LIABILITIES		**16,903,688**	**15,634,468**
EQUITY			
Share capital	26	966,640	966,640
Capital reserve	26	228,136	228,136
Treasury shares	26	(874)	(874)
Statutory reserve	26	8,458	3,755
Fair value reserve	26	45,850	45,799
Revaluation reserve	26	1,189	1,244
Retained earnings	26	203,991	166,285
TOTAL EQUITY		**1,453,390**	**1,410,985**
TOTAL LIABILITIES AND EQUITY		**18,357,078**	**17,045,453**

The significant accounting policies and other notes on pages 51-157 form an integral part of these financial statements.

	Notes	Bank 2013 HRK '000	Bank 2012 HRK '000
Interest and similar income	27	837,456	883,236
Interest and similar expense	28	(379,617)	(409,970)
Net interest income		**457,839**	**473,266**
Fee and commission income	29	533,187	539,207
Fee and commission expense	30	(355,163)	(369,004)
Net fee and commission income		**178,024**	**170,203**
Gains less losses arising from securities at fair value through profit or loss	31	3,438	6,961
Gains less losses arising from securities available for sale	32	7,537	4,224
Gains less losses arising from dealing in foreign currencies		36,088	37,772
Other operating income	33	25,590	38,277
Trading and other (expense)/income		**72,653**	**87,234**
Operating income		**708,516**	**730,703**
General and administrative expenses	34	(390,221)	(406,516)
Depreciation and amortisation	14,16	(52,478)	(58,453)
Impairment losses on loans and receivables to customers and other assets	35	(237,033)	(148,755)
Provisions for liabilities and expenses	24	13,962	(23,217)
Operating expenses		**(665,770)**	**(636,941)**
PROFIT/(LOSS) BEFORE TAXATION		**42,746**	**93,762**
Income tax expense	17,36	(336)	301
PROFIT/(LOSS) FOR THE YEAR		**42,410**	**94,063**
		HRK	**HRK**
Earnings/(loss) per share	37	**48.30**	**107.14**

The significant accounting policies and other notes on pages 51-157 form an integral part of these financial statements.

	Group 2013 HRK '000	Group 2012 HRK '000
Profit for the year	**42,410**	**94,063**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation reserve	(69)	(69)
Income tax relating to items that will not be reclassified subsequently	14	23
	(55)	**(46)**
Items that may be reclassified subsequently to profit or loss:		
(Loss)/ gain from available for sale financial assets	(981)	76,955
Income tax relating to items that may be reclassified subsequently	1,032	(15,391)
	51	**61,564**
Other comprehensive (loss)/ gain for the year	**(4)**	**61,518**
Other comprehensive income for the year, net of income tax	**42,406**	**155,581**

The significant accounting policies and other notes on pages 51-157 form an integral part of these financial statements.

Bank	Share capital HRK '000	Capital reserve HRK '000	Treasury shares HRK '000	Reserves HRK '000	Fair value reserve HRK '000	Revaluation reserve HRK '000	Retained earnings HRK '000	Total HRK '000
Balance at 1 January 2012	**966,640**	**228,136**	**(874)**	**-**	**(15,765)**	**1,290**	**75,977**	**1,255,404**
Revaluation reserve	-	-	-	-	-	(69)	-	**(69)**
Change in the fair value of financial assets available for sale	-	-	-	-	76,955	-	-	**76,955**
Deferred tax	-	-	-	-	(15,391)	23	-	**(15,368)**
Net profit /(loss) for 2012	-	-	-	-	-	-	94,063	**94,063**
Total comprehensive income for the year 2012	**-**	**-**	**-**	**-**	**61,564**	**(46)**	**94,063**	**155,581**
Transfer to statutory reserve	-	-	-	3,755	-	-	(3,755)	**-**
Balance at 31 December 2012	**966,640**	**228,136**	**(874)**	**3,755**	**45,799**	**1,244**	**166,285**	**1,410,985**
Balance at 1 January 2013	**966,640**	**228,136**	**(874)**	**3,755**	**45,799**	**1,244**	**166,285**	**1,410,985**
Revaluation reserve	-	-	-	-	-	(69)	-	**(69)**
Change in the fair value of financial assets available for sale	-	-	-	-	(981)	-	-	**(981)**
Deferred tax	-	-	-	-	1,032	14	-	**1,046**
Net profit /(loss) for 2013	-	-	-	-	-	-	42,410	**42,410**
Total comprehensive income for the year 2013								**42,406**
Transfer to statutory reserve	-	-	-	4,703	-	-	(4,703)	**-**
Balance at 31 December 2013	**966,640**	**228,136**	**(874)**	**8,458**	**45,850**	**1,189**	**203,991**	**1,453,390**

The significant accounting policies and other notes on pages 51-157 form an integral part of these financial statements.

	Notes	Bank 2013 HRK '000	Bank 2012 HRK '000
Cash flows from operating activities			
Profit before taxation		42,746	93,762
Adjusted by:			
- Depreciation and amortisation	14,16	52,478	58,453
- Foreign exchange (gains)/ losses	33	(5,891)	(3,639)
- Impairment losses on loans and other assets	35	237,033	148,755
- Provisions for liabilities and expenses	24	(13,962)	23,217
- Net unrealised gains on financial assets at FVPL	31	714	5,063
Changes in operating assets and liabilities			
Net decrease/(increase) in loans to and receivables from banks		130,816	(138,685)
Net (increase)/decrease in financial assets at FVPL		235,464	(154,710)
Net increase in loans to customers		(1,231,109)	(1,195,108)
Net increase in other assets		(125,627)	(87,750)
Net decrease in deposits from banks		231,689	445,925
Net increase in customer deposits		1,204,619	237,239
Net (decrease)/increase in other liabilities		(46,674)	48,863
Net cash (outflow)/inflow from operating activities before tax		**712,296**	**(518,615)**
Income tax received/(paid)		-	-
Net cash (outflow)/inflow from operating activities		**712,296**	**(518,615)**
Cash flows from investing activities			
Investments in subsidiaries		8,500	-
Purchases of property, equipment and intangible assets		(18,194)	(42,884)
Disposal of financial assets available for sale		404,460	534,996
Acquisition of financial assets available for sale		(732,381)	(393,334)
Maturity/(acquisition) of financial assets held to maturity		(132,137)	783
Dividends received		8,112	3,067
Net cash outflow from investing activities		**(461,640)**	**102,628**
Cash flows from financing activities			
Increase in hybrid instruments		-	(200,400)
Increase in borrowings		706,242	1,034,798
Repayments of borrowings		(751,483)	(1,151,596)
Net cash (outflow)/inflow from financing activities		**(45,241)**	**(317,198)**
Effect of FX differences on cash and cash equivalents		481	1,161
Net (decrease) / increase in cash and cash equivalents		**205,896**	**(732,024)**
Cash and cash equivalents at the beginning of the year	39	**2,774,051**	**3,506,075**
Cash and cash equivalents at the end of the year	39	**2,979,947**	**2,774,051**

The significant accounting policies and other notes on pages 51-157 form an integral part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Hrvatska poštanska banka d.d. Zagreb ("the Bank") is a joint stock company incorporated and domiciled in the Republic of Croatia. The Bank is the parent of the Hrvatska poštanska banka Group ("the Group"). Overview of Bank's subsidiaries and method of their consoldation is provided in Note 13, section e). These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Accounting Standard 27 "Consolidated and Separate Financial Statements".

The Management Board authorised the issue of these financial statements for approval by the Supervisory Board on March 25 2014.

The principal accounting policies applied in the preparation of these financial statements are summarized below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards, reference may be made to certain Standards in describing the accounting policies of the Group; unless otherwise stated, Standards applicable at 31 December 2012 are referred to.

a) Statement of compliance

These financial statements are prepared in accordance with the legal requirements applicable to accounting for banks in the Republic of Croatia. Group's financial reporting is regulated by Croatian National Bank ("the CNB") which is the central supervisory institution of Croatian banking system. These financial statements have been prepared in accordance with the above-mentioned banking regulations.

The accounting regulations of the CNB rely on International Financial Reporting Standards ("IFRSs") adopted by European Union. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- Although the Group calculates impairment losses on corporate lending as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate, in accordance with International Financial Reporting Standards, the CNB requires the amortisation of the discount calculated to be presented in the income statement within the movement on impairment losses on loans and receivables to customers and other assets, rather than as interest income, as required by International Financial Reporting Standards.

- In line with amendments to CNB's Decision on the classification of placements and off-balance-sheet liabilities of credit institutions, in force from October 01 2013, CNB prescribes minimum levels of impairment losses for certain specifically identified impaired exposures, which may be different from impairment loss calculated in accordance with IFRSs.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

b) Basis of preparation

These financial statements represent the general-purpose financial statements of the Bank and the Group. The financial statements were prepared for the reporting period from January 1 2013 to December 31 2013 in compliance with existing accounting regulations applicable in Croatia.

These financial statements are prepared for the purpose of compliance with legal requirements of the Group and Bank. Group is legally required to obtain an independent audit of its financial statements. Scope of that audit is limited to an audit of general purpose statutory financial statements to fulfill the legal requirement for audit of these financial statements. Audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction. Audited financial statements are not intended for use by any party for purposes of decision making concerning any ownership, financing or any other specific transactions relating to the Group. Accordingly, users of the audited statutory financial statements should not rely exclusively on the financial statements and should undertake other procedures before making decisions.

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

In preparing the financial statements, management is required to make judgments, estimates and assumptions that affect the application of 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. Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under current circumstances, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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

Judgments made by management in the application of applicable standards that have significant effects on financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

Accounting standards, interpretations and changes to existing standards

By Croatian accession to the EU on July 01 2013, Croatian legal system has adopted standards, interpretations and amendments to IFRS that are adopted by European Commission.

As of 2013, following changes and amendments to IFRS are adopted by European Commission:

- International Financial Reporting Standard 1
- Internatial Financial Reporting Standard 7
- International Financial Reporting Standard 13
- International Accounting Standard 12
- International Accounting Standard 19

1. SIGNIFICANT ACOUNTING POLICIES (continued)

b) Basis of preparation (continued)

Accounting standards, interpretations and changes to existing standards (continued)

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

Changes to IFRS 1 relate to treatment of borrowings received from sovereign entities, and presentation of financial statements upon cessation of hyperinflation when adopting the IFRS for the first-time.

Changed standard has not had effects on Group's financial statements.

IFRS 7 – Financial instruments: Disclosures

Changes to IFRS 7 prescribe new disclosures about transfer arrangements which are subject of IAS 32. It is also applied to recognized financial instruments that are subject to a master netting agreements or similar agreements, irrespective of whether the transfer is carried out as set off by IAS 32.

Standard has not had effects on financial position and results of HPB Group.

IFRS 13 – Fair Value Measurement

Adoption of IFRS 13 sets out single source and comprehensive instructions about fair value measurement of financial and non-financial assets and liabilities. IFRS 13 does not set out demands for fair value measurement, but it is applied when other standards prescribe fair value measurement or disclosures. In line with this, IFRS 13 includes descriptions of certain ways or measurement techniques, but does not prescribe how measurement should be carried out. Detailed disclosures relate to non-financial assets, as well as detailed information about situations when inputs for fair value measurement are not noticeable.

Standard has not had effects on financial position or results of the Group, but did impact the disclosure of Group's financial statements.

IAS 12 - Income tax

Improvements and changes in IAS 12 is implementing assumptions that the carrying value of assets measured at fair value in accordance with IAS 40 will be recovered from sale, when determining deferred taxes.

The standard did not have effect on financial position, disclosures or results of the Group.

IAS 19 - Employee benefit

New IAS 19 has completely amended the old IAS 19. The amendments relate to new structure of definitions that include employee benefits (severance payments), classification of benefit plans, respectively plans after termination of employment contract, contributions and defined benefit plans, and definition of net liability or assets for defined benefits and definition of benefit expenses. Further to changes in short term employee benefits, the changes relate to participation in profit and rewards that are recorded as expense, and not to profit allocation as before. The calculation of defined benefit plans is also changed.

The changed standard did not have effects on financial position and results of the Group.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

b) Basis of preparation (continued)

Issued standards and interpretations adopted by EU, not yet applied

The following standards, amendments to the existing standards and interpretations adopted by the EU will be in issue on or after 1 January 2014:

- International Financial Reporting Standard 10 – Consolidated Financial statements
- International Financial Reporting Standard11 - Joint Arrangements
- International Financial Reporting Standard12- Disclosure of Interest in Other Entities
- International Accounting Standard 27 – Separate Financial Statements
- International Accounting Standard 28 – Investments in Associates
- International Accounting Standard 32 – Financial Instruments: presentation
- International Accounting Standard 36 – Impairment of Assets
- International Accounting Standard 39 – Financial Instruments: Recogonition and measurment.

Standards and Interpretations not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU:

- **IFRS 9 "Financial Instruments" and subsequent amendments** (effective date was not yet determined),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- **IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014).**

c) Functional and presentation currency

The Group's and the Bank's financial statements are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

1. SIGNIFICANT ACOUNTING POLICIES (continued)

d) Changes in presentation or classification of the items in the financial statements

Where necessary, comparative information has been reclassified to achieve consistency with current financial year amounts and other disclosures.

The balance of loans and receivables at 31 December 2013 includes collected interest (fee) income that pertains to future periods. The fee in the amount of HRK 57,457 thousand for the Group and HRK 56,663 for the Bank is deducted from the net balance of the Group's and the Bank's loans and receivables, respectively. The prior-year loans and receivables balance was not restated, and the interest (fee) income collected at 31 December 2012 in the amount of HRK 60,472 thousand for the Group and HRK 60,067 thousand for the Bank is included in other liabilities.

The balance of financial investments held to maturity at 31 December 2013 includes collected interest (fee) income on short-term securities that pertains to future periods. The fee in the amount of HRK 348 thousand (for the Group and the Bank) is deducted from the balance of the investments. There was no fee on this basis in the prior year.

The balance of borrowings at 31 December 2013 includes prepaid interest in the amount of HRK 4,856 thousand that pertains to future periods, which is deducted from the borrowings balance of the Group and the Bank. The prior-year borrowings balance was not restated, and the interest expense at 31 December 2012 in the amount of HRK 6,194 thousand is included in other assets of the Group and the Bank.

Basis of consolidation

Financial statements are presented for the Group and the Bank. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiaries: HPB Nekretnine d.o.o., a real estate agency; HPB Invest d.o.o., an investment fund management company; and HPB Stambena štedionica d.d., a specialized financial institution involved in collecting deposits from retail customers and granting subsided housing loans to Croatian citizens in the Republic of Croatia.All subsidiaries are 100% owned by the Bank and are incorporated and domiciled in Croatia.

Investment in subsidiaries are disclosed at purchase cost, minus possible impairments in non-consolidated financial statements of the Bank. Investments in subsidiaries are consolidated by full-consolidation method in consolidated financial statements of the Group.

Subsidiaries

Subsidiaries are all enterprises controlled by the Bank. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Transactions eliminated on consolidation

1. SIGNIFICANT ACOUNTING POLICIES (continued)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

e) Basis of consolidation (continued)

The purchase cost method of accounting is used to account for the acquisition of subsidiaries at the Group. The cost of acquiring a subsidiary is measured at fair value of assets given, equity instruments issued and of liabilities incurred or assumed as of the date of exchange, increased by all costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired including intangible assets is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

f) Interest income and expense

Interest income and expense are recognized in the income statement as they accrue for all interest bearing financial instruments, including those measured at amortized cost, at fair value through profit or loss and available for sale, using the effective interest rate method. Such income and expense is presented as interest and similar income or interest expense and similar charges in the income statement. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortization, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognized on a basis of effective interest rate. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

g) Fee and commission income and expense

Fee and commission income and expense arise on financial services provided by the Group and received by the Group, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Group. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment. 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 accrual 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.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

h) Dividend income

Dividend income on equity investments is recognised in the income statement when the right to receive dividends is established.

i) Gains less losses from financial instruments at fair value through profit or loss and financial instruments available for sale

Gains less losses from financial instruments at fair value through profit or loss include unrealised and realised gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses arising from financial instruments available for sale comprise realised gains from financial instruments available for sale.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty, or
- breach of contract, such as a default or delinquency in interest or principal payments, or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation, or
- the disappearance of an active market for that financial asset because of financial difficulties.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

j) Gains less losses arising from dealing in foreign currencies

Gains less losses from dealing in foreign currencies include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

k) Foreign currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate applicable at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates applicable at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated.

Changes in the fair value of monetary securities denominated in foreign currencies and classified as available for sale are analysed as the difference between the exchange differences arisen from changes in the security's amortised cost and other changes in the net carrying amount of the security. Exchange differences on monetary securities denominated in foreign currency classified as available for sale are recognised in the income statement, whereas other changes in their carrying amounts are recognised in equity. Translation differences on non-monetary financial assets, such as equity instruments classified as available for sale, are included in equity.

l) Financial instruments

i) Classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, available for sale, held to maturity or financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The management determines the classification of financial instruments upon initial recognition.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

I) Financial instruments (continued)

Financial assets and liabilities at fair value through profit or loss

This category comprises two subcategories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. 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 assets at fair value through profit or loss include equity and debt securities, units/shares in investment funds and derivative financial instruments.

Loans and receivables

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

Financial instruments held to maturity

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. This category includes debt securities.

Financial assets available for sale

This category comprises non-derivative financial assets which are defined as available for sale or are not included in loans and receivables or held-to-maturity investments, or classified as financial assets at fair value through profit or loss. Financial assets 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.

Other financial liabilities

Other financial liabilities include all financial liabilities not designated as at fair value through profit or loss.

ii) Recognition and derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognised on the settlement date. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders.

The Group derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial instrument.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

l) Financial instruments (continued)

ii) Recognition and derecognition (continued)

This occurs when the Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Group derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, 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.

iii) Initial and subsequent measurement

Financial assets and liabilities are recognised initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Group measures financial instruments at fair value through profit or loss and financial assets available for sale at their fair value, without any deduction for costs of sale. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at acquirement cost, and afterwards measured applying internal models of fair value estimation.

Loans and receivables and held-to-maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortised cost.

iv) Gains and losses

Gains and losses on changes in the fair value of financial assets at fair value through profit or loss are recognised in the income statement.

Gains or losses arising from a change in the fair value of available-for-sale monetary assets are recognised directly within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange differences, interest income and amortisation of premium or discount on available-for-sale monetary assets are recognised in the income statement. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in equity.

Dividend income is recognised in the income statement. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the income statement.

Gains or losses arising from financial instruments carried at amortised cost may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

l) Financial instruments (continued)

v) Determination of fair value of financial instruments

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Group uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

The fair value of non-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.

vi) Impairment of financial assets

Impairment of assets identified as impaired

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of an item is estimated.

The Group estimates and performs impairment of all financial assets, except financial assets at fair value through profit or loss.

If any objective evidence of impairment 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 profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

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 income statement.

The recoverable amount of financial instruments measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original interest rate. Short-term balances are not discounted. Allowances for uncollectibility are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts (or lower amount if required by applicable CNB regulations). The expected cash flows for portfolio of similar assets are estimated based on previous experience. Also taken into considering are: credit rating of the underlying customers, and delays in payments of interest or penalties. Increases of impairment allowances are recognised in the income statement. When a loan is identified as uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the income statement.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

l) Financial instruments (continued)

Impairment of assets not individually identified as impaired

In addition to recognised impairment losses on assets, the Group recognises in its income statement latent losses on its on-balance sheet and off-balance sheet items exposed to credit risk at a level not lower than 0.80% of the total placements and off-balance sheet exposures in accordance with the CNB regulations.

At the reporting date, debt securities carried at fair value at the reporting date, initially recognized as financial assets at fair value through profit or loss, as well as financial assets available for sale, are excluded from the calculation basis of these impairments.

vii) Reclassifications

According to IFRSs, the Group has the possibility to reclassify certain financial instruments out of the category at fair value through profit or loss into available for sale or held to maturity instruments.

m) Specific financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with CNB, placements with other banks with original maturities of three months or less, and items in course of collection.

Derivative financial instruments

The Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Group does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognised at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, 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 gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Changes in the fair value of derivatives are included in gains less losses arising from dealing securities.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

m) Financial instruments (continued)

Treasury bills and debt securities

Treasury bills and debt securities that the Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as available-for-sale assets, and are carried at fair value.Treasury bills and debt securities that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

Equity securities and investments in open-ended investment funds

Equity securities and investments in open-ended investment funds are classified as at fair value through profit or loss or as available-for-sale assets.

Placements with banks

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

Loans and advances to customers

Loans and advances to customers are presented net of impairment losses. Purchased loans that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

Investments in subsidiaries

In the Bank's unconsolidated financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

Borrowings

Interest-bearing borrowings 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 income statement over the period of the borrowings as interest. The amount is subsequently reduced by not deferred portion of the fee paid at the point of loan approval.

Repurchase agreements and linked transactions

The Group enters into purchases/(sales) of investments under agreements to resell (repurchase) essentially identical investments, or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognised in loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments 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 investments are reported as liabilities to either banks or customers.

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

1. SIGNIFICANT ACOUNTING POLICIES (continued)

n) Income tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the consolidated [statement of profit or loss and other comprehensive income/ statement of profit or loss] because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The measurement of deferred tax liabilities and assets reflects the amount that the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred taxes are not discounted and are classified in the balance sheet as non-current assets and/or non-current liabilities. Deferred tax assets are recognised only to the extent that it is probable that the related tax benefit will be realised. At each reporting date, the Group reviews the unrecognised potential tax assets and the carrying amount of the recognised tax assets.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

o) Property and equipment

Property and equipment are tangible assets that are held for use in the supply of services or other administrative purposes.

Recognition and measurement

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional surveyor.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation is recognized in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Equipment is measured at cost, less accumulated depreciation and accumulated impairment losses.

The estimated useful lives are as follows:

	2013	2012
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and equipment	3-4 years	3-4 years
Motor vehicles	5 years	5 years
Other assets	10 years	10 years

Depreciation methods and useful lives are reassessed at each reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in the income statement.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

p) Investment property

Investment properties are properties which are held by the Group either to earn rentals or for capital appreciation, or both. Investment property is carried at cost less accumulated depreciation and any impairment losses. The Group's investment property is disclosed in Note 15.

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**
Investment property	40 years	40 years

q) Intangible assets

Intangible assets are carried at cost less accumulated amortisation and impairment. Development costs are capitalized if all the requirements specified in IAS 38 "Intangible Assets" are met. Amortisation is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognised as an expense when they are incurred.

Amortisation is provided on a straight-line basis over the estimated useful life of an asset as follows:

	2013	**2012**
Leasehold improvements	4 years	4 years
Software	3-10 years	3-10 years
Licences	3-10 years	3-10 years

r) Impairment of non-financial assets

The recoverable amount of property and equipment 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.

Non-financial assets that have suffered impairment 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 and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

s) Provisions for liabilities and expenses

The Group recognises a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis.

Provision for liabilities and expenses are maintained at a level which management believes is adequate to absorb the liabilities and losses in the future. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

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

t) Operating lease

Leases where the Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation. Rental income under operating leases is recognised in the income statement on a straight-line basis over the term of the lease.

The Group leases office space under operating leases. Payments under operating leases are recognised in the income statement over the term of the underlying lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

u) Employee benefits

Defined pension contributions

The Group pays contributions to pension-insurance funds on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Provisions for severance payments and jubilee awards

In calculating provisions for severance payments and jubilee awards, the Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Group's management, best represent the time value of money.

1. SIGNIFICANT ACOUNTING POLICIES (continued)

v) Share capital and reserves

Share capital and reserves

Share capital isdenominated in the Croatian kuna and stated at nominal value. The amount of fees paid on repurchase of share capital, including directly attributable costs, is recognised as a deduction from equity and classified as treasury shares.

Dividends

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

Retained earnings

Any profit for the year after appropriations is transferred to reserves, in accordance with General Assembly decisions.*Earnings per share*

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is 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. EPS is not presented for the Group.

w) Contingencies and commitments

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

x) Funds managed 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 balance sheet. For the services rendered, the Group charges a fee which is recognised in the income statement on an accruals basis. The Group also manages five open-end funds with a public offering: HPB Equity Fund, HPB Global Fund, HPB Cash Fund, HPB Bond Fund, and HPB Eurocash Fund. The Group also manages HPB Umirovljenički fund, a special-purpose fund, established by the Croatian Government.

y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has identified three major segments: Corporate Banking; Retail Banking; and Financial Markets, the latter including treasury and investment banking, together with custody services (business segment). The business segments and their financial performance are presented in Note 4 to the financial statements.

The Banks operations, its total assets as well as the majority of its clients are based in Croatia (geographical segment).

2. RISK MANAGEMENT

This note details the Group's risk exposures as well as the methods applied by the management to identify, measure and manage those risks for the purpose of preserving capital. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, interest rate risk in the Bank’s non-trading book, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

An integrated system of risk management is established at the Group level by introducing a set of policies, procedures and manuals, determining the limits of risk levels acceptable to the Group and monitoring their implementation. The limits are set with respect to the amount of regulatory capital and are applied to all types of risk. Additionally, the Bank sets limits for annual potential losses measured by Value-at-Risk techniques for its market risk exposure. Internal methodologies and models for managing other types of risks are also being developed.

