



2013

ANNUAL REPORT



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**REPORT BY THE
CHAIRMAN OF THE
SUPERVISORY BOARD**

REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD

On behalf of Podravska banka's Supervisory Board and myself, I have the pleasure of presenting you the Bank's business results for 2013.

Globally, there has been a recovery, primarily due to the growth in the USA, reduced but stable growth in China and the mitigation of difficulties in the euro zone. In Croatia, the gross domestic product's declining trend continued in 2013, and the negative trend mostly caused by the decline of consumption, especially of households, the absence of investments and the rise of unemployment.

Despite the difficult and challenging circumstances, Podravska banka has managed to achieve positive business results.

Last year we notably increased our commercial activities across the entire business network, mostly targeting small businesses and entrepreneurs; applying measures for cost optimisation and intensified collection of receivables past due. Our other activities included the integration of the Bank's new IT system, which was implemented in December 2013.

Through prudent management of risks, market diversification and an increased quality of services, Podravska banka has strengthened its position in the Croatian banking industry.

Strengthening our market position further, improving our internal efficiency and maximising customer satisfaction are the most important strategic goals of the Bank in the years to come.

Through their professional attitude and hard work, the Management and our employees have accomplished the Bank's plans in almost every segment, and, therefore, justified our trust in them.

On behalf of Podravska banka's Supervisory Board, I express my gratitude and thanks to all the customers and shareholders of the Bank for their trust; to the Bank's employees and management for the good business results achieved.

My gratitude also goes to my colleagues, fellow members of the Supervisory Board, for their active support and contributions.

Miljan Todorovic
Chairman of the Supervisory Board



REPORT OF THE BOARD OF DIRECTORS ON THE BANK'S POSITION

The Board of Directors of Podravska banka d.d. is pleased to present the Bank's business results for the year 2013. The European Union ended 2013 with a growth in GDP of 0.1%, while a year earlier GDP dropped by 0.4%. Despite the minimal growth, 2013 is the first year from the start of the economic crisis in which the debt crisis, the possibility of default by some Member States and the breakdown of the euro zone stopped being the main topics and the markets calmed down. Nevertheless, the recovery of individual Member States has not started yet, and high unemployment of individual Member States represents a large burden for the Union. In November 2013, the European Central Bank cut its key interest rate of financing to 0.25% due to deflation fears, and low interest rates are also anticipated in 2014.

In 2013, the Croatian economy experienced a further decline in economic activity, when GDP was recorded to have dropped approximately by 1%. This resulted in a further increase in the unemployment rate and a decline in investments. The year was marked by the accession of the Republic of Croatia to the European Union on 1 July.

The previous year was the most difficult of the past five years for the Croatian banking system. It was marked by the decline in profit and profitability, increased costs of provisioning and the growth of risk. Despite this, the Croatian banking system maintained its stability owing to responsible risk management, proper capitalisation and the stable policy of the Croatian National Bank (CNB). The regulatory capital adequacy ratio amounted to a high 20.88% at the end of 2013, i.e. equal to the year before.

Total placements at the end of 2013 at annual level decreased by HRK 3.9 billion or by 1.4%. Retail placements decreased by 3.4%, and corporate sector placements decreased by 3.4%, while the highest growth was still recorded in lending to the state, which is up by 14.6%. In addition to the decline in placements, deposits rose at the same time, and the proportion of loans and deposits at year-end was reduced to 92.7%, compared to 96.3% at the beginning of the year.

The growth of the share of substandard and non-performing loans increased, and was 15.63% at the end of 2013, while it was 13.93% the year before.

The Banks' assets decreased by 0.5% over 2012, total deposits increased by 2.5%, where retail deposits grew by 3.9%, whereas corporate deposits grew by 8%. In 2013, lending and deposit rates showed a downward trend.

The economic crisis was also reflected in the deceleration of operating activities and the weakening of business results of banks in 2013, with an increase in available liquid assets. Impairments in credit portfolios had the key impact on the operations of banks, so that the total gross profit of banks decreased by 70% over 2012, i.e. from HRK 3.5 to HRK 1.1 billion.

Podravska banka confirmed its stability in this economic climate and achieved positive business results in 2013.

In the fiscal year 2013, Podravska banka strove to strengthen commercial operations in the entire territory of the Republic of Croatia, primarily operations focused on the entrepreneurial sector. Additionally, the Bank continued with its information system

improvement activities, took continuous measures to optimise costs and intensified its credit activity, including placement monitoring, thus optimising the credit risk.

With regard to the size of its assets, the Bank ranked 11th among the 30 banks in Croatia. Total assets of the Bank grew by 1.5% and amounted to HRK 3.1 billion at the end of 2013.

Compared to the previous year, total deposits rose by 0.4%, mostly in the corporate sector, where they grew by 6.4% and amounted to HRK 2.2 billion. Retail deposits make up 75.2%, and deposits by legal persons constitute 24.8% of the total deposit structure.

Total loans to customers grew by 6.7%, while retail loans increased by 1.9%, and their share in total loans remained mostly at the same level as last year.

The Bank is highly capitalised with regard to the risks it is exposed to. The Bank's regulatory capital grew from HRK 429.82 million to HRK 493.79 million at the end of 2013, amounting to a 14.9% increase. The increase in the regulatory capital is the consequence of transforming profits from the previous period into provisions, current profits and issues of subordinated instruments with half-year payment of interests and one-off maturity in 2021. Owing to this growth the adequacy ratio of regulatory capital amounted to 19.12% at the end of 2013.

The Bank's regular operating income amounts to HRK 130.8 million, where net interest income has a share of 63.8%, fee and commission income has a 17.8% share, while other income participates in the operating income structure with a share of 18.4%.

On a consolidated basis, regular operating income was HRK 132.7 million.

Profit before tax amounted to HRK 3.2 million on a consolidated basis.

According to legal regulations, the Bank is obligated to establish a system for measuring and monitoring risks which it is exposed to in its operations. The most important risks affecting the Bank's operations are the credit risk, liquidity risk, market risk and operational risk.

Risk management is defined by the Bank through a system of by-laws, organisation and control mechanisms, including risk concentration, validation and assessment, limit systems and the acceptance of risks according to particular areas of business.

The risk management framework was set in accordance with the regulatory quantitative and qualitative requirements. The efficiency of risk management is achieved by continuous process, methodology, model, control and system improvements.

In 2013, Podravska banka invested great efforts in different phases to implement a new IT system. The implementation of the new system ensured technological support improvement in every business segment, as well as support for distribution channels for customer services, management of business relations with customers, treasury process management and qualitative advances in risk management.

In addition, the Bank focused on commercial activities, in particular on the economic sector in the short-term. Activities were undertaken which focused on the adjustment of the overall operational structure through designated programmes of incentives aimed at the rationalisation of costs.

In the previous year, the Bank did not acquire treasury shares, so at 31 December 2013, the Bank had a total of 9,203 treasury shares, corresponding to a 1.38% share in the share capital of the Bank.

The Podravska banka Group consists of the Bank and the associated company Poba faktor d.o.o. The share capital of the dependent company amounts to HRK 3.0 million, and is entirely in the Bank's ownership.

The company is focused on factoring operations, purchasing receivables and discounting bills. The company is active in the entire Croatian market. The majority of factoring customers are new customers, and their synergistic effect on the Bank is reflected in the opening of new giro accounts, performance of payment transactions and the use of other services.

In 2013, the company made HRK 5.2 million in total income and HRK 1.3 million in profits.

The upcoming year shall also be challenging and arduous, both for the banking sector and the entire economy. Market conditions will remain difficult, and the recovery of the Croatian economy shall be gradual and slow.

In such circumstances, the Bank shall attempt to strengthen its commercial operations, in particular towards the corporate sector, thereby avoiding highly concentrated placements and placing short-term, self-liquidating loans with adequate collateral coverage. In addition, maximum attention will be paid to the management of risks and potentially risky receivables.

Like in the previous fiscal years, the contribution of the Treasury sector will be of utmost importance, primarily to ensure the necessary liquidity for safe bank operation. Except for the part referring to investments and currency trading, and securities transactions, the treasury shall perform a role of key importance in funding commercial activities, for the purpose of increasing the volume of business operations and decreasing the Bank's financial expenses.


The Bank shall continue to try to meet the demands of its customers and develop products and services accordingly to maintain long-term relationships with the customers.

The Bank's activities will be focused on the utilisation of every internal potential, cost optimisation, adaptation to market trends, and improvement of business processes. All of the aforementioned activities are aimed at strengthening the market activity and increasing the share of Podravska banka in the Croatian financial market.

Lastly, I would like to take this opportunity to express my gratitude to all of our customers and business partners for their trust and cooperation, which encourage us to continue improving the quality of our services.

I would also like to thank our shareholders, the members of the Supervisory Board for their exceptional cooperation and support, and all of the Bank's employees for their effort and commitment.

Mr. Julij Kuruc
President of the Board of Directors







**DESCRIPTION OF
BUSINESS OPERATIONS**

OVERVIEW OF THE WORLD ECONOMY IN 2013

According to IMF's estimates, in 2013 the world economy grew by 3.0%, while in 2012 this growth was 3.1%. The global economic activity and trade grew in the second half of the year. The key growth factors were the demand in developed economies and exports in developing economies.

The euro zone experienced a 0.4% drop in GDP in 2013. A slight economic growth was recorded after the first quarter, but the dynamics of recovery was very weak due to the continuation of the process of deleveraging in a larger number of Member States. Due to weak demand and the absence of economic growth, the inflation rate fell significantly below the inflation target of the European Central Bank. High unemployment, low level of real income and household debt prevent the recovery of personal consumption, and the investment activity of undertakings is weak due to the uncertainty concerning the future growth of the economy and high indebtedness.

The USA's GDP grew by 1.9% in 2013. The economic recovery continues to be dynamic owing to the favourable financial conditions, gradual improvement of conditions in the labour market and the boost of the capital market.

The Chinese economy achieved a 7.6% GDP growth in 2013, and the growth of exports and domestic demand gave a positive contribution. The developing economies combined achieved growth of 4.5% in GDP in 2013. By the middle of the year, the volatility in the emerging markets grew strongly due to the American central bank's announcement of the planned tapering and the resulting capital outflow from the developing countries. National central banks then tried to prevent excessive currency depreciation through foreign exchange interventions. The decrease in volatility has led to the postponement of the measures of monetary expansion in September.

OVERVIEW OF THE CROATIAN ECONOMY IN 2013

The Croatian economy carried the following unfavourable trends into 2013 – stagnation of the real gross domestic product, increase in the unemployment rate and high level of budget expenditures and deficits. The announced structural changes were not implemented and there was no economic growth in the countries representing the most significant export markets for the Croatian economy. Also, with the accession to the EU, exports to the CEFTA countries decreased further, while the foreseen absorption of EU funds was delayed.

The Croatian accession to the EU has not yet resulted in an increase in foreign investments, or the revival of the securities market. Industrial production in 2013 fell by 2.8% compared to 2012, which for the most part was due to the decline in shipbuilding of 43.6% and the tobacco industry of 12.2%. The 14.6% growth in the production of metals and other processing industries of 20.9% mitigated the decline in the processing industry.

The average unemployment rate was 17.2% at the end of 2013.

Personal consumption decreased by 0.5% at annual levels over 2012, while the average net salary really fell by 1.5%.

The generally present risk aversion and high liquidity in the system were reflected in the decline of the banks' assets. The assets of the banking sector decreased by 0.5% during the previous year, primarily due to the decline in credit activity towards the real sector and retail. Total loan status at the end of 2013 was lower by HRK 3.9 billion compared to the end of 2012, and looking by sector, we can see a reduction of loan amounts for the corporate and retail sector, and an increase in the exposure of the banking sector to the state sector.

In 2013, a small number of pre-bankruptcy settlements were resolved, which impact the restructuring process, and their purpose is to ensure the liquidity and solvency of the debtor.

Deposits at an annual level increased slightly compared to 2012. At the end of last year, deposits were up by HRK 7 billion, or 2.5% compared to 2012. The growth of deposits in the previous year was entirely the result of increased retail deposits, although the growth intensity was stable but somewhat slower than in the previous year. Retail preferences concerning the form of savings have not significantly changed, so that term deposits grew more strongly than total increase in retail deposits (by HRK 4 billion, or 2.8%). At the end of 2013, corporate deposits also record growth, i.e. by HRK 3.2 billion or 8% (the highest growth refers to the increase in funds in transaction accounts, whose share amounts to 56% of the total deposits of trade companies).

Among deposits, the financial institutions' deposits considerably decreased by HRK 2.4 billion or 2.9%.

The decline in credit activity was reflected in the decrease in the interest income of the banking system, while the growth of deposit bases and the slower adjustment of interest expenses had a simultaneous effect in the opposite direction. The profitability of the banking sector in 2013 fell by 73.1% compared to the previous year due to a significant increase in provisions for substandard and non-performing loans, which amounted to 15.6% of total loans.

The banking sector is highly capitalised and had a regulatory capital adequacy ratio of 20.88% at year-end, which represents the highest rate in the banking sector in the Central and Eastern European countries.

In the second half of 2013, the Croatian National Bank continued with the policy of supporting high kuna liquidity of the monetary system, thereby not jeopardising the stability of the foreign exchange rate of the domestic currency. In doing so, and in accordance with the efforts to date, the central bank adopted new measures with the aim of boosting the banks' lending activity towards companies and to support the economic recovery. The measures include the decrease in the statutory reserve rate from 13.5% to 12% since December 2013, with the parallel obligation of subscription of three-year obligatory CNB notes for the banks in the amount of released funds in kuna (HRK 3.9 billion).

The consequence of the expansive orientation of the monetary policy in the second half of 2013 was the surplus liquidity of the monetary system. In the third quarter, credit institutions had an average surplus of HRK 3.6 billion in their accounts, while this surplus additionally increased to HRK 4.8 billion in the first two months of the fourth quarter. A high liquidity level is reflected in very low overnight interest rates in the interbank market and low interest rates on the treasury bills auctions of the Ministry of Finance.

The credit rating of the Republic of Croatia continued to weaken so that the current rating, according to the S&P agency is BB with a stable outlook, according to Fitch it is BB+ with a negative outlook and according to Moody's it is Ba1 with a negative outlook.

With regard to stock market data, 255,046 regular transactions and operations were recorded at the Zagreb Stock Exchange at the end of 2013 for a total value of HRK 3.06 billion, which is down by 20.5% when compared to the previous fiscal year.

With regard to OTC (over-the-counter) transactions: 2,634 transactions and operations were carried out for a total value of HRK 18.24 billion, or down by 5.6% when compared to 31 December 2012.

The average daily volume of operations in 2013 was HRK 15.3 million, or down by 0.8% over the previous year, with an average of 1,024 transactions a day, or down by 8.9% over 2012.

Total stock market capitalisation was HRK 183.7 billion at the end of 2013, which represents a fall of 4.1% over the fiscal year 2012. The list of securities traded on the Zagreb Stock Exchange currently includes 208 shares, 45 bonds, 6 commercial notes and 27 structured products.

With regard to the interest rates trend, the decline in interest rates continued throughout 2013, which were at historic lows for almost the whole year. Somewhat higher interest rates were recorded only in the summer period in the shorter part of the curve due to a higher demand for the domestic currency. The reasons for the decline in interest rates can be sought in the low level of economic activity, thereby also in a weak demand for loans, as well as in the CNB's measures by which the liquidity of the system additionally increased. In the interbank market, the overnight ZIBOR dropped from 0.66% from the end of 2012 to 0.50% at the end of 2013. On the other end of the curve, the decline was even more significant so that the annual ZIBOR in the same period fell from 3.21% to the historic low of 1.96%.

