

**Audit Company
REVENIO d.o.o.
Hrvatske mornarice 10
21000 Split
OIB:39382794009**

IMEX BANKA d.d. - SPLIT

AUDIT REPORT AS AT 31 DECEMBER 2012

Split, March 2013

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Management Board Responsibility Statement

Based on the Croatian Act on Accounting (Official Journal *Narodne novine* No. 109/07), the Management Board is obligated to prepare the financial statements of the Bank for each business year in compliance with the International Financial Reporting Standards („IFRS“) published by the Board for International Accounting Standards, in such a way as to provide a fair and true presentation of the financial position of the Bank, its operating results and cash flow, in compliance with the applicable accounting standards.

The Management Board is responsible for selection of appropriate accounting policies and their consistent application; adoption of reasonable and cautious assessments and evaluations; and preparation of financial statements based on going concern principle, unless it is inappropriate to assume that the Bank will continue as a going concern.

The Management Board is responsible for keeping of appropriate accounting records, which will accurately reflect at any moment the financial position of the Bank, and their compliance with the Croatian Act on Accounting (Official Journal *Narodne novine* 109/07). The Management Board is also responsible for keeping of corporate assets and undertaking reasonable measures for the prevention and disclosure of any frauds or other illegal proceedings.

These financial statements have been approved for issue as at 1 March 2013 and signed on behalf of the Management Board.

Imex banka d.d.
Tolstojeva 6
21000 Split

Management Board Member:

Branko Buljan, Dipl.Oec.

Management Board President:

Ružica Šarić, Dipl.Oec.

AUDITOR'S REPORT

To Shareholders of IMEX BANKA d.d., Split

We have audited the enclosed Financial Statements of Imex banka d.d., Split, Tolstojeva 6, OIB: 99326633206 (hereinafter: Bank) including the Balance Sheet as at 31 December 2012, Profit and Loss Statement, Equity Change Statement and Cash Flow Statement for the year ended on that date, as well as Summary of Significant Accounting Policies and Notes with the Financial Statements, presented on pages 5 to 42.

Management Board responsibilities

The Management Board is responsible for the preparation and objective presentation of these Financial Statements in compliance with the International Financial Reporting Standards. Responsibilities of the Management Board include: determination, introduction and maintenance of internal controls applicable for the preparation and objective presentation of financial statements free of any misstatements caused by fraud or error; selection and application of appropriate accounting policies and determination of reasonable accounting evaluations appropriate in given circumstances.

Auditor's responsibilities

It is our responsibility to express our opinion on the Financial Statements based on our audit. We have conducted our audit in compliance with the International Audit Standards. These Standards require auditor's compliance with ethical rules, as well as planning and conducting of an audit in such a way as to ascertain with a reasonable certainty that the financial statements are free of substantial misstatements.

The audit includes procedures for obtaining of audit evidence on sums and disclosures presented in the financial statements. Selection of procedures depends on the auditor's judgment, including an assessment of risk of substantial misstatements in the financial statements caused by fraud or error. In assessment of such risks, the auditor considers the internal controls significant for the preparation and objective presentation of financial statements prepared by the Bank to determine the appropriate further audit procedures in given circumstances. An audit also includes evaluation of appropriate accounting principles and accounting judgments by the Management Board, as well as evaluation of the entire presentation of the financial statements.

We believe that evidence obtained in our audit forms sufficient and reasonable basis for the expression of our opinion.

Basis for the Opinion

We have conducted our audit in compliance with the International Audit Standards. These Standards require the planning and conducting of an audit in such a way as to ascertain with a reasonable certainty that the financial statements are free of substantial misstatements. An audit includes verification, on test basis, of information supporting the amounts and all notes to the financial statements. An audit also includes evaluation of applied accounting principles and significant judgments by the

Management Board, as well as evaluation of the entire presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the Financial Statement present really and fairly, in all significant aspects, the financial position of the Bank on 31st of December 2012, its operating results and cash flows for the year that ended on that day, in compliance with the legal requirements for bank accounting in Croatia.

Other legal and regulatory obligations

Based on Decision on form and contents of annual financial statements of banks (Official Journal *Narodne novine* no. 62/08, hereinafter: "Decision"), the Management Board has prepared forms presented on pages 43 to 62, including Balance Sheet as at 31 December 2012, Profit and Loss Statement, Equity Change Statement and Cash Flow Statement for the year ended on that date, as well as notes on adjustments with the fundamental financial statements. Preparation of such forms and information on adjustments are responsibilities of the Management Board and they are not an integral part of these Financial Statements, but instead they are set out by the Decision. Financial information in the forms are accurately derived from the fundamental Financial Statements of the Bank prepared in compliance with legal requirements for bank accounting in Croatia, presented on pages 5 to 42.

REVENIO Audit Services Ltd.
Hrvatske mornarice 10
21000 Split
OIB:39382794009

Split, 25 March 2013

Licensed Auditors:

Dušan Vučković, Dipl.Oec.

Ivana Šarić, Dipl.Oec.

Director:

Anamaria Ivkošić, LL.B.

Financial Statements (Reclassified)

Profit and Loss Statement for 2012

		HRK '000	
	Notes	2011	2012
Interest income	3a	153,725	133,211
Interest expenses	3c	(76,779)	(81,956)
Net interest income		76,946	51,255
Fees and commissions	3b	6,097	9,966
Currency gains/losses and profit/loss from trade in securities and currency (net)	4,4a	4,093	2,161
Other income	5	335	570
Total income		87,471	63,952
Operating expenses	6	(39,387)	(39,590)
Value adjustment and provisions	8a,8b	(22,756)	(11,401)
Profit before taxation		25,328	12,961
Corporate income tax		5,182	2,698
Profit after taxation		20,146	10,263
Profit allocation proposal:			
- Profit for allocation		20,146	10,263
Earnings per share	9	21.63	11.02

Based on the Management Board and Supervisory Board decision, the profit after taxation for 2011 in the amount of HRK 20,146 thousand has been paid to the shareholders.

The accounting policies and notes on pages 11 to 42 shall form an integral part of these Financial Statements.

Comprehensive Income Statement for 2012

	HRK '000	
	2011	2012
	<hr/>	<hr/>
Profit or loss of the period	20,146	10,263
Other comprehensive profit/loss before taxation:		
1.Currency gains/losses from translation of currency operations		
2.Changes in revaluation reserves of fixed tangible and intangible assets		
3.Profit or loss based on revaluation of financial assets available for trade		
4.Profit or loss based on efficient cash flow protection		
5.Profit or loss based on efficient protection of net investments abroad		
6.Share in other comprehensive profit/loss of affiliates		
7.Actuary gains/losses according to plans of defined receipts		
Tax on other comprehensive profit of the period		
Net other comprehensive profit/loss of the period		
Comprehensive profit or loss of the period	<hr/> 20,146 <hr/>	<hr/> 10,263 <hr/>