The responsibility for determining the framework of the Group’s risk management lies with the Bank’s Management Board which has delegated the risk management tasks to the Asset and Liability Committee, Credit Committee and Operational Risk Management Committee.

2.1 Credit risk

The Bank 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 Bank evaluates debtors' creditworthiness, and in order to minimize credit risk, obtains appropriate collateral.

At reporting date, the Group’s credit risk exposure to financial instruments classified as at fair value through profit or loss is presented by the positive fair value of these instruments, as recorded in 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 is exposed to credit risk primarily through loans and receivables from customers. The amount of credit exposure in this regard, as well as held-to-maturity debt securities recognised at amortised cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance-sheet items, i.e. through commitments arising from unused facilities and guarantees issued, as disclosed in Note 40.

Credit risk management comprises assessment of placements’ credit risk, subsequent monitoring, supervision, and evaluation of recoverability of placements and off-balance sheet commitments, as well as formation of required impairments and provisions for identified losses on placements and off-balance sheet commitments, and reporting to the Management Board of the Bank.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.1 Credit risk assessment

Assessment of the individual credit risk exposure comprises the following:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations,
- collateral quality.

Monitoring of credit risk includes continuous assessment whether elements exist which would indicate a deterioration of the client's financial position, the client's exposure to currency risk or an increase in risk due to the decrease of collateral value.

2.1.2. Classification of placements into risk categories

The Bank classifies placements into risk categories depending on the estimated recovery rate of placements, and in accordance with the CNB's Decision on Classification of Placements and Off-balance Sheet Liabilities of Credit Institutions. All placements that the Bank estimates are fully recoverable are classified in risk category A. Upon initial approval, the Bank classifies all placements into risk category A. Placements that the Bank estimates are partly recoverable are classified into risk category B, depending on the loss percentage: in subcategory B1 (loss is estimated at below 30% of nominal carrying value of the placement), in subcategory B2 (loss is estimated at between 30% and 70% of nominal carrying value of the placement), and in subcategory B3 (loss is estimated at above 70%, but below 100% of nominal carrying value of the placement). Placements estimated to be fully irrecoverable are classified into risk category C.

2.1.3. Placements impairment policy

When estimating the recoverable amount of placements, the Bank separates placements between small and large portfolios.

Small portfolio represents placements and off-balance sheet commitments whose gross value (before any impairment loss) does not exceed HRK 700 thousand towards a single debtor or a single group of related parties at the date of estimation.

Generally, the Bank estimates the recoverability of placements to retail customers according to criteria established for the small portfolio, whereas the recoverability of placements to corporate clients is estimated according to criteria which do not apply to the small portfolio.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Impairment policy on placements (continued)

Individual assessment

The recoverable amount of placements that are not classified within the small loan portfolio of the Bank is estimated on an individual basis according to the following criteria:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations, and
- collateral quality.

Portfolio-based assessment

The Bank estimates the recoverable amount of exposures that are classified on a portfolio basis by having regard principally to the debtors' timeliness in meeting their obligations. In arriving at the recoverable amount, the present value of future cash flows from the placements is estimated by reducing the principal by reference to the loan type and the number of days in default.

The following tables present the classification of exposures into risk categories for the Group and the Bank and the allocation of the corresponding impairment losses as a percentage of gross principal.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3 Impairment policy on placements (continued)

Group

%	Loans and receivables from customers	Impairment allowance	Loans to and receivables from banks	Impairment allowance	Financial assets held to maturity	Impairment allowance	Balances with the CNB	Impairment allowance	Fees receivable	Impairment allowance
2013										
A	76.39	1.07	99.90	-	95.89	0.64	100.00	-	90.27	-
A - 90 days	0.27	1.07	-	-	-	-	-	-	-	-
B and C	23.34	39.29	0.10	100.00	4.11	67.04	-	-	9.73	100.00
2012										
A	73.64	1.31	99.93	-	96.17	0.95	100.00	-	86.20	-
A - 90 days	2.77	1.31	-	-	-	-	-	-	0.30	-
B and C	23.59	35.26	0.07	100.00	3.83	95.26	-	-	13.50	100.00

Bank

%	Loans and receivables from customers	Impairment allowance	Loans to and receivables from banks	Impairment allowance	Financial assets held to maturity	Impairment allowance	Balances with the CNB	Impairment allowance	Fees receivable	Impairment allowance
2013										
A	76.22	1.07	99.90	-	95.89	0.64	100.00	-	90.21	-
A - 90 days	0.27	1.07	-	-	-	-	-	-	-	-
B and C	23.51	39.29	0.10	100.00	4.11	67.04	-	-	9.78	100.00
2012										
A	73.44	1.31	99.93	-	96.17	0.95	100.00	-	86.07	-
A - 90 days	2.79	1.31	-	-	-	-	-	-	0.30	-
B and C	23.76	35.26	0.07	100.00	3.83	95.26	-	-	13.63	100.00

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3 Impairment policy on placements (continued)

Maximum exposure to credit risk before consideration of collateral

The table below shows the maximum exposure to credit risk as at 31 December 2013, not considering the collateral, if any. The exposures presented below are net of impairment losses and provisions.

Maximum exposure		**Group**		**Bank**	
		2013	**2012**	**2013**	**2012**
	Notes	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Giro account with the CNB and other banks	5	682,106	689,382	682,106	689,382
Obligatory reserve with Croatian National Bank	6	1,442,045	1,231,884	1,442,045	1,231,884
Loans to and receivables from banks	7	522,772	754,612	522,772	749,811
Held-to-maturity investments	10	821,305	685,417	821,305	685,417
Loans and receivables from customers	11	11,753,691	10,769,490	11,655,515	10,678,855
Fees receivable	18	92,238	55,851	91,625	55,245
Off-balance sheet exposure	40	**1,805,846**	**2,053,813**	**1,800,822**	**2,051,644**
Undisbursed lending commitments		1,470,883	1,600,958	1,465,859	1,598,789
Guarantees		287,043	358,534	287,043	358,534
Other contingent liabilities		47,920	94,321	47,920	94,321
Total credit exposure		**17,120,003**	**16,240,449**	**17,016,190**	**16,142,238**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets exposed to credit risk

Group 2013	Loans and receivables from customers HRK '000	Loans to and receivables from banks HRK '000	Financial assets held to maturity HRK '000	Balances with the CNB HRK '000	Fees receivable HRK '000
Loans neither overdue nor impaired	9,974,623	522,772	815,041	1,799,784	92,236
Overdue loans not impaired	35,221	-	-	-	2
Impaired loans	3,048,274	500	34,917	-	9,937
Total gross	**13,058,118**	**523,272**	**849,958**	**1,799,784**	**102,175**
Individually identified losses	(1,197,517)	(500)	(23,408)	-	(9,937)
Portfolio-based losses	(106,910)	-	(5,245)	-	-
Total identified losses	**(1,304,427)**	**(500)**	**(28,653)**	**-**	**(9,937)**
Total	**11,753,691**	**522,772**	**821,305**	**1,799,784**	**92,238**

Group 2012	Loans and receivables from customers HRK '000	Loans to and receivables from banks HRK '000	Financial assets held to maturity HRK '000	Balances with the CNB HRK '000	Fees receivable HRK '000
Loans neither overdue nor impaired	8,745,967	754,612	690,672	1,761,940	55,656
Overdue loans not impaired	329,240	-	-	-	195
Impaired loans	2,801,062	500	27,497	-	8,716
Total gross	**11,876,269**	**755,112**	**718,169**	**1,761,940**	**64,567**
Individually identified losses	(987,691)	(500)	(26,194)	-	(8,716)
Portfolio-based losses	(119,088)	-	(6,558)	-	-
Total identified losses	**(1,106,779)**	**(500)**	**(32,752)**	-	**(8,716)**
Total	**10,769,490**	**754,612**	**685,417**	**1,761,940**	**55,851**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets exposed to credit risk (continued)

Bank 2013	**Loans and receivables from customers HRK '000**	**Loans to and receivables from banks HRK '000**	**Financial assets held to maturity HRK '000**	**Balances with the CNB HRK '000**	**Fees receivable HRK '000**
Loans neither overdue nor impaired	9,876,557	522,772	815,041	1,799,784	91,623
Overdue loans not impaired	35,194	-	-	-	2
Impaired loans	3,046,744	500	34,917	-	9,937
Total gross	**12,958,495**	**523,272**	**849,958**	**1,799,784**	**101,562**
Individually identified losses	(1,197,153)	(500)	(23,408)	-	(9,937)
Portfolio-based losses	(105,827)	-	(5,245)	-	-
Total identified losses	**(1,302,980)**	**(500)**	**(28,653)**	-	**(9,937)**
Total	**11,655,515**	**522,772**	**821,305**	**1,799,784**	**91,625**

Bank 2012	**Loans and receivables from customers HRK '000**	**Loans to and receivables from banks HRK '000**	**Financial assets held to maturity HRK '000**	**Balances with the CNB HRK '000**	**Fees receivable HRK '000**
Loans neither overdue nor impaired	8,654,363	749,811	690,672	1,761,940	55,050
Overdue loans not impaired	329,240	-	-	-	195
Impaired loans	2,800,444	500	27,497	-	8,716
Total gross	**11,784,047**	**750,311**	**718,169**	**1,761,940**	**63,961**
Individually identified losses	(987,549)	(500)	(26,194)	-	(8,716)
Portfolio-based losses	(117,643)	-	(6,558)	-	
Total identified losses	**(1,105,192)**	**(500)**	**(32,752)**	-	**(8,716)**
Total	**10,678,855**	**749,811**	**685,417**	**1,761,940**	**55,245**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets exposed to credit risk (continued)

In accordance with applicable acts, the Bank utilizes the following common types of collateral: bank guarantees; HAMAG ("Croatian Agency for Small Entrepreneurship") and other corporate guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; assignment of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments, such as bills of exchange and promissory notes.

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice and current market trends.

The gross balance of fully recoverable amounts not identified as past due beyond 90 day and as individually impaired at the reporting date sheet day, together with the underlying collateral at its fair value, expressed as a percentage of net placements is as follows:

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets exposed to credit risk (continued)

(a) Assets exposed to credit risk but not impaired (risk category A)

Group 2013 HRK '000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	2,829,087	368,377	3,183,210	861,973	1,366	134,473	2,596,137	**9,974,623**	522,772	815,041	1,799,784	92,236
Total portfolio-based losses	(30,206)	(3,933)	(34,290)	(8,936)	(15)	(1,436)	(27,719)	**(106,535)**	-	(5,245)	-	-
Net amount	**2,798,881**	**364,444**	**3,148,920**	**853,037**	**1,351**	**133,037**	**2,568,418**	**9,868,088**	**522,772**	**809,796**	**1,799,784**	**92,236**
Collateral value	314,588	13,520	2,777,587	1,665,553	7,488	-	500,807	**5,279,543**	-	-	-	-
Collateral coverage in %	11.24	3.71	88.21	195.25	554.26	-	19.50	**53.50**	-	-	-	-

Group 2012 HRK '000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	2,665,373	101,113	2,703,574	750,237	3,170	150,796	2,371,704	**8,745,967**	754,612	690,672	1,761,940	55,656
Total portfolio-based losses	(34,904)	(1,324)	(35,501)	(9,973)	(42)	(1,975)	(31,058)	**(114,777)**	-	(6,558)		-
Net amount	**2,630,469**	**99,789**	**2,668,073**	**740,264**	**3,128**	**148,821**	**2,340,646**	**8,631,190**	**754,612**	**684,114**	**1,761,940**	**55,656**
Collateral value	943,203	21,260	2,804,278	1,505,376	7,958	-	564,275	**5,846,350**	-	-	-	-
Collateral coverage in %	35.86	21.30	105.10	203.36	254.41	-	24.11	**67.74**	-	-	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets exposed to credit risk (continued)

(a) Assets exposed to credit risk but not impaired (risk category A) (continued)

Bank 2013 HRK '000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	2,829,087	368,377	3,211,646	735,471	1,366	134,473	2,596,137	**9,876,557**	522,772	815,041	1,799,784	91,623
Total portfolio-based losses	(30,206)	(3,933)	(34,290)	(7,853)	(15)	(1,436)	(27,719)	**(105,452)**	-	(5,245)	-	-
Net amount	**2,798,881**	**364,444**	**3,177,356**	**727,618**	**1,351**	**133,037**	**2,568,418**	**9,771,105**	**522,772**	**809,796**	**1,799,784**	**91,623**
Collateral value	314,588	13,520	2,777,588	1,179,821	7,488	-	500,807	**4,793,812**	-	-	-	-
Collateral coverage in %	11.24	3.71	87.42	162.15	554.26	-	19.50	**49.06**	-	-	-	-

Bank 2012 HRK '000	Government units	Financial institutions (excl. banks)	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total loans and receivables from customers**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Balances with the CNB**	**Fees receivable**
Gross amount	2,665,373	101,113	2,710,978	651,229	3,170	150,796	2,371,704	**8,654,363**	749,811	690,672	1,761,940	55,050
Total portfolio-based losses	(34,904)	(1,324)	(35,501)	(8,528)	(42)	(1,975)	(31,058)	**(113,332)**	-	(6,558)	-	-
Net amount	**2,630,469**	**99,789**	**2,675,477**	**642,701**	**3,128**	**148,821**	**2,340,646**	**8,541,031**	**749,811**	**684,114**	**1,761,940**	**55,050**
Collateral value	943,203	21,260	2,824,516	1,120,802	7,958	-	564,275	**5,482,014**	-	-	-	-
Collateral coverage in %	35.86	21.30	105.57	174.39	254.41	-	24.11	**64.18**	-	-	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets exposed to credit risk (continued)

(b) Assets exposed to credit risk in the risk category A that are past due beyond 90 days but not impaired

The gross balance and the coverage of those assets with collateral at fair value, presented as a percentage of net placements is as follows:

Group 2013 HRK 000	Loans and receivables from customers					**Fees receivable**
	Government units	Companies	Housing loans	Other loans	**Total**	
Gross amount	-	21,583	895	12,743	35,221	2
Total portfolio-based losses	-	(230)	(9)	(136)	(375)	
Net amount	**-**	**21,353**	**886**	**12,607**	**34,846**	**2**
Collateral value	-	50,266	1,291	23,259	74,816	-
Collateral coverage in %	-	235.40	145.71	184.49	214.70	-

Group 2012 HRK 000	Loans and receivables from customers					**Fees receivable**
	Government units	Companies	Housing loans	Other loans	**Total**	
Gross amount	-	300,612	5,194	23,434	**329,240**	195
Total portfolio-based losses	-	(3,936)	(68)	(307)	**(4,311)**	-
Net amount	**-**	**296,676**	**5,126**	**23,127**	**324,929**	**195**
Collateral value	-	703,170	5,528	61,677	**770,375**	
Collateral coverage in %	-	237.02	107.84	266.69	237.09	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets exposed to credit risk (continued)

(b) Assets exposed to credit risk in the risk category A that are past due beyond 90 days but not impaired (continued)

Bank 2013 HRK '000	Loans and receivables from customers					**Fees receivable**
	Government units	Companies	Housing loans	Other loans	**Total**	
Gross amount	-	21,583	868	12,743	**35,194**	2
Total portfolio-based losses	-	(230)	(9)	(136)	**(375)**	-
Net amount	**-**	**21,353**	**859**	**12,607**	**34,819**	**2**
Collateral value	-	50,266	1,291	23,259	**74,816**	-
Collateral coverage in %	-	235.41	150.34	184.49	214.88	-

Bank 2012 HRK '000	Loans and receivables from customers					**Fees receivable**
	Government units	Companies	Housing loans	Other loans	**Total**	
Gross amount	-	300,611	5,194	23,434	**329,239**	195
Total portfolio-based losses	-	(3,936)	(68)	(307)	**(4,311)**	-
Net amount	**-**	**296,675**	**5,126**	**23,127**	**324,928**	**195**
Collateral value	-	703,170	5,528	61,677	**770,375**	
Collateral coverage in %	-	237.02	107.84	266.69	237.09	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets exposed to credit risk (continued)

(c) Credit risk on impaired assets in risk categories B and C

The table below shows the amount of loans and advances both individually impaired and impaired on a portfolio basis, and their coverage by collateral at fair value, expressed as a percentage of the net amount:

Group 2013 HRK '000	Loans to customers								
	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
Gross amount	2,408,527	31,748	382	9,134	598,483	**3,048,274**	500	34,917	9,937
Total identified losses	(808,509)	(7,241)	(8)	(7,506)	(374,253)	**(1,197,517)**	(500)	(23,408)	(9,937)
Net amount	**1,600,018**	**24,507**	**374**	**1,628**	**224,230**	**1,850,757**	**-**	**11,509**	**-**
Collateral value	3,814,511	53,590	667	-	369,489	**4,238,257**	-	-	-
Collateral coverage in %	238.40	218.67	178.34	-	164.78	229.00	**-**	**-**	**-**

Group 2012 HRK '000	Loans to customers								
	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
Gross amount	2,178,357	21,873	461	6,537	593,834	**2,801,062**	500	27,497	8,716
Total identified losses	(654,106)	(4,035)	(9)	(4,519)	(325,022)	**(987,691)**	(500)	(26,194)	(8,716)
Net amount	**1,524,251**	**17,838**	**452**	**2,018**	**268,812**	**1,813,371**	**-**	**1,303**	**-**
Collateral value	3,279,822	31,540	1,336	-	426,750	**3,739,448**	-	-	-
Collateral coverage in %	215.18	176.81	295.58	-	158.75	206.22	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets exposed to credit risk (continued)

(c) Credit risk on impaired assets in risk categories B and C (continued)

Bank 2013 HRK '000	Loans to customers								
	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
Gross amount	2,408,527	30,218	382	9,134	598,483	**3,046,744**	500	34,917	9,937
Total identified losses	(808,509)	(6,877)	(8)	(7,506)	(374,253)	**(1,197,153)**	(500)	(23,408)	(9,937)
Net amount	**1,600,018**	**23,341**	**374**	**1,628**	**224,230**	**1,849,591**	**-**	**11,509**	**-**
Collateral value	3,814,511	47,296	667	-	369,489	**4,231,963**	-	-	-
Collateral coverage in %	238.40	202.63	178.34	-	164.78	228.81	**-**	**-**	**-**

Bank 2012 HRK '000	Loans to customers								
	Companies	Housing loans	Mortgage loans	Credit cards	Other loans	**Total**	**Loans to and receivables from banks**	**Financial assets held to maturity**	**Fees receivable**
Gross amount	2,178,357	21,255	461	6,537	593,834	**2,800,444**	500	27,497	8,716
Total identified losses	(654,106)	(3,893)	(9)	(4,519)	(325,022)	**(987,549)**	(500)	(26,194)	(8,716)
Net amount	**1,524,251**	**17,362**	**452**	**2,018**	**268,812**	**1,812,895**	**-**	**1,303**	**-**
Collateral value	3,279,822	29,429	1,336	-	426,750	**3,737,337**	-	-	-
Collateral coverage in %	215.18	169.50	295.58	-	158.75	206.15	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets exposed to credit risk (continued)

(d) Prolonged and rescheduled loans to customers

Prolongation of a loan is approved to customers because of common and current financing needs of their business activities.

Loans are most often rescheduled when borrowers' business operations are disrupted, with considerable changes made to the previously agreed lending terms and conditions.

		Bank
	2013	**2012**
	HRK '000	**HRK '000**
Gross loans and advances to customers		
Corporate	2,215,000	1,750,777
Small and middle enterprises	260,678	305,289
Retail	111,035	89,357
Total	**2,586,713**	**2,145,423**

2.1.5. Credit risk concentration by industry:

An analysis of the concentration of credit risk by industry is presented in the table below:

	Group	**Group**
	2013	**2012**
	HRK '000	**HRK '000**
Agriculture, forestry and fisheries	224,549	212,575
Manufacturing	1,535,414	1,535,187
Construction	870,705	924,072
Transportation and storage	578,999	405,959
Wholesale and retail trade; repair of motor vehicles and motorcycles	721,260	643,698
Accommodation and food service activities	259,685	261,120
Professional, scientific and technical activities	397,361	157,049
Public administration and defense; compulsory social security	2,306,478	2,401,026
Electricity, gas, steam and air conditioning supply	152,235	283,913
Information and communication	287,636	245,862
Arts, entertainment and recreation	118,962	121,452
Administrative and support service activities	80,150	99,663
Other	1,257,736	655,082
Total gross loans to corporate customers	**8,791,170**	**7,946,658**
Loans to retail customers (gross)	**4,199,257**	**3,869,247**
Collateralised	9,592,616	10,356,173
Accrued interest	67,691	60,364
Provisions for impairment losses	(1,304,427)	(1,106,779)
Total	**11,753,691**	**10,769,490**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.5. Credit risk concentration by industry (continued)

	Bank 2013 HRK '000	Bank 2012 HRK '000
Agriculture, forestry and fisheries	224,549	212,575
Manufacturing	1,535,414	1,535,187
Construction	870,705	924,072
Transportation and storage	578,999	405,959
Wholesale and retail trade; repair of motor vehicles and motorcycles	721,260	643,698
Accommodation and food service activities	259,685	261,120
Professional, scientific and technical activities	425,798	157,049
Public administration and defense; compulsory social security	2,306,478	2,401,026
Electricity, gas, steam and air conditioning supply	152,235	283,913
Information and communication	287,636	245,862
Arts, entertainment and recreation	118,962	121,452
Administrative and support service activities	80,150	99,663
Other	1,257,736	662,486
Total gross loans to corporate customers	**8,819,607**	**7,954,062**
Loans to retail customers (gross)	**4,071,356**	**3,769,726**
Collateralised	9,100,591	9,989,726
Accrued interest	67,532	60,259
Provisions for impairment losses	(1,302,980)	(1,105,192)
Total	**11,655,515**	**10,678,855**

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of its positions. The main categories of liquidity risk to which the Group is exposed are as follows:

- liquidity funding risk (structural liquidity risk): risk that the Bank will not be able to meet efficiently its expected and unexpected present and future cash and collateral requirements without impacting its day-to-day operations or its own financial result,
- market liquidity risk, risk that the Bank will not be able to offset its positions or liquidate positions at market price due to a market disturbance or the market being insufficiently deep.

The Group manages liquidity risk in accordance with the legal and regulatory requirements. In addition to those requirements, liquidity risk management is governed by the following internal regulations:

- Risk Management Policy,
- Liquidity Risk Management Manual.

The system for managing liquidity risk, in line with defined polices, includes:

- estimation and measurement of liquidity risk exposure;
- setting liquidity risk exposure limits,
- reporting and monitoring the limits used,
- the mechanism for the distribution of liquidity costs and benefits,
- control function.

Liquidity risk management is realized through:

- operational management of daily liquidity,
- operational management of short-term liquidity,
- structural liquidity management.

Operational management of daily and short-term liquidity is performed through:

- planning and projecting daily/ten-day/monthly cash flows
- maintaining minimum weekly and monthly liquidity coefficient in HRK, total of all convertible currencies and non-convertible currencies individually, and total minimum weekly and monthly liquidity coefficient, calculated according to CNB's Decision on Liquidity Risk Management, within the prescribed limit.

Structural liquidity management is performed through:

- maintaining positions depending on gap limits between receivables and liabilities according to remaining contractual maturity,
- maintaining positions in accordance with liquidity risk exposure limits,
- diversification of sources of funding.

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk (continued)

Risk Management Division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liability Management Committee.

The Group is submitting monthly reports to the CNB in form and in deadline prescribed by Decision on Liquidity Risk Management, with end-of-the-month status. Prescribed quantitative requirements consist of following reports: about the amount of highly liquid assets (presently marketable assets), about the maturity gap of assets and liabilities (expected inflows and outflows form), about the level of minimal liquidity coefficient and funds concentration within total liabilities. Information is delivered for two periods: up to one week and up to one month, separately for HRK, convertible currencies and each non-convertible currency individually (if they represent a significant amount) and on portfolio basis for HRK and convertible currencies. The Group has maintained all limits above prescribed levels during 2013. The Bank maintains obligatory reserve and minimal foreign currency receivables within limits prescribed by Decision on Reserve Requirements and Decision on Minimum Required Amount of Foreign Currency Claims.

The Treasury Division reports monthly to Assets and Liability Management Committee about planned outflows and inflows.

Ultimate responsibility for liquidity risk management rests with the Bank's Management Board. The Bank’s Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in it’s sessions. Each division to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Group prescribes and implements stress tests of it’s liquidity. Risk division conducts tests of immunity to stress by taking into account all the factors specific to the Bank (internal factors) and market factors (external factors).

Immunity to stress tests are conducted for HRK and total convertible currencies, for periods up to one week and up to one month.

Long-term liquidity is managed by maintaining positions in accordance with the limits of exposure to liquidity risk.

2.2.1 Maturity analysis

A maturity analysis of assets and liabilities, as well as equity, of the Group and the Bank, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Group’s and the Bank’s trading intention, as at 31 December 2013 and 31 December 2012, is presented in the tables below.