In 2013, the following macroeconomic indicators were recorded:

	VALUE
GROSS DOMESTIC PRODUCT, GROWTH RATE, % OF YEAR ON YEAR CHANGE	-1.0
CONSUMER PRICES, % OF YEAR ON YEAR CHANGE	2.2
BALANCE OF PAYMENTS CURRENT ACCOUNT (% OF GDP)	1.3
EXPORTS OF GOODS AND SERVICES (% OF GDP)	43.2
IMPORTS OF GOODS AND SERVICES (% OF GDP)	41.9
FOREIGN DEBT OF THE REPUBLIC OF CROATIA, EUR BILLION	45.6
PUBLIC DEBT, % OF GDP	66.8
AVERAGE NET SALARY IN HRK	5,556
UNEMPLOYMENT RATE, %	21.6
NO. OF UNEMPLOYED PERSONS, CROATIAN EMPLOYMENT SERVICE	363,411
HRK/USD EXCHANGE RATE, AVERAGE	5.7059
HRK/EUR EXCHANGE RATE, AVERAGE	7.5735

Source: Central Bureau of Statistics, Croatian National Bank, Ministry of Finance

PRODUCTS AND SERVICES

The provision of financial support to customers, adaptability and competitiveness, were the features of Podravska banka's operations in the previous year, as well. By modifying and complementing its services, the bank strives to meet the requirements and needs of the retail customers, small businesses and entrepreneurs, as its target customers.

Simultaneously, by investing in the development of new technologies, processes and control mechanisms, it pays great attention to the education of its employees, to make their expertise at the disposal and expectations of its customers.

At the end of 2013, the Bank completed the project of implementing the new business-information system, for the management of business relations with customers, support to operations and business decision-making, which began at the end of 2012 and which covered the computerisation of all the Bank's business segments.

Through the implementation of the new business-information system, the Bank has set up new technological processes for a significant advancement of the Bank's operation in every segment. The aim is to improve the management of business relations with customers, profitability, sales channels, the Bank's products and services, as well as the accessibility of all Bank's support and services on new direct distribution channels.

The implementation of the system covered the complete replacement of the existing applications and hardware infrastructure of the Bank with a new business and information platform. The new system additionally supported and upgraded the following processes: treasury and investment banking operations, managing business relations with customers, credit activity and collection of receivables, business decision-making, cards activities, regulatory reporting, and managing business relations with customers and products of the Bank.

Precisely on the potential of this new IT technology, the Bank has introduced the most sophisticated methods of order registration and authorisation in Internet banking using Display cards or a mobile token, whose advantages include the highest level of Internet banking protection and a simple and convenient method of usage.

In the segment of upgrading the existing and introducing new electronic services, the start of work on the following can be emphasised:

- POBA Maestro® PayPass™ card, as a new functionality of the existing Maestro card, which uses the latest payment technology and provides users with the possibility of non-contact payment at the appropriate EFTPOS terminals,
- upgrading of Internet banking and the broadening of the services offered via Internet banking
- development of mobile banking,
- introduction of POBA eBroker service, which enables web trading in securities on the Zagreb Stock Exchange,
- further development of card activities, the issuing of the Prepaid gift card,
- obtaining principal status for VISA and Master Card.

The Bank is very active in providing services from the domain of investment banking - custody over financial instruments, brokerage operations, portfolio management

and investment consulting. Treasury and investment banking services are constantly upgraded and expanded both in the domestic and global markets.

Factoring still remains one of the Bank's strategic services, which facilitates the financing of the economy through the sale of short-term non due receivables.

With the aim of facilitating access to EU funds for its customers, Podravska banka has set up a business cooperation with WYG consulting d.o.o. company, through which it informs its customers about the current possibilities for the absorption of EU funds, and provides them with consulting and financial support in every phase of the application process as well as in the implementation of EU-funded projects.

POBA cooperates with the largest market maker for the sale of investment diamonds in Italy – Intermarket Diamond Business company, by which it became their exclusive partner for intermediation in the sale of investment diamonds for Croatia.

In the area of bank insurance, the Bank has developed a series of synergy products with its strategic business partner - Generali osiguranje, which it sells through its business network.

DEPOSIT OPERATIONS

Compared to the previous year, total deposits increased by 0.4% to HRK 2.21 billion in 2013. Deposits by legal persons rose by 6.4%, and amounted to HRK 548 million at the end of 2013.

A 12.6% increase was recorded among demand deposits, while time deposits fell by 3.9%, whereby retail deposits fell by 4.3%, and deposit by legal persons by 2.1%.

TOTAL DEPOSITS	AMOUNTS IN HRK 000		
	31/12/2013	31/12/2012	CHANGES 2013/2012
RETAIL	1,660,564	1,683,751	-1.4%
LEGAL PERSONS	548,182	515,383	6.4%
TOTAL DEPOSITS	2,208,746	2,199,134	0.4%

TIME DEPOSITS	AMOUNTS IN HRK 000		
	31/12/2013	31/12/2012	CHANGES 2013/2012
RETAIL	1,289,757	1,347,818	-4.3%
LEGAL PERSONS	263,719	269,548	-2.1%
TOTAL TIME DEPOSITS	1,553,476	1,617,366	-3.9%

LENDING OPERATIONS

Despite the challenging 2013, in which due to the economic crisis there was additional rise of unemployment, decrease in household income and a general decrease in borrowing appetite, Podravska banka recorded growth in total loans of 6.5%, which amounted to HRK 1.89 billion at the end of December 2013.

Corporate lending recorded growth of over 8% over the end of 2012, while retail loans increased by 1.9% in 2013, and their share in total loans mostly remained at the level of the previous year, and was 28.5%.

Throughout the year, the Croatian government and the CNB tried to create a more favourable climate for placements for the Banks through different measures to boost corporate lending. The measures were constantly implemented through loan programmes of boosting and developing the economy, with subsidised interest rates and through guarantee programmes of HAMAG invest. Also, the Croatian Bank for Reconstruction and Development (HBOR) offered more favourable conditions for economic entities with lower interest rates, longer grace periods and loan repayment periods, and the cooperation with HAMAG invest and the European Investment Fund (EIF) also offered new programmes for the division of risks between the commercial banks and HBOR.

The CNB also tried to boost the economy in 2013 using different measures, such as the reduced statutory reserve rate.

Podravska banka engaged in all the available programmes of the above mentioned state bodies and institutions.

A very strong competition from other commercial banks and factoring companies is worth mentioning, which accompanied the Bank throughout the year.

Consolidation and protection of the existing portfolio, as well as new lending for working capital and liquidity were the main features of corporate lending for Podravska banka in 2013. The objective was to consolidate the existing corporate base with a parallel work on the acquisition of new ones, primarily in the area of short-term, liquid, export and generally less risky operations.

In addition to the Bank's traditional focus on small and medium-sized enterprises, at the end of the year, the Bank made a significant step forward towards lending to state companies and institutions in which it recognised a solid potential for the future operation.

LOANS	AMOUNTS IN HRK 000		
	31/12/2013	31/12/2012	CHANGES 2013/2012
TOTAL GROSS LOANS	2,067,709	1,937,630	6.7%
TOTAL LOAN RESERVES	179,743	164,985	8.9%
TOTAL NET LOANS	1,887,966	1,772,645	6.5%

TREASURY OPERATIONS

The treasury department conducts time deposit transactions with domestic and foreign banks and institutional investors. Due to a high level of liquidity in the system during most of the year, the Treasury has worked to reduce the cost and extend the maturity of deposits received. HRK liquidity surplus has remained invested in money market funds and other securities in the capital markets.

In the structure of the securities portfolio, debt securities constitute 71.3%, investment funds 17.4% and equities constitute 11.3% of the portfolio.

The market value of the debt securities portfolio on 31.12.2013 amounts to HRK 366.3 million compared to HRK 265.7 million on 31.12.2012. The currency portfolio consists of debt securities denominated in EUR 55%, HRK 26%, CHF 2% and USD 17%. According to geographical exposure, most of the portfolio is invested in securities issued by Croatian entities followed by European and other entities.

In 2013 the Bank realised gains on foreign currency transactions in the amount of HRK 5.8 million compared to 7.85 million in 2012. Sales desk transactions realised gains in the amount of HRK 1.91 million .

The market value of the equity portfolio at the beginning of 2013 totalled HRK 53.4 million compared to 48.7 million in 2012. The value of investments in investment funds increased from 53.7 million at the end of 2012 to HRK 89.5 million at the end of 2013.

In the structure of the equity portfolio at the end of 2013, equities of domestic companies constitute 31.0% of the portfolio while the remaining 69.0% are equities of foreign companies.

The value of clients' assets under custody on 31.12.2013. has increased to HRK 397.4 million of which 395.3 million are equity securities under custody. The total value of clients' assets under custody increased by 23.2% compared to the previous year. Value of assets under custody in the domestic market amounts to HRK 331.3 million, assets in the Montenegro market amounts to HRK 31.9 million and assets in the other foreign markets (Euroclear) amount to HRK 34.2 million.

In accordance with the Bank's plan, the entire portfolio of foreign securities (debt and equity securities in the Bank's portfolio) was transferred to Euroclear in the first half of 2013. In May 2013, assets of clients who use portfolio management and brokerage services were transferred as well and the process of transition to a new global custodian was completed.

At the end of 2013, the INSA and INKA information systems were implemented at the Treasury department which was a significant step in improving the processes related to the conduction of transactions and asset management.

PAYMENT TRANSACTIONS

In 2013, Podravska banka made a significant advancement in introducing new applications and rules in the provision of payment services which support the security and technological solutions of modern banking.

With the Bank's entry to the single European payments market, the legal framework for the payment services was aligned in accordance with EU guidelines. The introduction of the new core system has created preconditions for the upgrading and further development of the payment services, which will enhance the Bank's competitiveness in the market.

In 2013, the Bank maintained the level of the payment volume value of its payment transactions with an increase in the number of transactions, in particular in the segment of Internet banking. In domestic payment transactions, the number of transactions executed via the Poba klik service increased by 5%, and in external payment transactions it increased by 12% over the previous year.

The total volume of external payments for customers in 2013 amounted to HRK 16 billion.

Total turnover in foreign exchange payment transactions reached ca. EUR 312 million, where the volume of payment transactions by legal persons was reduced, while retail foreign exchange payment transactions volume increased significantly i.e. by 18% over the previous year.

The business cooperation with Euroclear Bank Brussels, by the opening of a multicurrency bank account and activating the service of settling and storing equity and debt securities in the Bank's portfolio, resulted in the executed payment transactions of settlement of over EUR 36 million and over USD 23 million.

The Bank traded with over eighty different debt and equity securities, from issuers in the EU and beyond.

The payment transactions worth HRK 175 million were carried out for the settling of contracted Treasury transactions with debt securities and equities in funds, through the Central Depository and Clearing Company and with other banks.

With its updated and accurate settlements of contracted transactions and operations, Podravska banka has been recognised as a reliable partner with global brokers and custodians, as well as with other financial institutions.

BUSINESS NETWORK AND DISTRIBUTION CHANNELS

At the end of 2013, the Bank's sales network was composed of a total of 27 branches distributed in virtually the entire Croatian territory.

In addition to its widespread sales business network, the Bank is also accessible to its customers via other distribution channels – ATM machines, 24-hour vaults, EFTPOS terminals and the POBAklik online banking service.

Every ATM machine is equipped with chip technology protecting the users from potential misuse and skimming.

The Bank's ATM machines accept Maestro, MasterCard, VISA, American Express and Diners Club cards.

Along with its own ATM network, the Bank offers its customers a free-of-charge cash withdrawal service at more than 1,000 ATM machines in the MB NET network throughout Croatia.

The Bank has 730 EFTPOS terminals installed. In 2013, 600 thousand transactions were effected through the Bank's EFTPOS terminals, or on average 820 per pos terminal.

The number of online banking POBAklik service users decreased over the previous year, which did not reflect on the number of transactions effected in 2013, which amounted to 850 thousand.

At the end of 2013, there was a total of 11,327 users of the Bank's POBAsms services.

Business information is available to the Bank's service users via an Information Centre constantly recording a growing number of calls.

Special attention is paid to managing the business network, and refurbishing and equipping branches in order to provide services of the highest quality to customers.

In following all modern trends of distribution channels, and owing to the implemented new technology, Podravska banka will continually upgrade its communication channels and be accessible to its customers via its branches, the Internet, ATM machines and by phone.

ORGANISATION AND STAFF

At 31 December 2012, Podravska banka had 282 employees, which is a 7.6% decrease compared to 31 December 2012. Out of the total number of employees, 69% are women, and 60% out of the total number of employees was hired to work directly with customers (front office). The average age of the Bank's employees is 43.

The development of Bank's operations and the implementation of a new information system brought about certain organisational changes for the purpose of higher efficiency and optimal utilisation of the Bank's technical and human resources.

Continuing education and professional development of employees are the Bank's primary goals. In 2013, almost two thirds of employees participated in in-house and external training courses.

Employment of competent commercial personnel and continued professional development of employees in direct contact with the customers are planned for 2014.

CAPITAL

The Bank's capital without profit generated in 2013 amounts to HRK 393.2 million. Compared to the previous year, capital increased by 2.2%, based on the input of Bank's profits for 2012 in the Bank's reserves. The Bank's capital participates in total sources of funding with 12.6%.

At 31 December 2013, the share capital was HRK 267.5 million, consisting of 668,749 common registered shares, each with a nominal value of HRK 400.00.

A group of jointly acting shareholders, foreign natural and legal persons, owns 85.5% of the Bank's shares.

The Bank's regulatory capital increased from HRK 429.82 million to HRK 493.79 million at the end of 2013, which is an increase of 14.9%, while the adequacy ratio of the regulatory capital rose to 19.12%.

In December 2013, the Bank issued a subordinated bond, which includes additional capital, totalling EUR 6.9 million.

PROFIT AND LOSS STATEMENT

In 2013, the Podravska banka Group generated earnings before taxes amounting to HRK 3.2 million, while the Bank's profit totalled HRK 1.9 million.

Regular operating income at consolidated level was generated in the amount of HRK 132.7 million, while the Bank's operating income totalled HRK 130.8 million in 2013 and was slightly lower compared to the previous year.

Net interest income on the consolidated basis dropped by 10.9% compared to 2012, while the Bank's net interest income dropped by 11.7% over the previous year, as a result of a decrease in average actual active interest rates, with low reference rates and maintenance of stable interest rates on the customers' deposits.

In the Bank's operating income structure, the share of net interest income was 63.8%, net income from fees and commissions 17.8%, and net income from foreign exchange trading, from divestment of assumed assets and from the sale of financial instruments available for sale and other income participated in total generated operating income with 18.4%.

Regular operating expenses, including depreciation, totalled HRK 128.9 million and increased by 6.0% compared to the previous year as a result of higher provisioning for impairments. At the same time, administrative costs of operations decreased over the previous year by HRK 4.1 million, the depreciation of tangible and intangible assets slightly increased while, by applying the conservative policy principles and applicable regulations, impairment and provisioning costs rose from HRK 6.3 million to HRK 17.7 million.