Balance Sheet as at 31 December 2012

HRK '000

	Notes	2011	2012
		<hr/>	<hr/>
Assets			
Cash and assets with other banks	10	259,994	321,482
Assets with the Croatian National Bank	11	162,307	160,785
Deposits with other banks	12	79,829	52,974
Treasury and cashier notes		0	0
Loans to customers	13	1,275,749	1,241,534
Accrued interests and other assets	14	25,464	31,601
Investments and securities	15	66,626	260,574
Tangible and intangible assets with advances for buildings	16a,16b	44,199	43,822
Foreclosed assets	16c	6,206	9,710
Special provisions for identified losses on group basis for placements	22a	(15,468)	(16,036)
Total assets:		<hr/> 1,904,906 <hr/>	<hr/> 2,106,446 <hr/>
Equity and liabilities			
Other deposits	17		
- on demand		113,039	84,827
- saving and fixed term deposits		1,436,014	1,629,274
Other borrowed funds	18	86,423	117,962
Hybrid instruments	19	84,416	99,612
Accrued interests and other liabilities	20,21	44,134	43,853
Provisions for contingent liabilities on group and individual level	22 a	829	754
Provisions for litigation	22 b	25	21
Total liabilities:		<hr/> 1,764,880 <hr/>	<hr/> 1,976,304 <hr/>
Share capital		93,127	93,127
Capital gain		13,175	13,175
Treasury shares		0	0
Reserves and retained profit		13,578	13,578
Current year profit		20,146	10,263
Total equity:		<hr/> 140,026 <hr/>	<hr/> 130,143 <hr/>
Total equity and reserves:		<hr/> 1,904,906 <hr/>	<hr/> 2,106,446 <hr/>
Contingent and assumed liabilities			
- guarantees		66,410	61,329
- letters of credit		2,815	6,131
- credit facilities and financing liabilities		22,190	16,998
Total:		<hr/> 91,415 <hr/>	<hr/> 84,458 <hr/>
- other out-of-balance items (derivatives)		0	0
Total:	23	<hr/> 91,415 <hr/>	<hr/> 84,458 <hr/>

Equity Change Statement

HRK '000

	Share capital with capital gain	Treasury shares	Reserves	Current year profit and retained profit	Total equity
As at 1 January 2011	<u>73,301</u>	<u>0</u>	<u>17,440</u>	<u>18,139</u>	<u>108,880</u>
Share capital increase	33,000				33,000
Transfer into general banking risk reserves			(11,779)		(11,779)
Sale of treasury shares				0	0
Retained profit				(10,221)	(10,221)
Profits for 2011				<u>20,146</u>	<u>20,146</u>
As at 31 December 2011	<u>106,301</u>	<u>0</u>	<u>5,661</u>	<u>28,064</u>	<u>140,026</u>
As at 1 January 2012	<u>106,301</u>	<u>0</u>	<u>5,661</u>	<u>28,064</u>	<u>140,026</u>
Allocation and payment of 2011 profits				(20,146)	(20,146)
Transfer into general banking risk reserves				0	0
Sale of treasury shares		0			0
Retained profit				0	0
Profits for 2012				<u>10,263</u>	<u>10,263</u>
As at 31 December 2012	<u>106,301</u>	<u>0</u>	<u>5,661</u>	<u>18,181</u>	<u>130,143</u>

In compliance with the Croatian laws, the Bank is bound to allocate 5% of the profits after taxation into legal reserves, until the total amount of such reserves reaches 5% of share capital.

*Cash Flow Statement for the Year Ending on
31 December 2012 (Indirect method)*

HRK '000

	<u>2011</u>	<u>2012</u>
Net cash flow from operating activities		
Profit before taxation	25,328	12,961
Increase on accrued interests and other assets	(4,603)	(6,137)
Depreciation	3,750	3,743
Increase / Reduction on other liabilities	7,174	(281)
Income / Expenses from value adjustment and provisions	22,756	(11,401)
Net cash flow from operating activities	<u>54,405</u>	<u>(1,115)</u>
Changes in assets and liabilities		
Net increase (reduction) on bank deposits	0	0
Net increase (reduction) on other deposits	245,735	165,048
Net increase of assets with the Croatian National Bank	(45,993)	1,522
(Reduction) / Increase of borrowed funds	1,351	31,539
Increase of placements to banks exceeding 90 days	106,829	26,855
Net reduction (increase) on loans to customers	(235,584)	34,215
Corporate income tax	(5,182)	(2,698)
Hybrid instruments	43,416	15,196
Other	(19,358)	8,450
Net cash inflow from operating activities	<u>91,214</u>	<u>280,127</u>
Investment activities		
Purchase of securities and participations	(59,139)	(193,948)
Purchase of intangible and tangible assets and alike	(9,826)	(3,430)
Sale and write-off of tangible assets	399	0
Advances for tangible assets	8,325	0
Net cash outflow from investment activities	<u>(60,241)</u>	<u>(197,378)</u>
Financing		
Payments out of profit to shareholders	0	(20,146)
Net cash (outflow) from financing	<u>0</u>	<u>(20,146)</u>
Increase/reduction of cash and cash equivalents	<u>85,378</u>	<u>61,488</u>

Cash and cash equivalents changes through the year

Balance as at 1 January	174,616	259,994
Net cash inflow – outflow	85,378	61,488
Balance as at 31 December	<u>259,994</u>	<u>321,482</u>
Changes in accounting policies and calculation methods	<u>0</u>	<u>0</u>
Balance as at 31 December	<u>259,994</u>	<u>321,482</u>
Contents of cash and cash equivalents		
Cash and cash equivalents with other banks	259,994	321,482
Placements and deposits with other banks on 90-day term	0	0
Marketable securities with maturity up to 90 days	0	0
T o t a l:	<u>259,994</u>	<u>321,482</u>

Founders and shareholders with appertaining shares as at 31 December 2012:

	<u>2011</u>	<u>2012</u>
1. BRANKO BULJAN, Split	77.98%	77.98%
2. IVKA MIJIĆ, Split	22.02%	22.02%

1.3. Notes to the Financial Statements

1. Registration of the Company

Imex banka d.d. Split (“Bank”) was established in the Republic of Croatia and registered into the Register of Companies of the Commercial Court of Split under the number MBS-060001876, with the registered capital stock of HRK 93,126,900.00. The Bank’s corporate seat is in Split, Tolstojeva 6.

The Bank has the following registered scope of activities:

- Transactions with foreign exchange in Croatia (foreign exchange transactions);
- Financial agency services;
- Receipt of all types of deposits;
- Granting all types of loans, opening of documentary letters of credit, issue of sureties and bank guarantees and receipt of other financial liabilities;
- Transactions with bills of exchange, cheques and deposit certificates on its own behalf or on behalf of its customers;
- Lending, sale and purchase of financial derivatives (forwards, options, etc.) on its own behalf and on behalf of its customers;
- Transactions with securities on its own behalf or on behalf of third parties;
- Issue and management of securities (including cards, travellers’ cheques and bank orders)
- Financial leasing and factoring transactions;
- Information on customers’ solvency at their request;
- Credit transactions abroad and payment transactions abroad;
- Payment transactions in Croatia;
- Providing other financial services as set out by the Croatian National Bank;
- Insurance agent services, in compliance with the laws governing insurance, in the part governing the insurance agent services for banks

Supervisory Board:

1. Dario Medak, President
2. Dubravka Ostojić, Deputy President
3. Slavka Petrov, Member

Procurator:

1. Ivka Mijić

Management Board:

1. Branko Buljan, President
2. Ružica Šarić, Member

2. Summary of significant accounting policies

Below are presented the general accounting policies adopted for the preparation of the financial statements;

(1) Compliance Statement

The financial statements of Imex banka d.d. Split have been prepared in compliance with the International Financial Reporting Standards („IFRS“) published in the Official Journal of the Republic of Croatia (“*Narodne novine*”) and specific legal requirements for the accounting of banks in the Republic of Croatia.