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk (continued)

2.2.1. Maturity analysis (continued)

Group 2013
HRK '000

	0-30 days	31-90 days	91-360 days	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	1,177,543	-	-	-	-	1,177,543
Obligatory reserve with Croatian National Bank	1,442,045	-	-	-	-	1,442,045
Loans to and receivables from banks	421,150	159	-	21,689	79,774	522,772
Financial assets at fair value through profit or loss	275,723	2,417	12	-	65,689	343,841
Financial assets available for sale	62,783	253,554	126,832	632,340	639,907	1,715,416
Financial assets held to maturity	259,607	116,687	64,644	216,024	164,343	821,305
Loans and receivables from customers	2,769,519	566,326	3,203,449	2,050,034	3,164,363	11,753,691
Assets held for sale	-	-	-	-	41,551	41,551
Property and equipment	-	-	14	8	147,965	147,987
Investment property	-	-	-	-	9,938	9,938
Intangible assets	-	-	-	112	168,597	168,709
Deferred tax assets, net	-	-	918	-	21,951	22,869
Tax prepayment	-	50	-	-	-	50
Other assets	153,635	10,000	26,982	22,820	216,633	430,070
TOTAL ASSETS	**6,562,005**	**949,193**	**3,422,851**	**2,943,027**	**4,720,711**	**18,597,787**
LIABILITIES						
Financial liabilities at fair value through profit or loss	8	-	-	-	-	8
Deposits from banks	493,261	187,446	60,500	-	-	741,207
Customer deposits	6,767,966	1,671,261	4,955,846	858,627	107,665	14,361,365
Borrowings	202,623	40,475	99,716	305,029	426,170	1,074,013
Hybrid instruments	-	8,429	150,000	252,373	-	410,802
Provisions for liabilities and expenses	18,633	10,789	5,284	7,961	81	42,748
Other liabilities	435,849	23,267	31,851	9,501	21,682	522,150
Total equity	-	-	-	-	1,445,494	1,445,494
TOTAL LIABILITIES AND EQUITY	**7,918,340**	**1,941,667**	**5,303,197**	**1,433,491**	**2,001,092**	**18,597,787**
MATURITY GAP	**(1,356,335)**	**(992,474)**	**(1,880,346)**	**1,509,536**	**2,719,619**	**-**
CUMMULATIVE MATURITY GAP	**(1,356,335)**	**(2,348,809)**	**(4,229,155)**	**(2,719,619)**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk (continued)

2.2.1. Maturity analysis (continued)

Group 2012 HRK '000	**0-30 days**	**31-90 days**	**91-360 days**	**1 to 3 years**	**Over 3 years**	**Total**
ASSETS						
Cash and amounts due from banks	1,130,569	-	-	-	-	1,130,569
Obligatory reserve with Croatian National Bank	1,231,884	-	-	-	-	1,231,884
Loans to and receivables from banks	333,036	118,220	62,080	90,276	151,000	754,612
Financial assets at fair value through profit or loss	510,720	4,017	-	-	66,482	581,219
Financial assets available for sale	2,052	64,905	360,649	184,320	759,118	1,371,044
Financial assets held to maturity	38,722	151,976	82,623	145,211	266,885	685,417
Loans and receivables from customers	2,063,593	432,221	3,082,033	1,943,754	3,247,889	10,769,490
Assets held for sale	-	-	-	-	21,551	21,551
Property and equipment	-	-	-	29	146,433	146,462
Investment property	-	-	-	-	10,194	10,194
Intangible assets	-	-	-	242	195,108	195,350
Deferred tax assets, net	-	-	634	-	21,241	21,875
Tax prepayment	-	-	127	-	-	127
Other assets	172,839	-	23,442	367	149,787	346,435
TOTAL ASSETS	**5,483,415**	**771,339**	**3,611,588**	**2,364,199**	**5,035,688**	**17,266,229**
LIABILITIES						
Financial liabilities at fair value through profit or loss	370	-	-	-	-	370
Deposits from banks	275,819	36,913	196,786	-	-	509,518
Customer deposits	5,896,770	1,745,115	4,570,392	814,288	98,293	13,124,858
Borrowings	12,690	46,792	175,927	342,185	546,516	1,124,110
Hybrid instruments	-	8,405	-	401,743	-	410,148
Provisions for liabilities and expenses	17,360	21,283	10,883	2,822	5,248	57,596
Other liabilities	487,423	19,107	32,936	22,119	67,386	628,971
Total equity	-	-	-	-	1,410,658	1,410,658
TOTAL LIABILITIES AND EQUITY	**6,690,432**	**1,877,615**	**4,986,924**	**1,583,157**	**2,128,101**	**17,266,229**
MATURITY GAP	**(1,207,017)**	**(1,106,276)**	**(1,375,336)**	**781,042**	**2,907,587**	**-**
CUMMULATIVE MATURITY GAP	**(1,207,017)**	**(2,313,293)**	**(3,688,629)**	**(2,907,587)**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk (continued)

2.2.1. Maturity analysis (continued)

Bank 2013
HRK '000

	0-30 days	31-90 days	91-360 days	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	1,177,540	-	-	-	-	1,177,540
Obligatory reserve with Croatian National Bank	1,442,045	-	-	-	-	1,442,045
Loans to and receivables from banks	421,150	159	-	21,689	79,774	522,772
Financial assets at fair value through profit or loss	275,723	1,323	-	-	-	277,046
Financial assets available for sale	41,465	221,673	126,832	603,200	629,871	1,623,041
Financial assets held to maturity	259,607	116,687	64,644	216,024	164,343	821,305
Loans and receivables from customers	2,766,943	586,228	3,198,041	2,033,075	3,071,228	11,655,515
Assets held for sale	-	-	-	-	41,551	41,551
Investments in subsidiaries	-	-	-	-	45,490	45,490
Property and equipment	-	-	-	-	147,861	147,861
Intangible assets	-	-	-	-	168,519	168,519
Deferred tax assets, net	-	-	-	-	21,951	21,951
Other assets	154,345	49	20,310	22,820	214,918	412,442
TOTAL ASSETS	**6,538,818**	**926,119**	**3,409,827**	**2,896,808**	**4,585,506**	**18,357,078**
LIABILITIES						
Financial liabilities at fair value through profit or loss	8	-	-	-	-	8
Deposits from banks	493,261	187,446	60,500	-	-	741,207
Customer deposits	6,739,575	1,660,139	4,909,920	769,169	65,219	14,144,022
Borrowings	202,623	40,475	99,716	305,029	426,170	1,074,013
Hybrid instruments	-	8,429	150,000	252,373	-	410,802
Provisions for liabilities and expenses	18,835	10,789	4,122	7,961	82	41,789
Other liabilities	433,140	12,384	24,863	9,501	11,959	491,847
Total equity	-	-	-	-	1,453,390	1,453,390
TOTAL LIABILITIES AND EQUITY	**7,887,442**	**1,919,662**	**5,249,121**	**1,344,033**	**1,956,820**	**18,357,078**
MATURITY GAP	**(1,348,624)**	**(993,543)**	**(1,839,294)**	**1,552,775**	**2,628,686**	**-**
CUMMULATIVE MATURITY GAP	**(1,348,624)**	**(2,342,167)**	**(4,181,461)**	**(2,628,686)**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.2. Liquidity risk (continued)

2.2.1. Maturity analysis (continued)

Bank 2012
HRK '000

	0-30 days	31-90 days	91-360 days	1 to 3 years	Over 3 years	Total
ASSETS						
Cash and amounts due from banks	1,129,940	-	-	-	-	1,129,940
Obligatory reserve with Croatian National Bank	1,231,884	-	-	-	-	1,231,884
Loans to and receivables from banks	333,036	113,419	62,080	90,276	151,000	749,811
Financial assets at fair value through profit or loss	510,720	2,504	-	-	-	513,224
Financial assets available for sale	15	63,875	358,649	139,784	733,778	1,296,101
Financial assets held to maturity	38,722	151,976	82,623	145,211	266,885	685,417
Loans and receivables from customers	2,059,474	431,815	3,077,248	1,930,773	3,179,545	10,678,855
Assets held for sale	-	-	-	-	21,551	21,551
Property and equipment	-	-	-	-	53,990	53,990
Investment property	-	-	-	-	146,299	146,299
Intangible assets	-	-	-	-	194,967	194,967
Deferred tax assets, net	-	-	-	-	21,241	21,241
Tax prepayment	162,325	-	11,936	367	147,545	322,173
Other assets	**5,466,116**	**763,589**	**3,592,536**	**2,306,411**	**4,916,801**	**17,045,453**
TOTAL ASSETS						
LIABILITIES						
Financial liabilities at fair value through profit or loss	370	-	-	-	-	370
Deposits from banks	275,819	36,913	196,786	-	-	509,518
Customer deposits	5,931,357	1,733,668	4,492,037	729,582	52,759	12,939,403
Borrowings	12,690	46,792	175,927	342,185	546,516	1,124,110
Hybrid instruments	-	8,405	-	401,743	-	410,148
Provisions for liabilities and expenses	17,360	21,283	9,809	2,822	5,248	56,522
Other liabilities	467,959	18,793	22,062	22,119	63,464	594,397
Total equity	-	-	-	-	1,410,985	1,410,985
TOTAL LIABILITIES AND EQUITY	**6,705,555**	**1,865,854**	**4,896,621**	**1,498,451**	**2,078,972**	**17,045,453**
MATURITY GAP	**(1,239,439)**	**(1,102,265)**	**(1,304,085)**	**807,960**	**2,837,829**	**-**
CUMMULATIVE MATURITY GAP	**(1,239,439)**	**(2,341,704)**	**(3,645,789)**	**(2,837,829)**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.3 Market risk

The exposure to market risk occurs with respect to balance sheet and off-balance-sheet positions recognised at fair value:

- financial assets held for trading,
- financial assets available for sale,
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All trading instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous (i.e. impaired). Trading financial instruments are recognised at fair value, and all changes in market conditions directly affect trading income. The Bank manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Guidelines.

Market risk management of the Bank is conducted in accordance with regulatory requirements, as is defined by internal policies and procedures regarding market risks which are regularly revised by the Risk Management Division.

The Risk Management Division daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Croatian National Bank's Decision on the capital adequacy of banks,
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used,
- Capital requirement calculated by an internal model (VaR x 4).

In addition the Bank uses the following internally prescribed measures in measuring exposure to debt instrument position risks:

- Duration (measure of the sensitivity of debt security prices to changes in interest rates),
- PV01 which represents the decline of portfolio value in a scenario where interest rates increase by 0.01%.

The Risk Management Division reports daily to the Treasury Division on the usage of market risk exposure limits, daily to the Finance Division regarding the capital requirements for currency risk and position risks, and monthly to the Asset and Liability Management Committee on market risk exposure.

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

a) Trading portfolio

The table below shows the movements in those measures at 31 December 2013 and 31 December 2012.

Bank

2013	**Position HRK '000**	**VaR**
Currency risk	165,264	(2,038)
Debt instrument position risk	81,380	(866)
Equity instrument position risk	43,120	(2,201)
Position risk of units in investment funds	159,203	(1,417)
Correlation effect	-	2,658
Market risk		**(3,864)**
2012		
Currency risk	43,497	(422)
Debt instrument position risk	62,488	(494)
Equity instrument position risk	43,013	(2,746)
Position risk of units in investment funds	411,301	(1,775)
Correlation effect	-	310
Market risk		**(5,127)**

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

b) Available-for-sale portfolio

The available-for-sale portfolio consists of debt and equity securities.

The table below shows market value and VaR movements for the portfolio of debt and equity securities available for sale.

Bank

Debt securities	Market value HRK '000	VaR HRK '000
2013	1,625,715	(21,727)
2012	1,284,305	(14,083)

Equity securities	Market value HRK '000	VaR HRK '000
2013	-	-
2012	18,630	(4,029)

2. RISK MANAGEMENT (continued)

2.4 Interest rate risk in the Bank's non-trading book

Interest rate risk in the Bank’s non-trading book is a risk which can have a negative effect on economic value of the Bank’s book and earnings (net interest income), because of variation of market interest rates. Exposure to interest rate risk in the Bank’s non-trading book arises as a consequence of:

- mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps),
- various natures of interest rates (reference rates) applied by the Bank in arranging its lending and borrowing activities.

Accordingly, all interest-rate sensitive items in the Bank’s non-trading book are exposed to interest rate risk.

The Bank manages interest rate risk in its non-trading book in accordance with the legal and regulatory requirements. In line with CNB’s Decision on the Management of Interest rate risk in the Bank’s Non-trading Book, in effect from 31 March 2010, the Bank is required to submit quarterly reports to the CNB about the interest rate risk in the bank’s non-trading book, on unconsolidated and consolidated basis both.

Apart from those regulations, managing interest rate risk in the bank’s non-trading book is regulated by:

- Risk Management Policy, and
- Manual on Managing Interest Rate Risk in the Bank's Non-trading Book.

The Manual on Managing Interest Rate Risk in the Bank's Non-trading Book defines the management process, evaluation methods and measures of exposure to interest rate risk in the bank's non-trading book, as well as exposure limits, manner and frequency of reporting about the Bank's exposure to that risk.

The Bank assesses interest rate risk in the bank’s non-trading book by observing this risk from two perspectives:

- Perspective of economic value: a potential market value decrease of the Bank's non-trading book because of interest rate movements in the market,
- Profit perspective: a potential decrease of net interest income because of movements in market interest rates.

Perspective of economic value of capital

The Bank uses simplified calculation of estimated change in economic value of the bank’s book by applying standard interest shock on non-trading book positions which are exposed to interest rate risk, for all significant currencies separately and other currencies jointly. Interest sensitive positions of the non-trading book are distributed in 13 time zones, whereby positions with fixed interest rate, variable interest rate and interest rate that can be changed by Management Board’s decision (administrative interest rate) are distinguished, and estimates a change in market value of the Bank’s non-trading book by applying basic simulation of parallel interest rates movements by 2 basis points. The Bank calculates a ratio between the change in economic value of the non-trading book and regulatory capital, and maintains it on a level below 18% (legal ratio prescribed by the CNB’s Decision equals 20%). Change in economic value of capital amounts to HRK 91,496 thousand or 5.82 % of regulatory capital as per 2013 year-end (2012: HRK 151,522 thousand or 9.08 %).

2. RISK MANAGEMENT (continued)

2.4 Interest rate risk in the Bank's non-trading book (continued)

Profit perspective

The profit perspective takes into account the potential decrease in net interest income as a result of a change in market interest rates. To measure interest rate risk from the profit perspective, the Bank simulates basic parallel movements in interest rates ± 2%, through a time period of 12 months, and the potential decrease in net interest income is to be maintained within a 10% limit of realized net interest income for the observed period (from beginning of the year) projected to a yearly basis. Potential decrease in net interest income amounts to HRK 25,047 thousand, representing 5.23 % of net interest income (2012: decrease by HRK 12,824 thousand, or 2.72 % of net interest income).

Additionally, at least once a year stress tests are conducted, whereby the Bank tests effects of adverse interest rate movements for specific product types on the market, on net interest income, by assuming a decrease of active interest rates and an increase of passive interest rates.

Risk divisions is reporting monthly to the Asset and Liabilities Committee about exposure the interest rate risk in the Bank’s non-trading book.

2.5 Foreign exchange risk

The Bank is exposed to currency risk through transactions in foreign currencies.

Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank directs its business activities trying to minimize the gap between assets and liabilities denominated in or linked to foreign currency.

The Bank manages its currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank directs its business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to a foreign currency, and maintaining daily business activities within the internal and regulatory limits per currency.

The Bank is primarily exposed to changes in the euro exchange rate. As at 31 December 2013, value of assets denominated in euro or in euro linked currencies amounted to HRK 6,072,991 thousand (2012: HRK 5,912,055 thousand), while liabilities denominated in euro or in euro linked currencies amounted to HRK 5,961,316 thousand (2012: HRK 5,906,344 thousand). Hence, a 1 % fall in the HRK/EUR exchange rate (appreciation of the HRK) would affect the result in the amount of HRK 1,117 thousand (2012: HRK 57 thousand).

2.5.1 Currency risk analysis

The following tables illustrate the value of total assets and liabilities of the Group and Bank at 31 December 2013 and 31 December 2012 in HRK and foreign currencies (values denominated in HRK with foreign currency clause are mostly linked to EUR).

2. RISK MANAGEMENT (continued)

2.5. Foreign exchange risk (continued)

2.5.1 Currency risk analysis

Group 2013

HRK '000	HRK	HRK, currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	723,712	-	318,123	135,708	1,177,543
Obligatory reserve with Croatian National Bank	1,346,735	-	95,310	-	1,442,045
Loans to and receivables from banks	172,727	-	344,917	5,128	522,772
Financial assets at fair value through profit or loss	204,084	133,532	-	6,225	343,841
Financial assets available for sale	1,116,147	245,494	303,559	50,216	1,715,416
Financial assets held to maturity	740,845	80,460	-	-	821,305
Loans and receivables from customers	6,881,428	4,185,041	600,120	87,102	11,753,691
Assets held for sale	41,551	-	-	-	41,551
Property and equipment	147,987	-	-	-	147,987
Investment property	9,938	-	-	-	9,938
Intangible assets	168,709	-	-	-	168,709
Deferred tax assets, net	22,869	-	-	-	22,869
Tax prepayment	50	-	-	-	50
Other assets	429,472	314	265	19	430,070
TOTAL ASSETS	**12,006,254**	**4,644,841**	**1,662,294**	**284,398**	**18,597,787**
LIABILITIES					
Financial liabilities at fair value through profit or loss	-	-	-	8	8
Deposits from banks	560,756	-	149,677	30,774	741,207
Customer deposits	8,885,755	287,965	4,954,147	233,498	14,361,365
Borrowings	319,122	699,187	55,704	-	1,074,013
Hybrid instruments	358,393	52,409	-	-	410,802
Provisions for liabilities and expenses	42,748	-	-	-	42,748
Other liabilities	500,602	-	8,059	13,489	522,150
Total equity	1,445,494	-	-	-	1,445,494
TOTAL LIABILITIES AND EQUITY	**12,112,870**	**1,039,561**	**5,167,587**	**277,769**	**18,597,787**
NET FOREIGN EXCHANGE POSITION	**(106,616)**	**3,605,280**	**(3,505,293)**	**6,629**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign exchange risk (continued)

2.5.1 Currency risk analysis

Group 2012

HRK '000	HRK	HRK, currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	865,134	-	191,165	74,270	1,130,569
Obligatory reserve with Croatian National Bank	1,134,146	-	97,738	-	1,231,884
Loans to and receivables from banks	303,439	-	362,938	88,235	754,612
Financial assets at fair value through profit or loss	450,192	121,475	1,699	7,853	581,219
Financial assets available for sale	927,425	198,747	244,209	663	1,371,044
Financial assets held to maturity	606,531	78,886	-	-	685,417
Loans and receivables from customers	5,862,155	4,182,957	643,963	80,415	10,769,490
Assets held for sale	21,551	-	-	-	21,551
Property and equipment	146,462	-	-	-	146,462
Investment property	10,194	-	-	-	10,194
Intangible assets	195,350	-	-	-	195,350
Deferred tax assets, net	21,875	-	-	-	21,875
Tax prepayment	127	-	-	-	127
Other assets	344,732	1,242	390	71	346,435
TOTAL ASSETS	**10,889,313**	**4,583,307**	**1,542,102**	**251,507**	**17,266,229**
LIABILITIES					
Financial liabilities at fair value through profit or loss	11	-	-	359	370
Deposits from banks	322,976	-	182,436	4,106	509,518
Customer deposits	7,902,702	371,953	4,611,526	238,677	13,124,858
Borrowings	181,600	816,876	125,634	-	1,124,110
Hybrid instruments	358,371	51,777	-	-	410,148
Provisions for liabilities and expenses	57,596	-	-	-	57,596
Other liabilities	592,271	14	10,899	25,787	628,971
Total equity	1,410,658	-	-	-	1,410,658
TOTAL LIABILITIES AND EQUITY	**10,826,185**	**1,240,620**	**4,930,495**	**268,929**	**17,266,229**
NET FOREIGN EXCHANGE POSITION	**63,128**	**3,342,687**	**(3,388,393)**	**(17,422)**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign exchange risk (continued)

2.5.1 Currency risk analysis

Bank 2013
HRK '000

	HRK	HRK, currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	723,709	-	318,123	135,708	1,177,540
Obligatory reserve with Croatian National Bank	1,346,735	-	95,310	-	1,442,045
Loans to and receivables from banks	172,727	-	344,917	5,128	522,772
Financial assets at fair value through profit or loss	198,990	71,831	-	6,225	277,046
Financial assets available for sale	1,069,422	199,844	303,559	50,216	1,623,041
Financial assets held to maturity	740,845	80,460	-	-	821,305
Loans and receivables from customers	6,909,864	4,058,429	600,120	87,102	11,655,515
Assets held for sale	41,551	-	-	-	41,551
Investments in subsidiaries	45,490	-	-	-	45,490
Property and equipment	147,861	-	-	-	147,861
Intangible assets	168,519	-	-	-	168,519
Deferred tax assets, net	21,951	-	-	-	21,951
Other assets	412,025	133	265	19	412,442
TOTAL ASSETS	**11,999,689**	**4,410,697**	**1,662,294**	**284,398**	**18,357,078**
LIABILITIES					
Financial liabilities at fair value through profit or loss	-	-	-	8	8
Deposits from banks	560,756	-	149,677	30,774	741,207
Customer deposits	8,914,244	42,133	4,954,147	233,498	14,144,022
Borrowings	319,122	699,187	55,704	-	1,074,013
Hybrid instruments	358,393	52,409	-	-	410,802
Provisions for liabilities and expenses	41,789	-	-	-	41,789
Other liabilities	470,299		8,059	13,489	491,847
Total equity	1,453,390	-	-	-	1,453,390
TOTAL LIABILITIES AND EQUITY	**12,117,993**	**793,729**	**5,167,587**	**277,769**	**18,357,078**
NET FOREIGN EXCHANGE POSITION	**(118,304)**	**3,616,968**	**(3,505,293)**	**6,629**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign exchange risk (continued)

2.5.1 Currency risk analysis

Bank 2012
HRK '000

	HRK	HRK, currency clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and amounts due from banks	865,133	-	190,537	74,270	1,129,940
Obligatory reserve with Croatian National Bank	1,134,146	-	97,738	-	1,231,884
Loans to and receivables from banks	303,439	-	358,137	88,235	749,811
Financial assets at fair value through profit or loss	444,677	58,995	1,699	7,853	513,224
Financial assets available for sale	899,966	151,263	244,209	663	1,296,101
Financial assets held to maturity	606,531	78,886	-	-	685,417
Loans and receivables from customers	5,869,559	4,084,918	643,963	80,415	10,678,855
Assets held for sale	21,551	-	-	-	21,551
Investments in subsidiaries	53,990	-	-	-	53,990
Property and equipment	146,299	-	-	-	146,299
Intangible assets	194,967	-	-	-	194,967
Deferred tax assets, net	21,241	-	-	-	21,241
Other assets	320,392	1,320	390	71	322,173
TOTAL ASSETS	**10,881,891**	**4,375,382**	**1,536,673**	**251,507**	**17,045,453**
LIABILITIES					
Financial liabilities at fair value through profit or loss	11	-	-	359	370
Deposits from banks	322,976	-	182,436	4,106	509,518
Customer deposits	7,982,004	107,196	4,611,526	238,677	12,939,403
Borrowings	181,600	816,876	125,634	-	1,124,110
Hybrid instruments	358,371	51,777	-	-	410,148
Provisions for liabilities and expenses	56,522	-	-	-	56,522
Other liabilities	557,711	-	10,899	25,787	594,397
Total equity	1,410,985	-	-	-	1,410,985
TOTAL LIABILITIES AND EQUITY	**10,870,180**	**975,849**	**4,930,495**	**268,929**	**17,045,453**
NET FOREIGN EXCHANGE POSITION	**11,711**	**3,399,533**	**(3,393,822)**	**(17,422)**	**-**

2. RISK MANAGEMENT (continued)

2.6. Operational risk management

Operational risk is inherent to all activities, processes, products and systems of the Group. The Group ensures appropriate operational risk management by applying procedures and a system of authorizations and responsibilities specified in detail in its internal by-laws, the Risk Management Policy and the Internal Operational Risk Management Manual as root documents. The operational risk management system has been established through appropriate bodies of the Group and an efficient internal control system.

The Group defines operational risk as a risk of an event which, as a consequence, exposes the Group to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operational risk is a risk of an event resulting in significant loss because of operational risk.

In order to efficiently manage the overall exposure to operational risk, the Group applies the following:

- Collecting and analyzing internal data about operational risk events,
- Self-assessment of risks and controls,
- Assessment of information technology risk, and
- Business Impact Analysis of unavailability of key business processes.

The Group assesses the outsourcing risk as an additional exposure to all significant risks arising from the fact that the Bank does not itself perform the outsourced activities, but rather that those activities are performed by external vendors; hence, the impact of outsourcing on the Bank's risk profile is assessed.

The Group assesses the impact of introducing a new product on the Bank's risk profile, which includes exposure to all significant risks.

For the purpose of efficient operational risk management, the Bank has set up the Operational Risk Management Committee. Based on the reports on the Bank's exposure to operational risk, the Operational Risk Management Committee draws conclusions and makes decisions about appropriate measures necessary to undertake in order to overmaster the exposure to operational risk.

The Group applies the Standardized Approach in calculating the capital requirement for operational risk.

2.7. Capital management

Capital allocation

The amount of capital allocated to individual operations is based primarily on regulatory requirements. The allocation of capital to specific activities is performed independent of individuals in charge of those activities.