The share of provisions in gross placements grew from 8.5% in 2011 to 8.7% in 2013. At the end of 2013, total provisions for loans amounted to HRK 180 million.

DISPOSAL OF PROFITS

The Bank's Board of Directors proposes to the Supervisory Board to submit a joint proposal to the General Meeting to enter the total profit earned in 2013 to the Bank's reserves.

DESCRIPTION OF OPERATIONS OF DEPENDENT COMPANY - POBA FAKTOR D.O.O.

POBA faktor d.o.o. is a financial institution which has been carrying out factoring activities since 16 April 2012. The Company is 100% owned by Podravska banka, and its share capital totals HRK 3.0 million.

The total volume of transactions in 2013 was realised in the amount of HRK 102.0 million, of which HRK 42.0 million account for domestic factoring, and HRK 60.0 million for discounting bills of exchange.

In 2013, the Company generated total income in the amount of HRK 5.2 million, and total expenses in the amount of HRK 3.9 million, while profit totalled HRK 1.3 million.

Credit risk was the most significant risk to which the Company was exposed, which is defined as a debtor's inability to settle a due receivable. The Company manages this risk in such a way that it carries out the analysis of monitoring credit risks and exposure in advance, in accordance with the Group's internal by-laws.

Despite the difficulties in the financial markets, the fiscal year 2013 was positive from several aspects. The Company's planned profit was realised, the business synergy with the parent company continued, as the majority of the customers are referred to the Bank to also become the Bank's customers through the opening of giro accounts and using other Bank's services.

The main goals of the Company's operations in 2014 will focus on identifying new good-quality customers from the segment of industries which are less affected by recession, the care for the existing portfolio in terms of monitoring the efficient collection of receivables, all with the aim of dispersing and minimising credit risk.



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**CORPORATE
GOVERNANCE CODE -
ANNUAL
QUESTIONNAIRE**

MANAGEMENT AND ORGANISATION OF GOVERNANCE

Statement of Adherence to the Corporate Governance Code

Following the rules of the Zagreb Stock Exchange, the Management Board and the Supervisory Board of Podravska banka d.d. hereby give the Statement that Podravska banka d.d. adheres to the Corporate Governance Code, jointly drafted by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange (ZSE).

Herein attached to this Statement, as an integral part, is the 2013 Annual Questionnaire duly completed, with answers to the questions and additional explanations.

Data on the Bank's internal controls, risk management, and the Bank's shareholders is included in the Notes to the Financial Statements.

Regulations on appointing and/or revoking members of management are included in the Bank's Statute.

The number of members of the Bank's Management Board is decided by the Supervisory Board and in accordance with its decision the Management Board has three members. The Supervisory Board decided on individual candidacies for members and the President of the Management Board of the Bank, who must comply with legal requirements from laws and other relevant regulations that regulate the operation of banks.

After prior approval from the Croatian National Bank has been acquired, the Supervisory Board appoints the President and the members of the Management Board for the term of five years with an option of renewal. The Supervisory Board can revoke its decision of appointment of the President or a member of the Management Board in case of unforeseen circumstances, as per effective regulations in place.

The Management Board's powers and authorities have been set forth in the Bank's Statute, while individual responsibilities and/or powers of each Board member are set forth by a separate resolution.

The Management Board of the Bank is authorised to acquire the Bank's own shares on organised markets, in accordance with the Decision of the General Meeting.

The data on the composition and activity of the Management Board and the Supervisory Board of the Bank is duly listed in the attached Annual Questionnaire.

Rules on changes and amendments to the Bank's Statute are integrated in the Statute. The Bank's General Meeting of shareholders adopts the resolution on changes and amendments in accordance with law and the Statute, by votes representing at least three fourths of the share capital represented at the General Meeting and voting on this resolution.

Changes/amendments to the Statute are proposed by the Supervisory Board, the Management Board and/or the Bank's shareholders.

In order to protect the interests of all the investors, shareholders, customers, employees and other interested parties, the Bank has established and maintains the highest standards of corporate governance.

CORPORATE GOVERNANCE CODE - ANNUAL QUESTIONNAIRE

All the questions contained in this questionnaire relate to the period of one business year, to which annual financial statements also relate

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

YES NO

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

YES NO

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

YES NO

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

YES NO

5. **Is the Company in a cross-shareholding relationship with another company or other companies? (if so, please explain)**

YES NO

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

YES NO

7. **Does the Company treat all shareholders equally and under equal conditions? (if not, please explain)**

YES NO

8. **Has the procedure of issuing of attorney for voting at the general meeting been fully simplified and free of strict formal requirements? (if not, please explain)**

YES NO

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

YES NO

10. **Did the management or Management Board of the Company, when convening the general meeting, set the date for defining the status in the register of shares, which**

will be relevant for exercising voting rights at the general meeting of the company, by setting that date prior to the day of holding the meeting and not earlier than six days prior to the day of holding the meeting? (if not, please explain)

YES NO

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

YES NO

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

YES NO, there was no dividend payout

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

YES NO, see answer 12

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

YES NO, see answer 12

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

YES NO, there was no need for such participation

16. Have the conditions been defined for participating at the general meeting by voting through proxy voting (irrespective of whether this is permitted pursuant to the law or the statute), such as registration for participation in advance, certification of powers of attorney, etc.? (if so, please explain)

YES NO

Advance registration of participation within the timeframe established by the Statute, enabling better organisation of the general meeting, considering the large number of shareholders

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

YES NO

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

YES NO, there were no legal actions

PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS:

Julio Kuruc, President of the Management Board, Marijan Marušić, Board member, Davorka Jakir, Board member

PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD MEMBERS AND THEIR FUNCTIONS:

Miljan Todorovic - Chairman, Sigilfredo Montinari - Deputy Chairman, Filippo Disertori - Board member, Maurizio Dallochio - Board member, Dario Montinari - Board member, Dolly Predovic - Board member and Djuro Predovic – Board member

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

YES NO, board sessions convened by at will-need-necessity

20. **Did the Supervisory or Management Board pass its internal rules of procedure? (if not, please explain)**

YES NO

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

YES NO, most members are shareholders

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

YES NO

23. **Is the reward or remuneration received by members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (if not, please explain)**

YES NO

24. **Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general meeting or statute of the company? (if not, please explain)**

YES NO

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

YES, in the audited annual report NO

26. **Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the**

company's shares, not later than five trading days, after such a change occurs? (if not, please explain)

YES NO

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

YES NO

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

YES NO

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

See answer 28

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

See answer under 28.

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

YES NO

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

YES NO

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

YES NO

34. Were the majority of the committee members selected from the group of independent members of the Supervisory Board? (if not, please explain)

YES NO, they are the actual members of the Supervisory Board

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

YES NO

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

YES NO

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

YES NO

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

The Bank has an internal auditing function

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

YES NO

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

YES NO

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

YES NO, it is defined by law

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

YES NO

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

YES NO

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

YES NO

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

YES NO

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

YES NO

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

YES NO

although there is no formal statement on remuneration policy for management/supervisory boards, the Bank publishes the data in an aggregate amount on the data with related parties as well as on the amount of the calculated and acknowledged remuneration for the Bank's management within the annual report prepared in accordance with the IFRS, duly published on the Bank's website

48. Is the statement on the remuneration policy for the management or executive directors permanently available on the company's own website? (if not, please explain)

YES NO, see answer 47

49. Is detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the company's annual report? (if not, please explain)

YES NO, see answer 47

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

YES NO, see answer 47

51. Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in the company's reports? (if not, please explain)

YES NO

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

YES NO

53. Does the company have an external auditor?

YES NO

54. **Is the external auditor of the company related with the company in terms of ownership or interests?**
- YES NO
55. **Is the external auditor of the company providing to the company, him/herself or through related persons, other services?**
- YES NO
56. **Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (if not, please explain)**
- YES NO, the audit fee is agreed in an agreement
57. **Does the company have internal auditors and an internal audit system established? (if not, please explain)**
- YES NO
58. **Are the annual, semi-annual and quarterly reports available to the shareholders?**
- YES NO
59. **Did the company prepare the calendar of important events?**
- YES NO, important events announced/published on the Bank's website
60. **Did the company establish mechanisms to ensure that persons who have access or possess inside information understand the nature and importance of such information and limitations related to it?**
- YES NO
61. **Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?**
- YES NO
62. **Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company? (if so, please explain)**
- YES NO
63. **Did the management of the company hold meetings with interested investors in the last year?**
- YES NO
64. **Do all the members of the management, Supervisory Board and Management Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?**
- YES NO



POBA

MAIN MENU



Accounts >



Payments >




Cards >



Exchange >



Useful info



**CONSOLIDATED AND
UNCONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2013
TOGETHER WITH
THE INDEPENDENT
AUDITOR'S REPORT**

RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

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

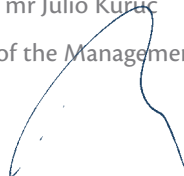
The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making judgments and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is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

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

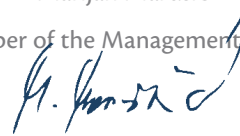
The consolidated and unconsolidated financial statements set out on pages 4 to 98 were authorised by the Management Board on 28 April 2014 for issue to the Supervisory Board and are signed below to signify this.

Consolidated and unconsolidated financial statements were approved by the Management Board on 28 April 2014, and are signed by:

mr Julio Kuruc
President of the Management Board



Marijan Marušić
Member of the Management Board



Koprivnica, 28 April 2014

INDEPENDENT AUDITOR'S REPORT

To the Owners of Podravska banka d.d.:

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated and consolidated financial statements in accordance with statutory accounting requirements for banks in Croatia, and for such internal control as management deems necessary to enable the preparation of unconsolidated and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion the unconsolidated and consolidated financial statements, set out on pages 4 to 98, present fairly, in all material respects, the financial position of the Bank and the Group, respectively as at 31 December 2013 and of their financial performance and their cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these unconsolidated and consolidated financial statements on pages 99 to 116, which comprise the unconsolidated and consolidated balance sheet as of 31 December 2013, the unconsolidated and consolidated profit and loss account, the unconsolidated and consolidated statement of changes in equity and the unconsolidated and consolidated statement of cash flow for the year then ended, as well as the reconciliation to the unconsolidated and

consolidated financial statements. These forms and the accompanying reconciliation to the unconsolidated and consolidated financial statements are the responsibility of the Bank's management, and do not represent components of the unconsolidated and consolidated financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 4 to 98, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Group.

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

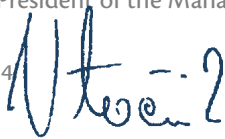
Our responsibility is to issue an opinion on the consistency of the Annual Report with the unconsolidated and consolidated financial statements based on our audit. Our procedures have been conducted in accordance with the International Standards on Auditing and limited solely to assessing whether information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

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

Deloitte d.o.o.

Branislav Vrtačnik, President of the Management Board and Certified auditor

Zagreb, 28 April 2014



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

IN '000 HRK	NOTES	GROUP 2013	GROUP 2012
INTEREST AND SIMILAR INCOME	3	157,663	172,613
INTEREST AND SIMILAR EXPENSE	3	(72,910)	(77,430)
NET INTEREST INCOME		84,753	95,183
FEE AND COMMISSION INCOME	4	34,457	34,862
FEE AND COMMISSION EXPENSE	4	(10,667)	(10,732)
NET FEE AND COMMISSION INCOME		23,790	24,130
OTHER OPERATING INCOME, NET	5	24,154	13,711
OPERATING INCOME		132,697	133,024
IMPAIRMENT LOSSES AND PROVISIONS	6	(19,061)	(6,283)
ADMINISTRATIVE EXPENSES	7	(100,912)	(105,734)
DEPRECIATION AND AMORTISATION	8	(9,572)	(9,483)
PROFIT BEFORE TAXATION		3,152	11,524
INCOME TAX EXPENSE	9	(822)	(2,085)
NET PROFIT FOR THE YEAR		2,330	9,439
OTHER COMPREHENSIVE INCOME			
NET INCREASE OF FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL ASSETS		562	21,106
DEFERRED TAX RECOGNISED IN EQUITY		(112)	(4,221)
OTHER COMPREHENSIVE INCOME		450	16,885
TOTAL COMPREHENSIVE INCOME AFTER TAX		2,780	26,324
ATTRIBUTABLE TO:			
- SHAREHOLDERS OF THE PARENT COMPANY		2,780	26,324
- NON-CONTROLLING INTERESTS		-	-
EARNINGS PER SHARE FOR SHAREHOLDERS OF THE PARENT COMPANY	10	HRK 3.48	HRK 14.11

The accompanying accounting policies and notes on pages 47 to 123 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2013

IN '000 HRK	NOTES	GROUP 31 DECEMBER 2013	GROUP 31 DECEMBER 2012
ASSETS			
CASH AND AMOUNTS DUE FROM BANKS	11	268,487	388,629
BALANCES WITH THE CROATIAN NATIONAL BANK	12	212,678	211,836
PLACEMENTS WITH OTHER BANKS	13	62,682	166,199
LOANS AND ADVANCES TO CUSTOMERS	14	1,888,968	1,767,408
FINANCIAL ASSETS AVAILABLE FOR SALE	15	481,962	340,593
FINANCIAL ASSETS HELD TO MATURITY	16	27,191	27,481
INTANGIBLE ASSETS	17	40,765	31,801
PROPERTY AND EQUIPMENT	18	86,101	94,513
DEFERRED TAX ASSETS	9	5,957	6,619
OTHER ASSETS	20	24,622	13,112
TOTAL ASSETS		3,099,413	3,048,191
LIABILITIES AND EQUITY			
LIABILITIES			
AMOUNTS DUE TO OTHER BANKS	21	69,786	147,086
AMOUNTS DUE TO CUSTOMERS	22	2,206,983	2,192,413
OTHER BORROWED FUNDS	23	257,219	208,669
OTHER LIABILITIES	24	37,752	28,300
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	4,186	4,826
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	26	131,162	77,351
TOTAL LIABILITIES		2,707,088	2,658,645
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(11,082)	(11,082)
OTHER RESERVES	28	130,562	120,674
PROFIT FOR THE YEAR		2,330	9,439
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK		392,325	389,546
NON-CONTROLLING INTEREST		-	-
TOTAL EQUITY		392,325	389,546
TOTAL LIABILITIES, AND EQUITY		3,099,413	3,048,191

The accompanying accounting policies and notes on pages 47 to 123 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2013