Banking operations in Croatia have been governed by the Act on Credit Institutions, according to which financial reporting requirements are set out by the Croatian National Bank („CNB“).

Accounting regulations of the Croatian National Bank are based on the International Financial Reporting Standards.

The financial statements of the Bank have been prepared in compliance with the legal requirements of the financial reporting framework applicable in the Republic of Croatia to large entrepreneurs and the entrepreneurs whose stocks or debt securities are listed or about to be listed at the organized market of securities, which is until the date of acceptance of Croatia into the membership in the European Union based on the International Financial Reporting Standards, their amendments and related interpretations, and the International Accounting Standards, their amendments and related interpretations, as set out by the Board for Financial Reporting Standards, and as published in *Narodne novine*.

(2) Functional and reporting currency

The financial statements of the Bank have been presented in Croatian currency (Kuna) as functional currency. The sums are rounded to the closest thousand (unless specified otherwise).

The official exchange rate as at 31 December 2012 was HRK 7.546594/EUR 1 (in 2011: HRK 7.530420) and HRK 5.721451/USD 1 (in 2011: HRK 5.819940).

(3) Foreign currency

Assets and liabilities expressed in foreign currencies are converted into the Croatian currency Kuna according to the mean exchange rate applicable on the last day of an accounting period. Income and expenses expressed in foreign currencies are converted into Kuna according to the official exchange rate applicable on the transaction date. Gains and losses arising from the conversion of foreign currency items of the Balance Sheet to the mean exchange rate and from purchase and sale of foreign currency have been included into the Profit and Loss Account for the relevant year.

(4) Interest income and expenses

Interest income and expenses are recognized in the Profit and Loss Statement upon occurrence for all interest-bearing financial instruments, including those measured at amortised cost, at fair value through Profit and Loss Statement, and those available for sale, by application of effective interest rate method. Interest income and expenses are presented in the Profit and Loss Statement as income from interest and similar income or expenses from interest and similar expenses. Interest income and expenses also include fees related to granted loans and receivables from clients or loans received from other banks.

(5) Income and expenses from fees and commissions

Income and expenses from fees and commissions are formed of fees and commissions for services in domestic and international payment transactions, issue of guarantees and letters of credit etc. and are recognized in the Profit and Loss Statement upon provision of a service.

(6) Conversion of foreign currency

Events not expressed in Croatian currency are at start booked by conversion according to the applicable rate on the transaction date. Assets and liabilities expressed in foreign currencies are reconverted on the balance sheet date by application of the exchange rate applicable on that date. Gains and losses resulting from the conversion are presented in the Profit and Loss Statement for the period in which they were incurred.

Non-monetary items in foreign currencies expressed at fair value are converted by application of the foreign exchange rate applicable on the date of assessment of fair value. Non-monetary items in foreign currency expressed at historical cost are reconverted on the balance sheet date. Gains and losses resulting from the conversion are presented in the Profit and Loss Statement for the period.

(7) Financial instruments

Financial assets are classified into portfolios depending on the Bank's intention at the moment of acquisition of financial assets and in compliance with the investment strategy. Financial assets and financial liabilities are classified into portfolio presented at fair value through the Profit and Loss Statement, held until maturity, and granted loans and receivables. All financial assets and all financial liabilities are recognized, or their recognition stops, on the settlement date, where purchase of financial asset or financial liability is defined with the agreed delivery date.

At the initial recognition of a financial asset or a financial liability, measurement is conducted at purchase cost plus transaction costs directly attributable to acquisition or issue of a financial asset or a financial liability.

-Financial assets and financial liabilities at fair value through Profit and Loss Statement

Financial instruments are classified into this category if they are acquired or created mostly for sale or repurchase in a short period of time, for short-term profit.

-Investments held until maturity

Investments held until maturity are non-derivative financial assets with fixed or fixable payments and fixed maturity date, in respect of which the Bank has a positive intention and capacity of holding until maturity. The category includes certain securities.

-Loans and receivables

Loans and receivables include non-derivative financial assets with fixed or fixable payments and not listed on active market. Loans and receivables occur when the Bank has approved funds to its clients without intention to trade in such receivables and they include loans and receivables from banks, loans and receivables from clients, etc.

(8) Impairment of financial assets

The Bank is obligated to check as at each Balance Sheet date whether there are any objective indicators of impairment of financial assets. Where there are any indications of impairment of financial assets, its substitute value is evaluated.

Substitute value of extended loans and receivables created by the Bank and assets held until maturity is calculated as current value of expected future cash flows, discounted at originally agreed effective interest rate of an instrument.

(9) Recognition and derecognition

Regular purchase and sale of financial instruments at fair value through Profit and Loss Statement and investments held until maturity are recognized on settlement date or on date when the financial instrument is delivered to or transferred from the Bank. Loans and receivables as well as other financial liabilities are recognized at the moment when the financial assets are delivered to borrowers or when the liability is received from the lenders.

(10) Initial and subsequent measurement

After the initial recognition, the Bank evaluates the financial instruments at fair value through Profit and Loss Account at their fair value, without reduction for costs of sale. Loans and receivables and investments held until maturity and other financial liabilities are evaluated at amortised cost at application of effective interest rate method.

(11) Fair value measurement principles

Fair value of listed securities is based on applicable final sales prices. If the market for financial assets is not active or if fair value cannot be reliably determined based on market price for other reasons, the Bank shall determine fair value by use of evaluation techniques. They include the use of prices realised in recent deals among informed and willing parties, reference to other essentially similar instruments, analysis of discounted cash flows and price option models, with maximum use of market information and as low reliance on specific features of the subject as possible.

(12) Tangible and intangible assets

Tangible and intangible assets are presented in the Balance Sheet at investment cost minus accumulated depreciation.

Investment cost means purchase price as well as all costs directly related to bringing the assets into the operational condition for the intended use. Costs of current maintenance and repairs, replacement and small-scope investment maintenance are recognized as expenses at occurrence. Assets of individual purchase cost lower than HRK 3,500 are written off in full value when placed in use. Costs of significant investment maintenance and replacement are capitalized. Gains and losses based on write-off or sale of fixed tangible assets are presented in the Profit and Loss Account in the period in which they occurred. Depreciation of tangible and intangible assets is calculated at straight line method by application of prescribed rates by which the acquisition cost is to be written off in the course of their estimated lifecycle.

Average annual depreciation rates for 2011 and 2012 were:

	<u>2011</u>	<u>2012</u>
Buildings	2.50%	2.50%
Computers and software	10.00%-25.00%	10.00%-25.00%
Furniture and equipment	20.00%-25.00%	20.00%-25.00 %
Vehicles	20.00%	20.00%
Other	10.00%	10.00%

On each Balance Sheet date, the Bank tests the accounting value of tangible and intangible assets and determines whether there are reasons to change the value. Investments in progress are not depreciated all until they are placed in use.

(13) Provisions

The Bank recognizes provisions when it has a current liability based on past events, when it is possible that outflow of resources will be required for the settlement of the liability. The Management shall set out the amount of provisions based on the best possible evaluation of the expenses which will be incurred by the settlement of the liability.