Although the maximization of return on the risk-weighted capital is the key basis used in determining the allocation of capital within the Group to individual activities, it is not the only basis in the decision-making process. Taken into account are: synergy with other activities, availability of the Management Board and other resources, as well as the alignment of the activities with the Group's strategic goals in the long run. Management regularly reviews Group's policies for managing and allocating capital.

2. RISK MANAGEMENT (continued)

2.7 Capital management (continued)

Capital requirement calculations are based on exposures to customers classified into the prescribed exposure categories, which are then weighted according to risk depending on the exposure category of the customer (exposure to sovereign debt, to institutions, public bodies, individuals, etc.), remaining maturity, type of collateral (i.e. residential or commercial property), diversification of loans, identified number of days past due and the amount of provisions made, as defined in the Decision on Regulatory Capital Adequacy. The Bank applies standardized approach when calculating capital requirements.

	2013	2012
	HRK '000	HRK '000
REGULATORY CAPITAL		
Core capital	1,365,959	1,320,383
Supplementary capital	252,373	401,742
Items deductible from regulatory capital	(45,000)	(53,500)
Total regulatory capital	**1,573,332**	**1,668,625**

	2013	2012
	HRK 000	HRK 000
Credit risk exposure (Standardized Approach)	**9,733,866**	**9,098,923**
Capital requirement for foreign exchange risk	16,706	7,074
Capital requirement for positional risk (debt and equity instruments)	13,130	38,242
Capital requirement for risk relating to investments in equity instruments	39,503	51,869
Capital requirement for operational risk	160,349	155,298
Total capital requirements for market and operational risks	**229,688**	**252,483**
Capital adequacy ratio in %	**13.51**	**14.89**

Capital adequacy ratio minimum, as prescribed by the law, equals 12 percent on December 31 2013 (2012: 12 percent).

The Bank, through the Asset and Liability Management Committee, continuously monitors the capital adequacy rate and accordingly undertakes measures necessary to perform business policies, especially policy regarding loan placements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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 existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's portfolio exposed to credit risk represents the major source of estimation uncertainty. This and other key sources of estimations'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.

Impairment losses on loans and receivables

The Group monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Group's on and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying amount of loans and advances to corporate and retail customers (summarized in Note 11), and as provisions for liabilities and expenses arising from off-balance-sheet risk exposure to customers, mainly in the form of guarantees, documentary credits and undrawn loan commitments (summarized in Notes 24 and 40). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

Following tables represent the summary of impairment losses of loans to and receivables from customers, as well as provisions for off-balance sheet exposures:

Group	**Notes**	**2013 HRK '000**	**2012 HRK '000**
Impairment losses on loans to and receivables from customers	11	1,304,427	1,106,779
Provisions for off-balance-sheet exposures	24	21,167	41,039
Total		**1,325,594**	**1,147,818**

Bank	**Notes**	**2013 HRK 000**	**2012 HRK 000**
Impairment losses on loans to and receivables from customers	11	1,302,980	1,105,192
Provisions for off-balance-sheet exposures	24	21,125	41,016
Total		**1,324,105**	**1,146,208**

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Financial assets at amortized 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, when and 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 judgment 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.

Gross value of specifically impaired loans and other receivables classified in risk groups B and C, and the rates of recognized impairment losses, were as follows as per year end:

Group	**2013**	**2012**
Gross exposures (in HRK '000)	**3,093,628**	**2,837,775**
Impairment loss (in HRK ‘000)	1,231,362	1.023.101
Impairment rate	**39.8%**	**36.1%**

Bank	**2013**	**2012**
Gross exposures (in HRK '000)	**3,092,098**	**2,837,157**
Impairment loss (in HRK ‘000)	1,230,998	1,022.959
Impairment rate	**39.8%**	**36.1%**

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2013 would lead to recognition of additional impairment loss amounting to HRK 30,936 thousand for the Group (2012: HRK 28,378 thousand), and HRK 30,921 thousand for the Bank (2012: HRK 28,372 thousand).

The Group also seeks to recognise impairment losses which are known to exist at the reporting date, but which have not yet been specifically identified. In assessing impairment losses on a portfolio basis, historical loss rates are used which are determined in accordance with an internal methodology. The Group considers impairment losses depending on the type of assets, whereby the overall impairment rate may not be below 0.80% of the total on-balance sheet and off-balance sheet credit risk exposure, except in the case of available-for-sale assets at fair value through profit or loss. The amounts assessed as impaired on an individual basis are excluded from this calculation.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Financial assets at amortized cost (continued)

The amount of impairment allowance at 31 December 2013 estimated on a portfolio basis amounted to HRK 133,322 thousand (2012: HRK 145,914 thousand) of relevant on- and off-balance-sheet exposure of the Group, and HRK 132,198 thousand (2012: HRK 144,446 thousand) of relevant on- and off-balance-sheet exposure of the Bank, calssified in A risk category.

At the minimum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 9,822 thousand (2012: HRK 21,818 thousand) lower than the amount recognised by the Group and HRK 9,928 thousand (2012: HRK 21,772 thousand) lower than the amount recognised by the Bank.

If the Group did not have its internal methodology for assessing latent losses on a portfolio basis, it would have to apply the impairment rate equal to 1.00 percent of the relevant on-balance sheet and off-balance sheet credit risk exposure. In that case, impairment losses on a portfolio basis be HRK 21,053 thousand (2012: HRK 29,281 thousand) higher than the amount recognised by the Group and HRK 20,640 thousand (2012: HRK 28,741 thousand) higher than the amount recognised by the Bank.

Market value of pledged property and foreclosed assets

As disclosed in Note 2.1.4 (c), loans and receivables to customers at 31 December 2013 include exposures with a carrying value of HRK 3,046,744 thousand classified by the Bank as impaired in view of delinquencies in payment. A proportion of these loans is secured with collateral in the form of property, plant and equipment. When assessing loan recoverability based on pledged property, market value of pledged property is discounted to present value by applying discount factors and periods prescribed by internal acts, and in accordance with the CNB decision. In addition, as disclosed in Note 18, other assets at 31 December 2013 include property, plant and equipment with carrying value of HRK 237,703 thousand (2012: HRK 177,596 thousand), representing foreclosed assets collected in settlement of non-performing debt. Discrepancies between the carrying amount and the fair value have been determined in 2013, and therefore, impairments on these assets were recognized in the income statement in the amount of HRK 2,052 thousand (2012: -). As per 31 December 2013, net book value of foreclosed assets amounts to HRK 209,418 thousand (2012: HRK 149,544 thousand). The fair value of foreclosed assets is determined using the cost method, taking into account several factors in arriving at the current market value. The valuation method did not change during the year.

Information and fair value hierarchy of foreclosed assets of the Group as of 31 December 2013 is presented below:

	Level 1	Level 2	Level 3	Fair value as of 31 December 2013
	HRK '000	HRK '000	HRK '000	HRK '000
- land	-	73,032	-	73,032
- buildings	-	125,364	-	125,364
- equipment	-	11,022	-	11,022
TOTAL	**-**	**209,418**	**-**	**209,418**

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Fair value of derivatives

Fair value of OTC derivatives that are quoted on active market is determined using their closing market price.For derivatives that are not traded on active markets, Bank determines contractual value applying internally developed models for fair value assessment.

Fair value of treasury bills

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia using an internal model which takes into account their remaining maturity and latest available auction prices of equivalent instruments. As at 31 December 2013, the Bank did not have treasury bills classified as financial assets at fair value through profit or loss (2012: -). As at 31 December 2013, carrying amount of treasury bills classified as financial assets available for sale amounted to HRK 433,670 thousand (2012: HRK 367,060 thousand).

Fair value of the financial instruments quoted in an active market

In estimating the fair value of quoted debt financial instruments, the Bank does not use closing prices at the date of estimation, but applies average prices which are based on the individual transaction volumes of the specified instruments during the day of estimation. This method provides a more realistic indication of the real price of the instrument, and decreases the risk of inadequate or inappropriate estimation of fair value which may result from limited trading of the instrument just before the end of the trading period, at a price which significantly differs from the daily average.

Result of such policy is that financial assets at fair value through profit or loss amounting to HRK 73,390 thousand (2012: HRK 55,600 thousand) are carried at an amount higher by HRK 13,622 thousand (2012: HRK 513 thousand higher) than had the closing prices been applied. Furthermore, financial assets available for sale in amount of HRK 1,170,049 thousand (2012: HRK 903,230 thousand) are being carried at an amount lower by HRK 8,666 thousand (2012: HRK 6,796 thousand higher) than had the closing prices been applied.

Provisions for court cases initiated against the Group

In calculating provisions for court expenses, the Group discounts expected future cash flows with respect to the liabilities using the CNB's discount rate.

Taxation

The Group recognises tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of tax authorities that are entitled to carry out subsequent inspections of taxpayers' records.

4. SEGMENT REPORTING

The Group's business segments represent the primary reportable segments. The primary format is based on the Group's management and internal reporting structure. As the Group does not allocate overhead expenses and equity to segments, segment profitability is not reported.

Business segments

The Group comprises following primary business segments:

- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers,
- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers,
- *Financial market* — Group financing operations and the aggregate liquidity and foreign exchange risk activities in respect of borrowings, transactions with debt securities, use of derivatives and investments in liquid assets. It also includes asset management, securities custody and brokerage services.

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4. SEGMENT REPORTING (continued)

Group

	Corporate	Retail	Financial market	Unallocated	2013 HRK '000 Total
Net interest income	279,616	94,484	83,739	4,942	462,781
Net fee and commission income	44,307	130,827	3,919	13,960	193,013
Trading and investment income	-	-	47,065	224	47,289
Other income	5,149	612	9,109	137	15,007
Operating income	**329,072**	**225,923**	**143,832**	**19,263**	**718,090**
General and administrative expenses	(23,620)	(159,612)	(7,155)	(215,489)	(405,876)
Depreciation and amortisation	-	-	-	(53,006)	(53,006)
Impairment losses on loans and other assets	(182,328)	(50,592)	(2,061)	(1,936)	(236,917)
Provisions for liabilities and expenses	-	-	-	14,077	14,077
Operating expenses	**(205,948)**	**(210,204)**	**(9,216)**	**(256,354)**	**(681,722)**
Profit before taxation					36,368
Income tax	-	-	-	(630)	(630)
Profit for the year	**-**	**-**	**-**	**(630)**	**35,738**
Segment assets	8,872,741	4,250,812	5,013,406	-	18,136,959
Unallocated assets	-	-	-	460,828	460,828
Total assets	**8,872,741**	**4,250,812**	**5,013,406**	**460,828**	**18,597,787**
Segment liabilities	6,836,749	8,277,933	1,444,346	-	16,559,028
Unallocated equity and liabilities	-	-	-	2,038,759	2,038,759
Total equity and liabilities	**6,836,749**	**8,277,933**	**1,444,346**	**2,038,759**	**18,597,787**

4. SEGMENT REPORTING (continued)

Group

	Corporate	Retail	Treasury	Investment banking	Unallocated	Total 2012 HRK '000
Net interest income	307,312	77,337	88,492	125	6,428	479,694
Net fee and commission income	39,713	122,075	(199)	6,111	16,394	184,094
Trading and investment income	-	-	48,957	-	8,557	57,514
Other income	23,243	3,565	8,702	92	161	35,763
Operating income	**370,268**	**202,977**	**145,952**	**6,328**	**31,540**	**757,065**
General and administrative expenses	(22,612)	(161,327)	(4,753)	(5,135)	(228,817)	(422,644)
Depreciation and amortisation	-	-	-	-	(58,956)	(58,956)
Impairment losses on loans and other assets	(115,057)	(23,219)	(10,366)	(113)	(540)	(149,295)
Provisions for liabilities and expenses	-	-	-	-	(24,269)	(24,269)
Operating expenses	**(137,669)**	**(184,546)**	**(15,119)**	**(5,248)**	**(312,582)**	**(655,164)**
Profit before taxation	**-**	**-**	**-**	**-**	**-**	**101,901**
Income tax	-	-	-	-	299	299
Profit for the year	**-**	**-**	**-**	**-**	**299**	**102,200**
Segment assets	8,049,848	3,776,295	4,582,567	52,659	-	16,461,369
Unallocated assets	-	-	-	-	804,860	804,860
Total assets	**8,049,848**	**3,776,295**	**4,582,567**	**52,659**	**804,860**	**17,266,229**
Segment liabilities	6,121,415	7,746,405	1,095,250	105,871	-	15,068,941
Unallocated equity and liabilities	-	-	-	-	2,197,288	2,197,288
Total equity and liabilities	**6,121,415**	**7,746,405**	**1,095,250**	**105,871**	**2,197,288**	**17,266,229**

4. SEGMENT REPORTING (continued)

Bank

	Corporate	Retail	Financial market	Unallocated	Total
					2013 HRK '000
Net interest income	279,616	94,484	83,739	-	457,839
Net fee and commission income	44,307	130,827	3,919	(1,029)	178,024
Trading and investment income	-	-	47,063	-	47,063
Other income	7,967	612	17,011	-	25,590
Operating income	**331,890**	**225,923**	**151,732**	**(1,029)**	**708,516**
General and administrative expenses	(23,620)	(159,612)	(7,155)	(199,834)	(390,221)
Depreciation and amortisation	-	-	-	(52,478)	(52,478)
Impairment losses onloans and other assets	(182,328)	(50,592)	(2,061)	(2,052)	(237,033)
Provisions for liabilities and expenses	-	-	-	13,962	13,962
Operating expenses	**(205,948)**	**(210,204)**	**(9,216)**	**(240,402)**	**(665,770)**
Profit before taxation	**-**	**-**	**-**	**-**	42,746
Income tax	-	-	-	(336)	(336)
Profit for the year	**-**	**-**	**-**	**(336)**	**42,410**
Segment assets	8,901,175	4,124,199	4,854,236	-	17,879,610
Unallocated assets	-	-	-	477,468	477,468
Total assets	**8,901,175**	**4,124,199**	**4,854,236**	**477,468**	**18,357,078**
Segment liabilities	6,865,200	8,032,101	1,444,346	-	16,341,647
Unallocated equity and liabilities	-	-	-	2,015,431	2,015,431
Total equity and liabilities	**6,865,200**	**8,032,101**	**1,444,346**	**2,015,431**	**18,357,078**

4. SEGMENT REPORTING (continued)

Bank

2012
HRK '000

	Corporate	Retail	Treasury	Investment banking	Unallocated	Total
Net interest income	307,312	77,337	88,492	125	-	473,266
Net fee and commission income	41,718	122,075	(199)	6,111	498	170,203
Trading and investment income	-	-	48,957	-	-	48,957
Other income	25,917	3,565	8,703	92	-	38,277
Operating income	**374,947**	**202,977**	**145,953**	**6,328**	**498**	**730,703**
General and administrative expenses	(22,612)	(161,327)	(4,753)	(5,135)	(212,689)	(406,516)
Depreciation and amortisation	-	-	-	-	(58,453)	(58,453)
Impairment losses onloans and other assets	(115,057)	(23,219)	(10,366)	(113)	-	(148,755)
Provisions for liabilities and expenses	-	-	-	-	(23,217)	(23,217)
Operating expenses	**(137,669)**	**(184,546)**	**(15,119)**	**(5,248)**	**(294,359)**	**(636,941)**
Profit before taxation	**-**	**-**	**-**	**-**	**-**	93,762
Income tax	-	-	-	-	301	301
Profit for the year	**-**	**-**	**-**	**-**	**301**	**94,063**
Segment assets	8,136,554	3,776,295	4,582,567	106,649	-	16,602,065
Unallocated assets	-	-	-	-	443,388	443,388
Total assets	**8,136,554**	**3,776,295**	**4,582,567**	**106,649**	**443,388**	**17,045,453**
Segment liabilities	6,208,121	7,746,405	1,095,250	105,871	-	15,155,647
Unallocated equity and liabilities	-	-	-	-	1,889,806	1,889,806
Total equity and liabilities	**6,208,121**	**7,746,405**	**1,095,250**	**105,871**	**1,889,806**	**17,045,453**

5. CASH AND RECEIVABLES FROM BANKS

Group

	2013 HRK '000			2012 HRK '000		
	HRK	**in foreign currency**	**Total**	**HRK**	**in foreign currency**	**Total**
Cash in hand						
Held by the Group	190,818	129,414	320,232	161,289	105,446	266,735
Held by other parties	175,155	-	175,155	174,418	-	174,418
Cheques in the course of collection	-	50	50	-	34	34
	365,973	**129,464**	**495,437**	**335,707**	**105,480**	**441,187**
Amounts due from banks						
Current accounts with domestic banks	-	8,300	8,300	-	855	855
Current accounts with foreign banks	-	316,067	316,067	-	158,471	158,471
Giro account with the CNB	357,739	-	357,739	530,056	-	530,056
	357,739	**324,367**	**682,106**	**530,056**	**159,326**	**689,382**
Total	**723,712**	**453,831**	**1,177,543**	**865,763**	**264,806**	**1,130,569**

Bank

	2013 HRK '000			2012 HRK '000		
	HRK	**in foreign currency**	**Total**	**HRK**	**in foreign currency**	**Total**
Cash in hand						
Held by the Bank	190,815	129,414	320,229	160,660	105,446	266,106
Held by other parties	175,155	-	175,155	174,418	-	174,418
Cheques in the course of collection	-	50	50	-	34	34
	365,970	**129,464**	**495,434**	**335,078**	**105,480**	**440,558**
Amounts due from banks						
Current accounts with domestic banks	-	8,300	8,300	-	855	855
Current accounts with foreign banks	-	316,067	316,067	-	158,471	158,471
Giro account with the CNB	357,739	-	357,739	530,056	-	530,056
	357,739	**324,367**	**682,106**	**530,056**	**159,326**	**689,382**
Total	**723,709**	**453,831**	**1,177,540**	**865,134**	**264,806**	**1,129,940**

6. OBLIGATORY RESERVE WITH CROATIAN NATIONAL BANK

	Group		Bank	
	2013	2012	2013	2012
	HRK '000	HRK '000	HRK '000	HRK '000
Obligatory reserve				
- in HRK	1,130,130	1,134,137	1,130,130	1,134,137
- in foreign currency	95,310	97,739	95,310	97,739
Obligatory treasury bills	216,605	-	216,605	-
Accrued interest due	-	8	-	8
Total	**1,442,045**	**1,231,884**	**1,442,045**	**1,231,884**

The obligatory reserve with the CNB represents the amount required to be deposited with the CNB.

The obligatory reserve requirement was set at 13.5 percent of HRK and foreign currency deposits, borrowings and issued debt securities until December 11, 2013, when it was reduced to 12 percent, where it stands at 31 December 2013 (2012: 13.5%).

As at December 31 2013 required minimum rate of maintenance of the HRK obligatory reserve with the CNB equaled 70% (2012: 70%), whereas the remaining 30 percent (2012: 30%) could 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).

60% of the foreign currency obligatory reserve (2012: 60%) is maintained 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 HRK and is added to the HRK obligatory reserve (see above).

The reduced mandatory reserve rate is one of the measures taken to facilitate the economic recovery in the Republic of Croatia. Namely, the released mandatory reserve funds were used by banks to subscribe the CNB treasury bills to be released to the banks depending on the pace of business lending growth in 2014. The Bank's quota on this basis amounts to HRK 216.6 million, which is the maximum return on the subscribed treasury bills.

The CNB does not pay the fee on obligatory reserve fund.

7. LOANS TO AND RECEIVABLES FROM BANKS

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Short-term placements with domestic banks	-	53,336	-	48,582
Short-term placements with foreign banks	343,694	391,259	343,694	391,259
Short-term loans to domestic banks	-	-	-	-
Total short-term placements and loans banks	**343,694**	**444,595**	**343,694**	**439,841**
Guarantee deposits with foreign banks	6,230	6,379	6,230	6,379
Long-term placements with domestic banks	21,475	31,318	21,475	31,318
Long-term loans to domestic banks - HBOR	151,000	271,675	151,000	271,675
Total short-term placements and loans banks	**178,705**	**309,372**	**178,705**	**309,372**
Short-term placements with domestic non-banking financial institutions	500	500	500	500
Long-term placements with domestic non-banking financial institutions	214	363	214	363
Long-term placements with domestic non-banking financial institutions	**714**	**863**	**714**	**863**
Provisions for impairment losses (non banking financial institutions)	**(500)**	**(500)**	**(500)**	**(500)**
Accrued interest not yet due	159	282	159	235
Total interest receivable	**159**	**282**	**159**	**235**
Total	**522,772**	**754,612**	**522,772**	**749,811**

Long-term placements with domestic banks include an amount of HRK 21,475 thousand (2012: HRK 31,318 thousand) held at domestic banks, pledged as collateral for the repayment of long-term borrowings repayable in 17 installments from September 14 2010 to September 14 2015. Guarantee deposits mainly relate to deposits for card operations.

Movements in impairment allowance

No changes in impairment allowance for loans and receivables from banks occured in 2013 (2012: -).

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Balance at 1 January	500	500	500	500
(Decrease)/increase in impairment loss on loans to and receivables from banks	-	-	-	-
Balance at 31 December	**500**	**500**	**500**	**500**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Trading instruments				
Debt securities quoted on active markets				
Bonds of the Ministry of Finance	139,079	122,082	73,390	55,600
Corporate bonds and commercial bills	-	-	-	-
Debt securities quoted in an active market	**139,079**	**122,082**	**73,390**	**55,600**
Units in investment funds quoted in an active market	**159,203**	**411,745**	**159,203**	**411,301**
Equity securities quoted in an active market	**43,120**	**43,013**	**43,120**	**43,013**
	202,323	**454,758**	**202,323**	**454,314**
Positive fair value of financial instruments				
- forward contracts, OTC	22	806	10	806
	22	**806**	**10**	**806**
Accrued interest not yet due	2,417	**3,573**	1,323	**2,504**
Total	**343,841**	**581,219**	**277,046**	**513,224**

9. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Debt securities not quoted on active markets				
Bonds of the Ministry of Finance	971,468	843,796	901,523	771,919
Corporate bonds	130,870	131,311	130,870	131,311
Foregin government bonds	137,655	-	137,655	-
	1,239,993	**975,107**	**1,170,048**	**903,230**
Debt securities not quoted on active markets				
Treasury bills of the Croatian Ministry of Finance	433,670	369,097	433,670	367,060
Equity securities not quoted on active markets				
- Corporate	6,022	2,198	6,022	2,198
- Non-banking financial institutions	1,670	1,334	1,670	1,334
	7,692	**3,532**	**7,692**	**3,532**
Equity securities quoted in an active market				
- Corporate	-	-	-	-
- Non-banking financial institutions	21,318	18,630	-	18,630
	21,318	**18,630**	**-**	**18,630**
Accrued interest due	-	15	-	15
Accrued interest not yet due	23,109	15,029	21,997	14,000
Provisions for impairment losses	**(10,366)**	**(10,366)**	**(10,366)**	**(10,366)**
Total	**1,715,416**	**1,371,044**	**1,623,041**	**1,296,101**

In accordance with the applicable accounting policies, the Bank recognizes available-for-sale financial assets at fair value with changes in fair value recognized within a fair value reserve in other comprehensive income.

9. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Movement in impairment allowance for financial assets available for sale

Group			**2013 HRK '000**			**2012 HRK '000**
	Individually identified losses	**Portfolio-based losses**	**Total**	**Individually identified losses**	**Portfolio-based losses**	**Total**
At 1 January	10,366	**-**	**10,366**	-	**-**	**-**
Increase/(decrease) of impairment losses	-	-	**-**	10,366	-	**10,366**
At 31 December	**10,366**	**-**	**10,366**	**10,366**	**-**	**10,366**

Bank			**2013 HRK '000**			**2012 HRK '000**
	Individually identified losses	**Portfolio-based losses**	**Total**	**Individually identified losses**	**Portfolio-based losses**	**Total**
At 1 January	**10,366**	**-**	**10,366**	**-**	**-**	**-**
Increase/(decrease) of impairment losses	-	-	**-**	10,366	-	**10,366**
At 31 December	**10,366**	-	**10,366**	**10,366**	-	**10,366**

10. FINANCIAL ASSETS HELD TO MATURITY

	Group 2013 HRK '000	Group 2012 HRK '000	Bank 2013 HRK '000	Bank 2012 HRK '000
Bonds of the Ministry of Finance	409,537	435,979	409,537	435,979
HBOR bonds (Croatian development bank)	-	-	-	-
Corporate bonds	9,938	19,284	9,938	19,284
Bills of exchange	423,425	254,190	423,425	254,190
	842,900	**709,453**	**842,900**	**709,453**
Accrued interest not yet due	7,058	8,717	7,058	8,717
Provisions for impairment losses	**(23,408)**	**(26,195)**	**(23,408)**	**(26,195)**
Portfolio based impairment allowance for identified losses	**(5,245)**	**(6,558)**	**(5,245)**	**(6,558)**
Total	**821,305**	**685,417**	**821,305**	**685,417**

Movement in impairment allowance for financial assets held to maturity

The movements in the impairment allowance for financial assets held to maturity, recognised in the income statement, were as follows:

Group	**2013 HRK '000** Individually identified losses	**2013** Portfolio-based losses	**2013** Total	**2012 HRK '000** Individually identified losses	**2012** Portfolio-based losses	**2012** Total
At 1 January	**26,194**	**6,558**	**32,752**	**25,042**	**6,839**	**31,881**
Increase/(decrease) of impairment losses	(2,786)	(1,313)	**(4,099)**	1,152	(281)	**871**
At 31 December	**23,408**	**5,245**	**28,653**	**26,194**	**6,558**	**32,752**

Bank	**2013 HRK '000** Individually identified losses	**2013** Portfolio-based losses	**2013** Total	**2012 HRK '000** Individually identified losses	**2012** Portfolio-based losses	**2012** Total
At 1 January	**26,194**	**6,558**	**32,752**	**25,042**	**6,839**	**31,881**
Increase/(decrease) of impairment losses	(2,786)	(1,313)	**(4,099)**	1,152	(281)	**871**
At 31 December	**23,408**	**5,245**	**28,653**	**26,194**	**6,558**	**32,752**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	Group		Bank	
	2013 HRK '000	**2012 HRK '000**	**2013 HRK '000**	**2012 HRK '000**
Short-term loans				
Corporate	3,367,459	2,346,486	3,367,459	2,346,486
Retail	1,037,089	963,910	1,037,089	963,910
Total short-term loans	**4,404,548**	**3,310,396**	**4,404,548**	**3,310,396**
Long-term loans				
Corporate	5,423,711	5,600,172	5,452,148	5,607,576
Retail	3,162,168	2,905,337	3,034,267	2,805,816
Total long-term loans	**8,585,879**	**8,505,509**	**8,486,415**	**8,413,392**
Total gross loans	**12,990,427**	**11,815,905**	**12,890,963**	**11,723,788**
Accrued interest due	27,312	32,697	27,153	32,592
Accrued interest not yet due	40,379	27,667	40,379	27,666
Provisions for impairment losses	**(1,197,517)**	**(987,691)**	**(1,197,153)**	**(987,548)**
Portfolio based impairment allowance for identified losses	**(106,910)**	**(119,088)**	**(105,827)**	**(117,643)**
Total	**11,753,691**	**10,769,490**	**11,655,515**	**10,678,855**
Total impairment allowance and provisions as a percentage of gross loans to customers	10.04%	9.37%	10.11%	9.43%

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Movements in impairment allowance

Movements in the impairment allowance on loans to and receivables from customers were as follows:

Group	Individually identified losses	Portfolio-based losses	2013 HRK '000 Total	Individually identified losses	Portfolio-based losses	2012 HRK '000 Total
At 1 January	**987,691**	**119,088**	**1,106,779**	**854,771**	**112,983**	**967,754**
Increase/ (decrease) of impairment losses	237,510	(12,178)	**225,332**	132,919	6,105	**139,024**
Net foreign exchange loss/(gain)	2,178	-	**2,178**	499	-	**499**
Write-offs and other	(29,862)	-	**(29,862)**	(498)	-	**(498)**
At 31 December	**1,197,517**	**106,910**	**1,304,427**	**987,691**	**119,088**	**1,106,779**

Bank	Individually identified losses	Portfolio-based losses	2013 HRK '000 Total	Individually identified losses	Portfolio-based losses	2012 HRK '000 Total
At 1 January	**987,549**	**117,643**	**1,105,192**	**854,766**	**112,023**	**966,789**
Increase/ (decrease) of impairment losses	237,312	(11,816)	**(225,496)**	132,868	5,620	**138,488**
Net foreign exchange loss/(gain)	2,154	-	**2,154**	413	-	**413**
Write-offs and other	(29,862)	-	**(29,862)**	(498)	-	**(498)**
At 31 December	**1,197,153**	**105,827**	**1,302,980**	**987,549**	**117,643**	**1,105,192**

12. ASSETS HELD FOR SALE

a) The Group's assets held for sale include:

	Industry	Domicile	Ownership at 31 December 2013 %
H1 Telekom d.d.	Telecommunications	Croatia	41.25
Drvna Industrija Spačva d.d.	Other carpentry and component production	Croatia	26.48

Bank had made an agreement with H1 Telekom d.d., Split on 25 March 2008, on conversion of the Bank's receivables into H1 Telekom's share capital, based on a long-term loan contract.

Based on the concluded prebankruptcy settlement of the company Spačva d.d., the Bank has acquired shares in the company through conversion of it's receivables into share capital. The subscription of new shares is conducted on 12 August 2013.

The Group intends to recover its investments in the companies mainly through a sale, rather than through the exercise of its rights as the equity holder having a significant influence on the operations of those companies. The investments are available for their immediate sale, and the Group has been actively developing a strategy that will enable it to sell the investments within a time frame common for similar transactions. The Group considers that the current value reflects the value at which the equity investments could be sold.

The comparative company analysis is used in estimating the fair market value of the Bank's investments in those companies. In doing so, the following standard multiples were used: EV/EBITDA, P/E, P/S, P/B, P/E). The calculation of the average values of those multiples showed that the carrying amounts at 31 December 2013 do not differ from the fair market values; hence no effect on the income statement was determined for the year (2012: -).

Business results of the companies are reflected in the consolidated financial statements of the Group.

b) Assets held for sale are as follows:

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
H1 Telekom d.d.	21,551	21,551	21,551	21,551
Drvna industrija Spačva d.d.	20,000	-	20,000	-
Total	**41,551**	**21,551**	**41,551**	**21,551**

12. ASSETS HELD FOR SALE (continued)

c) Movements in assets held for sale:

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Balance at 1 January	**21,551**	**21,551**	**21,551**	**21,551**
Acquisition of shares in Drvnoj industriji Spačva d.d.	20,000	-	20,000	-
Balance at 31 December	**41,551**	**21,551**	**41,551**	**21,551**

13. INVESTMENTS IN SUBSIDIARIES

a) The Group's subsidiaries are as follows:

	Industry	Domicile	Ownership at 31 December 2013 %
HPB Invest d.o.o.	Investment fund management	Croatia	100
HPB Nekretnine d.o.o.	Real estate agency and construction	Croatia	100
HPB Stambena štedionica d.d.	Savings bank	Croatia	100

All the subsidiaries are fully consolidated in the Group's financial statements.

b) Investments in subsidiaries are as follows:

	Bank	
	2013 HRK '000	2012 HRK '000
HPB Invest d.o.o.	5,000	13,500
HPB Nekretnine d.o.o.	490	490
HPB Stambena štedionica d.d.	40,000	40,000
Total	**45,490**	**53,990**

c) Movements of investments in subsidiaries:

	Bank	
	2013 HRK '000	2012 HRK '000
Balance at 1 January	**53,990**	53,990
Decrease of investments in HPB Invest d.o.o. in 2013	(8,500)	-
Balance at 31 December	**45,490**	**53,990**

The decision of the HPB Invest Ltd. General Assembly on 27 March 2013, dictates that the share capital of the company was reduced from HRK 13,500 thousand for the amount of HRK 8,500 thousand, and on 31 December 2013 amounted to HRK 5,000 thousand**.**

14. PROPERTY AND EQUIPMENT

Group

2013	Land and buildings HRK '000	Computers, equipment and motor vehicles HRK '000	Assets under construction HRK '000	Total HRK '000
Cost				
Balance at 1 January 2013	152,612	295,088	3,819	451,519
Additions	-	-	21,075	21,075
Amounts written-off	-	(3,551)	-	(3,551)
Brought into use	4,685	13,822	(18,507)	-
Balance at 31 December 2013	**157,297**	**305,359**	**6,387**	**469,043**
Accumulated depreciation				
Balance at 1 January 2013	(53,859)	(251,198)	-	(305,057)
Charge for the year	(2,622)	(16,736)	-	(19,358)
Revaluation	(69)			(69)
Amounts written-off	-	3,428	-	3,428
Balance at 31 December 2013	**(56,550)**	**(264,506)**	**-**	**(321,056)**
Net book value				
Balance at 1 January 2013	98,753	43,890	3,819	146,462
Balance at 31 December 2013	**100,747**	**40,853**	**6,387**	**147,987**

Group

2012	Land and buildings HRK '000	Computers, equipment and motor vehicles HRK '000	Assets under construction HRK '000	Total HRK '000
Cost				
Balance at 1 January 2012	152,594	275,669	5,472	433,735
Additions	-	-	20,128	20,128
Amounts written-off	-	(2,344)	-	(2,344)
Brought into use	18	21,763	(21,781)	-
Balance at 31 December 2012	**152,612**	**295,088**	**3,819**	**451,519**
Accumulated depreciation				
Balance at 1 January 2012	(51,208)	(231,557)	-	(282,765)
Charge for the year	(2,582)	(21,984)	-	(24,566)
Revaluation	(69)	-	-	(69)
Amounts written-off	-	2,343	-	2,343
Balance at 31 December 2012	**(53,859)**	**(251,198)**	**-**	**(305,057)**
Net book value				
Balance at 1 January 2012	101,386	44,112	5,472	150,970
Balance at 31 December 2012	**98,753**	**43,890**	**3,819**	**146,462**

As at 31 December 2013, assets in the course of construction comprise equipment at cost of HRK 6,387 thousand (2012: HRK 3,819 thousand). The carrying value of land owned by the Group as at 31 December 2013 was HRK 43,409 thousand (2012: HRK 43,409 thousand).

14. PROPERTY AND EQUIPMENT (continued)

Bank

2013	**Land and buildings HRK '000**	**Computers, equipment and motor vehicles HRK '000**	**Assets under construction HRK '000**	**Total HRK '000**
Cost				
Balance at 1 January 2013	152,612	294,725	3,820	451,157
Additions	-	-	21,040	21,040
Amounts written-off	-	(3,540)	-	(3,540)
Brought into use	4,685	13,787	(18,472)	-
Balance at 31 December 2013	**157,297**	**304,972**	**6,388**	**468,657**
Accumulated depreciation				
Balance at 1 January 2013	(53,859)	(250,999)	-	(304,858)
Charge for the year	(2,622)	(16,664)	-	(19,286)
Revaluation of land and buildings	(69)	-	-	(69)
Amounts written-off	-	3,417	-	3,417
Balance at 31 December 2013	**(56,550)**	**(264,246)**	**-**	**(320,796)**
Net book value				
Balance at 1 January 2013	**98,753**	**43,726**	**3,820**	**146,299**
Balance at 31 December 2013	**100,747**	**40,726**	**6,388**	**147,861**

Bank

2012	**Land and buildings HRK '000**	**Computers, equipment and motor vehicles HRK '000**	**Assets under construction HRK '000**	**Total HRK '000**
Cost				
Balance at 1 January 2012	152,594	275,353	5,473	433,420
Additions	-	-	20,038	20,038
Amounts written-off	-	(2,301)	-	(2,301)
Brought into use	18	21,673	(21,691)	**-**
Balance at 31 December 2012	**152,612**	**294,725**	**3,820**	**451,157**
Accumulated depreciation				
Balance at 1 January 2012	(51,208)	(231,363)	-	(282,571)
Charge for the year	(2,582)	(21,927)	-	(24,509)
Revaluation of land and buildings	(69)	-	-	(69)
Amounts written-off	-	2,291	-	2,291
Balance at 31 December 2012	**(53,859)**	**(250,999)**	**-**	**(304,858)**
Net book value				
Balance at 1 January 2012	101,386	43,990	5,473	150,849
Balance at 31 December 2012	**98,753**	**43,725**	**3,820**	**146,299**

As at 31 December 2013, assets in the course of construction comprise equipment at cost of HRK 6,388 thousand (2012: HRK 3,820 thousand). The carrying value of land owned by the Group as at 31 December 2013 was HRK 43,409 thousand (2012: HRK 43,409 thousand).

15. INVESTMENT PROPERTIES

Group	2013 HRK '000	2012 HRK '000
Cost		
Balance at 1 January	11,596	11,596
Additions	-	-
Amounts written-off	-	-
Disposals	-	-
Balance at 31 December	**11,596**	**11,596**
Accumulated depreciation		
Balance at 1 January	(1,402)	(1,146)
Disposals	-	-
Charge for the year	(256)	(256)
Balance at 31 December	**(1,658)**	**(1,402)**
Net book value		
Balance at 1 January	10,194	10,450
Balance at 31 December	**9,938**	**10,194**

Fair value hierarhcy of investment properties as of 31 December 2013 was as follows:

	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Fair value as of 31 December 2013 HRK '000
Commercial facilities in Vinkovci	-	13,339	-	13,339
Commercial facilities in Osijek	-	5,298	-	5,298
TOTAL	-	**18,637**	-	**18,637**

The fair value of foreclosed assets is determined using the cost method, taking into account several factors in arriving at the current market value. The valuation method did not change during the year.

There were no transfers between Level 1, Level 2 and Level 3 during the year.

16. INTANGIBLE ASSETS

Group

2013	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets under construction HRK '000	Total HRK '000
Cost					
Balance at 1 January 2013	224,362	80,121	62,822	19,084	386.389
Additions	-	-	-	6,779	6.779
Brought into use	2,104	4,198	2,369	(8,671)	-
Amounts written-off	(145)	(5,321)	(611)	-	(6.077)
Balance at 31 December 2013	**226,321**	**78,998**	**64,580**	**17,192**	**387.091**
Accumulated amortisation					
Balance at 1 January 2013	(82,477)	(66,929)	(41,633)	**-**	(191.039)
Charge for the year	(23,551)	(5,855)	(3,986)	-	(33,392)
Amounts written-off	144	5,293	612	-	6,049
Balance at 31 December 2013	**(105,884)**	**(67,491)**	**(45,007)**	**-**	**(218.382)**
Net book value					
Balance at 1 January 2013	141,885	13,192	21,189	19,084	195,350
Balance at 31 December 2013	**120.437**	**11,507**	**19,573**	**17,192**	**168,709**

Group

2012	Software HRK 000	Leasehold improvements HRK 000	Licences HRK 000	Assets under construction HRK 000	Total HRK 000
Cost					
Balance at 1 January 2012	205,087	70,919	54,086	31,100	361,192
Additions	-	-	-	25,197	25,197
Brought into use	19,275	9,202	8,736	(37,213)	-
Amounts written-off	-	-	-	-	-
Balance at 31 December 2012	**224,362**	**80,121**	**62,822**	**19,084**	**386,389**
Accumulated amortisation					
Balance at 1 January 2012	(60,198)	(60,325)	(36,382)	-	(156,905)
Charge for the year	(22,279)	(6,604)	(5,251)	-	(34,134)
Amounts written-off	-	-	-	-	-
Balance at 31 December 2012	**(82,477)**	**(66,929)**	**(41,633)**	**-**	**(191,039)**
Net book value					
Balance at 1 January 2012	144,889	10,594	17,704	31,100	204,287
Balance at 31 December 2012	**141,885**	**13,192**	**21,189**	**19,084**	**195,350**

As at 31 December 2013 assets in the course of construction comprise application software, licences and leasehold improvements at a cost of HRK 17,192 thousand (2012: HRK 19,084 thousand) which are being prepared for use by the Group.

16. INTANGIBLE ASSETS (continued)

Bank

2013	Software HRK '000	Leasehold improvements HRK '000	Licences HRK '000	Assets under construction HRK' 000	Total HRK '000
Cost					
Balance at 1 January 2013	**223,439**	**79,872**	**62,822**	**19,081**	**385,214**
Additions	-	-	-	6,771	6,771
Brought into use	2,096	4,198	2,369	(8,663)	-
Amounts written-off	(145)	(5,321)	(611)	-	(6,077)
Balance at 31 December 2013	**225,390**	**78,749**	**64,580**	**17,189**	**385,908**
Accumulated amortisation					
Balance at 1 January 2013	(81,795)	(66,819)	(41,633)	-	(190,247)
Charge for the year	(23,413)	(5,793)	(3,986)	-	(33,192)
Amounts written-off	144	5,294	612	-	6,050
Balance at 31 December 2013	**(105,064)**	**(67,318)**	**(45,007)**	**-**	**(217,389)**
Net book value					
Balance at 1 January 2013	141,644	13,053	21,189	19,081	194,967
Balance at 31 December 2013	**120,326**	**11,431**	**19,573**	**17,189**	**168,519**

Bank

2012	Software HRK 000	Leasehold improvements HRK 000	Licences HRK 000	Assets under construction HRK 000	Total HRK 000
Cost					
Balance at 1 January 2012	**204,164**	**70,720**	**54,086**	**31,097**	**360,067**
Additions	-	-	-	25,147	25,147
Brought into use	19,275	9,152	8,736	(37,163)	-
Amounts written-off	-	-	-	-	-
Balance at 31 December 2012	**223,439**	**79,872**	**62,822**	**19,081**	**385,214**
Accumulated amortisation					
Balance at 1 January 2012	**(59,654)**	**(60,267)**	**(36,382)**	**-**	**(156,303)**
Charge for the year	(22,141)	(6,552)	(5,251)	-	(33,944)
Amounts written-off	-	-	-	-	-
Balance at 31 December 2012	**(81,795)**	**(66,819)**	**(41,633)**	**-**	**(190,247)**
Net book value					
Balance at 1 January 2012	144,510	10,453	17,704	31,097	203,764
Balance at 31 December 2012	**141,644**	**13,053**	**21,189**	**19,081**	**194,967**

As at 31 December 2013 assets in the course of construction comprise application software, licences and leasehold improvements at a cost of HRK 17,189 thousand (2012: HRK 19,081 thousand) which are being prepared for use by the Bank.

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17. NET DEFERRED TAX ASSETS

a) Recognised deferred tax assets and liabilities - Group

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2013 are presented below:

Group **2013**	**2013** **HRK '000**	**Recognised as income/(expense) in the income statement** **HRK '000**	**Recognized through other comprehensive income** **HRK '000**	**2012** **HRK '000**
Deferred tax assets				
Loans and advances to customers	11,863	(492)	-	12,355
Other provisions	1,126	4	-	1,122
Financial assets	21,925	13	-	21,912
Fair value reserve	(24)	-	224	(248)
Deferred tax liability				
Borrowings	(678)	118	-	(796)
Revaluation reserve	(297)	-	14	(311)
Fair value reserve	(10,418)	-	1,032	(11,450)
Prepaid expenses	(628)	81	-	(709)
Deferred tax assets, net	**22,869**	**(276)**	**1,270**	**21,875**

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2012 are presented below:

Group **2012**	**2012** **HRK '000**	**Recognised as income/(expense) in the income statement** **HRK '000**	**Recognized through other comprehensive income** **HRK '000**	**2011** **HRK '000**
Deferred tax assets				
Loans and advances to customers	12,355	(276)	-	12,631
Other provisions	1,122	2	-	1,120
Financial assets	21,912	723	-	21,189
Fair value reserve	(248)	-	(4,824)	4,576
Deferred tax liability				
Borrowings	(796)	(15)	-	(781)
Revaluation reserve	(311)	-	23	(334)
Fair value reserve	(11,450)	-	(11,450)	-
Prepaid expenses	(709)	-	-	(709)
Deferred tax assets, net	**21,875**	**434**	**(16,251)**	**37,692**

17. NET DEFERRED TAX ASSETS (continued)

b) Recognised deferred tax assets and liabilities - the Bank

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2013 are presented below:

Bank 2013	2013 HRK '000	Recognised as income/(expense) in the income statement HRK '000	Recognized through other comprehensive income HRK '000	2012 HRK '000
Deferred tax assets				
Loans and advances to customers	10,567	(467)	-	11,034
Other provisions	1,118	-	-	1,118
Financial assets	21,925	13	-	21,912
Fair value reserve	-	-	-	-
Deferred tax liability				
Borrowings	(944)	118	-	(1,062)
Revaluation reserve	(297)	-	14	(311)
Fair value reserve	(10,418)	-	1,032	(11,450)
Deferred tax assets, net	**21,951**	**(336)**	**1,046**	**21,241**

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2012 are presented below:

Bank 2012	2012 HRK '000	Recognised as income/(expense) in the income statement HRK '000	Recognized through other comprehensive income HRK '000	2011 HRK '000
Deferred tax assets				
Loans and advances to customers	11,034	(370)	-	11,404
Other provisions	1,118	1	-	1,117
Financial assets	21,912	723	-	21,189
Fair value reserve	-	-	(3,941)	3,941
Deferred tax liability				
Borrowings	(1,062)	(53)	-	(1,009)
Revaluation reserve	(311)	-	23	(334)
Fair value reserve	(11,450)	-	(11,450)	-
Deferred tax assets, net	**21,241**	**301**	**(15,368)**	**36,308**

18. OTHER ASSETS

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Fees receivable	102,175	64,567	101,562	63,961
Foreclosed tangible assets	237,703	177,596	237,703	177,596
Items in course of collection	16,509	20,733	16,509	20,733
Deferred fee expense	1,664	579	1	579
Prepaid expenses	7,072	11,820	7,038	11,777
Receivables arising from syndicated loans	65,145	65,921	65,145	65,921
Other receivables	44,849	46,657	29,499	23,022
Total other assets, gross	**475,117**	**387,873**	**457,457**	**363,589**
Impairment loss	**(45,047)**	**(41,438)**	**(45,015)**	**(41,416)**
Total	**430,070**	**346,435**	**412,442**	**322,173**

Items in course of collection mainly relate to HRK and foreign currency receivables from corporations in course of settlement, amounting to HRK 9,736 thousand (2012: HRK 13,385 thousand), as well as other receivables in course of settlement (card operations, payment services, currency trade).

Movements in impairment allowance

Movements in the impairment allowance on other assets were as follows:

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Balance at 1 January	41,438	39,737	41,416	39,724
Increase in impairment losses	6,632	3,741	6,600	3,741
Amounts reversed (utilised)	(3,023)	(2,040)	(3,001)	(2,049)
Balance at 31 December	**45,047**	**41,438**	**45,015**	**41,416**

18. OTHER ASSETS (continued)

At 31 December 2013 the gross carrying amount of foreclosed assets by the Bank amounted to HRK 237,703 thousand (2012: HRK 177,596 thousand). Those assets comprise buildings in the amount of HRK 152,306 thousand, land in the amount of HRK 73,815 thousand and equipment in the amount of HRK 11,583 thousand. In 2013. Bank has determined that carrying value of these assets differs from fair market value.

The fair value of foreclosed assets is determined using the cost method, taking into account several factors in arriving at the current market value. The valuation method did not change during the year.

Accordingly, the impairment expense is recognized in the income statement in the amount of HRK 2,052 thousand (2012: no change).

Movements in foreclosed tangible assets

The following table represents movements in foreclosed assets during 2013:

Group and Bank

Gross carrying value	**HRK '000**
Balance as at January 1	**177,596**
Foreclosed in 2013	80,822
Leased out in 2013	(21,154)
Investment property (or investments in facilities) and other	439
Balance as at December 31	**237,703**
Impairment losses	
Balance as at January 1	**(28,052)**
Gubitak od umanjenja vrijednosti na teret računa dobiti i gubitka	(2,052)
Leased out in 2013	1,819
Balance as at December 31	**(28,285)**
Net carrying value	
Balance as at January 1	**149,544**
Balance as at December 31	**209,418**

19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2013 HRK ´000	2012 HRK ´000	2013 HRK ´000	2012 HRK ´000
Negative fair value of forward foreign exchange contracts	-	237	-	237
Negative fair value of cross currency swaps	8	133	8	133
Balance at 31 December	**8**	**370**	**8**	**370**

20. DEPOSITS FROM BANKS

	Group		Bank	
	2013 HRK ´000	2012 HRK ´000	2013 HRK ‘000	2012 HRK ‘000
Demand deposits				
- in HRK	96,367	3,356	96,367	3,356
- in foreign currency	19,773	9,733	19,773	9,733
Term deposits				
- in HRK	462,733	317,567	462,733	317,567
- in foreign currency	160,640	175,369	160,640	175,369
Interest payable not yet due	-	-	-	-
Interest payable - due	1,694	3,493	1.694	3,493
Total	**741,207**	**509,518**	**741,206**	**509,518**

21. DEPOSITS FROM CUSTOMERS

Group	2013			2012		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Demand deposits						
Retail	1,880,634	328,015	2,208,649	1,939,788	307,936	2,247,724
Corporate	1,685,216	180,592	1,865,808	1,325,196	133,104	1,458,300
Restricted deposits						
Retail	9,013	101	9,114	5,859	450	6,309
Corporate	1,360,346	53,782	1,414,128	1,120,426	41,867	1,162,293
	4,935,209	**562,490**	**5,497,699**	**4,391,269**	**483,357**	**4,874,626**
Term deposits						
Retail	2,284,316	3,751,263	6,035,579	2,144,505	3,588,873	5,733,378
Corporate	1,920,287	820,883	2,741,170	1,706,027	729,400	2,435,427
	4,204,603	**4,572,146**	**8,776,749**	**3,850,532**	**4,318,273**	**8,168,805**
Interest payable - due	-	-	-	1	-	1
Interest payable - not yet due	34,283	52,634	86,917	32,854	48,572	81,426
Total	**9,174,095**	**5,187,270**	**14,361,365**	**8,274,656**	**4,850,202**	**13,124,858**

Bank	2013			2012		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Demand deposits						
Retail	1,880,634	328,015	2,208,649	1,939,788	307,936	2,247,724
Corporate	1,698,969	180,967	1,879,936	1,327,256	133,104	1,460,360
Restricted deposits						
Retail	9,013	101	9,114	5,859	450	6,309
Corporate	1,360,346	53,782	1,414,128	1,120,426	41,867	1,162,293
	4,948,962	**562,865**	**5,511,827**	**4,393,329**	**483,357**	**4,876,686**
Term deposits						
Retail	2,038,502	3,751,263	5,789,765	1,879,748	3,588,873	5,468,621
Corporate	1,934,645	820,883	2,755,528	1,782,691	729,400	2,512,091
	3,973,147	**4,572,146**	**8,545,293**	**3,662,439**	**4,318,273**	**7,980,712**
Interest payable - due	-	-	-	1	-	1
Interest payable - not yet due	34,268	52,634	86,902	33,432	48,572	82,004
Total	**8,956,377**	**5,187,645**	**14,144,022**	**8,089,201**	**4,850,202**	**12,939,403**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.