IN '000 HRK	NOTES	GROUP 2013	GROUP 2012
PROFIT FOR THE YEAR BEFORE TAXATION	9	3,152	11,524
ADJUSTMENTS FOR:			
DEPRECIATION AND AMORTISATION	8	9,572	9,483
NET GAINS ON SALE OF NON-CURRENT TANGIBLE ASSETS	5	140	(195)
INCREASE IN PROVISIONS FOR LOANS AND ADVANCES AND OTHER PROVISIONS	6	19,061	6,283
DIVIDEND INCOME	5	(1,479)	(1,236)
NET FOREIGN EXCHANGE GAIN FROM ISSUED HYBRID AND SUBORDINATED INSTRUMENTS		920	156
PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS		31,366	26,015
CHANGES IN OPERATING ASSETS			
NET INCREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		(842)	(1,486)
NET (INCREASE) / DECREASE IN LOANS AND ADVANCES TO CUSTOMERS		(138,539)	117,465
NET DECREASE / (INCREASE) IN PLACEMENTS WITH BANKS		25,729	(16,898)
NET INCREASE IN OTHER ASSETS		(13,159)	(362)
INCREASE IN OTHER LIABILITIES		11,077	1,655
DECREASE IN AMOUNTS DUE TO OTHER BANKS		(77,300)	(4,020)
INCREASE IN DEPOSITS		14,570	48,550
INCOME TAXES PAID		(2,911)	(2,829)
NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES		(150,009)	168,090
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASES OF PROPERTY AND EQUIPMENT	17,18	(10,942)	(42,298)
CASH RECEIPTS FROM DISPOSAL OF PROPERTY AND EQUIPMENT		678	205
NET (INCREASE) / DECREASE IN FINANCIAL ASSETS AVAILABLE FOR SALE		(140,844)	(28,602)
CASH RECEIPTS FROM DIVIDEND		1,479	1,236
INVESTMENTS HELD TO MATURITY		290	275
NET CASH (USED IN) INVESTING ACTIVITIES		(149,339)	(69,184)
CASH FLOWS FROM FINANCING ACTIVITIES			
BORROWED FUNDS		48,550	74,193
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS		52,867	-
NET CASH GENERATED BY FINANCING ACTIVITIES		101,417	74,193
NET (DECREASE) / INCREASE IN CASH		(197,931)	173,099
CASH AT BEGINNING OF PERIOD	11	518,330	345,231
CASH AT END OF PERIOD	11	320,399	518,330

The accompanying accounting policies and notes on pages 47 to 123 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

ATTRIBUTED TO SHAREHOLDERS OF THE PARENT COMPANY

IN '000 HRK	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	PROFIT FOR THE YEAR	TOTAL
BALANCE AT 1 JANUARY 2012	267,500	3,015	(11,082)	4,802	86,521	12,466	363,222
ALLOCATION OF 2011 PROFIT	-	-	-	-	12,466	(12,466)	-
OTHER COMPREHENSIVE INCOME	-	-	-	-	16,885	-	16,885
PROFIT FOR THE YEAR	-	-	-	-	-	9,439	9,439
BALANCE AT 31 DECEMBER 2012	267,500	3,015	(11,082)	4,802	115,872	9,439	389,546
ALLOCATION OF 2012 PROFIT	-	-	-	-	9,439	(9,439)	-
OTHER COMPREHENSIVE INCOME	-	-	-	-	449	-	449
PROFIT FOR THE YEAR	-	-	-	-	-	2,330	2,330
BALANCE AT 31 DECEMBER 2013	267,500	3,015	(11,082)	4,802	125,760	2,330	392,325

The accompanying accounting policies and notes on pages 47 to 123 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

IN '000 HRK	NOTES	2013	2012
INTEREST AND SIMILAR INCOME	3	156,366	171,922
INTEREST AND SIMILAR EXPENSE	3	(72,940)	(77,452)
NET INTEREST INCOME		83,426	94,470
FEE AND COMMISSION INCOME	4	33,900	34,378
FEE AND COMMISSION EXPENSE	4	(10,667)	(10,732)
NET FEE AND COMMISSION INCOME		23,233	23,646
OTHER OPERATING INCOME, NET	5	24,181	13,727
OPERATING INCOME		130,840	131,843
IMPAIRMENT LOSSES AND PROVISIONS	6	(17,660)	(6,283)
ADMINISTRATIVE EXPENSES	7	(101,742)	(105,876)
DEPRECIATION AND AMORTISATION	8	(9,563)	(9,470)
PROFIT BEFORE TAXATION		1,875	10,214
INCOME TAX EXPENSE	9	(822)	(2,085)
NET PROFIT FOR THE YEAR		1,053	8,129
OTHER COMPREHENSIVE INCOME			
NET INCREASE OF FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL ASSETS		562	21,106
DEFERRED TAX RECOGNISED IN EQUITY		(112)	(4,221)
OTHER COMPREHENSIVE INCOME		450	16,885
TOTAL COMPREHENSIVE INCOME AFTER TAX		1,503	25,014
EARNINGS PER SHARE FOR SHAREHOLDERS OF THE PARENT COMPANY	10	HRK 1.57	HRK 12.16

The accompanying accounting policies and notes on pages 47 to 123 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2013

IN '000 HRK	NOTES	31 DECEMBER	
		31 DECEMBER 2013	2012
ASSETS			
CASH AND AMOUNTS DUE FROM BANKS	11	268,486	388,628
BALANCES WITH THE CROATIAN NATIONAL BANK	12	212,678	211,836
PLACEMENTS WITH OTHER BANKS	13	62,682	166,199
LOANS AND ADVANCES TO CUSTOMERS	14	1,887,966	1,772,645
FINANCIAL ASSETS AVAILABLE FOR SALE	15	481,962	340,593
FINANCIAL ASSETS HELD TO MATURITY	16	27,191	27,481
INVESTMENTS IN SUBSIDIARIES	19	4,770	4,770
INTANGIBLE ASSETS	17	40,754	31,787
PROPERTY AND EQUIPMENT	18	86,101	94,513
DEFERRED TAX ASSETS	9	5,957	6,619
OTHER ASSETS	20	24,580	13,141
TOTAL ASSETS		3,103,127	3,058,212
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
AMOUNTS DUE TO OTHER BANKS	21	69,786	147,086
AMOUNTS DUE TO CUSTOMERS	22	2,208,746	2,199,134
OTHER BORROWED FUNDS	23	257,219	208,669
OTHER LIABILITIES	24	37,772	28,392
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	4,186	4,826
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	26	131,162	77,351
TOTAL LIABILITIES		2,708,871	2,665,458
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(11,082)	(11,082)
OTHER RESERVES	28	133,770	125,192
PROFIT FOR THE YEAR		1,053	8,129
TOTAL SHAREHOLDERS' EQUITY		394,256	392,754
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,103,127	3,058,212

The accompanying accounting policies and notes on pages 47 to 123 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2013

IN '000 HRK	NOTES	2013	2012
PROFIT FOR THE YEAR BEFORE TAXATION	9	1,875	10,214
ADJUSTMENTS FOR:			
DEPRECIATION AND AMORTISATION	8	9,563	9,470
NET GAINS ON SALE OF NON-CURRENT TANGIBLE ASSETS	5	140	(195)
INCREASE IN PROVISIONS FOR LOANS AND ADVANCES AND OTHER PROVISIONS	6	17,660	6,283
DIVIDEND INCOME	5	(1,479)	(1,236)
NET FOREIGN EXCHANGE GAIN FROM ISSUED HYBRID AND SUBORDINATED INSTRUMENTS		920	156
PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS		28,679	24,692
CHANGES IN OPERATING ASSETS			
NET INCREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		(842)	(1,486)
NET (INCREASE) / DECREASE IN LOANS AND ADVANCES TO CUSTOMERS		(130,899)	117,465
NET DECREASE / (INCREASE) IN PLACEMENTS WITH BANKS		25,729	(16,898)
NET INCREASE IN OTHER ASSETS		(14,397)	797
INCREASE IN OTHER LIABILITIES		12,315	1,804
DECREASE IN AMOUNTS DUE TO OTHER BANKS		(77,300)	(4,020)
INCREASE IN DEPOSITS		9,612	48,550
INCOME TAXES PAID		(2,911)	(2,829)
NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES		(150,014)	168,075
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASES OF PROPERTY AND EQUIPMENT	17,18	(10,936)	(42,285)
CASH RECEIPTS FROM DISPOSAL OF PROPERTY AND EQUIPMENT		678	205
NET (INCREASE) IN FINANCIAL ASSETS AVAILABLE FOR SALE		(140,844)	(28,602)
CASH RECEIPTS FROM DIVIDEND		1,479	1,236
INVESTMENTS HELD TO MATURITY		290	275
NET CASH (USED IN) INVESTING ACTIVITIES		(149,333)	(69,171)
CASH FLOWS FROM FINANCING ACTIVITIES			
BORROWED FUNDS		48,550	74,193
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS		52,867	-
NET CASH GENERATED BY FINANCING ACTIVITIES		101,417	74,193
NET (DECREASE) / INCREASE IN CASH		(197,930)	173,097
CASH AT BEGINNING OF PERIOD	11	518,328	345,231
CASH AT END OF PERIOD	11	320,398	518,328

The accompanying accounting policies and notes on pages 47 to 123 form an integral part of these financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

'000 HRK	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	PROFIT FOR THE YEAR	TOTAL
BALANCE AT 1 JANUARY 2012	267,500	3,015	(11,082)	4,802	91,039	12,466	367,740
ALLOCATION OF 2011 PROFIT	-	-	-	-	12,466	(12,466)	-
OTHER COMPREHENSIVE LOSS	-	-	-	-	16,885	-	16,885
PROFIT FOR THE YEAR	-	-	-	-	-	8,129	8,129
BALANCE AT 31 DECEMBER 2012	267,500	3,015	(11,082)	4,802	120,390	8,129	392,754
ALLOCATION OF 2012 PROFIT	-	-	-	-	8,129	(8,129)	-
OTHER COMPREHENSIVE INCOME	-	-	-	-	449	-	449
PROFIT FOR THE YEAR	-	-	-	-	-	1,053	1,053
BALANCE AT 31 DECEMBER 2013	267,500	3,015	(11,082)	4,802	128,968	1,053	394,256

The accompanying accounting policies and notes on pages 47 to 123 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Podravska banka d.d., Koprivnica ("the Bank") is incorporated in the Republic of Croatia and was registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3. The Bank and POBA faktor d.o.o. ("subsidiary") constitute the Group. These financial statements are the financial statements of the Bank and the Group as defined in International Accounting Standard 27: "Consolidated and Separate Financial Statements".

The principal accounting policies applied in the preparation of these financial statements are summarised 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, these references are to Standards applicable at 31 December 2013.

Statement of compliance

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

Basis of preparation

The financial statements are prepared on the fair value basis for derivative financial instruments, trading assets and liabilities, other financial assets and liabilities at fair value through profit or loss, and financial and non-financial assets available for sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost. The financial statements are intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

In preparing the financial statements, management has made 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 date of reporting, as well as amounts of income and expenses for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of preparing the financial statements, the results of which form the basis of making judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies have been consistently applied to all periods presented in these financial statements.

The Bank also expects that, in the ordinary course of updating its accounting regulations, the CNB will take into account the following Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, which were in issue as of the date on which these financial statements were authorised for issue, but which are applicable to entities reporting under IFRS in periods commencing after 31 December 2013, and which may have an impact on the Group.

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- **IFRS 13 “Fair Value Measurement”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans**, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities**, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 “Presentation of financial statements” – Presentation of Items of Other Comprehensive Income**, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-employment Benefits**, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards “Improvements to IFRSs (cycle 2009-2011)”** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards has not led to any changes in the Bank's and the Group's accounting policies.

Standards and Interpretations issued by the IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU were in issue but not yet effective:

- **IFRS 10 “Consolidated Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 “Joint Arrangements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 “Disclosures of Interests in Other Entities”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) “Separate Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance**, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements” – Investment Entities**, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 “Financial instruments: presentation” – Offsetting Financial Assets and Financial Liabilities**, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets**, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Novation of Derivatives and Continuation of Hedge Accounting**, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

Standards and Interpretations issued by the IASB but 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 for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use at date of authorisation of these financial statements:

- **IFRS 9 “Financial Instruments”** (effective date is not yet determined),
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” – Mandatory Effective Date and Transition Disclosures**,
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016),
- **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 in-

consistencies 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).

The Bank and the Group anticipates that the adoption of these standards, except IFRS 9, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Bank and the Group in the period of initial application.

The Management of the Bank and the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's and the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Functional and presentation currency

These financial statements are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The effective exchange rate as at 31 December 2013 was HRK 7.637643 to EUR 1 (2012: HRK 7.545624);

HRK 5.549 to USD 1 (2012: HRK 5.726794).

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.

a) Consolidated and separate financial statements

Financial statements are presented for the Bank and the Group. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiary entities (disclosed in Note 19). The separate, unconsolidated financial statements of the Bank are also presented. As set out in Note 19 “Investment in subsidiaries” the Parent has classified its 100% investment in Poba faktor d.o.o. as a subsidiary, whose financial statements are included in the consolidated financial statements of the Group.

b) Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

c) Transactions with non-controlling interest

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the statement of comprehensive income. Purchases from non-controlling interests may result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

d) Associates

Associates are all entities over which the Group has significant influence but not control. In the Group financial statements, investments in associates are accounted for using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

e) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Group's principal accounting policies is set out below.

Basis of accounting

The Group maintains its accounting records in Croatian kuna (HRK) and in accordance with the Croatian law and the accounting principles and practices observed by financial enterprises in Croatia.

Interest and similar income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Loan origination fees for loans which are probable of being drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees receivable are recognised when earned. Dividend income is recognised after being declared.

Fee and commission income

Fees and commission income comprises mainly of fees receivable from enterprises for loans and guarantees granted and other services provided by the Group, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions.

Fees and commissions are recognised when the related service is rendered. Loan origination fees for loans which are likely of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan.

Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realised gains on securities classified as assets available for sale, foreign exchange revaluation, gains from disposal of fixed assets, dividends earned and other income.

Foreign currencies

Income and expenditure arising from transactions in foreign currencies are translated to HRK at the official rates of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated to HRK at the mid-market exchange rate of the CNB on the last day of the accounting period. Gains and losses resulting from the foreign currency translation are included in the income statement.

The Group has receivables and liabilities originating in HRK, which are linked to foreign currencies with a one-way currency clause. Due to this clause the Group has an option to revalue the asset by the higher of: foreign exchange rate valid as of the date of repayments of the receivables by the debtors, or foreign exchange rate valid as of

the date of origination of the financial instrument. The counterparty has this option if the liability is linked to this clause. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option cannot be calculated as the forward rates for HRK for periods over 9 months are generally not available. As such the Group revalues its receivables and liabilities linked to this clause by the agreed reference rate valid at the reporting date or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

Staff costs

Provisions for bonuses are recognised when the Group has a constructive obligation arising from a contract or past practice. A provision is made for accrued vacation days by reference to the unused vacation days at the reporting date.

Personnel social contributions

According to local legislation, the Group is obliged to pay contributions to the Pension Funds and the State Health Fund. This obligation relates to full-time employees and provides for paying contributions of certain percentages determined on the basis of the gross salary as follows:

	2013	2012
CONTRIBUTIONS FOR PENSION FUND	20%	20%
CONTRIBUTIONS FOR STATE HEALTH FUND	13%	13%
CONTRIBUTIONS FOR THE STATE EMPLOYMENT BUREAU	1.7%	1.7%
INJURIES AT WORK	0.5%	0.5%

The Group is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds.

The contributions on behalf of employees and on behalf of employer are charged to expenses in the period to which they relate (see Note 7).

In the course of normal operations, the Group makes regular payments of contributions on behalf of its employees who are members of mandatory pension funds as provided by law. The mandatory pension contributions are included in the payroll costs when they are accrued. The Group has no additional retirement benefit plan and, therefore, has no further obligations in respect of employee retirement benefits. In addition, the Group has no obligation to provide any post-employment benefits to its employees.

Taxation

The corporate income tax payable is provided on taxable profits for the year at the current rate. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the expected tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets are recognised when it is probable

that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Group re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets.

The Group is subject to a tax rate of 20% in accordance with the Income Tax Law.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days of remaining maturity, including cash and current accounts with other banks.

Financial instruments

The Group's financial assets and financial liabilities recorded on the statement of financial position include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term loans, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies.