(14) Liabilities undertaken in out-of-balance records

Within its regular activities, the Bank has been making arrangements by which it has been undertaking contingent liabilities recorded in out-of-balance records, which primarily refer to guarantees, letters of credit, etc. These contingent liabilities are presented in the Balance Sheet of the Bank once they are payable.

Management Board of the Bank keeps the provisions for contingent losses based on undertaken and contingent liabilities at the level which they believe is adequate to neutralize probable future losses. Amount of provisions depends on the value of a specific item, experience with the specified type of loss in the preceding periods, transaction risk and other relevant factors.

(15) Corporate income tax

Corporate income tax is based on taxable profits for the year and consists of current and deferred tax. Corporate income tax is expressed in Profit and Loss Statement with the exception of corporate income tax related to items recognized directly in equity and reserves, when corporate income tax is recognized in equity and reserves. Current tax is the expected tax liability calculated on taxable profits for the year, by the use of tax rates applicable or essentially valid on the Balance Sheet date and all adjustments of tax liability from former periods.

(16) Share capital and provisions

Share capital is the non-allocated capital of the Bank. Dividend based on Assembly decision is payable to founders – shareholders of the Bank after allocation of 5% of profits into legal provisions. Allocation into legal provisions has been performed in full amount in compliance with the Act on Companies.

(17) Regulatory environment

The Bank is subject to the Croatian National Bank regulations, setting out the limits and other restrictions related to the minimum level of capital adequacy, classification of loans and out-of-balance liabilities, and provisions for credit and currency risk, liquidity risk and currency position. At the end of the year, the Bank significantly fulfilled all regulatory requirements.

(18) Litigation

In compliance with the Decision on obligation to reserve the provisions for litigation against the Bank, the latter shall keep record of litigation, classify each case into the risk group based on evaluation of outflow of funds, and make a reservation. The Bank classifies the risk of litigation taking into account the legal grounds of the claim, opinion of external lawyers, case law considering the type of litigation, opinion by relevant internal departments as well as opinions of other relevant experts, and its own experience in similar litigation cases.

(19) Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash with the Croatian National Bank, placements with other banks with original maturity term up to three months and instruments in the process of collection.

(20) Events after Balance Sheet date

Events after the Balance Sheet date providing additional information on the Bank's position on that date (events leading to adjustments) are recognized in the Financial Statements.

The events not leading to adjustments are noted in the Notes to the Financial Statements if they are of material significance.

According to the Management Board opinion, for the period I-III/2013 there were no events or transactions in the Bank operations ending with 31 December 2012 which would have any significant effect on the Financial Statements on that date or for the period ending on that date or which are of such significance for the Bank's operations to require notification in the Notes to the Financial Statements.

3. Interest income and expenses and non-interest income and expenses

	HRK '000	
	2011	2012
	<hr/>	<hr/>
a) Interest income by sectors		
- corporate and public sector, and non-for-profit institutions	133,640	106,419
- banks and financial institutions	131	2,210
- population	15,846	13,634
- debt securities, shares and other capital investments	3,679	10,982
Net currency gains based on interest income	429	(34)
Total:	<hr/> 153,725 <hr/>	<hr/> 133,211 <hr/>
b) Non-interest income - types		
- commissions for payment transactions	1,567	1,506
- fee for other banking services	3,377	7,275
- from population commissions	1,151	1,182
- net currency gains/losses based on fees	2	3
Total:	<hr/> 6,097 <hr/>	<hr/> 9,966 <hr/>
c) Interest expenses by sectors and saving deposit insurance premiums		
- corporations and public sector institutions	8,087	6,492
- banks and non-banking financial institutions	12,735	11,324
- population	47,391	53,795
- saving deposit insurance premiums	3,183	3,359
- debt securities (hybrid instruments) and alike	4,946	6,976
- non-profit organisations' funds and alike	44	28
- net currency losses	393	(18)
Total:	<hr/> 76,779 <hr/>	<hr/> 81,956 <hr/>

d) Non-interest expenses – types		
- commissions for foreign banks' services	2,317	2,316
- fees or services of domestic corporations	120	165
Total:	2,437	2,481

4. Currency gains/losses and gains/losses from trade in foreign currency

	HRK '000	
	2011	2012
Currency gains/losses	2,411	1,978
Currency gains/losses arising from:		
- Balance Sheet item conversion to agreed exchange rate	17,733	1,830
- Balance Sheet item conversion to mean exchange rate	(16,535)	(1,444)
Total:	3,609	2,364

4.a) Profit/Loss from reduction of securities to fair value

	HRK '000	
	2011	2012
- Profit/loss from trade in securities	484	(203)
Total:	484	(203)

5. Other income

	HRK '000	
	2011	2012
Group of other income:		
- income from dun letters based on loans to legal entities, population, and small trades; income from the closing of inactive bank accounts and similar income	55	0
- income from dividends	114	111
- refund of court expenses and fees for collection of receivables from clients	27	52
	5	0
- income from sale of fixed assets	91	359
- income from leases		0
- other	43	48
Total:	335	570

Income presented under item “Other” in the amount of HRK 48 thousand refers to adjustments of HRK 39 thousand and closing of clients’ giro accounts of HRK 9 thousand.

6. Operating expenses

	HRK ‘000	
	2011	2012
	<hr/>	<hr/>
Personnel expenses (Note 7)	17,611	17,883
Depreciation	3,750	3,743
Fees and commissions (Note 3 d)	2,437	2,481
Administration and marketing expenses	4,861	5,383
Supplies and services	9,077	9,778
Other	1,651	322
Total:	<hr/> 39,387 <hr/>	<hr/> 39,590 <hr/>

7. Personnel expenses

	HRK ‘000	
	2011	2012
	<hr/>	<hr/>
Net salaries	9,756	9,756
Pension insurance expenses	2,805	2,887
Social and health insurance expenses	2,193	2,259
Taxes and local surtaxes	1,705	1,818
Other personnel expenses	1,152	1,163
Total:	<hr/> 17,611 <hr/>	<hr/> 17,883 <hr/>
Number of employees as at 31 December	127	139

8. a) Costs of provisions and income from cancelled provisions in 2012:

	HRK '000		
	Expenses	Income	Difference
Loans – identified losses	25,404	13,346	12,058
Interests and fees and other placements – identified losses	7,559	8,863	(1,304)
Placements – identified losses on group basis	2,918	2,350	568
Out-of-balance items – identified losses on group basis	57	146	(89)
Out-of-balance items – identified losses based on contingent liabilities on individual basis	39	25	14
Net currency differences based on adjusted value of placements and income from collection of written off placements	154	0	154
Total:	36,131	24,730	11,401

8.b) Costs of provisions and income from cancelled provisions in 2011:

	HRK '000		
	Expenses	Income	Difference
Loans – identified losses	18,440	8,713	9,727
Interests and fees and other placements – identified losses	11,041	1,578	9,463
Placements – identified losses on group basis	2,883	0	2,883
Out-of-balance items – identified losses on group basis	223	138	85
Out-of-balance items – identified losses based on contingent liabilities on individual basis	64	100	(36)
Net currency differences based on adjusted value of placements and income from collection of written off placements	634	0	634
Total:	33,285	10,529	22,756

8.c) Provisions and impairment of bad and dubious receivables (placements) and contingent liabilities

Provisions with regard to risk level of placements and contingent liabilities are related to the following:

	Notes	HRK '000	
		2011	2012
Loans – specific purpose	13d	43,146	55,336
Interests and other assets	13d	13,937	12,845
Provisions for identified losses on group basis for placements	22	15,468	16,036
Provisions for identified losses on group basis for contingent liabilities	22	829	739
Provisions for non-identified losses on individual basis for contingent liabilities	22	0	15
Total:		73,380	84,971

9. Earnings per share

The Bank presents the earning per share on its ordinary shares. Earnings per share is calculated by division of the appertaining net profits to ordinary shareholders of the Bank with weighted average number of ordinary shares at the end of the period.