22. BORROWINGS

Group	2013			2012		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Short-term loans from other financial institutions	-	1,528	1,528	-	44,951	44,951
Short-term loans from domestic banks and HBOR	237,700	-	237,700	23,333	-	23,333
Long-term bank borrowings	-	53,545	53,545	-	79,895	79,895
Long-term borrowing from HBOR	780,224	-	780,224	973,825	-	973,825
Accrued interest due	-	-	-	508	-	508
Accrued interest not yet due	752	264	1,016	810	788	1,598
Total	**1,018,676**	**55,337**	**1,074,013**	**998,476**	**125,634**	**1,124,110**

Bank	2013			2012		
	HRK	In foreign currency	Total	HRK	In foreign currency	Total
Short-term loans from other financial institutions	-	1,528	1,528	-	44,951	44,951
Short-term loans from domestic banks and HBOR	237,700	-	237,700	23,333	-	23,333
Long-term bank borrowings	-	53,545	53,545	-	79,895	79,895
Long-term borrowing from HBOR	780,224	-	780,224	973,825	-	973,825
Accrued interest due	-	-	-	508	-	508
Accrued interest not yet due	752	264	1,016	810	788	1,598
Total	**1,018,676**	**55,337**	**1,074,013**	**998,476**	**125,634**	**1,124,110**

In accordance with their terms, borrowings from the Croatian Bank for Reconstruction and Development ("HBOR") are used to fund loans to customers of the Bank for financing eligible reconstruction and development projects at preferential interest rates.

23. HYBRID INSTRUMENTS

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Hybrid instruments	402,373	401,743	402,373	401,743
Accrued interest not yet due	8,429	8,405	8,429	8,405
Balance at 31 December	**410,802**	**410,148**	**410,802**	**410,148**

Hybrid instruments are included in Group's supplementary capital, and are without limitations available for payoff to creditors should a liquidation occur. Repayment of these instruments is subordinated to all other liabilities of the Group.

Hybrid instruments bear fixed interest rate, and have a contracted maturity period of 61 months.The average interest rate on these instruments during the year 2013 amounted to 7.64 percent (2012: 7.18 percent).

Group's hybrid instruments amounting to HRK 150,000 thousand will expire during 2014, whilst other HRK 252,000 thousand are to expire in 2015.

24. PROVISIONS FOR LIABILITIES AND EXPENSES

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Litigation provisions	21,021	15,570	20,104	14,519
Provisions for other liabilities	560	987	560	987
Provisions for off-balance-sheet exposures	21,167	41,039	21,125	41,016
Balance at 31 December	**42,748**	**57,596**	**41,789**	**56,522**

Movements in provisions for liabilities and expenses

The movements in provisions for liabilities and expenses were as follows:

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Balance at 1 January	57,596	33,687	56,522	33,664
Increase/(decrease) in provisions in the income statement	(14,077)	24,269	(13,962)	23,217
Amounts utilised	(771)	(360)	(771)	(359)
Balance at 31 December	**42,748**	**57,596**	**41,789**	**56,522**

25. OTHER LIABILITIES

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Trade accounts payable	21,251	26,832	20,785	26,419
Salaries, amounts to be withheld from salaries, taxes and contributions	14,510	16,127	13,514	15,156
Provisions for retirement benefits, termination benefits and similar liabilities	10,521	10,980	10,521	10,980
Fees payable	67,962	40,892	67,866	40,779
Items in course of settlement	254,797	348,861	254,797	348,861
Deferred fee income	13,618	84,179	3,923	73,727
Other liabilities	139,491	101,100	120,441	78,475
Balance at 31 December	**522,150**	**628,971**	**491,847**	**594,397**

Items in the course of settlement mainly relate to liabilities for repayment of pensions on behalf of the Croatian Pension Fund in the amount of HRK 206 million (2012: HRK 283 million) and liabilities for transfer of cash inflows from the Bank's account to customers who do not hold accounts with the Bank in the amount of HRK 27 million (2012: HRK 28 million).

26. EQUITY

a) Share capital

At 31 December 2013, the Company's authorized, subscribed and fully paid-in capital amounted to HRK 966,640 thousand (2012: HRK 966,640 thousand) and comprised of 878,764 (2012: HRK 878,764 thousand) of authorized ordinary shares with a nominal value of HRK 1,100 each. At 31 December 2013 the Bank held 795 treasury shares (2012: 795) in the total amount of HRK 874 thousand (2012: HRK 874 thousand).

The ownership structure is as follows:

		2013		2012
	Paid-in capital HRK '000	Ownership in %	Paid-in capital HRK '000	Ownership in %
Republic of Croatia (Agency for State Property Management)	497,443	51.46%	497,443	51.46%
Hrvatska pošta d.d.	265,771	27.49%	265,771	27.49%
Croatian State Pension Insurance Fund	195,042	20.18%	195,042	20.18%
Others	8,384	0.87%	8,384	0.87%
Total	**966,640**	**100.00%**	**966,640**	**100.00%**

26. EQUITY (continued)

b) Capital gain

Capital gain is the excess amount paid with respect to nominal value of shares at the issue of new shares. At the end of 2013 the Bank had realized capital gains amounting to HRK 228,136 thousand (2012: HRK 228,136 thousand).

c) Statutory reserve

The Bank is required to build legal reserves by appropriating 5% of net profit for the year until these reserves reach 5% of share capital. The balance of legal reserve at 31 December 2013 amounted to HRK 8,458 thousand (2012: 3,755), or 0.9% (2012: 0.4%) of the share capital.

d) Fair value reserve

The fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets available for sale, net of tax.

The movements of fair value reserve during 2012 and 2013 were as follows:

Group	**2013** HRK '000	**2012** HRK '000
Balance at 1 January	**46,788**	**(18,308)**
Net unrealized gain from financial assets available for sale	7,191	82,893
The cumulative gain on the sale of available-for-sale assets was transferred to the income statement.	(9,294)	(1,523)
Deferred taxes in respect of profits on revaluation of available-for-sale financial assets	1,256	(16,274)
Balance at 31 December	**45,941**	**46,788**

Bank	**2013** HRK 000	**2012** HRK 000
Balance at 1 January	**45,799**	**(15,765)**
Net unrealized gain from financial assets available for sale	3,897	78,477
The cumulative gain on the sale of available-for-sale assets was transferred to the income statement.	(4,878)	(1,522)
Deferred taxes in respect of profits on revaluation of available-for-sale financial assets	1,032	(15,391)
Balance at 31 December	**45,850**	**45,799**

26. EQUITY (continued)

e) Revaluation reserve

A revaluation reserve in the amount of HRK 1,189 thousand (2012: HRK 1,244 thousand), net of tax, arises from the revaluation of land and buildings of the Group.

The movements of revaluation reserve were as follows:

Group and Bank	**2013** HRK '000	**2012** HRK '000
Balance at 1 January	**1,244**	**1,290**
Decrease in the revaluation reserve on depreciation of assets	(69)	(69)
Deferred tax in respect of the revaluation reserve	14	23
Balance at 31 December	**1,189**	**1,244**

f) Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Assembly of Shareholders. The Management Board will not propose any dividend payment for the year ended 31 December 2013 (2012: -).

g) Other reserves

Other reserves as at December 31, 2013 amounted to HRK 0 thousand (2012: -).

h) Retained earnings or accumulated losses

The Management Board will propose to General Assembly to be held in 2013, that profit realized in 2012 (after abstraction of legal reserve) should be transferred to retained earnings within the equity reserves.

27. INTEREST AND SIMILAR INCOME

a) Analysis by product:

	Group		Bank	
	2013 HRK '000	**2012 HRK '000**	**2013 HRK '000**	**2012 HRK '000**
Loans and advances to customers				
- Corporate	404,189	455,097	404,766	455,704
- Individuals	310,874	288,286	306,669	283,946
	715,063	**743,383**	**711,435**	**739,650**
Loans and advances to customers	5,819	9,800	5,783	9,107
Debt securities	107,956	123,163	100,855	115,361
Bills of exchange	19,383	19,118	19,383	19,118
Total	**848,221**	**895,464**	**837,456**	**883,236**

b) Analysis by source:

	Group		Bank	
	2013 HRK 000	**2012 HRK 000**	**2013 HRK 000**	**2012 HRK 000**
Corporate	257,552	326,932	258,129	327,539
Retail	310,874	288,286	306,669	283,946
Government and public sector	265,441	260,383	258,340	252,581
Banks and other financial institutions	9,673	15,863	9,637	15,170
Other organisations	4,681	4,000	4,681	4,000
Total	**848,221**	**895,464**	**837,456**	**883,236**

28. INTEREST AND SIMILAR EXPENSE

a) Analysis by product

	Group		Bank	
	2013 HRK '000	**2012 HRK '000**	**2013 HRK '000**	**2012 HRK '000**
Borrowings	25,438	33.314	25,437	33,314
Customer deposits				
- Corporate	137,429	163,135	139,015	164,547
- Retail	214,376	207,876	206,968	200,664
	351,805	**371,011**	**345,983**	**365,211**
Deposits from banks	7,509	9,739	7,509	9,739
Other	688	1,706	688	1,706
Total	**385,440**	**415,770**	**379,617**	**409,970**

b) Analysis by recipient

	Group		Bank	
	2013 HRK '000	**2012 HRK '000**	**2013 HRK '000**	**2012 HRK '000**
Corporate	40,968	44,737	42,554	46,149
Retail	214,377	207,876	206,968	200,664
Government and public sector	46,592	61,821	46,592	61,821
Banks and other financial institutions	74,715	91,271	74,715	91,271
Others	8,788	10,065	8,788	10,065
Total	**385,440**	**415,770**	**379,617**	**409,970**

29. FEE AND COMMISSION INCOME

	Group		Bank	
	2013 HRK '000	**2012 HRK '000**	**2013 HRK '000**	**2012 HRK '000**
Cash payment operations	359,147	365,131	359,147	365,131
Non-cash payment operations	41,714	43,989	41,714	43,989
Retail and credit card operations	100,257	103,678	94,602	98,576
Letters of credit, guarantees and foreign-exchange payment operations	15,249	12,549	15,249	12,549
Other fee and commission income	33,375	29,497	22,475	18,962
Total	**549,742**	**554,844**	**533,187**	**539,207**

30. FEE AND COMMISSION EXPENSE

	Group		Bank	
	2013 HRK '000	**2012 HRK '000**	**2013 HRK '000**	**2012 HRK '000**
Cash payment operations	304,520	317,959	304,520	317,959
Non-cash payment operations	17,328	18,499	17,328	18,499
Card operations	25,655	25,520	25,655	25,520
Other fee and commission income	9,226	8,772	7,660	7,026
Total	**356,729**	**370,750**	**355,163**	**369,004**

31. GAINS LESS LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Net unrealised losses/(gains) on financial assets at fair value through profit or loss				
Realised gains/(losses)				
-Debt securities	996	5,138	695	4,683
- Investment funds	2,352	3,122	2,352	3,122
- Forward contracts, OTC	1,105	4,219	1,105	4,219
	4,453	**12,479**	**4,152**	**12,024**
Unrealised gains/(losses)				
-Debt securities	(1,263)	12,292	(118)	4,191
- Investment funds	(772)	(2,385)	(772)	(2,385)
- Equity securities	610	(6,912)	610	(6,912)
- Forward contracts, OTC	(434)	43	(434)	43
	(1,859)	**3,038**	**(714)**	**(5,063)**
Total	**2,594**	**15,517**	**3,438**	**6,961**

32. GAINS LESS LOSSES FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Realised gains on disposal of debt securities available for sale	1,070	4,225	-	4,224
Realised gains on disposal of equity securities available for sale	7,537	-	7,537	-
Total	**8,607**	**4,225**	**7,537**	**4,224**

33. OTHER OPERATING INCOME

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Dividend income	3,112	3,067	11,012	3,067
Net foreign exchange gain from translation of monetary assets and liabilities	5,756	3,637	5,891	3,639
Income on dormant customer accounts	35	44	35	44
Other income	6,104	29,015	8,652	31,527
Total	**15,007**	**35,763**	**25,590**	**38,277**

34. GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Materials and services	137,234	141,062	135,243	139,242
Administration and marketing	13,462	18,093	12,612	17,256
Postage and telecommunications	31,529	34,200	31,215	33,998
Staff costs	186,271	190,574	176,051	179,655
Savings deposit insurance costs	24,182	22,334	23,392	21,544
Other general and administrative expenses	13,198	16,381	11,708	14,821
Total	**405,876**	**422,644**	**390,221**	**406,516**

a) Staff costs

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Net salaries, termination and other employee benefit costs	89,651	89,311	85,162	84,641
Taxes and contributions (including contributions payable by employers)	85,922	90,942	81,582	85,910
Other fees to employees	9,542	9,159	9,064	8,829
Fees to Supervisory Board Members	1,156	1,162	243	275
Total	**186,271**	**190,574**	**176,051**	**179,655**

As at 31 December 2013, Bank had 1,075 employees (2012: 1,118), and 1,114 persons were employed in the Group (2012: 1,155 employees).

35. IMPAIRMENT LOSSES ON LOANS TO AND RECEIVABLES FROM CUSTOMERS AND OTHER ASSETS

		Group		Bank	
	Notes	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Individually identified impairment losses					
Loans and receivables from customers	11	(237,511)	(132,919)	(237,312)	(132,868)
Interest receivable		(10,229)	2,705	(10,214)	2,709
Financial assets available for sale	9	-	(10,366)	-	(10,366)
Financial assets held to maturity	10	2,786	(1,152)	2,786	(1,152)
Other assets	18	(6,632)	(3,741)	(6,600)	(3,741)
Gains from recovery of placements written-off in previous years		1,178	2,002	1,178	2,002
Total reversal/(charge)		**(250,408)**	**(143,471)**	**(250,162)**	**(143,416)**
Portfolio based provisions for identified losses					
Loans and receivables from customers	11	12,178	(6,105)	11,816	(5,620)
Financial assets held to maturity	10	1,313	281	1,313	281
Other assets	18	-	-	-	-
Loans to and receivables from banks	7	-	-	-	-
Total charge		**13,491**	**(5,824)**	**13,129**	**(5,339)**
Total portfoliobased and individually identified losses					
Loans and receivables from customers	11	(225,333)	(139,024)	(225,496)	(138,488)
Interest receivable		(10,229)	2,705	(10,214)	2,709
Financial assets available for sale	9	-	(10,366)	-	(10,366)
Financial assets held to maturity	10	4,099	(871)	4,099	(871)
Other assets	18	(6,632)	(3,741)	(6,600)	(3,741)
Loans to and receivables from banks	7	-	-	-	-
Gains from recovery of placements written-off in previous years		1,178	2,002	1,178	2,002
Total charge		**(236,917)**	**(149,295)**	**(237,033)**	**(148,755)**

36. INCOME TAX

Total recognized income tax expense, calculated at the income tax rate of 20%, comprises income tax expense recognized in the income statement and movements in deferred tax recognized in equity, as follows:

Income tax expense recognised in the income statement

	Group		Bank	
	2013 HRK '000	**2012 HRK '000**	**2013 HRK '000**	**2012 HRK '000**
Current tax	(354)	(135)	-	-
Deferred tax income/(expense) in respect of origination and reversal of temporary differences	(276)	434	(336)	301
Total current tax recognised in the income statement	**(630)**	**299**	**(336)**	**301**

Movements in the income tax recognized through other comprehensive income:

	Group		Bank	
	2013 HRK 000	**2012 HRK 000**	**2013 HRK 000**	**2012 HRK 000**
Deferred tax income in respect of unrealisedlosses on available-for-sale assets not recognised in the fair valuation reserve	1,256	(16,274)	1,032	(15,391)
Deferred tax income/(expense) in respect of revaluation of property	14	23	14	23
Total tax income/(expense) recognized directly in equity	**1,270**	**(16,251)**	**1,046**	**(15,368)**

Reconciliation of income tax expense

The reconciliation between income tax expense and profit before tax is shown as follows:

	Group		Bank	
	2013 HRK 000	**2012 HRK 000**	**2013 HRK 000**	**2012 HRK 000**
Profit/(loss) before taxation	36,368	101,901	42,746	93,762
Income tax at the rate of 20% (2011: 20%)	(7,274)	(20,380)	(8,549)	(18,752)
Tax non-deductible expenses	(14,058)	(10,072)	(12,068)	(9,714)
Non-taxable income	8,716	9,721	8,370	9,718
Deferred tax income	-	-	-	-
Effect of unrecognised deferred tax	11,985	21,029	11,911	19,049
	(630)	**299**	**(336)**	**301**
Effective income tax rate	1.7%	-	0.8%	-

36. INCOME TAX (continued)

Unrecognized deferred tax in respect of tax losses disposable in prospective periods

At 31 December 2013 the Bank held 158,750 thousand (2012: HRK 212,314 thousand) accumulated tax losses available for utilisation until 31 December 2014. No deferred tax assets with respect to tax losses carry forward were recognized because the realisation of sufficient future taxable profits against which the losses could be utilised is not certain.

37. EARNINGS PER SHARE

For the purposes of determining earnings per share, earnings represent the Bank's net profit for the year attributable to the 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 in determining the basic earnings per shares was 877,969 (2012: 877,696). As there is no impact of any options, convertible bonds or similar effects, the weighted average number of ordinary shares used in determining diluted earnings per share would be equal as the one used in determining basic earnings per share i.e. 877,969 (2012: 877,969).

		Bank
	2013 HRK '000	**2012 HRK '000**
Net profit/(loss) for the year	42,410	94,063
Profit allocated to cover losses from previous years	42,410	4,063
Average number of ordinary shares in issue (excluding treasury shares)	877,969	877,969
Earnings per share (in HRK):	**48.30**	**107.14**

38. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

		Group		Bank	
	Notes	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Giro account with the CNB	5	357,739	530,056	357,739	530,056
Obligatory reserve with Croatian National Bank	6	1,442,045	1,231,884	1,442,045	1,231,884
Bonds of the Republic of Croatia		1,548,521	1,427,781	1,410,681	1,287,323
Treasury bills of the Croatian Ministry of Finance		433,670	369,097	433,670	367,060
Loans and advances to the Republic of Croatia		2,265,307	2,257,819	2,265,307	2,257,819
Deposits from the Republic of Croatia		(2,113,735)	(1,718,182)	(2,113,735)	(1,718,182)
Total		**3,933,547**	**4,098,455**	**3,795,707**	**3,955,960**

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Loans	563,780	407,554	563,780	407,554
Deposits	(295,129)	(337,523)	(295,129)	(337,523)
Total	**268,651**	**70,031**	**268,651**	**70,031**

39. CASH AND CASH EQUIVALENTS

		Group		Bank	
	Notes	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Cash and amounts due from banks	5	1,177,543	1,130,569	1,177,540	1,129,940
Obligatory reserve with Croatian National Bank	6	1,442,045	1,231,884	1,442,045	1,231,884
Deposits with banks with original maturities of up to 90 days		343,853	396,248	343,853	391,494
Items in course of collection	18	16,509	20,733	16,509	20,733
Total		**2,979,950**	**2,779,434**	**2,979,947**	**2,774,051**

40. CONTINGENT LIABILITIES

	Group		Bank	
	2013 HRK '000	2012 HRK '000	2013 HRK '000	2012 HRK '000
Guarantees denominated in HRK	284,864	368,427	284,864	368,427
Guarantees denominated in foreign currency	2,179	10,713	2,179	10,713
Letters of credit	47,920	73,715	47,920	73,715
Undrawn lending commitments	1,470,883	1,600,958	1,465,859	1,598,789
Total	**1,805,846**	**2,053,813**	**1,800,822**	**2,051,644**

At 31 December 2013, the Group and the Bank recognized portfolio-based provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credit and undrawn lending commitments, the Group in the amount of HRK 21,167 thousand, (2012: HRK 20,268 thousand), and the Bank in the amount of HRK 21,125 thousand (2012: HRK 20,245 thousand) thousand which are included in Provisions for liabilities and expenses (see Note 24).

41. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Group had the following derivative contracts, accounted for as trading instruments, open at year-end.

Group and Bank	**Notional amount, remaining life**					**Fair value**	
	Up to 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
2013	**HRK 000**	**HRK 000**	**HRK 000**	**HRK 000**	**HRK 000**	**HRK 000**	**HRK 000**
Forward foreign exchange contracts - OTC	-	-	-	-	-	-	-
Cross currency swap contracts - OTC	12,717	-	-	-	12,717	10	8
Futures	-	-	-	-	-	-	-
	12,717	**-**	**-**	**-**	**12,717**	**10**	**8**

Group and Bank	**Notional amount, remaining life**					**Fair value**	
	Up to 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**	**Assets**	**Liabilities**
2012	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Forward foreign exchange contracts - OTC	150,408	-	-	-	150,408	395	237
Cross currency swap contracts - OTC	111,167	-	-	-	111,167	411	133
Futures	-	-	-	-	-	-	-
	261,575	**-**	**-**	**-**	**261,575**	**806**	**370**

42. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska poštanska banka Group. Key shareholders of the Bank and of the Group are the Republic of Croatia, Hrvatska pošta d.d. ("HP") and the Croatian Pension Insurance Fund (“HZMO”) which together own 99.13% (2012: 99.13%) of the Bank's shares. The remaining 0.87% (2012: 0.87%) are publicly traded.

a) Key transactions with immediate related parties

Hrvatska pošta d.d. ("HP") performs domestic payment transactions for and on behalf of the Bank. Exposure to Hrvatska pošta d.d. mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank, as well as placements in debt securities issued by Hrvatska pošta d.d. Liabilities towards Hrvatska pošta d.d. mainly relate to demand and term deposits. Income and expenses mostly relate to commissions for services provided.

Exposure to the state is shown in Note 38, *Concentration of assets and liabilities*.

The exposure to members of HPB Group mainly consists of investment into share capital. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB Nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management personnel held no ordinary shares at the year-end (2012: -).

42. RELATED-PARTY TRANSACTIONS (continued)

b) Balances arising from related party transactions

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the years ended 31 December 2013 and 31 December 2012 of the Group, arising from transactions with related parties were as follows:

Group 2013	**Exposure* HRK '000**	**Liabilities HRK '000**	**Income HRK '000**	**Expenses HRK '000**
Key shareholders				
Hrvatska pošta d.d.	339,659	117,535	373,392	344,792
HZMO	-	36,859	1	207
Republic of Croatia	-	-	-	-
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	1,045	3,615	29	14,545
Long-term benefits (loans and deposits)	17,747	1,703	774	41
Severance payments	-	-	-	407
Companies under significant influence	167,688	22,124	5,453	4,097
Total	**526,139**	**181,836**	**379,649**	**364,089**

Group 2012	**Exposure* HRK '000**	**Liabilities HRK '000**	**Income HRK '000**	**Expenses HRK '000**
Key shareholders				
Hrvatska pošta d.d.	89,597	137,696	374,774	358,784
HZMO	39,569	38	-	1
Republic of Croatia	-	-	-	-
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	1,103	4,875	35	15,508
Long-term benefits (loans and deposits)	22,015	581	816	61
Severance payments	-	-	-	-
Companies under significant influence	82,283	2,915	7,574	4,678
Total	**234,567**	**146,105**	**383,199**	**379,032**

*****Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 72,449 thousand (2012: HRK 7,222 thousand) of off-balance-sheet exposure, whereof HRK 72,449 thousand (2011: HRK 7,222 thousand) relates to Hrvatska pošta d.d. and key management personnel.

Exposure to key members of the Group's Management include loan receivables in the amount of HRK 18,015 thousand (2012: HRK 21,063 thousand).

42. RELATED-PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with immediate related parties

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the years ended 31 December 2013 and 31 December 2012 of the Bank, arising from transactions with related parties were as follows:

Bank 2013	**Exposure* HRK ‘000**	**Liabilities HRK ‘000**	**Income HRK ‘000**	**Expenses HRK ‘000**
Key shareholders				
Hrvatska pošta d.d.	339,659	117,535	373,392	344,792
HZMO	-	36,859	1	207
Republic of Croatia	-	-	-	-
Subsidiaries				
HPB Invest d.o.o.	5,160	6,443	5,723	380
HPB Nekretnine d.o.o.	32,625	87	5,411	1,625
HPB Stambena štedionica d.d.	40,113	22,115	802	1,206
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	903	3,583	24	12,200
Long-term benefits (loans and deposits)	13,596	1,703	580	41
Severance payments	-	-	-	240
Companies under significant influence	167,688	22,124	5,453	4,097
Total	**599,744**	**210,449**	**391,386**	**364,788**

Bank 2012	**Exposure* HRK ‘000**	**Liabilities HRK ‘000**	**Income HRK ‘000**	**Expenses HRK ‘000**
Key shareholders				
Hrvatska pošta d.d.	89,597	137,696	374,774	358,673
HZMO	39,569	38	-	1
Republic of Croatia	-	-	-	-
Subsidiaries				
HPB Invest d.o.o.	13,688	13,314	621	2
HPB Nekretnine d.o.o.	8,961	67	2,250	1,686
HPB Stambena štedionica d.d.	40,097	66,051	1,079	1,423
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	913	4,421	26	12,660
Long-term benefits (loans and deposits)	17,567	581	660	51
Severance payments	-	-	-	-
Companies under significant influence	82,283	2,915	7,574	4,678
Total	**292,675**	**225,083**	**386,984**	**379,174**

*Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 72,568 thousand (2012: HRK 7,435 thousand) of off-balance-sheet exposure, whereof HRK 72,402 thousand (2012: HRK 6,892 thousand) relates to Hrvatska pošta d.d. and key management personnel.