The Group recognises financial assets and liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities held by the Group are categorised into portfolios in accordance with the Group's intent on the acquisition and pursuant to the Group's investment strategy.

Financial assets and liabilities are classified as "Financial assets at fair value through profit or loss", "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Regular way transactions with financial instruments are accounted for at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value on the underlying asset or liability are recognised starting from trade date.

The Group recognises financial assets and financial liabilities initially at their fair value plus, except for financial assets at fair value through profit and loss, transaction costs directly attributable to the acquisition or delivery of a financial asset or a financial liability.

Financial assets at fair value through profit or loss

Financial instruments included in this portfolio are instruments held for trading, acquired to generate profits from short-term fluctuations in prices or brokerage fees, or are securities included in a portfolio with a pattern of short-term profit taking.

Such instruments are initially recognised at cost and subsequently measured at fair value, which is based on the quoted bid prices in an active market.

Held to maturity assets

Financial instruments included in this portfolio are non-derivative financial assets with fixed or determinable payments and fixed maturity, where Management has both the intent and the ability to hold to maturity. All held-to-maturity financial instruments are carried at amortised cost, less any provision for impairment. Interest earned from held-to-maturity financial instruments is reported as interest income and recognised based on the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

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

Loans and receivables

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

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

Impairment of financial assets

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Loan loss allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include: delinquency in contractual payments of principal or interest, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions, initiation of bankruptcy proceedings and deterioration of the borrower's competitive position. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics (grouped by institutional sector, purpose and economic activity) and collectively assesses them for impairment. The level of collective impairment (value adjustment) of A graded placements is determined as minimum 1% of the total balance of placements graded A. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Placements of the Bank are considered fully irrecoverable if they originated on a disputable legal basis and other receivables for which, due to especially poor creditworthiness of a debtor and a lack of any eligible instrument of collateral, no cash flows can be expected for settling the debtor's liabilities towards the Bank. Fully adjusted placements classified into risk category C are reported in the balance sheet until legal actions are taken concerning the extinguishment of debtor's liabilities.

Individually and collectively determined impairment losses are charged to the Bank's income statement in which the losses are identified and recognised in the amount of the prescribed loss percentage, with the balance credited to the value adjustment of placements to which the losses relate on the asset side of the balance sheet.

If, following the reassessment, the amount of the loss increases, the increase is charged to the Bank's expenses for the period in which the losses are identified. If the loss subsequently decreases, the decrease is credited to the previously charged value adjustment item in the income statement, as well as charged to the value adjustment line item on the asset side of the balance sheet.

Placements reclassified from the A category into a B or C category on the basis of accrued interest income are fully impaired, but remain carried on the balance sheet until the underlying receivables are collected or written off.

Interest income accrued on partly irrecoverable placements is reported as an off-balance sheet item and recognised in the income statement when collected.

Financial assets available for sale

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

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

sets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has substantially transferred all risks and rewards of ownership. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment.

For available-for-sale assets, gains and losses arising from changes in fair value are recognised directly in equity under the caption "Reserves and retained profits", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. Interest earned whilst holding available-for-sale securities is accrued on a monthly basis using the effective interest rate method and reported as Interest income in the income statement. Foreign exchange differences related to available-for-sale equity instruments held in foreign currency are reported together with fair value gains and losses in equity until the financial asset is sold. Foreign exchange differences related to available-for-sale debt instruments held in foreign currency are reported in the income statement. Dividends on securities available for sale are recorded as declared and included as a receivable in the statement of financial position line other assets and in other operating income in the income statement. Upon payment of the dividend, the receivable is offset against the collected cash.

Foreclosed assets

Occasionally, by means of the enforcement procedure, the Bank acquires assets foreclosed in exchange for outstanding receivables. Foreclosed assets are classified on the balance sheet as other assets held for sale. The Bank acquires the ownership of such assets on the basis of an enforcement judgement. On acquisition, such assets are recognised at cost of acquisition. Foreclosed assets are reviewed for impairment on an annual basis. Impairment losses are recognised as the difference between the carrying amount of the asset and the asset's recoverable amount in the period of impairment and included in the income statement. The recoverable amount is the fair value of an asset less costs to sell the asset. Fair values of those assets are determined on the basis of independent market value appraisal performed by a licensed appraiser or based on a tentative agreement on the sale of property.

Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances. The real estate is stated at the lower of cost of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement. Real estate used as collateral for loans given to customers can be sold only in case it is subject to enforcement procedure.

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements and the counterparty is included in due to banks or customers as appropriate. Securities purchased under agreements to resell (reverse repo) are recorded as due from banks and loans and advances to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation less any provision for impairment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the period in which the costs are incurred. Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, property and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment. Property and equipment is depreciated on a straight-line basis over the useful life of the assets as follows:

	2013	2012
BUILDINGS	40	40
FURNITURE	5	5
COMPUTERS	4	4
MOTOR VEHICLES	5	5
EQUIPMENT AND OTHER ASSETS	2 - 10	2 - 10

Land is not depreciated. The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at least at each financial year end. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed at each reporting period.

Intangible assets are amortised over the periods of 4 years (software). Amortisation period and amortisation method are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Impairment of non-financial assets

Property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property and equipment and intangibles carried at cost and treated as a revaluation decrease for assets that are carried at their revalued amount to the extent

that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset. The recoverable amount is the higher of an asset's net selling price and its value in use.

Goodwill

Goodwill arose on the acquisition of Požeška banka and is carried at cost as established at the date of acquisition of the entity less accumulated impairment losses, if any. Goodwill is tested for impairment using the Capital Asset Pricing Model (CAPM), which includes both general and specific risks. For the purpose of the impairment testing, goodwill is allocated to each cash-generating unit arisen on the acquisition, from which future benefits are expected. The cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is indication that such an organisational unit may be impaired.

Where the recoverable amount of a cash-generating unit is below its carrying amount, the impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to that unit and then proportionally to all other organisational units generating cash. Any gain or loss on remeasurement at fair value is included in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on the disposal.

Provisions for contingent liabilities

Provisions are recognised when the Group has a present legal or contractual obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Managed funds

The Group manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Group's statement of financial position (the details are set out in Note 29).

Dividend policy

The Group has a policy to pay dividends to its shareholders based on the audited annual results.

Significant accounting judgements and estimates

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. In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group

fails to keep these investments to maturity other than for the specific circumstances (such as selling an insignificant amount close to maturity) it will be required to re-classify the entire class as available for sale and measure it at fair value instead of amortised cost.

Estimating uncertainty

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

Allowances for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little historical data available relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Provisions for court cases

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are maintained at the level that the Group's management considers sufficient for absorption of incurred losses. Management determines the sufficiency of provisions on the basis of insight into specific items, current legal circumstances, as well as other relevant factors.

Income tax

The Group's profit is subject to corporate income tax in Croatia. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. These calculations that support the tax return may be subject to review and approval by the local tax authorities.

3. INTEREST AND SIMILAR INCOME AND EXPENSE

IN '000 HRK	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
INTEREST INCOME				
COMPANIES	93,303	106,367	92,006	105,676
CITIZENS	44,648	48,935	44,648	48,935
SECURITIES	13,442	11,649	13,442	11,649
BANKS	2,033	2,246	2,033	2,246
PUBLIC AND OTHER SECTORS	4,237	3,416	4,237	3,416
	157,663	172,613	156,366	171,922
INTEREST EXPENSE				
COMPANIES	(12,617)	(11,816)	(12,617)	(11,816)
CITIZENS	(50,175)	(55,487)	(50,175)	(55,487)
BANKS	(6,897)	(6,537)	(6,927)	(6,559)
PUBLIC AND OTHER SECTORS	(3,221)	(3,590)	(3,221)	(3,590)
	(72,910)	(77,430)	(72,940)	(77,452)
NET INTEREST INCOME	84,753	95,183	83,426	94,470

Interest income also includes deferred fees on loans in total amount of HRK 13,615 thousand (2012: HRK 13,963 thousand), which are recognised applying the effective interest rate methodology.

IN '000 HRK	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
INTEREST INCOME ON:				
SUBSTANDARD LOANS	2,688	3,715	2,688	3,715
NON-PERFORMING LOANS	348	2,383	348	2,383
	3,036	6,098	3,036	6,098

4. FEE AND COMMISSION INCOME AND EXPENSE

IN '000 HRK	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
FEE AND COMMISSION INCOME				
PAYMENT TRANSACTION FEES AND COMMISSIONS	12,840	13,067	12,840	13,067
FEES AND COMMISSIONS ON CREDIT CARD SERVICES	13,042	12,837	13,042	12,837
FEES AND COMMISSIONS FROM LENDING OPERATIONS	3,619	3,610	3,062	3,126
FEES AND COMMISSIONS ON SECURITIES TRADING	758	805	758	805
OTHER FEES AND COMMISSION INCOME	4,198	4,543	4,198	4,543
	34,457	34,862	33,900	34,378
FEE AND COMMISSION EXPENSE				
CASH OPERATION FEES AND COMMISSIONS	(5,432)	(5,433)	(5,432)	(5,433)
PAYMENT TRANSACTION CHARGES	(2,658)	(2,698)	(2,658)	(2,698)
INTERBANK SERVICE FEES	(494)	(499)	(494)	(499)
OTHER FEE AND COMMISSION EXPENSE	(2,083)	(2,102)	(2,083)	(2,102)
	(10,667)	(10,732)	(10,667)	(10,732)
NET FEE AND COMMISSION INCOME	23,790	24,130	23,233	23,646

Other fee and commission income consist mainly of fees collected on the Bank's counters from customers for the payments made and amounts to HRK 2,022 thousand (2012: HRK 1,931 thousand).

5. OTHER OPERATING INCOME, NET

IN '000 HRK	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
FOREIGN EXCHANGE TRADING GAIN	5,795	7,581	5,795	7,581
REFUND OF COURT COSTS	1,088	1,784	1,088	1,784
NET GAIN / (LOSS) ON DEALINGS IN AVAILABLE-FOR-SALE SECURITIES	5,809	1,583	5,809	1,583
DIVIDEND INCOME	1,479	1,236	1,479	1,236
LEASE INCOME	919	343	964	366
NET GAIN ON DISPOSAL OF PROPERTY AND EQUIPMENT	(140)	195	(140)	195
NET GAIN / (LOSS) ON SALE OF REPOSSESSED ASSETS	4,972	119	4,972	119
INCOME ON SUBSEQUENT COLLECTION OF LOANS PREVIOUSLY WRITTEN OFF	20	36	20	36
FOREIGN EXCHANGE REVALUATION	688	(26)	688	(26)
OTHER INCOME	3,524	860	3,506	853
	24,154	13,711	24,181	13,727

6. IMPAIRMENT LOSSES AND PROVISIONS

IN '000 HRK	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS (NOTE 14D)	(17,327)	(3,546)	(15,949)	(3,546)
IMPAIRMENT OF EQUITY SECURITIES (NOTE 15E)	(37)	(3,073)	(37)	(3,073)
COLLECTION OF SUSPENDED INTEREST RECEIVABLES (NOTE 14D)	371	1,235	371	1,235
PROVISIONS FOR GUARANTEES AND COMMITMENTS (NOTE 25)	640	(369)	640	(369)
OTHER ASSETS (NOTE 20)	(2,708)	(530)	(2,685)	(530)
	(19,061)	(6,283)	(17,660)	(6,283)

7. ADMINISTRATIVE EXPENSES

IN '000 HRK	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
STAFF COSTS	50,984	53,745	50,034	52,804
MATERIALS AND SERVICES	34,401	33,312	34,242	33,141
RENTALS	6,585	8,013	8,563	9,288
DEPOSIT INSURANCE PREMIUM	4,749	4,461	4,749	4,461
TAXES AND CONTRIBUTIONS	1,461	1,258	1,461	1,258
OTHER EXPENSES	2,732	4,945	2,693	4,924
	100,912	105,734	101,742	105,876

Other operating expenses include: cost of advertising, sponsorships, donations and other costs.

Staff costs

IN '000 HRK	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
NET SALARIES	28,814	28,139	28,320	27,725
PENSION INSURANCE COSTS	7,413	7,747	7,083	7,472
HEALTH INSURANCE COSTS	5,790	5,895	5,664	5,789
OTHER COMPULSORY CONTRIBUTIONS	959	932	959	932
TAXES AND SURTAXES	8,166	7,175	8,166	7,175
PROVISIONS FOR EMPLOYEE BENEFITS	(1,664)	409	(1,664)	409
OTHER STAFF COSTS	1,506	3,448	1,506	3,302
	50,984	53,745	50,034	52,804

At 31 December 2013, the number of staff employed by the Group was 286 (2012: 294 employees).

8. DEPRECIATION AND AMORTISATION

IN '000 HRK	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
DEPRECIATION OF PROPERTY AND EQUIPMENT	7,654	7,650	7,654	7,650
DEPRECIATION OF LEASEHOLD IMPROVEMENTS	856	990	856	990
AMORTISATION OF INTANGIBLE ASSETS	1,062	843	1,053	830
	9,572	9,483	9,563	9,470

9. INCOME TAX EXPENSE

Income tax is determined by applying the rate of 20% to taxable profits (2012: 20%).

Tax returns remain not final and are subject to supervisory inspection for at least a three-year period. Management states that the Bank has made adequate provisions for tax obligations in the presented financial statements.

Tax expense comprises the following:

IN '000 HRK	GROUP AND BANK 2013	GROUP AND BANK 2012
CURRENT TAX EXPENSE	272	3,225
DEFERRED TAX EXPENSE/ (INCOME)	550	(1,140)
INCOME TAX EXPENSE	822	2,085

The reconciliation between accounting profit and taxable profit is set out below:

IN '000 HRK	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
PROFIT BEFORE TAXATION	3,152	11,524	1,875	10,214
STATUTORY TAX RATE	20%	20%	20%	20%
INCOME TAX CALCULATED AT 20%	630	2,305	375	2,043
TEMPORARY DIFFERENCES				
DEFERRED LOAN ORIGINATION FEES	(667)	(844)	(667)	(844)
IMPAIRMENT OF FINANCIAL ASSETS	37	3,073	37	3,073
DEFERRED TERMINATION BENEFITS	(2,119)	3,473	(2,119)	3,473
NET TEMPORARY DIFFERENCES	(2,749)	5,702	(2,749)	5,702
PERMANENT DIFFERENCES				
TAX EFFECT OF NON-TAXABLE INCOME	(1,479)	(1,236)	(1,479)	(1,236)
DIVIDENDS RECEIVED	(1,479)	(1,236)	(1,479)	(1,236)
TAX EFFECT OF EXPENSES NOT RECOGNISED FOR TAX PURPOSES	3,746	1,458	3,714	1,446

ENTERTAINMENT AND PERSONAL TRANSPORTATION	449	443	449	443
DEPRECIATION ABOVE PRESCRIBED AMOUNTS	312	383	312	383
WRITE-OFFS	1,012	593	1,012	593
OTHER	1,973	39	1,941	27
NET PERMANENT DIFFERENCES	2,267	222	2,235	210
TAXABLE PROFIT	1,361	16,126	1,361	16,126
TAX BASE	1,361	16,126	1,361	16,126
TAX RATE	20%	20%	20%	20%
TAX LIABILITY	272	3,225	272	3,225
CURRENT TAX EXPENSE	272	3,225	272	3,225
EFFECTIVE TAX RATE	8.63%	27.99%	14.51%	31.57%
TAX LOSSES BROUGHT FORWARD FROM PREVIOUS PERIOD	5,971	7,977	-	-
USED IN YEAR	(1,812)	(2,066)	-	-
TAX LOSSES AVAILABLE FOR CARRY FORWARD	4,159	5,971	-	-

As at 31 December 2013, the Bank has no unused gross tax losses, whereas the subsidiaries' gross tax losses are disclosed below. Such tax losses may only be used by the company that incurred the loss to reduce taxable profits of the following five years.