10. Cash assets

	HRK '000			
	2011		2012	
	HRK	Currency	HRK	Currency
Cash in hand and cheques in the process of collection	11,231	14,038	12,025	9,364
On demand deposits:				
- with foreign banks		99,288		158,188
- with domestic banks		15,487		15,858
Giro account with Croatian National Bank	119,950	0	126,047	0
Total:	131,181	128,813	138,072	183,410
Grand total (HRK + currency)	259,994		321,482	

11. Assets with the Croatian National Bank

	HRK '000	
	2011	2012
Compulsory reserve with CNB in HRK	137,869	135,627
Compulsory reserves in foreign currencies	24,438	25,158
Marginal reserve requirements	0	0
Total:	162,307	160,785

In 2012, the Bank is bound to keep a compulsory reserve with the Croatian National Bank equal to 15.00 %, conclusively with the accounting period from 1 until 31 March 2012, and 13.5%, starting with the calculation on 9 May 2012, in respect of the accounting period from 1 until 30 April 2012. These assets are not available for the financing of daily banking operations.

12. Deposits with other banks

	HRK '000	
	2011	2012
a) Survey by types		
Fixed term foreign currency deposits	77,444	51,190
Foreign currency "nostro" covered L/C	2,385	1,784
Total:	79,829	52,974
b) Survey by countries		
Croatia	633	634
OECD members and others	79,196	52,340
Total:	79,829	52,974

In 2012, the Bank had fixed-term currency deposits with the agreed maturity term of 1-3 months of HRK 50,556 thousand and fixed-term currency deposits of HRK 634 thousand with the agreed maturity term exceeding 3 months, and foreign currency "nostro" covered letters of credit of 1,784 thousand.

In 2011, the Bank had fixed-term currency deposits with the agreed maturity term of 1-3 months of HRK 76,811 thousand and fixed-term currency deposits of HRK 633 thousand with the agreed maturity term exceeding 3 months, and foreign currency "nostro" covered letters of credit of HRK 2,385 thousand.

13. Extended loans and their impairment

	HRK '000			
	2011	%	2012	%
a) Analysis by clients				
Population	146,447	11.11	156,772	12.09
Corporate clients	1,163,192	88.20	1,139,231	87.84
Other clients	9,256	0.69	864	0.07
Total gross loans:	1,318,895	100.00	1,296,867	100.00
Loan impairment:	(43,146)		(55,336)	
Total net loans:	1,275,749		1,241,534	
b) Analysis by industry or intended use				
For working assets	618,154	46.87%	409,372	31.57%
For investments	38,413	2.92%	79,704	6.15%
Cash non-specified-purpose loans without pledge	85,637	6.50%	100,272	7.73%
Cash non-specified-purpose loans with pledge	17,342	1.32%	12,332	0.95%
Civil engineering	53,598	4.07%	95,540	7.37%
Agriculture	18,409	1.40%	24,968	1.93%
Tourism	17,052	1.30%	15,974	1.23%
Shares in syndicated loans	6,370	0.49%	6,151	0.47%
Lombard loan	12,393	0.94%	41,706	3.22%
Housing loans	11,560	0.88%	15,695	1.21%
Transaction account overdrafts	43,871	3.32%	45,683	3.52%
Other	396,096	30.00%	449,473	34.65%
Total gross loans:	1,318,895	100.00	1,296,867	100.00
Loan impairment	(43,146)	3.28	(55,336)	4.27
Total net loans:	1,275,749	96.72	1,241,534	95.73
c) Analysis by loan types				
Short-term loans	670,504		479,390	
Long-term loans	648,391		817,479	
Total gross loans:	1,318,895		1,296,867	
Loan impairment	(43,146)		(55,336)	
Total net loans:	1,275,749		1,241,534	
d) Provisions and impairment of bad and dubious receivables				
Initial balance	39,585		57,483	
New impairment	17,919		10,908	
Collections and write-offs	(21)		(210)	
As at 31 December (exclusive of receivables based on contingent liabilities)	57,483		68,181	
e) Provisions for receivables based on contingent liabilities				
As at 31 December	1		15	
As at 31 December	57,484		68,196	

f) Loans with delay in collection

Loans extended to clients with delay in payment of their matured liabilities, i.e. total due outstanding receivables exceeding 90 days, as at 31 December 2012 amounted to HRK 236,810 thousand (as at 31 December 2011: HRK 230,309 thousand).

g) Interest flexibility

In 2012, the Bank extended loans to corporate clients and small traders, and the interest rate ranged on average from 8% to 10% on annual level for short-term loans, and from 6.5% to 8.5% for long-term loans.

Interests on loans to population extended in Kuna with currency clause, ranged from 9.30% to 9.85% variable rate, while those on housing loans to population in Kuna without currency clause ranged from 7.90 to 9.60% fixed rate. Interest rates on housing loans to population with currency clause ranged from 6% to 7%. Interests on overdraft on current accounts amounted up to 11.95%.

Interest on fixed-term Kuna deposits of corporate clients and small traders was charged up to 5.0%, and that on fixed-term currency deposits was charged at 4.0%.

Interest payables on fixed-term Kuna savings of population without currency clause on 1-year term ranged between 5.00% and 5.45% and for fixed-term currency deposits, the interest was set according to the deposit term, amount, special interests and alike and, on 1-year term, ranged between 4.40% and 5.15%.

h) Excluded interest income

Excluded interest income on extended loans of “B” and “C” group in 2012 amounts to HRK 26.447 thousand (in 2011: HRK 15,691 thousand).

14. Accrued interests and other assets

	HRK '000	
	2011	2012
Accrued matured interests	21,980	14,778
Non-matured interests	7,385	15,031
Fees and commissions (matured and non-matured)	1,203	1,137
Other assets	2,242	6,502
Total:	32,810	37,448
Provisions and impairment by accrued interests and other assets	(7,346)	(5,847)
Total:	25,464	31,601

15. Investments and securities

HRK '000

	<u>2011</u>	<u>2012</u>
Securities and financial instruments held until maturity and financial instruments available for sale	74,043	271,145
Discount and value adjustment	(7,417)	(10,571)
Total	<u>66,626</u>	<u>260,574</u>

The value of securities held as at 31 December 2012, reduced by value adjustment and discount, amounts to HRK 260,574 thousand.

The trading portfolio includes HRK 16,513 thousand (Croatian Telecom stocks in the amount of HRK 993 thousand, Atlantic Group stocks in the amount of HRK 430 thousand and the Republic of Germany bonds in the amount of HRK 15,090 thousand).

Portfolio held until maturity includes HRK 244,061 thousand (Republic of Croatia bonds of HRK 62,221 thousand, clients' bills of exchange in total sum of HRK 181,840 thousand – Konzum d.d. of HRK 42,102 thousand; Unex media d.o.o. of HRK 44,367 thousand; Zvečevo d.d. of HRK 39,060 thousand; Mlinar d.d. of HRK 35,452 thousand; Fair trade d.o.o. of HRK 14,759 thousand, etc.).