42. RELATED-PARTY TRANSACTIONS (continued)

c) State owned companies

Major shareholders of the Bank, which together own 99.13% of its shares, are state agencies or state owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has a significant exposure to these parties, which is disclosed in Note 38.

43. REPURCHASE AND RESALE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognised and the proceeds are accounted for as interest bearing borrowings. At the end of the year assets sold under repurchase agreements were as follows:

	Fair value of securities HRK '000	Carrying amount of corresponding liabilities HRK '000	Repurchase date	Repurchase price HRK '000
Debt securities at fair value through profit or loss - repurchase agreements				
2013	196,750	205,638	January to December 2014	196,788
2012	45,234	45,867	April to December 2013	45,581

Related transactions, according to IAS 39 *Financial instruments Recognition and Measurement* are recognized as repurchase agreements.

The Bank also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers and are accounted for as loans and advances to customers; the underlying financial instruments are not recognised. At 31 December 2013 the Bank did not have reverse repurchase agreements.

44. FUNDS MANAGED FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Bank provides trust and custody services to companies, banks, individuals, and investment funds (Group's investment funds) whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognized in the Bank's balance sheet. The Bank is not exposed to any credit risk relating to such placements, nor does it guarantee for investments.

At 31 December 2013, the total assets under custody held by the Bank on behalf of customers, including the funds within the HPB Group, amounted to HRK 4.04 billion (2012: HRK 3.52 billion).

In addition, at 31 December 2013, total assets of investment and pension funds to which the Bank act as a depository bank, amounted to HRK 3.64 billion (2012: HRK 3.23 billion).

Furthermore, the Bank manages loan exposures of other parties as follows:

	2013 HRK '000	2012 HRK '000
Assets		
Corporate	67,415	209,996
Retail	615,895	643,041
Giro accounts	230,694	174,102
Total assets	**914,004**	**1,027,140**
Liabilities		
Croatian Employment Office	71,173	82,552
Counties	17,389	19,096
Government of the Republic of Croatia	813,387	772,215
HBOR	9,337	9,014
Development and Employment Fund	498	141,293
Other liabilities	2,220	2,970
Total liabilities	**914,004**	**1,027,140**

45. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group	Average interest rates 2013	Average interest rates 2012
Assets		
Cash and amounts due from banks	0.13%	0.25%
Obligatory reserve with Croatian National Bank	-	-
Loans to and receivables from banks	0.86%	1.10%
Financial assets at fair value through profit or loss	5.15%	4.34%
Financial assets available for sale	5.19%	5.88%
Financial assets held to maturity	6.06%	7.63%
Loans and receivables from customers	6.33%	7.39%
Liabilities		
Deposits from banks	1.51%	3.42%
Customer deposits	2.36%	2.60%
Borrowings	2.50%	2.88%
Hybrid instruments	7.64%	7.18%

Bank	Average interest rates 2013	Average interest rates 2012
Assets		
Cash and amounts due from banks	0.13%	0.25%
Obligatory reserve with Croatian National Bank	-	-
Loans to and receivables from banks	0.86%	1.07%
Financial assets at fair value through profit or loss	5.15%	3.82%
Financial assets available for sale	5.20%	5.89%
Financial assets held to maturity	6.06%	7.63%
Loans and receivables from customers	6.34%	7.41%
Liabilities		
Deposits from banks	1.51%	3.42%
Customer deposits	2.34%	2.60%
Borrowings	2.50%	2.88%
Hybrid instruments	7.64%	7.18%

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction.

Financial instruments at fair value through profit or loss or available-for-sale financial assets are measured at fair value. Loans and receivables, and held-to-maturity investments are measured at amortised cost less impairments. Financial assets at fair value through profit or loss and financial assets available for sale are disclosed at their fair value that arises from price quotes of these instruments on active markets. Financial liabilities at fair value through profit or loss are disclosed at fair values calculated on the basis of available conditions of these instruments.

Set out below is an overview of key methods and assumptions used in estimating the fair values of financial instruments.

Loans

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio based provisions for performing (i.e. A-risk rated) loans calculated at rates prescribed by the CNB. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The Group has a limited portfolio of loans with fixed rates, where there is a difference between the fair value and the carrying amount.

Investments carried at cost

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where discounted cash flow techniques provide insufficiently reliable valuations due to a number of uncertainties related to estimations of future cash flows, investments are carried at cost less impairment.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Borrowings

Most of the Group's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Group for new debt of similar type and remaining maturity.

The following table represents the Group's and the Bank's estimate of the fair value hierarchy of financial instruments as of 31 December 2013 and 31 December 2012:

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group 2013 (HRK '000)	Fair value	Fair value level	Valuation technique(s) and key input(s)	Book value	Unrecognized gains/(losses)
Financial Assets					
Cash and receivables from banks	**1,177,543**	**Level 1**	**Cash and cash equivalents**	**1,177,543**	**-**
Obligatory reserve with Croatian National Bank	**1,442,045**	**Level 1**	**Cash equivalent**	**1,442,045**	**-**
Loans and advances from banks	**521,035**	**Level 3**	**Cash equivalent other than assets with a defined maturity > 30 days at a fixed rate, where the fair value is the present value of discounted cash flows**	**522,772**	**(1,737)**
Financial assets at fair value through profit and loss	**343,841**			**343,841**	**-**
- Ministry of Finance bonds	139,079	Level 1	*mark-to-market* according to the prices quoted in an active market	139,079	-
- Investments in open-end funds	159,203	Level 1	Value of an individual share at the measurement date	159,203	-
- Equity securities	43,120	Level 1	*mark-to-market* according to the prices quoted in an active market	43,120	-
- The fair value of forward contracts	22	Level 1	Internal valuation model for FX contracts using future discounted cash flows	22	-
- Interest receivables	2,417	not applicable	not applicable	2,417	-
Financial assets available for sale	**1,715,416**			**1,715,416**	**-**
- Ministry of Finance treasury bills	433,670	Level 3	*mark-to-model* using the internal model for determining the present value of future cash flows	433,670	-
- Ministry of Finance bonds	971,468	Level 1	*mark-to-market* according to the prices quoted in an active market	971,468	-
- Foreign government bonds	137,655	Level 1	*mark-to-market* according to the prices quoted in an active market	137,655	-
- Corporate bonds in state-run companies	79,040	Level 1	*mark-to-market* according to the prices quoted in an active market	79,040	-
- Corporate bonds of other companies	41,464	Level 3	*mark-to-model* using the internal model for determining the present value of future cash flows	41,464	-
- Equity securities – not quoted	7,692	Level 2	Comparable Companies Method, using the average of the standard multiples EV/EBITDA, P/E, P/S, P/B.	7,692	-
- Equity securities – quoted	21,318	Level 1	*mark-to-market* according to the prices quoted in an active market	21,318	-
- Interest receivables	23,109	not applicable	not applicable	23,109	**-**
Financial assets held to maturity	**760,630**	**Level 3**	**Present value of future discounted cash flows**	**821,305**	**(60,675)**
Loans and advances to customers	**11,693,751**	**Level 3**	**Present value of future discounted cash flows**	**11,753,691**	**(59,940)**
Total financial assets	**17,654,262**			**17,776,613**	**(122,351)**
FINANCIAL LIABILITIES					
Financial assets at fair value through profit and loss	**8**	**Level 3**	**Internal valuation model for an FX swap agreement using future discounted cash flows**	**8**	**-**
Bank deposits	**740,307**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates kamatnim stopama**	**741,207**	**900**
Customer deposits	**14,261,336**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates kamatnim stopama**	**14,361,365**	**100,029**
Loans	**1,067,015**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates**	**1,074,013**	**6,998**
Total financial liabilities	**16,068,666**			**16,176,593**	**107,927**
TOTAL					**(14,424)**

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group 2012 (HRK '000)	Fair value	Fair value level	Metoda vrednovanja i glavni ulazni podaci	Book value	Unrecognized gains/(losses)
FINANCIAL ASSETS					
Cash and receivables from banks	**1,130,569**	**Level 1**	**Cash and cash equivalents**	**1,130,569**	**-**
Obligatory reserve with Croatian National Bank	**1,231,884**	**Level 1**	**Cash equivalent**	**1,231,884**	**-**
Loans and advances from banks	**752,372**	**Level 3**	**Cash equivalent other than assets with maturities > 30 days at a fixed rate, where the fair value is the present value of discounted cash flows**	**754,612**	**(2,240)**
Financial assets at fair value through profit and loss	**581,219**			**581,219**	**-**
- Ministry of Finance bonds	122,082	Level 1	*mark-to-market* according to the prices quoted in an active market	122,082	-
- Investments in open-end funds	411,745	Level 1	value of an individual share at the measurement date	411,745	-
- Equity securities	43,013	Level 1	*mark-to-market* according to the prices quoted in an active market	43,013	-
- The fair value of forward contracts	806	Level 3	Internal valuation model for an FX swap agreement using future discounted cash flows	806	-
- Interest receivables	3,573	not applicable	not applicable	3,573	-
Financial assets available for sale	**1,371,044**			**1,371,044**	**-**
- Ministry of Finance treasury bills	369,097	Level 3	*mark-to-model* using the internal model for determining the present value of future cash flows	369,097	-
- Ministry of Finance bonds	843,796	Level 1	*mark-to-market* according to the prices quoted in an active market	843,796	-
- Corporate bonds in state-run companies	79,481	Level 1	*mark-to-market* according to the prices quoted in an active market	79,481	-
- Corporate bonds of other companies	41,464	Level 3	*mark-to-model* using the internal model for determining the present value of future cash flows	41,464	-
- Equity securities – not quoted	3,532	Level 2	Comparable Companies Method, using the average of the standard multiples EV/EBITDA, P/E, P/S, P/B.	3,532	-
- Equity securities – quoted	18,630	Level 1	*mark-to-market* according to the prices quoted in an active market	18,630	-
- Interest receivables	15,044	not applicable	not applicable	15,044	-
Financial assets held to maturity	**594,001**	**Level 3**	**Present value of future discounted cash flows**	**685,417**	**(91,416)**
Loans and advances to customers	**10,707,350**	**Level 3**	**Present value of future discounted cash flows**	**10,769,490**	**(62,140)**
Total financial assets	**16,368,438**			**16,524,236**	**(155,796)**
FINANCIAL LIABILITIES					
Financial assets at fair value through profit and loss	**370**	**Level 3**	**Internal valuation model for an FX swap agreement using future discounted cash flows**	**370**	**-**
Bank deposits	**506,097**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates**	**509,518**	**3,421**
Customer deposits	**13,016,604**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates**	**13,124,858**	**108,254**
Loans	**1,116,250**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates**	**1,124,110**	**7,860**
Total financial liabilities	**14,639,322**			**14,758,856**	**119,535**
TOTAL					**(36,261)**

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46. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank 2013 (HRK '000)	Fair value	Fair value level	Valuation technique(s) and key input(s)	Book value	Unrecognized gains/(losses)
FINANCIAL ASSETS					
Cash and receivables from banks	**1,177,540**		**Cash and cash equivalents**	**1,177,540**	**-**
Obligatory reserve with Croatian National Bank	**1,442,045**	**Level 1**	**Cash equivalent**	**1,442,045**	**-**
Loans and advances from banks	**521,035**	**Level 3**	**Cash equivalent other than assets with a defined maturity > 30 days at a fixed rate, where the fair value is the present value of discounted cash flows**	**522,772**	**(1,737)**
Financial assets at fair value through profit and loss	**277,046**			**277,046**	**-**
- Ministry of Finance bonds	73,390	Level 1	*mark-to-market* according to the prices quoted in an active market	73,390	-
- Investments in open-end funds	159,203	Level 1	Value of an individual share at the measurement date	159,203	-
- Equity securities	43,120	Level 1	*mark-to-market* according to the prices quoted in an active market	43,120	-
- The fair value of forward contracts	10	Level 3	Internal valuation model for FX contracts using future discounted cash flows	10	-
- Interest receivables	1,323	not applicable	not applicable	1,323	-
Financial assets available for sale	**1,623,041**			**1,623,041**	**-**
- Ministry of Finance treasury bills	433,670	Level 3	*mark-to-model* using the internal model for determining the present value of future cash flows	433,670	-
- Ministry of Finance bonds	901,523	Level 1	*mark-to-market* according to the prices quoted in an active market	901,523	-
- Foreign government bonds	137,655	Level 1	*mark-to-market* according to the prices quoted in an active market	137,655	-
- Corporate bonds in state-run companies	79,040	Level 1	*mark-to-market* according to the prices quoted in an active market	79,040	-
- Corporate bonds of other companies	41,464	Level 3	*mark-to-model* using the internal model for determining the present value of future cash flows	41,464	-
- Equity securities – not quoted	7,692	Level 2	Comparable Companies Method, using the average of the standard multiples EV/EBITDA, P/E, P/S, P/B.	7,692	-
- Interest receivables	21,997	not applicable	not applicable	21,997	-
Financial assets held to maturity	**760,630**	**Level 3**	**Present value of future discounted cash flows**	**821,305**	**(60,675)**
Loans and advances to customers	**11,618,369**	**Level 3**	**Present value of future discounted cash flows**	**11,655,515**	**(37,146)**
Total financial assets	**17,419,706**			**17,519,264**	**(99,558)**
FINANCIAL LIABILITIES					
Financial assets at fair value through profit and loss	**8**	**Level 3**	**Internal valuation model for an FX swap agreement using future discounted cash flows**	**8**	**-**
Bank deposits	**740,307**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates**	**741,207**	**900**
Customer deposits	**14,052,825**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates**	**14,144,022**	**91,197**
Loans	**1,067,015**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates**	**1,074,013**	**6,998**
Total financial liabilities	**15,860,155**			**15,959,250**	**99,095**
TOTAL					**(463)**

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank 2012 (HRK '000)	**Fair value**	**Fair value level**	**Valuation technique(s) and key input(s)**	**Book value**	**Unrecognized gains/(losses)**
FINANCIAL ASSETS					
Cash and receivables from banks	**1,129,940**	**Level 1**	**Cash and cash equivalents**	**1,129,940**	**-**
Obligatory reserve with Croatian National Bank	**1,231,884**	**Level 1**	**Cash equivalent**	**1,231,884**	**-**
Loans and advances from banks	**747,661**	**Level 3**	**Cash equivalent other than assets with a defined maturity > 30 days at a fixed rate, where the fair value is the present value of discounted cash flows**	**749,811**	**(2,150)**
Financial assets at fair value through profit and loss	**513,224**			**513,224**	**-**
- Ministry of Finance bonds	55,600	Level 1	*mark-to-market* according to the prices quoted in an active market	55,600	-
- Investments in open-end funds	411,301	Level 1	Value of an individual share at the measurement date	411,301	-
- Equity securities	43,013	Level 1	*mark-to-market* according to the prices quoted in an active market	43,013	-
- The fair value of forward contracts	806	Level 3	Internal valuation model for an FX swap agreement using future discounted cash flows	806	-
- Interest receivables	2,504	not applicable	not applicable	2,504	-
Financial assets available for sale	**1,296,101**			**1,296,101**	**-**
- Ministry of finance treasury bills	367,060	Level 3	*mark-to-model* using the internal model for determining the present value of future cash flows	367,060	-
- Ministry of finance bonds	771,919	Level 1	*mark-to-market* according to the prices quoted in an active market	771,919	-
- Corporate bonds in state-run companies	79,481	Level 1	*mark-to-market* according to the prices quoted in an active market	79,481	-
- Corporate bonds of other companies	41,464	Level 3	*mark-to-model* using the internal model for determining the present value of future cash flows	41,464	-
- Equity securities – not quoted	3,532	Level 2	Comparable Companies Method, using the average of the standard multiples EV/EBITDA, P/E, P/S, P/B.	3,532	-
- Equity securities – quoted	18,630	Level 1	*mark-to-market* according to the prices quoted in an active market	18,630	-
- Interest receivables	14,015	not applicable	not applicable	14,015	-
Financial investements held to maturity	**594,001**	**Level 3**	**Present value of future discounted cash flows**	**685,417**	**(91,416)**
Loans and advances to customers	**10,636,467**	**Level 3**	**Present value of future discounted cash flows**	**10,678,855**	**(42,388)**
Total financial assets	**16,149,279**			**16,285,232**	**(135,953)**
FINANCIAL LIABILITIES					
Financial assets at fair value through profit and loss	**370**	**Level 3**	**Internal valuation model for an FX swap agreement using future discounted cash flows**	**370**	**-**
Bank deposits	**506,097**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates**	**509,518**	**3,421**
Customer deposits	**12,839,657**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates**	**12,939,403**	**99,746**
Loans	**1,116,104**	**Level 3**	**Present value of discounted cash flows under the currently effective interest rates**	**1,124,110**	**8,006**
Total financial liabilities	**14,462,229**			**14,573,401**	**111,172**
TOTAL					**(24,781)**

Balance sheet as at December 31 2013

	2013 HRK 000	2012 HRK 000
Cash and balances with the CNB	2,295,261	2,184,973
-- Cash	495,477	440,661
-- Deposits with the CNB	1,799,784	1,744,312
Deposits with banking institutions	695,766	630,496
Treasury bills of the Ministry of Finance and the CNB bills	299,483	367,060
Securities and other financial instruments held for trading	275,713	509,914
Securities and other financial instruments available for sale	1,301,561	915,025
Securities and other financial instruments held to maturity	814,250	676,438
Securities and other financial instruments at fair value through profit or loss - not actively traded	-	-
Derivative financial assets	10	806
Loans to financial institutions	518,961	369,005
Loans to other customers	11,205,416	10,530,147
Investments in subsidiaries, associates and joint ventures	87,041	75,541
Foreclosed assets	209,418	149,544
Tangible assets (less depreciation)	153,282	151,908
Interest, fees and other assets	512,620	497,526
TOTAL ASSETS	**18,368,782**	**17,058,383**
LIABILITIES		
Borrowings from financial institutions	1,072,997	1,122,004
- short-term borrowings	239,228	68,284
- long-term borrowings	833,769	1,053,720
Deposits	13,368,152	12,193,476
- giro and current account deposits	3,078,289	2,591,197
- savings deposits	1,121,197	1,128,631
- term deposits	9,168,666	8,473,648
Other borrowings	-	-
- short-term borrowings	-	-
- long-term borrowings	-	-
Derivative financial and other liabilities held for trading	8	370
Issued debt securities	-	-
- short-term debt securities issued	-	-
- long-term debt securities issued	-	-
Subordinated debt issued	-	-
Issued hybrid instruments	402,373	401,742
Interest, fees and other liabilities	2,071,862	1,929,806
TOTAL LIABILITIES	**16,915,392**	**15,647,398**
EQUITY		
Share capital	1,193,902	1,193,902
Profit/(Loss) for the year	42,410	94,063
Retained earnings / (Accumulated losses)	160,707	71,347
Legal reserves	8,458	3,755
Statutory and other capital reserves	2,063	2,119
Unrealised gains/(losses) on revaluation of financial assets available for sale	45,850	45,799
Hedging reserve	-	-
TOTAL EQUITY	**1,453,390**	**1,410,985**
TOTAL LIABILITIES AND EQUITY	**18,368,782**	**17,058,383**

Income Statement for the period January 01 – December 31 2013

	2012 HRK 000	2011 HRK 000
Interest income	839,634	883,382
Interest expense	(403,670)	(431,448)
Net interest income	**435,964**	**451,934**
Fee and commission income	533,190	539,207
Fee and commission expense	(355,163)	(369,004)
Net fee and commission income	**178,028**	**170,203**
Gains/(losses) on investments in subsidiaries, associates and joint ventures	-	-
Trading gains/(losses)	39,527	44,733
Gains/(losses) on embedded derivatives	-	-
Gains/(losses) on assets at fair value through profit or loss not actively traded	-	-
Gains / (losses) on available-for-sale assets	7,537	4,224
Gains / (losses) on held-to-maturity assets	-	-
Hedging gains/(losses)	-	-
Income from investments in subsidiaries, associates and joint ventures	-	-
Income from other equity investments	11,012	3,067
Foreign exchange gains/(losses)	8,508	4,250
Other income	19,355	49,866
Other expenses	(33,244)	(36,152)
General and administrative expenses, and depreciation	(404,715)	(430,072)
Net profit from operations before provisions and impairment losses	**261,974**	**262,053**
Impairment losses and provisions	(219,229)	(168,291)
PROFIT OR LOSS BEFORE TAXATION (146-147)	**42,746**	**93,762**
INCOME TAX EXPENSE	336	301
PROFIT / LOSS FOR THE YEAR	**42,410**	**94,063**
Earnings per share	48.30	107.14

Changes in equity during 2013

Bank	Share capital HRK 000	Treasury shares HRK 000	Legal, statutory and other reserves HRK 000	Retained profit / (Accumulated losses) HRK 000	Profit /loss for the year HRK 000	Unreal. gains /losses on remeasurement of financial assets available for sale HRK 000	Total equity HRK 000
Balance at 1 January 2013	**1,194,776**	**(874)**	**5,874**	**71,348**	**94,062**	**45,799**	**1,410,985**
Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-	**-**
Restated balance at 1 January 2013	1,194,776	(874)	5,874	71,348	94,062	45,799	1,410,985
Disposal of financial assets available for sale	-	-	-	-	-	-	**-**
Change in the fair value of financial assets available for sale	-	-	-	-	-	(981)	**(981)**
Tax on items recognised directly in/transferred from equity	-	-	14	-	-	1,031	**1,046**
Other gains and losses recognised directly in equity	-	-	(69)	-	-	-	**(69)**
Net gains/losses recognised directly in equity	**-**	**-**	**(55)**	**-**	**-**	**50**	**(5)**
Profit /loss for the year	-	-	-	-	42,410	-	42,410
Total recognised income and expenses for 2013	**-**	**-**	**(55)**	**-**	**42,410**	**50**	**42,405**
Increase/decrease in share capital	-	-	-	-	-	-	-
Purchase/sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transferred to reserves	-	-	4,703	89,359	(94,062)	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocation	**-**	**-**	**4,703**	**89,359**	**(94,062)**	**-**	**-**
Balance at 31 December 2013	**1,194,776**	**(874)**	**10,522**	**160,707**	**42,410**	**45,849**	**1,453,390**

Changes in equity during 2012

Bank	Share capital HRK 000	Treasury shares HRK 000	Legal, statutory and other reserves HRK 000	Retained profit / (Accumulated losses) HRK 000	Profit /loss for the year HRK 000	Unreal. gains /losses on remeasurement of financial assets available for sale HRK 000	Total equity HRK 000
Balance at 1 January 2012	**1,194,776**	**(874)**	**2,165**	**(12,822)**	**87,924**	**(15,765)**	**1,255,404**
Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-	**-**
Restated balance at 1 January 2012	1,194,776	(874)	2,165	(12,822)	87,924	(15,765)	1,255,404
Disposal of financial assets available for sale	-	-	-	-	-	-	**-**
Change in the fair value of financial assets available for sale	-	-	-	-	-	76,955	**76,955**
Tax on items recognised directly in/transferred from equity	-	-	(69)	-	-	(15,391)	**(15,460)**
Other gains and losses recognised directly in equity	-	-	23	-	-	-	**23**
Net gains/losses recognised directly in equity	**-**	**-**	**(46)**	**-**	**-**	**61,564**	**61,518**
Profit /loss for the year	-	-	-	-	94,063	-	94,063
Total recognised income and expenses for 2012	**-**	**-**	**(46)**	**-**	**94,063**	**61,564**	**155,581**
Increase/decrease in share capital	-	-	-	-	-	-	-
Purchase/sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transferred to reserves	-	-	3,755	84,169	(87,924)	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocation	**-**	**-**	**3,755**	**84,169**	**(87,924)**	**-**	**-**
Balance at 31 December 2012	**1,194,776**	**(874)**	**5,874**	**71,347**	**94,063**	**45,799**	**1,410,985**