The expiry dates for unused tax losses for 2013 were as follows:

	GROUP GROSS TAX LOSSES	GROUP TAX BENEFIT
	'000 HRK	'000 HRK
31 DECEMBER 2013	5,971	1,812
31 DECEMBER 2014	4,159	1,344
31 DECEMBER 2015	2,815	1,608
31 DECEMBER 2016	1,207	1,207
31 DECEMBER 2017	-	-
	14,152	5,971

Movements in deferred tax assets are as follows:

GROUP					2013
IN '000 HRK	OPENING BALANCE	CHARGED TO INCOME STATEMENT	CHARGED TO OTHER COMPREHENSIVE INCOME	CLOSING BALANCE	
LOSSES ON FINANCIAL ASSETS	610	-	-	610	
LOSSES ON OTHER INVESTMENTS	43	-	-	43	
DEFERRED LOAN ORIGINATION FEES	1,895	(133)	-	1,762	
FINANCIAL ASSETS AVAILABLE FOR SALE	2,762	-	(112)	2,650	
IMPAIRMENT OF FINANCIAL ASSETS	614	7	-	621	
DEFERRED TERMINATION BENEFITS	695	(424)	-	271	
	6,619	(550)	(112)	5,957	

GROUP					2012
IN '000 HRK	OPENING BALANCE	CHARGED TO INCOME STATEMENT	CHARGED TO OTHER COMPREHENSIVE INCOME	CLOSING BALANCE	
LOSSES ON FINANCIAL ASSETS	610	-	-	610	
LOSSES ON OTHER INVESTMENTS	43	-	-	43	
DEFERRED LOAN ORIGINATION FEES	2,064	(169)	-	1,895	
DEFERRED OTHER FEES	6,983	-	(4,221)	2,762	
IMPAIRMENT OF FINANCIAL ASSETS	-	614	-	614	
DEFERRED TERMINATION BENEFITS	-	695	-	695	
	9,700	1,140	(4,221)	6,619	

BANK					2013
IN '000 HRK	OPENING BALANCE	CHARGED TO INCOME STATEMENT	CHARGED TO OTHER COMPREHENSIVE INCOME	CLOSING BALANCE	
LOSSES ON FINANCIAL ASSETS	610	-	-	610	
LOSSES ON OTHER INVESTMENTS	43	-	-	43	
DEFERRED LOAN ORIGINATION FEES	1,895	(133)	-	1,762	
FINANCIAL ASSETS AVAILABLE FOR SALE	2,762	-	(112)	2,650	
FINANCIAL ASSETS AVAILABLE FOR SALE	614	7	-	621	
DEFERRED TERMINATION BENEFITS	695	(424)	-	271	
	6,619	(550)	(112)	5,957	

IN '000 HRK	OPENING BALANCE	CHARGED TO INCOME STATEMENT	CHARGED TO OTHER COMPREHENSIVE INCOME	CLOSING BALANCE
LOSSES ON FINANCIAL ASSETS	610	-	-	610
LOSSES ON OTHER INVESTMENTS	43	-	-	43
DEFERRED LOAN ORIGATION FEES	2,064	(169)	-	1,895
DEFERRED OTHER FEES	6,983	-	(4,221)	2,762
FINANCIAL ASSETS AVAILABLE FOR SALE	-	614	-	614
DEFERRED TERMINATION BENEFITS	-	695	-	695
	9,700	1,140	(4,221)	6,619

10. EARNINGS PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders after deducting preference dividends.

	GROUP 2013	GROUP 2012	BANK 2013	BANK 2012
PROFIT FOR THE YEAR (IN HRK '000)	2,330	9,439	1,053	8,129
WEIGHTED AVERAGE NUMBER OF SHARES	668,749	668,749	668,749	668,749
EARNINGS PER SHARE (IN HRK) – BASIC AND DILUTED	3.48	14.11	1.57	12.16

11. CASH AND AMOUNTS DUE FROM BANKS

IN '000 HRK	GROUP 31 DECEMBER 2013	GROUP 31 DECEMBER 2012	BANK 31 DECEMBER 2013	BANK 31 DECEMBER 2012
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	81,015	156,952	81,015	156,952
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	113,566	123,836	113,566	123,836
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	18,779	54,550	18,779	54,550
CASH IN HAND	42,736	41,045	42,735	41,044
OTHER ITEMS	12,391	12,246	12,391	12,246
	268,487	388,629	268,486	388,628

Cash and cash equivalents included in the cash flow statement:

IN '000 HRK	GROUP	GROUP	BANK	BANK
	31 DECEMBER 2013	31 DECEMBER 2012	31 DECEMBER 2013	31 DECEMBER 2012
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	81,015	156,952	81,015	156,952
CASH EQUIVALENTS - DEPOSITS WITH OTHER BANKS (NOTE 13)	51,912	129,700	51,912	129,700
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	113,566	123,836	113,566	123,836
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	18,779	54,551	18,779	54,550
CASH IN HAND	42,736	41,045	42,735	41,044
OTHER ITEMS	12,391	12,246	12,391	12,246
	320,399	518,330	320,398	518,328

12. BALANCES WITH THE CROATIAN NATIONAL BANK

IN '000 HRK	GROUP AND BANK	GROUP AND BANK
	31 DECEMBER 2013	31 DECEMBER 2012
OBLIGATORY AND MARGINAL RESERVE	189,513	211,836
TREASURY BILLS, MANDATORY ENROLLMENT	23,165	-
	212,678	211,836

The mandatory reserve represents the amount of liquid assets banks are required to place with the Croatian National Bank. The mandatory reserve is calculated every second Wednesday in a month on certain average balances of liabilities for the previous month. The calculation base includes the daily average balance of received loans and deposits, issued debt securities, hybrid and subordinated instruments and other financial liabilities, along with certain deductible items. In late 2013 the mandatory reserve allocation rate was reduced from 13.5% to 12%, with the mandatory subscription of kuna-treasury bills of the Croatian National Bank to the extent of the difference compared to the calculation of the kuna-denominated mandatory reserve at a reduced rate relative to the previous calculation.

Of the total balance of the calculated mandatory reserve funds, 70 percent of the kuna-denominated reserve funds and 60 percent of the fx-denominated reserve funds are allocated and kept with the Croatian National Bank. The percentage of allocation for the kuna-denominated portion also includes a portion of the fx-denominated reserve maintained in Croatian kunas. Banks have the obligation to maintain 75 percent of the mandatory reserves in Croatian kunas. Balances with the Croatian National Bank are not interest-bearing.

13. PLACEMENTS WITH OTHER BANKS

IN '000 HRK	GROUP AND	GROUP AND
	BANK	BANK
	31 DECEMBER	31 DECEMBER
	2013	2012
TERM DEPOSITS	51,912	129,700
LOANS TO HBOR	-	18,926
LOANS TO OTHER BANKS	11,370	18,173
	63,282	166,799
IMPAIRMENT ALLOWANCE	(600)	(600)
	62,682	166,199

Term deposits are short-term deposits with local banks bearing an interest rate of 0.05% to 0.80% (in 2012: 0.35 to 1.00%). Of the total term deposits with other banks, deposits with foreign banks in 2012 amount to HRK 79,156 thousand.

Movements in impairment allowance

IN '000 HRK	GROUP AND	GROUP AND
	BANK	BANK
	2013	2012
AT 1 JANUARY	600	600
WRITE OFF	-	-
AT 31 DECEMBER	600	600

The impairment allowance presented above relates to domestic banks in bankruptcy.

Geographical analysis

The analysis includes term deposits and current accounts with foreign banks:

IN '000 HRK	GROUP AND	GROUP AND
	BANK	BANK
	31 DECEMBER	31 DECEMBER
	2013	2012
GERMANY	71,583	97,862
ITALY	1,867	4,966
UNITED STATES OF AMERICA	954	4,418
AUSTRIA	1,142	3,829
BELGIUM	31,017	2,885
AUSTRALIA	793	2,859
CANADA	334	2,769
SWEDEN	642	1,403
NETHERLANDS	1,420	1,133
MONTE NEGRO	2,480	995
SWITZERLAND	1,980	268
SPAIN	3,194	216
SLOVENIA	2,299	215
DENMARK	77	18
GREAT BRITAIN	1,412	-
	121,194	123,836

14. LOANS TO CUSTOMERS

a) Analysis by type of customer

IN '000 HRK	GROUP	GROUP	BANK	BANK
	31 DECEMBER 2013	31 DECEMBER 2012	31 DECEMBER 2013	31 DECEMBER 2012
CITIZENS				
- HRK DENOMINATED	562,752	552,272	562,752	552,272
- FOREIGN CURRENCY DENOMINATED	26,467	26,154	26,467	26,154
	589,219	578,426	589,219	578,426
COMPANIES				
- HRK DENOMINATED	1,262,311	1,152,711	1,259,931	1,157,948
- FOREIGN CURRENCY DENOMINATED	218,559	201,256	218,559	201,256
	1,480,870	1,353,967	1,478,490	1,359,204
	2,070,089	1,932,393	2,067,709	1,937,630
IMPAIRMENT ALLOWANCE	(181,121)	(164,985)	(179,743)	(164,985)
	1,888,968	1,767,408	1,887,966	1,772,645

b) Analysis by sector

IN '000 HRK	GROUP	GROUP	BANK	BANK
	31 DECEMBER 2013	31 DECEMBER 2012	31 DECEMBER 2013	31 DECEMBER 2012
CITIZENS	589,219	578,426	589,219	578,426
WHOLESALE AND RETAIL TRADE	427,960	508,132	427,960	508,132
PROCESSING INDUSTRY	199,235	203,329	199,235	203,329
REAL ESTATE ACTIVITIES	14,483	27,952	14,483	27,952
TRANSPORT, STORAGE AND COMMUNICATION	44,843	36,808	44,843	36,808
AGRICULTURE AND FORESTRY	83,684	122,032	83,684	122,032
CONSTRUCTION	101,327	103,938	101,327	103,938
FOOD AND BEVERAGE INDUSTRY	213,306	154,226	213,306	154,226
ENERGY (ELECTRICITY, GAS, WATER)	3,105	1,463	3,105	1,463
HOTELS AND RESTAURANTS	95,481	48,516	95,481	48,516
OTHER	297,446	147,571	295,066	152,808
	2,070,089	1,932,393	2,067,709	1,937,630
IMPAIRMENT ALLOWANCE	(181,121)	(164,985)	(179,743)	(164,985)
	1,888,968	1,767,408	1,887,966	1,772,645

c) Changes in principal of substandard and bad loans

GROUP	2013		2012	
	SUBSTANDARD LOANS	BAD LOANS	SUBSTANDARD LOANS	BAD LOANS
IN '000 HRK				
AS OF 1 JANUARY	216,029	110,945	105,318	111,924
TRANSFER FROM PERFORMING LOANS	60,628	1,948	131,665	1,226
TRANSFER FROM BAD LOANS	719	(719)	9	(9)
TRANSFER FROM SUBSTANDARD LOANS	(13,051)	13,051	(6,621)	6,621
TRANSFER TO PERFORMING LOANS	1,488	85	1,017	55
AMOUNTS COLLECTED	(19,403)	(6,876)	(15,359)	(3,710)
AMOUNTS WRITTEN OFF	-	(1,148)	-	(5,162)
AS OF 31 DECEMBER	246,410	117,286	216,029	110,945

On 31 December 2013, the gross principal amount of non-performing loans was HRK 117,286 thousand (2012: HRK 110,945 thousand). During 2013, HRK 6,876 thousand of non-performing loans was collected (2012: HRK 3,710 thousand). Also, during 2013 the amount of HRK 20,649 thousand of loans to companies and sole traders were re-negotiated (in 2012: HRK 2,157 thousand).

BANK	2013		2012	
	SUBSTANDARD LOANS	BAD LOANS	SUBSTANDARD LOANS	BAD LOANS
IN '000 HRK				
AS OF 1 JANUARY	216,029	110,945	105,318	111,924
TRANSFER FROM PERFORMING LOANS	59,388	1,190	131,665	1,226
TRANSFER FROM BAD LOANS	719	(719)	9	(9)
TRANSFER FROM SUBSTANDARD LOANS	(13,051)	13,051	(6,621)	6,621
TRANSFER TO PERFORMING LOANS	1,488	85	1,017	55
AMOUNTS COLLECTED	(19,403)	(6,876)	(15,359)	(3,710)
AMOUNTS WRITTEN OFF	-	(1,148)	-	(5,162)
AS OF 31 DECEMBER	245,170	116,528	216,029	110,945

On 31 December 2013, the gross principal amount of non-performing loans was HRK 116,528 thousand (2012: HRK 110,945 thousand). During 2013, HRK 6,876 thousand of non-performing loans was collected (2012: HRK 3,710 thousand). Also, during 2013 the amount of HRK 20,649 thousand of loans to companies and sole traders were re-negotiated (in 2012: HRK 2,157 thousand).

d) Provisions for losses

GROUP	2013	2012
IN '000 HRK		
BALANCE AT 1 JANUARY	164,984	166,052
NEW PROVISIONS MADE	61,796	18,601
AMOUNTS COLLECTED	(45,756)	(16,527)
FOREIGN EXCHANGE DIFFERENCES	916	237
WRITE OFFS	(1,190)	(4,613)
INCREASE OF PROVISIONS FOR INTEREST RECEIVABLES	371	1,235
BALANCE AT 31 DECEMBER	181,121	164,985

The Group manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to avoid undue concentration in a single industry. Where required, the Group obtains acceptable collateral to reduce the level of credit risk.

BANK	2013	2012
IN '000 HRK		
BALANCE AT 1 JANUARY	164,984	166,052
NEW PROVISIONS MADE	60,418	18,601
AMOUNTS COLLECTED	(45,756)	(16,527)
FOREIGN EXCHANGE DIFFERENCES	916	237
WRITE OFFS	(1,190)	(4,613)
INCREASE OF PROVISIONS FOR INTEREST RECEIVABLES	371	1,235
BALANCE AT 31 DECEMBER	179,743	164,985

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to avoid undue concentration in a single industry. Where required, the Bank obtains acceptable collateral to reduce the level of credit risk.