16.a) Tangible and intangible assets

2011	Land and buildings	Computers and software	Furniture and equipment	Motor vehicles	Other	Invest. in progress	TOTAL
Acquisition cost in HRK '000							
As at 1 January 2011	37,968	15,346	6,516	5,058	3,461	0	68,349
Direct increases	8,514	720	448	0	144	0	9,826
Reductions, transfers from investments in progress, corrections	(303)	0	(24)	(500)	0	0	(827)
As at 31 December 2011	46,179	16,066	6,940	4,558	3,605	0	77,348
Value adjustment in HRK '000							
As at 1 January 2011	9,044	10,912	4,891	3,536	1,529	0	29,912
Depreciation for 2011	800	730	1,433	576	211	0	3,750
Sale, write-off and other	0	0	(22)	(490)	0	0	(512)
As at 31 December 2011	9,844	11,642	6,302	3,622	1,740	0	33,150
Non-written-off value as at 31 December 2011	36,335	4,424	638	936	1,865	0	44,198

2012	Land and buildings	Computers and software	Furniture and equipment	Motor vehicles	Other	Invest. in progress	TOTAL
Acquisition cost in HRK '000							
As at 1 January 2012	46,179	16,066	6,940	4,558	3,605	0	77,348
Direct increases	638	721	1,214	640	217	0	3,430
Reductions, transfers from investments in progress, corrections	0	(231)	0	(312)	0	0	(543)
As at 31 December 2012	46,817	16,556	8,099	4,886	3,822	0	80,180
Value adjustment in HRK '000							
As at 1 January 2012	9,844	11,642	6,302	3,622	1,740	0	33,150
Depreciation for 2012	977	1,388	710	448	220	0	3,743
Sale, write-off and other	0	(229)	(16)	(290)	0	0	(519)
As at 31 December 2012	10,821	12,801	6,996	3,780	1,960	0	36,358
Non-written-off value as at 31 December 2012	35,996	3,755	1,103	1,106	1,862	0	43,822

16. b) Foreclosed assets

	HRK '000	
	2011	2012
Foreclosed assets	6,206	9,710
Total	6,206	9,710

The foreclosed assets as at 31 December 2012 amount to HRK 9,710 thousand and include:

- land in the amount of HRK 3,758 thousand and apartment in the amount of HRK 728 thousand - Stagra d.o.o. in bankruptcy process;
- land in the amount of HRK 3,029 thousand and apartment in the amount of HRK 600 thousand - Hiron d.o.o. in bankruptcy process;
- building in the amount of HRK 900 thousand - Tibra inženjering d.o.o.;
- apartment in the amount of HRK 400 thousand - Tehno grupa d.o.o.; and apartment in the amount of HRK 295 thousand - Mramor Ivan Biliškov d.o.o.

17. Other deposits

HRK '000

	<u>2011</u>	<u>2012</u>
I. On-demand deposits:		
1. On-demand deposits of corporations and public sector institutions in:		
- HRK	62,146	63,179
- foreign currency	5,250	7,386
2. Limited deposits and non-allocated inflow in		
- HRK	0	0
- foreign currency	0	0
3. Deposits of financial institutions in		
- HRK	13,392	5,758
- foreign currency	0	8
4. On-demand saving, population giro accounts in:		
- HRK	20,431	18,115
- foreign currency	11,820	9,939
Total:	<u>113,039</u>	<u>104,385</u>
II. Fixed-term deposits		
1. Deposits of financial institutions		
- HRK + currency clause	90,710	100,043
- foreign currency	29,545	55,670
2. Saving accounts and deposits of population		
- HRK + currency clause	153,965	176,284
- foreign currency	1,019,454	1,107,167
3. Fixed-term deposits of corporations and public sector institutions		
- HRK + currency clause	111,915	111,923
- foreign currency	30,425	58,629
Total	<u>1,436,014</u>	<u>1,609,716</u>
Grand total deposits (I + II)	<u>1,549,053</u>	<u>1,714,101</u>

18. Other borrowed assets

	HRK '000	
	2011	2012
Short-term loans		
- domestic banks	0	0
- HBOR funds	0	0
- foreign banks	0	0
Long-term loans		
- long-term loans from HBOR	86,423	117,962
Total	86,423	117,962
Loan currency structure		
- HRK	19,666	58,622
- foreign currency and currency clause	66,757	59,340
Total	86,423	117,962

19. Hybrid instruments

	HRK '000	
	2011	2012
Hybrid instruments	84,416	99,612
Total	84,416	99,612

Hybrid instruments are non-insured long-term deposits of customers affecting the increase of the regulatory capital of the Bank at the calculation of capital adequacy, in compliance with Croatian National Bank regulations. As at 31 December 2012, the balance was HRK 99,612 thousand, out of which the sum of HRK 97,190 thousand is used for the calculation of regulatory capital. The payers have agreed that the deposits form supplemental capital are available where needed, for coverage of operating loss or at bankruptcy or liquidation.

20. Other liabilities

HRK '000

	<u>2011</u>	<u>2012</u>
Liabilities for dividend	0	0
Liabilities for corporate income tax	3,566	0
Liabilities based on card operations	406	476
Liabilities for unperformed payments from collections from abroad	0	0
Liabilities for provisional payments into corporate equity	160	210
Liabilities based on purchase and sale of foreign currency	7	2
Liabilities based on other taxes and contributions	473	663
Liabilities to suppliers	1,487	2,152
Liabilities for salaries and fees	795	853
Liabilities for received insurance premiums	67	0
Restricted deposits	2,578	380
Liabilities to population	2,000	3,673
Liabilities from internal relations of organisation units	291	2,192
Liabilities based on fees based on loans to corporations and traders	6,835	4,566
Other liabilities	54	73
Total	<u>18,719</u>	<u>15,240</u>

21. Accrued interests and fees

HRK '000

	<u>2011</u>	<u>2012.</u>
Accrued matured interests and fees	836	1,287
Accrued non-matured interests and fees	24,579	27,326
Total	<u>25,415</u>	<u>28,613</u>

22.a) Impairment and provisions for identified losses based on placements and contingent liabilities

Special provisions for identified losses on group basis

HRK '000

	<u>2011</u>	<u>2012</u>
As at 1 January	12,585	15,468
New provisions	2,883	568
Reduction and cross-entry	0	0
As at 31 December	<u>15.468</u>	<u>16.036</u>

Provisions for contingent liabilities on group and individual basis

	2011	2012
	<hr/>	<hr/>
As at 1 January	779	829
New provisions	289	39
Reduction and cross-entry	(239)	(114)
As at 31 December	829	754
	<hr/>	<hr/>

22.b) Provisions for litigation

	2011	2012
	<hr/>	<hr/>
As at 1 January	40	25
New provisions	0	0
Reduction	(15)	(4)
As at 31 December	25	21
	<hr/>	<hr/>

23. Contingent and assumed liabilities

	HRK '000	
	2011	2012
	<hr/>	<hr/>
Guarantees: HRK and foreign currency	66,410	61,329
Foreign letters of credit and "Ioro" documentary letters of credit	2,815	6,131
Other (unused credit facilities and other)	22,190	16,998
Total:	91,415	84,458
Value adjustment:	0	0
a) As at 31 December:	91,415	84,458
b) Other out-of-balance items:	0	0
Total (a + b):	91,415	84,458
	<hr/>	<hr/>