Cash flows for the year 2013

	2013 HRK 000	2012 HRK 000
OPERATING ACTIVITIES		
Operating cash flows before changes in operating assets	**313,118**	**325,611**
Profit/loss before taxation	42,746	93,762
Impairment losses and provisions	223,071	171,972
Depreciation and amortisation	52,478	58,453
Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss	714	5,063
Gains/losses on sale of tangible assets	-	-
Other gains/losses	(5,891)	(3,639)
Net (increase) / decrease in operating assets	**(1,224,952)**	**(1,441,475)**
Treasury bills of the Ministry of Finance and the CNB bills	67,577	221,036
Deposits with banking institutions and loans to financial institutions	(139,815)	(158,973)
Loans to other customers	(873,057)	(1,173,206)
Securities and other financial instruments held for trading	233,487	(253,190)
Securities and other financial instruments available for sale	(387,517)	10,607
Other operating assets	(125,627)	(87,749)
Net increase/decrease in operating liabilities	**1,316,209**	**738,911**
Demand deposits	487,092	38,975
Savings and term deposits	687,584	761,571
Derivative financial and other liabilities held for trading	(362)	(2,210)
Other liabilities	141,895	(59,424)
Net cash flow from operations before income tax	**404,375**	**(376,953)**
Income taxes paid	-	**-**
Net cash inflow/outflow from operating activities	**404,375**	**(376,953)**
INVESTING ACTIVITIES		
Net cash from investing activities	**(153,719)**	**(39,034)**
Proceeds from sale/(Payments for purchases) of tangible and intangible assets	(18,194)	(42,884)
Proceeds from sale of/Payments for investments in subsidiaries, associates and joint ventures	(11,500)	-
Proceeds from/(Payments to acquire) securities and other financial instruments held to maturity	(132,137)	783
Dividends received	8,112	3,067
FINANCING ACTIVITIES		
Net cash from financing activities	**(45,241)**	**(317,198)**
Net increase/decrease in borrowings	(45,241)	(116,798)
Net increase/(decrease) in subordinated debt and hybrid instruments	-	(200,400)
Proceeds from issuance of share capital	-	-
Net increase/decrease in cash and cash equivalents	**205,415**	**(733,184)**
Effect of changes in foreign exchange rates on cash and cash equivalents	481	1,160
Net increase/decrease in cash and cash equivalents	**205,896**	**(732,024)**
Cash and cash equivalents at the beginning of the year	**2,774,051**	**3,506,075**
Cash and cash equivalents at the end of the year	**2,979,947**	**2,774,051**

Reconciliation of the balance sheet as at 31 December 2013

	CNB requirements HRK 000	Per Financial Statements HRK 000	Difference HRK 000
Cash and balances with the CNB			
-- Cash	495,477	-	495,477
-- Deposits with the CNB	1,799,784	-	1,799,784
Cash and amounts due from banks	-	1,177,540	(1,177,540)
Obligatory reserve with Croatian National Bank	-	1,442,045	(1,442,045)
Deposits with banking institutions	695,766	-	695,766
Loans to and receivables from banks	-	522,772	(522,772)
Treasury bills of the Ministry of Finance and the CNB bills	299,483	-	299,483
Securities and other financial instruments held for trading	275,713	-	275,713
Financial assets at fair value through profit or loss	-	277,046	(277,046)
Securities and other financial instruments available for sale	1,301,561	-	1,301,561
Financial assets available for sale	-	1,623,041	(1,623,041)
Securities and other financial instruments held to maturity	814,250	-	814,250
Financial assets held to maturity	-	821,305	(821,305)
Securities and other financial instruments at fair value through profit or loss not actively traded	-	-	-
Derivative financial assets	10	-	10
Loans to financial institutions	518,961	-	518,961
Loans to other customers	11,205,416	-	11,205,416
Loans and receivables from customers	-	11,655,515	(11,655,515)
Investments in subsidiaries, associates and joint ventures	87,041	-	87,041
Assets held for sale	-	41,551	(41,551)
Investments in subsidiaries	-	45,490	(45,490)
Foreclosed assets	209,418	-	209,418
Tangible assets (less depreciation)	153,282	-	153,282
Property and equipment	-	147,861	(147,861)
Intangible assets	-	168,519	(168,519)
Deferred tax assets, net	-	21,951	(21,951)
Interest, fees and other assets	512,622	-	512,622
Other assets	-	412,442	(412,442)
TOTAL ASSETS	**18,368,782**	**18,357,078**	**11,704**

Reconciliation of the balance sheet as at 31 December 2013 (continued)

LIABILITIES	**Under CNB requirements HRK 000**	**Per Financial Statements HRK 000**	**Difference HRK 000**
Financial liabilities at fair value through profit or loss	-	8	(8)
Borrowings from financial institutions			
Short-term borrowings	239,228	-	239,228
Long-term borrowings	833,769	-	833,769
Borrowings	-	1,074,013	(1,074,013)
Deposits			
Giro and current account deposits	3,078,289	-	3,078,289
Savings deposits	1,121,197	-	1,121,197
Term deposits	9,168,666	-	9,168,666
Deposits from banks	-	741,207	(741,207)
Deposits from customers	-	14,144,022	(14,144,022)
Other borrowings			
Short-term borrowings	-	-	-
Long-term borrowings	-	-	-
Derivative financial and other liabilities held for trading	8	-	8
Issued debt securities			
Short-term debt securities issued	-	-	-
Long-term debt securities issued	-	-	-
Subordinated debt issued	-	-	-
Issued hybrid instruments	402,373	-	402,373
Hybrid instruments	-	410,802	(410,802)
Provisions for liabilities and expenses	-	41,789	(41,789)
Deferred tax liabilities, net	-	-	-
Interest, fees and other liabilities	2,071,864	-	2,071,864
Other liabilities	-	491,847	(491,847)
TOTAL LIABILITIES	**16,915,392**	**16,903,688**	**11,704**
EQUITY			
Share capital	1,193,901,83	966,640	227,262
Capital gains	-	228,136	(228,136)
Treasury shares	-	(874)	874
Profit /(loss) for the year	42,410	-	42,410
Retained earnings	160,707	203,991	(43,285)
Legal reserves	8,458	8,458	-
Other reserves	-	-	-
Statutory and other capital reserves	2,063	-	2,063
General banking risk reserve	-	-	-
Revaluation reserve	-	1,189	(1,189)
Unrealised gains/losses on revaluation of financial assets available for sale	45,850	45,850	-
TOTAL EQUITY	**1,453,390**	**1,453,390**	**-**
TOTAL LIABILITIES AND EQUITY	**18,368,782**	**18,357,078**	**11,704**

Reconciliation of the balance sheet at 31 December 2013

1 Foreign currency accounts' balance with foreign banks in the amount of HRK 316,067 thousand is included in the regulatory statements in Deposits with banking institutions and in the statutory financial statements it is reported within Cash and amounts due from banks.

2 Foreign currency accounts' balance with domestic banks in the amount of HRK 8,300 thousand is included in the regulatory financial statements in Deposits with banking institutions and in the statutory financial statements it is reported within Cash and amounts due from banks.

3 Amount of HRK 357,739 thousand – giro account balance with the CNB is included in the regulatory statements in Deposits with the CNB and in the statutory financial statements it is reported within Cash and amounts due from banks.

4 Reclassification of deposits held with non-banking financial institutions in the amount of HRK 214 thousand (accounts 5214) from the item Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans to and receivables from banks in the financial statements.

5 Reclassification of the HBOR loan in the amount of HRK 151,000 thousand from Loans to financial institutions in the balance sheet per CNB's regulatory requirements to Loans to and receivables from banks in the financial statements.

6 Reclassification of receivables from interest accruals not yet due in the amount of HRK 70,915 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements into the following line items in the financial statements: HRK 159 thousand to Loans to and receivables from banks; HRK 1,323 thousand to Financial assets at fair value through profit or loss; HRK 21,997 thousand to Financial assets available for sale; HRK 7,058 thousand to Financial assets held to maturity; and HRK 40,378 thousand to Loans and receivables from customers.

7 Interest accruals due in the amount of HRK 27,154 thousand included in the in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets, is reclassified into Loans and receivables from customers in the financial statements.

8 Portfolio based provisions for identified losses on income-based receivables are included in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets in the amount of HRK 1,363 thousand. On the other hand,this item is presented in the financial statements as impairment allowance within Loans to and receivables.

9 Treasury bills of the Ministry of Finance in the amount of HRK 433,670 thousand are included in the balance sheet per the CNB regulatory requirements in Treasury bills issued by the Ministry of Finance and CNB bills, whereas in the financial statements they are included in financial assets available for sale.

10 Intangible assets in the amount of HRK 168,519 thousand are included in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets, and in the financial statements in Intangible assets.

11 Reclassification of HRK 10 thousand from Derivative financial instrument per the CNB regulatory requirements to Financial assets at fair value through profit or loss in the financial statements.

12 Reclassification of loans to other and non-banking financial institutions in the amount of HRK 367,691 thousand reported in the balance sheet per the CNB regulatory requirements within Loans to financial institutions to Loans to and receivables from customers in the financial statements.

13 Reclassification of credit card receivables in the amount of HRK 16,105 thousand (accounts 14811 and 1471) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans to and receivables from customers in the financial statements.

14 Reclassification of impairment losses on credit card receivables in the amount of HRK 136 thousand (account 1493) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans and receivables from customers in the financial statements.

15 Deferred tax assets in the amount of HRK 33,611 thousand included in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets reclassified to Deferred tax assets, net, in the financial statements.

16 Netting-off of the deferred tax liability in the amount of HRK 11,659 thousand within Interest, fees and other liabilities in the balance sheet per the CNB regulatory requirements and its inclusion in Deferred tax assets, net, in the financial statements.

17 Foreclosed assets in the amount of HRK 209,418 thousand included in the balance sheet per the CNB regulatory requirements are included in the financial statements within Other assets.

18 Reclassification of the stock of office supplies of HRK 5,421 thousand from Tangible assets (less depreciation) in the balance sheet per the CNB regulatory requirements to Other assets in the financial statements.

19 Investments in H1 telekom d.d. and Drvna industrija Spačva d.d. amounting to HRK 41,551 thousand is included in the balance sheet per the CNB regulatory requirements in Investments in subsidiaries, associates and joint ventures, whereas in the financial statements it is reported within Assets held for sale.

20 Reclassification of long-term borrowings of HRK 533,769 thousand from Borrowings from financial institutions in the balance sheet per the CNB regulatory requirements into Borrowings in the financial statements.

21 Derivative financial liabilities and other financial liabilities held for trading in the total amount of HRK 8 thousand reported in the balance sheet per the CNB regulatory requirements within Financial liabilities at fair value through profit or loss are reclassified in the financial statements to Financial liabilities at fair value through profit or loss.

22 Accrued interest payable not yet due in the amount of HRK 98,041 thousand, included in the balance sheet per the CNB regulatory requirements in Interest, fees and other liabilities are reclassified to the following items in the financial statements: HRK 1,016 thousand to Borrowings, HRK 1,695 thousand to Deposits from banks; HRK 86,902 thousand to Deposits from customers; and HRK 8,429 thousand to Hybrid instruments.

23 Reclassification of temporary transfers for the purpose of investing in domestic companies' share capital in the amount of HRK 810 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Deposits from customers in the financial statements.

24 Reclassification of HRK 43 thousand of retail balances in course of settlement (CNB account 2690) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Cash and amounts due from banks in the financial statements.

25 Reclassification of Restricted deposits in the total amount of HRK 1,427,672 thousand from Interest, fees and other assets in the balance sheet per CNB regulatory requirements to Deposits from customers in the financial statements.

26 Reclassification of Provisions for liabilities and expenses of HRK 41,789 thousand from Interest, fees and other assets in the balance sheet per CNB regulatory requirements to Provisions for liabilities and expenses in the financial statements.

27 Items Giro and current account deposits in the amount of HRK 3,078,289 thousand, Savings deposits in the amount of HRK 1,121,197 thousand and Term deposits in the amount of HRK 9,168,666 thousand in the balance sheet per CNB regulatory requirements are reported in the financial statements as follows: HRK 739,513 thousand within Deposits from banks and HRK 12,628,638 within Deposits from customers.

28 Reclassification of HRK 228,136 thousand from Share capital in the balance sheet per the CNB regulatory requirements to Capital gains in the financial statements.

29 Treasury shares in the amount of HRK 874 thousand are shown in the financial statements as a deduction from share capital.

30 Reclassification of HRK 42,410 thousand from Profit for the year in the balance sheet per the CNB regulatory requirements to Retained earnings in the financial statements.

31 Reclassification of the treasury share reserve in the amount of HRK 874 thousand from item Statutory and other capital reserves in the balance sheet per the CNB regulatory requirements to Retained earnings in the financial statements.

32 Reclassification of HRK 1,189 thousand from Statutory and other capital reserves in the balance sheet per the CNB regulatory requirements to Revaluation reserve in the financial statements.

Reconciliation of the income statement for the year 2012

	CNB requirements HRK 000	Per financial statements HRK 000	Difference HRK 000
Interest income	839,634	837,456	2,178
Interest expense	(403,670)	(379,617)	(24,053)
Net interest income	**435,964**	**457,839**	**(21,875)**
Fee and commission income	533,190	533,187	3
Fee and commission expense	(355,163)	(355,163)	-
Net fee and commission income	**178,028**	**178,024**	**4**
Gains less losses arising from securities at fair value			
through profit or loss and held for trading	-	3,438	(3,438)
Gains less losses arising from securities available for sale	-	7,537	(7,537)
Gains less losses arising from dealing in foreign currencies	-	36,088	(36,088)
Other operating income	-	25,590	(25,590)
Operating income	-	**708,516**	-
Other non-interest income	85,940	-	85,940
Other non-interest expenses	(33,244)	-	(33,244)
Other non-interest income, net	**52,697**	-	**52,697**
Net non-interest income	**230,724**	-	**230,724**
General and administrative expenses, and depreciation	(404,715)	(442,699)	37,984
Net operating income before provisions and impairment losses	**261,974**	-	**261,974**
Impairment losses on loans and receivables to customers			
and other assets	-	237,033	(237,033)
Provisions for liabilities and expenses	-	13,962	(13,962)
Operating expenses	-	**665,770**	**(665,770)**
Impairment losses and provisions	(231,477)	-	(231,477)
Provisions for portfolio based impairment losses	(12,249)	-	(12,249)
Total provisions for impairment losses	**219,229**	-	**219,229**
Profit/loss before taxation	**42,746**	**42,746**	**-**
Income tax expense	(336)	336	-
Profit /loss for the year	**42,410**	**42,410**	**-**
Earnings per share	**48.30**	**48.30**	**-**

Reconciliation of the income statement for the year 2013

1 Reconciliation of foreign exchange differences

Net foreign exchange differences in the amount of HRK 2,178 thousand are included in the income statement per the CNB regulatory requirements within Interest income and in the annual financial statements they are reported within Other operating income.

Net foreign exchange differences in the amount of HRK 1,982 thousand are included in the income statement per the CNB regulatory requirements within Impairment losses and provisions and in the annual financial statements they are reported within Other operating income.

Net foreign exchange differences in the amount of HRK 660 thousand are included in the income statement per the CNB regulatory requirements within Interest expense and in the financial statements they are reported within Other operating income.

Exchange differences in the amount of HRK 8,508 thousand on retranslation of the balance sheet at the mid-exchange rate are included in the income statement per the CNB regulatory requirements in Other non-interest income whereas in the financial statements they are reported within Other operating income.

Exchange differences in the amount of HRK 2,154 thousand on impairment losses (accounts 6409 and 6419) included in the income statement per the CNB regulatory requirements within Impairment losses and provisions are reclassified in the financial statements to Other operating income.

Exchange differences in the amount of HRK 36,088 thousand from foreign currency trading, which are included in the income statement per the CNB regulatory requirements within Other non-interest income are included in the financial statements in Gains less losses arising from dealing in foreign currencies.

2 Reclassification of HRK 23,392 thousand of the insurance premium expense from Interest expense in the income statement per the CNB regulatory requirements to General and administrative expenses and depreciation.

3 Reclassification of HRK 7,537 thousand arising from realized gains on financial assets available for sale from Other non-interest income in the income statement per the CNB regulatory requirements to Gains less losses arising from financial instruments available for sale in the financial statements.

4 Gains less losses arising from financial instruments at fair value through profit or loss in the amount of HRK 2,768 thousand reported in the income statement per the CNB regulatory requirements are included in the financial statements in Other non-interest income.

5 Gains on derivative financial instrument trading in the amount of HRK 671 thousand included in the income statement per the CNB regulatory requirements in Other non-interest income are reported in the financial statements in Gains less impairment losses on securities at fair value through profit or loss and held for trading.

6 The amount of HRK 11,012 thousand of dividends received is included in the income statement per the CNB regulatory requirements in Other non-interest income whereas in the financial statements it is included in Other operating income.

7 The amount of HRK 8,513 thousand (other income - accounts 68 less balances on accounts 68010, 6885 and income from reversal of provisions on accounts 6881 and 6882) included in the income statement per the CNB regulatory requirements within Other non-interest income is captured in the financial statements within Other operating income.

8 The amount of HRK 9,514 thousand (income from provisions reversal, account 6882) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in General and administrative expenses.

9 The amount of HRK 935 thousand (income from reversal of provisions - accounts 6881, 68810) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in Provisions for liabilities and expenses.

10 The amount of HRK 220 thousand (income from reversal of provisions - account 68804) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in Provisions for liabilities and expenses.

11 The amount of HRK 12,612 thousand (accounts 627) included in the income statement per the CNB regulatory requirements in Other non-interest expense is presented in financial statements in General and administrative expenses.

12 The amount of HRK 13,548 thousand (accounts 634, 635 and 6311) included in the income statement per the CNB regulatory requirements in Other non-Interest expense is presented in the financial statements in General and administrative expenses.

13 The amount of HRK 7,084 thousand (accounts 633 and 638) included in the income statement per the CNB regulatory requirements in Other non-Interest expense is presented in the financial statements under Provisions for liabilities and expenses.

14 The amount of HRK 173 thousand (income from the sale of foreclosed assets) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in Other operating income.

15 Reclassification of the amount of HRK 248,110 thousand (account 647) from Impairment losses and provisions for identified losses in the income statement per CNB regulatory requirements to Impairment losses on loans to and receivables from customers and other assets in the financial statements.

16 Reclassification of the amount of HRK 13,129 thousand from Provisions for portfolio based impairments in the income statement per the CNB regulatory requirements to Impairment losses on loans to and receivables from customers and other assets (as reversal) in the financial statements.

17 Reclassification of income from reversals amounting to HRK 880 thousand from the item Provisions for portfolio based impairment losses on off-balance sheet exposure in the income statement per the CNB regulatory requirements to Provisions for liabilities and expenses in the financial statements.

18 Reclassification of provisions for off-balance sheet exposures in the amount of HRK 20,771 thousand included in the income statement per the CNB regulatory requirements within Impairment losses and provisions to Provisions for liabilities and expenses in the financial statements.

Reconciliation of the Statement of Changes in Equity for the year 2013

Bank

	Share capital HRK 000	**Treasury shares HRK 000**	**Legal, statutory and other reserves HRK 000**	**Retained profit / (Accumulated losses) HRK 000**	**Profit /loss for the year HRK 000**	**Unreal. gains /losses financial assets available for sale HRK 000**	**Total equity HRK 000**
Balance at 1 January 2013	**1,194,776**	**(875)**	**5,874**	**71,348**	**94,063**	**45,799**	**1,410,985**
Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-	**-**
Restated balance at 1 January 2013	1,194,776	(875)	5,874	71,348	94,063	45,799	1,410,985
Disposal of financial assets available for sale	-	-	-	-	-	-	**-**
Change in the fair value of financial assets available for sale	-	-	-	-	-	(981)	**(981)**
Tax on items recognised directly in/transferred from equity	-	-	14	-	-	1,032	**1,046**
Other gains and losses recognised directly in equity	-	-	(69)	-	-	-	**(69)**
Net gains/losses recognised directly in equity	**-**	**-**	**(55)**	**-**	**-**	**51**	**(4)**
Profit /loss for the year	**-**	**-**	-	-	42,410	-	42,410
Total recognised income and expenses for 2013	**-**	**-**	**(55)**	**-**	**42,410**	**51**	**42,406**
Increase/decrease in share capital	-	-	-	-	-	-	-
Purchase/sale of treasury shares	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Transferred to reserves	-	-	4,703	89,360	(94,063)	-	-
Dividends paid	-	-	-	-	-	-	-
Profit allocatioin	**-**	**-**	**4,703**	**89,360**	**(94,063)**	**-**	**-**
Balance at 31 December 2013	**1,194,776**	**(875)**	**10,522**	**160,708**	**42,410**	**45,850**	**1,453,391**

Items: Legal reserve; General banking risk reserve, Revaluation reserve and Other reserves from the financial statements are presented in the statement of changes in equity per CNB’s regulatory requirements in Legal, statutory and other reserves.

Retained earnings from the Annual Report are presented within Retained earnings/(Accumulated losses), Profit/(loss) for the year.

Reconciliation of cash flows for the year 2013

	CNB requirements HRK 000	Per Financial Statements HRK 000	Difference HRK 000
Cash flows from operating activities			
Profit before taxation	42,746	42,746	-
Adjusted by:			
- Depreciation and amortisation	52,478	52,478	-
- Foreign exchange (gains)/ losses	(5,891)	(5,891)	-
- Impairment losses on loans and receivables to customers and other assets	-	237,033	(237,033)
- Impairment losses on provisions for liabilities and expenses	-	(13,962)	13,962
Impairment losses and provisions	223,071	-	223,071
- Gains less losses from financial assets at fair value through profit or loss	714	714	-
Changes in operating assets and liabilities			
Net increase in loans to and receivables from customers	-	130,816	(130,816)
Net decrease in financial assets at fair value through profit or loss	-	235,464	(235,464)
Treasury bills of the Ministry of Finance and the CNB bills	67,577	-	67,577
Deposits with banking institutions and loans to financial institutions	(139,815)	-	(139,815)
Loans to other customers	(873,058)	-	(873,058)
Securities and other financial instruments held for trading	233,487	-	233,487
Securities and other financial instruments available for sale	(387,517)	-	(387,517)
Net (increase)/decrease in loans to and receivables from customers	-	(1,231,109)	1,231,109
Net (increase)/decrease in other assets	(125,627)	(125,627)	-
Net (decrease)/increase in deposits from banks	-	231,689	(231,689)
Net increase/(decrease) in deposits from customers	-	1,204,619	(1,204,619)
Net increase/(decrease) in other liabilities	-	(46,674)	46,674
Demand deposits	487,092	-	487,092
Savings and term deposits	687,584	-	687,584
Derivative financial and other liabilities held for trading	(362)	-	(362)
Other liabilities	141,896	-	141,896
Net cash inflow from operating activities before tax	**-**	**712,296**	**(712,296)**
Income taxes paid	-	-	**-**
Net cash generated from operating activities	**-**	**712,296**	**(712,296)**
Cash flows from investing activities	**-**	**-**	**-**
Investments in subsidiaries	8,500	8,500	**-**
Investments in associates	(20,000)	-	**(20,000)**
Purchases of property, plant, equipment and intangible assets	(18,194)	(18,194)	**-**
Disposal of financial assets available for sale	-	404,460	**(404,460)**
Acquisition of financial assets available for sale	-	(732,381)	**732,381**
Net disposal/(acquisition) of financial assets held to maturity	(132,137)	(132,137)	-
Dividends received	8,112	8,112	-
Net cash inflow/(outflow) from investing activities	**-**	**(461,640)**	**461,640**
Cash flows from financing activities			
Increase in hybrid instruments	-	-	-
Increase in borrowings	-	706,242	(706,242)
Repayments of borrowings	-	(751,483)	751,483
Net increase/decrease in borrowings	(45,241)	-	(45,241)
Proceeds from issuance of share capital	-	-	**-**
Net cash inflow from financing activities	**-**	**(45,241)**	**45,241**
Effect of foreign exchange differences on cash and cash equivalents	481	481	-
Net increase/(decrease) in cash and cash equivalents	**205,896**	**205,896**	**-**
Cash and cash equivalents at the beginning of the year	**2,774,051**	**2,774,051**	**-**
Cash and cash equivalents at the end of the year	**2,979,947**	**2,979,947**	**-**

1. Reclassification of HRK 223,071 thousand from Impairment losses and provisions in the cash flow statement per the CNB regulatory requirements into the following items in the financial statements: HRK 237,033 thousand to Impairment losses on loans and receivables from customers and other assets, and HRK 13,962 thousand as an income from reversals within Provisions for liabilities and expenses.

2. Reclassification of HRK 67,577 thousand from Treasury bills issued by the Ministry of finance and CNB bills, HRK 139,815 thousand from Deposits and loans to financial institutions, HRK 873,058 thousand from Loans to other customers, HRK 233,487 Securities and other financial instruments held for trading, HRK 387,517 of Securities and other financial instruments available for sale, HRK 487,092 thousand of Demand deposits, HRK 687,584 thousand of Savings and term deposits, HRK 362 thousand of Financial derivatives and other financial liabilities held for trading, HRK 141,896 thousand of Other liabilities, from the cash flow statement as per the CNB reporting requirements to the following items in the financial statements: HRK 130,816 thousand to Net increase/decrease in loans and receivables from banks; HRK 235,464 thousand to Net (increase)/decrease in financial assets at fair value through profit or loss; HRK 1,231,109 thousand to Net (increase)/decrease in loans and receivables from customers; HRK 231,689 thousand to Net (decrease)/increase in deposits from banks; HRK 1,204,619 thousand to Net (decrease)/increase in deposits from customers; HRK 46,674 thousand to Net (decrease)/increase in other liabilities; and HRK 404,460 to Disposal of financial assets available for sale and HRK 732,381 thousand to Acquisition of financial assets available for sale.

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