15. FINANCIAL ASSETS AVAILABLE FOR SALE

GROUP IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
TREASURY BILLS OF THE REPUBLIC OF CROATIA	96,123	29,563
COMMERCIAL BILLS	1,888	-
BONDS	241,051	208,665
UNITS IN INVESTMENT FUNDS	89,462	53,655
EQUITY SECURITIES	57,775	53,009
	486,299	344,892
IMPAIRMENT ALLOWANCE	(4,337)	(4,299)
	481,962	340,593

BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
TREASURY BILLS OF THE REPUBLIC OF CROATIA	96,123	29,563
COMMERCIAL BILLS	1,888	-
BONDS	241,051	208,665
UNITS IN INVESTMENT FUNDS	89,462	53,655
EQUITY SECURITIES	57,775	53,009
	486,299	344,892
IMPAIRMENT ALLOWANCE	(4,337)	(4,299)
	481,962	340,593

Investments in debt securities are shown as follows:

a) Treasury bills of the Republic of Croatia

GROUP IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	29,563	495
PURCHASE	106,214	94,363
COLLECTION	(39,071)	(65,620)
REALISED GAIN	-	325
CHANGES IN FAIR VALUE	(583)	-
BALANCE AT 31 DECEMBER	96,123	29,563
BALANCE AT 1 JANUARY	29,563	495
PURCHASE	106,214	94,363
COLLECTION	(39,071)	(65,620)
REALISED GAIN	-	325
CHANGES IN FAIR VALUE	(583)	-
BALANCE AT 31 DECEMBER	96,123	29,563

b) Commercial bills

GROUP IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	-	9,538
PURCHASE	2,033	-
COLLECTION	(155)	(9,538)
CHANGES IN FAIR VALUE	10	-
BALANCE AT 31 DECEMBER	1,888	-

BANK IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	-	9,538
PURCHASE	2,033	-
COLLECTION	(155)	(9,538)
CHANGES IN FAIR VALUE	10	-
BALANCE AT 31 DECEMBER	1,888	-

c) Bonds

GROUP IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	208,665	190,714
PURCHASE	284,977	131,369
COLLECTION	(253,032)	(128,793)
REALISED GAIN / (LOSS)	4,933	970
CHANGES IN FAIR VALUE	(4,492)	14,405
BALANCE AT 31 DECEMBER	241,051	208,665

BANK IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	208,665	190,714
PURCHASE	284,977	131,369
COLLECTION	(253,032)	(128,793)
REALISED GAIN / (LOSS)	4,933	970
CHANGES IN FAIR VALUE	(4,492)	14,405
BALANCE AT 31 DECEMBER	241,051	208,665

The table below presents the Group's debt portfolio structure:

IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
BONDS OF DOMESTIC ISSUERS		
- MINISTRY OF FINANCE OF THE REPUBLIC OF CROATIA	30,978	14,108
- FINANCIAL INSTITUTIONS	9,731	9,653
- NON FINANCIAL INSTITUTIONS	66,456	67,621
	107,165	91,382
BONDS OF FOREIGN ISSUERS		
- FOREIGN GOVERNMENTS	74,487	50,628
- FINANCIAL INSTITUTIONS	33,900	59,252
- NON FINANCIAL INSTITUTIONS	25,499	7,403
	133,886	117,283
	241,051	208,665

The table below presents the Bank's debt portfolio structure:

IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
BONDS OF DOMESTIC ISSUERS		
- MINISTRY OF FINANCE OF THE REPUBLIC OF CROATIA	30,978	14,108
- FINANCIAL INSTITUTIONS	9,731	9,653
- NON FINANCIAL INSTITUTIONS	66,456	67,621
	107,165	91,382
BONDS OF FOREIGN ISSUERS		
- FOREIGN GOVERNMENTS	74,487	50,628
- FINANCIAL INSTITUTIONS	33,900	59,252
- NON FINANCIAL INSTITUTIONS	25,499	7,403
	133,886	117,283
	241,051	208,665

Investments in equity securities are shown as follows:

d) Units in investment funds

GROUP IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	53,655	43,626
PURCHASE	120,105	4,790
COLLECTION	(89,249)	-
REALISED GAIN / (LOSS)	1,452	4
CHANGES IN THE FAIR VALUE	3,499	5,235
BALANCE AT 31 DECEMBER	89,462	53,655

BANK IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	53,655	43,626
PURCHASE	120,105	4,790
COLLECTION	(89,249)	-
REALISED GAIN / (LOSS)	1,452	4
CHANGES IN THE FAIR VALUE	3,499	5,235
BALANCE AT 31 DECEMBER	89,462	53,655

e) Equity securities

GROUP IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
QUOTED SECURITIES	51,917	47,825
UNQUOTED SECURITIES	5,858	5,184
	57,775	53,009
IMPAIRMENT ALLOWANCE	(4,337)	(4,299)
TOTAL	53,438	48,710

BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
QUOTED SECURITIES	51,917	47,825
UNQUOTED SECURITIES	5,858	5,184
	57,775	53,009
IMPAIRMENT ALLOWANCE	(4,337)	(4,299)
TOTAL	53,438	48,710

Changes in equities during the year:

GROUP IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	48,710	49,584
PURCHASES	193,009	466
DISPOSALS	(189,795)	-
REALISED GAIN	(576)	267
MOVEMENT IN THE FAIR VALUE	2,127	1,466
IMPAIRMENT ALLOWANCE	(37)	(3,073)
BALANCE AT 31 DECEMBER	53,438	48,710
BANK IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	48,710	49,584
PURCHASES	193,009	466
DISPOSALS	(189,795)	-
REALISED GAIN	(576)	267
MOVEMENT IN THE FAIR VALUE	2,127	1,466
IMPAIRMENT ALLOWANCE	(37)	(3,073)
BALANCE AT 31 DECEMBER	53,438	48,710

The table below discloses details of the equity investment portfolio:

GROUP IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
EQUITY INVESTMENTS OF DOMESTIC ISSUERS		
- FINANCIAL INSTITUTIONS	410	5,930
- NON FINANCIAL INSTITUTIONS	17,328	12,643
	17,738	18,573
EQUITY INVESTMENTS OF FOREIGN ISSUERS		
- FINANCIAL INSTITUTIONS	33,395	30,300
- NON FINANCIAL INSTITUTIONS	6,642	4,136
	40,037	34,436
	57,775	53,009
IMPAIRMENT ALLOWANCE	(4,337)	(4,299)
	53,438	48,710

BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
EQUITY INVESTMENTS OF DOMESTIC ISSUERS		
- FINANCIAL INSTITUTIONS	410	5,930
- NON FINANCIAL INSTITUTIONS	17,328	12,643
	17,738	18,573
EQUITY INVESTMENTS OF FOREIGN ISSUERS		
- FINANCIAL INSTITUTIONS	33,395	30,300
- NON FINANCIAL INSTITUTIONS	6,642	4,136
	40,037	34,436
	57,775	53,009
IMPAIRMENT ALLOWANCE	(4,337)	(4,299)
	53,438	48,710

f) Revaluation reserve for financial assets available for sale

TYPE OF SECURITY GROUP AND BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
DEBT SECURITY	(2,077)	2,988
INVESTMENT IN INVESTMENT FUNDS	762	(2,737)
EQUITY SECURITY	(11,934)	(14,061)
CALCULATED DEFERRED TAX	2,650	2,762
TOTAL REVALUATION RESERVE	(10,599)	(11,048)

Movements in the revaluation reserve

GROUP AND BANK IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	(11,048)	(27,933)
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	(5,065)	14,405
CHANGE IN FAIR VALUE OF INVESTMENT IN INVESTMENT FUNDS	3,499	5,235
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	2,127	1,466
DEFERRED TAX RECOGNISED IN EQUITY	(112)	(4,221)
BALANCE AT 31 DECEMBER	(10,599)	(11,048)

16. FINANCIAL ASSETS HELD TO MATURITY

	31 DECEMBER 2013	31 DECEMBER 2012
GROUP AND BANK IN '000 HRK		
BONDS OF THE REPUBLIC OF CROATIA	27,191	27,481
Movements in held-to-maturity assets		
GROUP AND BANK IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	27,481	27,756
PURCHASE	(290)	(275)
COLLECTION	-	-
BALANCE AT 31 DECEMBER	27,191	27,481

17. INTANGIBLE ASSETS

GROUP IN '000 HRK	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
COST OR VALUATION				
BALANCE AT 1 JANUARY 2012	11,590	16,867	2,032	30,489
ADDITIONS	5	-	11,921	11,926
DISPOSALS AND RETIREMENTS	-	-	-	-
TRANSFER FROM ASSETS UNDER DEVELOPMENT	2,729	-	(2,729)	-
BALANCE AT 31 DECEMBER 2012	14,324	16,867	11,224	42,415
ADDITIONS	21	-	10,005	10,026
DISPOSALS AND RETIREMENTS	-	-	-	-
TRANSFER FROM ASSETS UNDER DEVELOPMENT	314	-	(314)	-
BALANCE AT 31 DECEMBER 2013	14,659	16,867	20,915	52,441
ACCUMULATED AMORTISATION				
BALANCE AT 1 JANUARY 2012	9,776	-	-	9,776
CHARGE FOR THE YEAR	838	-	-	838
DISPOSALS AND RETIREMENTS	-	-	-	-
BALANCE AT 31 DECEMBER 2012	10,614	-	-	10,614
CHARGE FOR THE YEAR	1,062	-	-	1,062
DISPOSALS AND RETIREMENTS	-	-	-	-
BALANCE AT 31 DECEMBER 2013	11,676	-	-	11,676
NET BOOK VALUE				
AT 31 DECEMBER 2013	2,983	16,867	20,915	40,765
AT 31 DECEMBER 2012	3,710	16,867	11,224	31,801

Goodwill has been allocated to the cash generating units acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined on the basis of profitability calculation. For the purposes of calculation, cash flow forecasts have been developed on the basis of financial projection over a time horizon of five years.

The budgeted gross margin has been determined on the basis of past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment.

BANK IN '000 HRK	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
COST OR VALUATION				
BALANCE AT 1 JANUARY 2012	11,393	16,867	2,032	30,292
ADDITIONS	-	-	11,921	11,921
DISPOSALS AND RETIREMENTS	-	-	-	-
TRANSFER FROM ASSETS UNDER DEVELOPMENT	2,729	-	(2,729)	-
BALANCE AT 31 DECEMBER 2012	14,122	16,867	11,224	42,213
ADDITIONS	15	-	10,005	10,020
DISPOSALS AND RETIREMENTS	-	-	-	-
TRANSFER FROM ASSETS UNDER DEVELOPMENT	314	-	(314)	-
BALANCE AT 31 DECEMBER 2013	14,451	16,867	20,915	52,233
ACCUMULATED AMORTISATION				
BALANCE AT 1 JANUARY 2012	9,596	-	-	9,596
CHARGE FOR THE YEAR	830	-	-	830
DISPOSALS AND RETIREMENTS	-	-	-	-
BALANCE AT 31 DECEMBER 2012	10,426	-	-	10,426
CHARGE FOR THE YEAR	1,053	-	-	1,053
DISPOSALS AND RETIREMENTS	-	-	-	-
BALANCE AT 31 DECEMBER 2013	11,479	-	-	11,479
NET BOOK VALUE				
AT 31 DECEMBER 2013	2,972	16,867	20,915	40,754
AT 31 DECEMBER 2012	3,696	16,867	11,224	31,787

Goodwill has been allocated to the cash generating units acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined on the basis of profitability calculation. For the purposes of calculation, cash flow forecasts have been developed on the basis of financial projection over a time horizon of five years.

The budgeted gross margin has been determined on the basis of past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment.

18. PROPERTY AND EQUIPMENT

GROUP IN '000 HRK

COST OR VALUATION	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
BALANCE AT 1 JANUARY 2012							
	91,062	48,070	4,815	38,153	11,999	10,875	204,974
ADDITIONS	-	-	-	-	-	30,364	30,364
TRANSFER FROM ASSETS UNDER CONSTRUCTION	32,357	1,981	-	6,482	-	(40,820)	-
DISPOSALS AND RETIREMENTS	-	(3,935)	(459)	(1,791)	(850)	-	(7,035)
BALANCE AT 31 DECEMBER 2012	123,419	46,116	4,356	42,844	11,149	419	228,303
ADDITIONS	-	-	-	159	38	719	916
TRANSFER FROM ASSETS UNDER CONSTRUCTION	218	148	-	772	-	(1,138)	-
DISPOSALS AND RETIREMENTS	(1,233)	(795)	(1,257)	-	-	-	(3,285)
BALANCE AT 31 DECEMBER 2013							
	122,404	45,469	3,099	43,775	11,187	-	225,934
ACCUMULATED DEPRECIATION							
BALANCE AT 1 JANUARY 2012							
	41,837	44,199	2,714	33,868	9,552	-	132,170
CHARGE FOR THE YEAR	2,189	2,126	670	2,670	990	-	8,645
DISPOSALS AND RETIREMENTS	-	(3,935)	(452)	(1,791)	(847)	-	(7,025)
BALANCE AT 31 DECEMBER 2012							
	44,026	42,390	2,932	34,747	9,695	-	133,790
CHARGE FOR THE YEAR	2,342	1,396	501	3,415	856	-	8,510
DISPOSALS AND RETIREMENTS	(418)	(792)	(1,257)	-	-	-	(2,467)
BALANCE AT 31 DECEMBER 2013	45,950	42,994	2,176	38,162	10,551	-	139,833
NET BOOK VALUE							
AT 31 DECEMBER 2013	76,454	2,475	923	5,613	636	-	86,101
AT 31 DECEMBER 2012	79,393	3,726	1,424	8,097	1,454	419	94,513

The Group has no tangible assets pledged as collateral for deposits from corporate customers (2012: The Group has no tangible assets pledged as collateral for deposits from corporate customers).

BANK IN '000 HRK

COST OR VALUATION	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
BALANCE AT 1 JANUARY 2012	91,062	48,070	4,681	38,000	11,999	10,875	204,687
ADDITIONS	-	-	-	-	-	30,364	30,364
TRANSFER FROM ASSETS UNDER CONSTRUCTION	32,357	1,981	-	6,482	-	(40,820)	-
DISPOSALS AND RETIREMENTS	-	(3,935)	(459)	(1,791)	(850)	-	(7,035)
BALANCE AT 31 DECEMBER 2012	123,419	46,116	4,222	42,691	11,149	419	228,016
ADDITIONS	-	-	-	159	38	719	916
TRANSFER FROM ASSETS UNDER CONSTRUCTION	218	148	-	772	-	(1,138)	-
DISPOSALS AND RETIREMENTS	(1,233)	(795)	(1,257)	-	-	-	(3,285)
BALANCE AT 31 DECEMBER 2013	122,404	45,469	2,965	43,622	11,187	-	225,647
ACCUMULATED DEPRECIATION							
BALANCE AT 1 JANUARY 2012	41,837	44,199	2,580	33,720	9,552	-	131,888
CHARGE FOR THE YEAR	2,189	2,126	670	2,665	990	-	8,640
DISPOSALS AND RETIREMENTS	-	(3,935)	(452)	(1,791)	(847)	-	(7,025)
BALANCE AT 31 DECEMBER 2012	44,026	42,390	2,798	34,594	9,695	-	133,503
CHARGE FOR THE YEAR	2,342	1,396	501	3,415	856	-	8,510
DISPOSALS AND RETIREMENTS	(418)	(792)	(1,257)	-	-	-	(2,467)
BALANCE AT 31 DECEMBER 2013	45,950	42,994	2,042	38,009	10,551	-	139,546
NET BOOK VALUE							
AT 31 DECEMBER 2013	76,454	2,475	923	5,613	636	-	86,101
AT 31 DECEMBER 2012	79,393	3,726	1,424	8,097	1,454	419	94,513

The Bank has no tangible assets pledged as collateral for deposits from corporate customers (2012: The Bank has no tangible assets pledged as collateral for deposits from corporate customers).