24. Cash and cash equivalent

	HRK '000	
	2011	2012
Cash and accounts with banks	259,994	321,482
Securities	74,043	271,145
Discount for securities and value adjustment	(7,417)	(10,571)
Placements to banks	79,829	52,974
Total	406,449	635,030

25. Transactions with affiliates and persons in special relations with the Bank

Affiliates are two or more individuals or corporate entities and their narrow family members which, unless proved otherwise, represent a single risk for the Bank, because:

- 1) one of them has direct or indirect control of other(s),
- 2) they are mutually related in such a way that there is a great probability that worsening or improvement of economic or financial status of one person may lead to worsening or improvement of economic or financial status of one or several persons, as among them there is or there may be transfer of loss, profit or creditworthiness, or

In that regard, affiliates are deemed to include:

- 1) narrow family members (spouses, children and adopted children, persons under custody)
- 2) members of management board or supervisory board and narrow family members of such persons; or
- 3) persons employed based on employment contract under specific conditions made with the company in which they are employed as well as their narrow family members.

Persons in special relation with the Bank are:

- 1) Bank stockholders holding 5 or more voting stocks;
- 2) members of management board or supervisory board and procurators of the Bank;
- 3) persons holding employment contracts with the Bank under special conditions;
- 4) legal entities in which the Bank participates (holding 20 or more per cent share in equity or votes);
- 5) persons related to the persons from 1) to 4) in the above defined manner.

Total Bank exposure to a person in special relation with the Bank and its affiliates may not exceed 10% guarantee capital.

A transaction increasing the exposure of the Bank to a person in special relation with the Bank and its affiliates requires approval from the Supervisory Board of the Bank.

At the end of year, total exposure of the Bank to persons in special relation with the Bank was HRK 5,176 thousand or 2.40% of its regulatory capital (2011: HRK 1,147 thousand or 0.56% of its regulatory capital) which represents approximately 0.42% total loans to customers (2011: 0.09%).

26. Regulatory capital and capital adequacy

The Bank shall ensure at all times the equity amount adequate to the services provided by the Bank and risks which the Bank is or might be exposed in the provision of such services. For safe and stable operations and the performance of its obligations to its creditors, the Bank shall maintain the appropriate regulatory capital consisting of basic and supplemental capital as well as other forms of capital as set out by the Croatian National Bank. Internal capital is that capital estimated adequate by the Bank in relation to the type and level of risk which it is or might be exposed to in its operations. Regulatory capital adequacy rate as at 31 December 2012 amounted to 14.68% (as at 31 December 2011: 14.62%).

27. Risk from interest rate changes and term structure

Interest risk is sensitivity of the Bank's financial status to interest rate trends. Mismatch or gaps in the amounts of assets, liabilities and out-of-balance instruments becoming due or changing the fee (interest rate) in a specific period generate the interest risk. The Bank may reduce such risk by adjusting the possibility of changing of interest rates on assets and liabilities.

The Bank makes effort to reach balance between reducing the risk from earnings and adverse changes in interest rates by increasing net income from interests through accurate anticipation of interest rate trends and amounts.

Tables below present the balance sensitivity to interest risk as at 31 December 2011 and 31 December 2012 based on the known dates when interest rates of assets and liabilities with fixed and variable rate may be changed, and the assumed dates of fee (interest rate) change.

Interest rate and term structure as at 31 December 2011

	<u>Up to 1 month</u>	<u>1 – 3 months</u>	<u>3 months to 1 year</u>	<u>Exceeding 1 year</u>	<u>Insensitive to interest</u>	<u>TOTAL</u>
Assets:						
Cash (cash at hand, cheques, current & giro account)	259,994					259,994
Funds with CNB	162,307					162,307
Deposits with other banks	79,829					79,829
Loans and advances to customers	1,275,749					1,275,749
Accrued interests and other assets					25,464	25,464
Long-term investments and securities					66,626	66,626
Intangible and tangible assets					44,199	44,199
Foreclosed assets					6,206	6,206
Provisions for identified losses on group basis for “A” placements					(15,468)	(15,468)
T o t a l:	<u>1,777,879</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>127,027</u>	<u>1,904,906</u>
Liabilities:						
Issued hybrid instruments				84,416		84,416
On-demand deposits	113,039					113,039
Liabilities based on fixed term deposits	986,156	58,300	316,340	75,218		1,436,014
Other borrowed assets				86,423		86,423
Liabilities based on accrued interests and fees					25,415	25,415
Other liabilities					18,719	18,719

Provisions for contingent liabilities					829	829
Provisions for litigation					25	25
T o t a l:	1,099,195	58,300	316,340	246,057	44,988	1,764,880
Gap in sensitivity to interest rate changes	678,684	(58,300)	(316,340)	(246,057)	82,039	140,026

Interest rate and term structure as at 31 December 2012

	<u>Up to 1</u> <u>month</u>	<u>1 – 3</u> <u>months</u>	<u>3</u> <u>months</u> <u>to 1 year</u>	<u>Exceeding</u> <u>1 year</u>	<u>Insensitive</u> <u>to interest</u>	<u>TOTAL</u>
Assets:						
Cash (cash at hand, cheques, current & giro account)	321,482					321,482
Funds with CNB	160,785					160,785
Deposits with other banks	52,974					52,974
Loans and advances to customers	1,241,534					1,241,534
Accrued interests and other assets					31,601	31,601
Investments and securities					260,574	260,574
Intangible and tangible assets					43,822	43,822
Foreclosed assets					9,710	9,710
Provisions for identified losses on group basis for placements					(16,036)	(16,036)
T o t a l:	1,776,775	0	0	0	329,671	2,106,446

Liabilities:

On-demand deposits	104,385					104,385
Liabilities based on fixed term deposits	1,086,251	84,722	306,509	132,234		1,609,716
Other borrowed assets	115,712	0	0	2,250		117,962
Hybrid instruments			2,422	97,190		99,612
Liabilities based on accrued interests and fees					28,613	28,613
Other liabilities					15,240	15,240
Provisions for contingent liabilities					754	754
Provisions for litigation					21	21
T o t a l:	<u>1,306,348</u>	<u>84,722</u>	<u>308,931</u>	<u>231,674</u>	<u>44,628</u>	<u>1,976,303</u>
Gap in sensitivity to interest rate changes	<u>470,427</u>	<u>(84,722)</u>	<u>(308,931)</u>	<u>(231,674)</u>	<u>285,043</u>	<u>130,143</u>

28. Currency risk

The Bank is exposed to exchange rate change risk through transactions in foreign currency. Exposure to currency risk is based on loan, deposit, investment and trade activities. It is monitored on daily basis based on legal and internal limits by specific currencies and in total amount for assets and liabilities denominated in foreign currency or related to currency clause.

The Bank directs its operations attempting to minimize the mismatch between assets and liabilities denominated in a foreign currency.

The Bank manages the currency risk by determination of limits for exposures in currency and by monitoring exposures in relation to limits.

Capital requirement for currency risk is calculated by standard method in compliance with the Croatian National Bank Decision on regulatory capital adequacy of the banks.

Amounts of total assets and liabilities as at 31 December 2011 and 31 December 2012 in HRK and currency are analysed in the following tables:

Currency risk as at 31 December 2011

	EUR and currency clause	USD	Other	Total currency	HRK	Total
Assets						
Cash assets	122,480	506	4,642	127,628	132,366	259,994
Assets with CNB		24,438		24,438	137,869	162,307
Deposits to other banks	79,829			79,829		79,829
Loans to customers	898,290	29,205	43	927,538	348,211	1,275,749
Accrued interests and other	17,883	2,244		20,127	5,337	25,464
Investments and securities	62,084			62,084	4,542	66,626
Tangible and intangible assets					44,199	44,199
Foreclosed assets					6,206	6,206
Provisions for identified losses on group basis for "A" placements					(15,468)	(15,468)
Total assets:	1,180,566	56,393	4,685	1,241,644	663,262	1,904,906
Liabilities						
Issued hybrid instruments	51,993			51,993	32,423	84,416
Other deposits:						
- on demand	12,310	3,968	791	17,069	95,970	113,039
- fixed term	1,032,312	57,965	5,308	1,095,585	340,429	1,436,014
Other borrowed assets	66,757			66,757	19,666	86,423
Accrued interests and fees	20,154	1,014	26	21,194	4,221	25,415
Other liabilities	51	2,328		2,379	16,340	18,719
Provisions for contingent liabilities					829	829
Provisions for litigation					25	25
Total liabilities:	1,183,577	62,275	6,125	1,254,979	509,903	1,764,880
Surplus (deficit)	(3,011)	(8,882)	(1,440)	(13,333)	153,359	140,026

Currency risk as at 31 December 2012

	EUR and currency clause	USD	Other	Total currency	HRK	Total
Assets						
Cash assets	176,991	810	5,609	183,410	138,072	321,482
Assets with CNB		25,158		25,158	135,627	160,785
Deposits to other banks	52,974	0		52,974		52,974
Loans to customers	910,790	12,953		923,743	317,791	1,241,534
Accrued interests and other	20,321	1,281	225	21,827	9,774	31,601
Investments and securities	220,070	18,222		238,292	22,282	260,574
Tangible and intangible assets					43,822	43,822
Foreclosed assets					9,710	9,710
Provisions for identified losses on group basis for "A" placements					(16,036)	(16,036)
Total assets:	1,381,146	58,424	5,834	1,445,404	661,042	2,106,446
Liabilities						
Issued hybrid instruments	67,190			67,190	32,422	99,612
Other deposits:						
- on demand	14,406	2,464	463	17,333	87,052	104,385
- fixed term	1,210,363	60,454	5,052	1,275,869	333,847	1,609,716
Other borrowed assets	59,340			59,340	58,622	117,962
Accrued interests and fees	23,567	980	22	24,569	4,044	28,613
Other liabilities					15,240	15,240
Provisions for contingent liabilities					754	754
Provisions for litigation					21	21
Total liabilities:	1,374,866	63,898	5,537	1,444,301	532,002	1,976,303
Surplus (deficit)	15,643	(5,474)	297	10,466	119,676	130,143

29. Maturity structure and liquidity risk

Liquidity risk is based on regular financing of the Bank operations and management of positions. It includes the risk of impossibility to finance assets within appropriate terms at appropriate interest rates, as well as risk of impossibility to liquidate assets at reasonable price within appropriate time period. The Bank has access to various sources of finance. Resources are collected through a number of instruments including deposits, loans and equity. The Bank continuously evaluates the liquidity risk through identification and monitoring of changes in financing required for achievement of operating and strategic objectives. Furthermore, the Bank keeps a portfolio of liquid assets as part of its liquidity risk management strategy.

Liquidity risk management is conducted in compliance with legal provisions and regulatory guidelines, as defined by the Liquidity Risk Management Policy and Liquidity Risk Management Procedure, regularly revised by the Risk Management Sector based on changes in the economic environment

Risk Management Sector reports to the Management Board on quarterly basis about the Bank's exposure to the liquidity risk and reports to the Croatian National Bank on monthly basis based on the Decision on Management of Liquidity Risk.

Total amounts of assets and liabilities as at 31 December 2011 and 31 December 2012 are analysed through the remaining period from the Balance Sheet date in relation to the agreed maturity date and presented in the following tables:

Maturity structure and liquidity risk as at 31 December 2011:

	Up to 1 month	1 – 3 months	3 months – 1 year	1 – 3 years	Exceeding 3 years	Total
Assets						
Cash and amounts with other banks	259,994					259,994
Assets with CNB	27,281	31,797	75,711	11,770	15,748	162,307
Deposits to other banks	3,019	76,810				79,829
Loans to customers	166,058	390,341	273,289	259,339	186,722	1,275,749
Accrued interests and other	15,727	887	371	2,392	6,087	25,464
Investments and securities	2,671	850	1,021	0	62,084	66,626
Tangible and intangible assets					44,199	44,199
Foreclosed assets					6,206	6,206
Provisions for identified losses on group basis for “A” placements	(2,364)	(4,582)	(3,225)	(3,118)	(2,179)	(15,468)
T o t a l:	472,386	496,103	347,167	270,383	318,867	1,904,906
Liabilities						
Issued hybrid instruments				32,422	51,994	84,416
Other deposits - on-demand	113,039					113,039
- fixed	176,047	336,937	802,276	92,296	28,458	1,436,014
Other borrowed assets					86,423	86,423
Accrued interests	3,732	6,084	11,698	2,474	1,427	25,415
Other liabilities	18,719					18,719
Provisions for contingent liabilities	24	135	495	115	60	829
Provisions for litigation	25					25
Total liabilities:	311,586	343,156	814,469	127,307	168,362	1,764,880
Surplus (deficit)	160,800	152,947	(467,302)	143,076	150,505	140,026

Maturity structure and liquidity risk as at 31 December 2012:

	<u>Up to 1 month</u>	<u>1 – 3 months</u>	<u>3 months – 1 year</u>	<u>1 – 3 years</u>	<u>Exceeding 3 years</u>	<u>Total</u>
Assets						
Cash and amounts with other banks	321,482					321,482
Assets with CNB	160,785					160,785
Deposits to other banks	52,974					52,974
Loans to customers	355,801	194,513	212,054	236,468	242,623	1,241,459
Accrued interests and other	17,933	545	1,093	8,218	3,887	31,676
Investments and securities	74,771	118,948	4,634		62,221	260,574
Tangible and intangible assets					43,822	43,822
Foreclosed assets					9,710	9,710
Provisions for identified losses on group basis for “A” placements	(2,405)	(2,726)	(4,169)	(3,849)	(2,887)	(16,036)
T o t a l:	981,341	311,280	213,612	240,837	359,376	2,106,446
Liabilities						
Issued hybrid instruments			2,422	8,000	89,190	99,612
Other deposits - on-demand	104,385					104,385
- fixed	112,720	310,224	997,575	166,808	22,389	1,609,716
Other borrowed assets			12,333	15,684	89,945	117,962
Accrued interests	3,044	6,179	12,745	4,884	1,761	28,613
Other liabilities	15,240					15,240
Provisions for contingent liabilities	232	137	296	48	41	754
Provisions for litigation	21					21
Total liabilities:	235,642	316,540	1,025,371	195,424	203,326	1,976,303
Surplus (deficit)	745,699	(5,260)	(811,759)	45,413	156,050	130,143