19. INVESTMENTS IN SUBSIDIARIES

GROUP AND BANK IN '000 HRK	2013	2012
BALANCE 1 JANUARY	4,770	3,570
INVESTMENT	-	1,200
BALANCE 31 DECEMBER	4,770	4,770

At the end of 2013 the Bank held all of the equity shares in POBA faktor d.o.o.. The subsidiary has been consolidated in these financial statements

The following key data was reported by POBA faktor d.o.o. at 31 December:

IN '000 HRK	2013	2012
TOTAL ASSETS	35,446	31,803
TOTAL NET ASSETS	2,839	1,562
NET GAIN / (LOSS) FOR YEAR	1,277	1,310

20. OTHER ASSETS

GROUP IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
FORECLOSED ASSETS	16,418	6,748
ACCRUED FEES AND COMMISSIONS	4,967	4,592
PREPAID EXPENSES	1,619	2,064
OTHER ADVANCES MADE	373	87
INCOME TAX REFUND	2,907	-
OTHER ASSETS	2,963	1,610
	29,247	15,101
IMPAIRMENT ALLOWANCE	(4,625)	(1,989)
	24,622	13,112

Foreclosed property and equipment are assets not used by the Group and amounted to HRK 16,418 thousand at 31 December 2013 (2012: HRK 6,748 thousand). They are carried by the Group at cost.

BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
FORECLOSED ASSETS	16,418	6,748
ACCRUED FEES AND COMMISSIONS	4,967	4,592
PREPAID EXPENSES	1,619	2,064
OTHER ADVANCES MADE	373	87
INCOME TAX REFUND	2,907	-
OTHER ASSETS	2,899	1,639
	29,183	15,130
IMPAIRMENT ALLOWANCE	(4,603)	(1,989)
	24,580	13,141

Foreclosed property and equipment are assets not used by the Bank and amounted to HRK 16,418 thousand at 31 December 2013 (2012: HRK 6,748 thousand). They are carried by the Bank at cost.

Movements in impairment allowance for potential losses on other assets were as follows:

GROUP IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	1,989	1,843
ADDITIONS	3,084	896
AMOUNTS COLLECTED	(381)	(367)
AMOUNTS WRITTEN OFF	(72)	(384)
EXCHANGE DIFFERENCES	5	1
BALANCE AT 31 DECEMBER	4,625	1,989

BANK IN '000 HRK	2013	2012
BALANCE AT 1 JANUARY	1,989	1,843
ADDITIONS	3,061	896
AMOUNTS COLLECTED	(381)	(367)
AMOUNTS WRITTEN OFF	(72)	(384)
EXCHANGE DIFFERENCES	5	1
BALANCE AT 31 DECEMBER	4,602	1,989

21. AMOUNTS DUE TO OTHER BANKS

GROUP AND BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
FOREIGN CURRENCY DEMAND DEPOSITS	18,936	12,804
DOMESTIC CURRENCY DEMAND DEPOSITS	11	28
FOREIGN BANK TERM DEPOSITS IN FOREIGN CURRENCY	45,839	129,254
DOMESTIC CURRENCY TERM DEPOSITS IN HRK	5,000	5,000
	69,786	147,086

The interest rate on received term deposits foreign banks range from 1.00% to 1.60% (2012: from 1.00% to 2.00%). The interest rate on received term deposits domestic banks range from 0.50% to 0.60% (2012: from 0.01% to 0.50%).

22. AMOUNTS DUE TO CUSTOMERS

GROUP IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
CITIZENS		
DEMAND DEPOSITS		
- HRK DENOMINATED	219,223	199,657
- FOREIGN CURRENCY DENOMINATED	151,584	136,276
TERM DEPOSITS		
- HRK DENOMINATED	362,715	365,483
- FOREIGN CURRENCY DENOMINATED	927,042	982,335
TOTAL CITIZENS	1,660,564	1,683,751
LEGAL ENTITIES		
DEMAND DEPOSITS		
- HRK DENOMINATED	201,694	191,633
- FOREIGN CURRENCY DENOMINATED	81,006	47,481
TERM DEPOSITS		
- HRK DENOMINATED	219,405	228,922
- FOREIGN CURRENCY DENOMINATED	44,314	40,626
TOTAL LEGAL ENTITIES	546,419	508,662
TOTAL DEPOSITS FROM CUSTOMERS	2,206,983	2,192,413

BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
CITIZENS		
DEMAND DEPOSITS		
- HRK DENOMINATED	219,223	199,657
- FOREIGN CURRENCY DENOMINATED	151,584	136,276
TERM DEPOSITS		
- HRK DENOMINATED	362,715	365,483
- FOREIGN CURRENCY DENOMINATED	927,042	982,335
TOTAL CITIZENS	1,660,564	1,683,751
LEGAL ENTITIES		
DEMAND DEPOSITS		
- HRK DENOMINATED	203,457	198,354
- FOREIGN CURRENCY DENOMINATED	81,006	47,481
TERM DEPOSITS		
- HRK DENOMINATED	219,405	228,922
- FOREIGN CURRENCY DENOMINATED	44,314	40,626
TOTAL LEGAL ENTITIES	548,182	515,383
TOTAL DEPOSITS FROM CUSTOMERS	2,208,746	2,199,134

23. OTHER BORROWED FUNDS

GROUP AND BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
REPO LOANS FROM DOMESTIC BANKS, HRK DENOMINATED	63,404	26,401
REPO-LOANS FROM DOMESTIC BANKS, FOREIGN CURRENCY DENOMINATED	49,488	-
SHORT-TERM MONEY MARKET BORROWINGS FROM DOMESTIC BANKS	-	19,242
HBOR LOANS	144,327	163,026
	257,219	208,669

Repo loans from domestic banks comprise loans for which the Bank has pledged securities as collateral, with the obligation to repurchase them at a certain future date. In 2013 the Bank had more repo loan arrangements entered into with interest rates ranging from 0.5% to 0.6% annually. The following treasury bills were pledged as collateral for the arrangements: treasury bills of the Ministry of Finance RHMF-T-437Bm, with a market value of HRK 29,299 thousand; RHMF-T-437E, with a market value of HRK 37,924 thousand; RHMF-T-507X, with a market value of HRK 3,872 thousand; RHMF-T-411E, with a market value of HRK 7,585 thousand; bonds of the Republic of Croatia: RHMF-O-15CA, with a market value of HRK 27,483 thousand; RHMF-O-187A

with a market value of HRK 8,162 thousand; and corporate bonds: RIBA-O-17BA, with a market value of HRK 6,354 thousand. Loans from domestic banks comprise an investment loan with an interest rate of 4.08%. Loans from HBOR are intended for extending loans to legal entities and individuals in accordance with the HBOR SME, Tourist Trade and Agriculture Promotion Programme.

24. OTHER LIABILITIES

GROUP IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
PENDING DISBURSEMENTS UNDER LOAN COMMITMENTS	15,569	6,686
AMOUNTS DUE TO EMPLOYEES	3,971	3,811
PROVISIONS FOR SEVERANCE PAY	1,934	3,598
AMOUNTS DUE TO SUPPLIERS	3,923	2,919
ITEMS IN COURSE OF PAYMENT	1,476	1,669
ACCRUALS IN RESPECT OF RECEIVED FUNDS	3,550	1,263
ACCRUED PREMIUMS FOR INSURING TERM DEPOSITS PAYABLE	1,237	1,130
DEFERRED FEES AND COMMISSIONS	901	720
CURRENT INCOME TAX LIABILITY	269	396
DIVIDENDS PAYABLE	120	125
OTHER HRK DENOMINATED LIABILITIES	4,795	5,873
OTHER FOREIGN CURRENCY DENOMINATED LIABILITIES	7	110
	37,752	28,300

BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
PENDING DISBURSEMENTS UNDER LOAN COMMITMENTS	15,569	6,686
AMOUNTS DUE TO EMPLOYEES	3,971	3,811
PROVISIONS FOR SEVERANCE PAY	1,934	3,598
AMOUNTS DUE TO SUPPLIERS	4,151	3,152
ITEMS IN COURSE OF PAYMENT	1,476	1,669
ACCRUALS IN RESPECT OF RECEIVED FUNDS	3,550	1,263
ACCRUED PREMIUMS FOR INSURING TERM DEPOSITS PAYABLE	1,237	1,130
DEFERRED FEES AND COMMISSIONS	901	720
CURRENT INCOME TAX LIABILITY	269	396
DIVIDENDS PAYABLE	120	125
OTHER HRK DENOMINATED LIABILITIES	4,586	5,732
OTHER FOREIGN CURRENCY DENOMINATED LIABILITIES	8	110
	37,772	28,392

25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

a) Analysis

	31 DECEMBER 2013	31 DECEMBER 2012
GROUP AND BANK IN '000 HRK		
PROVISIONS FOR OTHER CONTINGENT LIABILITIES	3,936	4,576
PROVISIONS FOR LEGAL CASES	250	250
	4,186	4,826

b) Movements in provisions

	2013	2012
GROUP AND BANK IN '000 HRK		
MOVEMENTS IN PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES		
BALANCE AT 1 JANUARY	4,826	4,457
INCREASE DURING THE YEAR	7,595	1,128
DECREASE DURING THE YEAR	(8,235)	(759)
BALANCE AT 31 DECEMBER	4,186	4,826

26. ISSUED HYBRID AND SUBORDINATED INSTRUMENTS

	31 DECEMBER 2013	31 DECEMBER 2012
GROUP AND BANK IN '000 HRK		
ISSUED HYBRID AND SUBORDINATED BONDS	131,162	77,351

On 22 August 2011 the Group and Bank subscribed hybrid instruments by issuing bonds with the ticker PDBA-O-188A, ISIN: HRPDBAO188A5. These are non-material registered bonds equivalent to EUR 10 million, denominated in 1 euro. The interest rate is fixed and amounts to 7.00% per annum, payable on a semi-annual basis. The principal is due on a one-off basis in 2018.

On 23 December 2013 the Group and Bank subscribed subordinated instruments by issuing bonds with a ticker symbol PDBA-O-21CA, ISIN: HRPDBAO21CA3. The bonds are registered bonds in the non-material form in the total amount of the kuna-equivalent issue of EUR 6.9 million, 1-euro denomination. They bear interest at a fixed rate of 6.5% annually, with semi-annual payments. The principal is due on a one-off basis in 2021.

27. SHARE CAPITAL

The Group's share capital consists of ordinary shares. The total number of ordinary shares in issue at the end of 2013 was 668,749 (2012: 668,749 shares), with a nominal value of HRK 400.00 per share.

At 31 December 2013, the Bank held 9,203 treasury shares, which it carries at cost (2012: 9,203 treasury shares).

The key shareholders of the Bank and the Group at 31 December were as follows:

GROUP AND BANK IN '000 HRK	2013		2012	
	NUMBER OF ORDINARY SHARES SHARES	IN %	NUMBER OF ORDINARY SHARES SHARES	IN %
LORENZO GORGONI	66,002	9.87	66,002	9.87
ANTONIA GORGONI	65,336	9.77	65,336	9.77
ASSICURAZIONI GENERALI S.P.A.	63,791	9.54	63,791	9.54
CERERE S.P.A. TRIESTE	63,735	9.53	63,735	9.53
MILJAN TODOROVIC	55,731	8.33	55,731	8.33
ZAGREBAČKA BANKA D.D. ZBIRNI	38,515	5.76	39,863	5.96
SIGILFREDO MONTINARI	38,529	5.76	38,529	5.76
ANDREA MONTINARI	38,515	5.76	38,515	5.76
DARIO MONTINARI	38,526	5.76	38,526	5.76
GIOVANNI SEMERARO	27,494	4.11	27,494	4.11
OTHER SHAREHOLDERS (INDIVIDUALLY BELOW 3%)	172,575	25.81	171,227	25.61
	668,749	100	668,749	100

28. OTHER RESERVES

GROUP IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
LEGAL RESERVES	114,425	104,986
RESERVES FOR TREASURY SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
UN-DISTRIBUTABLE RESERVES	136,359	126,920
CAPITAL GAINS ON TRADING IN TREASURY SHARES	4,802	4,802
FAIR VALUE RESERVE	(10,599)	(11,048)
DISTRIBUTABLE RESERVES	(5,797)	(6,246)
	130,562	120,674

In accordance with the Croatian Companies Act, groups are required to allocate part of the net profit to a non-distributable legal reserve until the reserve funds reach 5% of the share capital or more if specified by the Group's statute. The general banking

risk reserve was allocated in accordance with the CNB regulations out of the net profits for the year 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Groups exposure has been increasing at a rate below 15% annually. Other reserves are distributable only with the approval by the General Shareholders' Assembly.

Both the distributable and non-distributable reserves of the Group have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
LEGAL RESERVES	114,658	105,219
RESERVES FOR TREASURY SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
UN-DISTRIBUTABLE RESERVES	136,592	127,153
CAPITAL GAINS ON TRADING IN TREASURY SHARES	4,802	4,802
FAIR VALUE RESERVE	(10,599)	(11,048)
DISTRIBUTABLE RESERVES	(5,797)	(6,246)
	130,795	120,907

In accordance with the Croatian Companies Act, banks are required to allocate part of the net profit to a non-distributable legal reserve until the reserve funds reach 5% of the share capital or more if specified by the Bank's statute. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for the year 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Groups exposure has been increasing at a rate below 15% annually. Other reserves are distributable only with the approval by the General Shareholders' Assembly.

Both the distributable and non-distributable reserves of the Group have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

29. FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES AND, CUSTODY SERVICES

The Group and Bank manages significant funds for and on behalf of third parties, entities and individuals. Those assets are accounted for separately from those of the Group and Bank. Income and expenses arising from these funds are credited and charged to third parties and no liability falls on the Bank in connection with these transactions. The Group and Bank are compensated for their services by fees chargeable to the funds.

Assets and liabilities on loans managed for and on behalf of third parties can be presented as follows:

GROUP AND BANK IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
ASSETS		
LOANS TO INDIVIDUALS	17,111	20,382
LOANS TO CORPORATE ENTITIES	1,107	1,151
CASH	1,102	964
TOTAL ASSETS	19,320	22,497
LIABILITIES		
PUBLIC SECTOR	7,090	8,237
CORPORATE ENTITIES	2,799	3,250
FINANCIAL INSTITUTIONS	9,431	11,010
TOTAL LIABILITIES	19,320	22,497

The Bank provides custody services for securities. The market value of equities taken under custody was HRK 395,291 thousand at 31 December 2013 (2012: HRK 322,555 thousand).

During 2013, the total Bank's fee income in respect of funds managed for and on behalf of third parties amounted to HRK 833 thousand (2012: HRK 1,010 thousand).

30. CONTINGENT LIABILITIES AND COMMITMENTS

Legal actions

At 31 December 2013 and 2012 there were several legal actions outstanding against the Group. Based on the management's estimate, HRK 250 thousand is provided for the potential losses in legal actions (2012: HRK 250 thousand).

Commitments to extend credit, guarantees and other financial instruments

Total outstanding amounts under guarantees, letters of credit and undrawn loans at the year end were as follows:

GROUP IN '000 HRK	31 DECEMBER 2013	31 DECEMBER 2012
COMMITMENTS – UNDRAWN OVERDRAFT FACILITIES ON TRANSACTION ACCOUNTS	91,963	87,635
COMMITMENTS – UNDRAWN LOANS	192,197	235,695
GUARANTEES	44,825	66,774
FOREIGN CURRENCY LETTERS OF CREDIT	20,646	16,420
	349,631	406,524

	31 DECEMBER 2013	31 DECEMBER 2012
BANK IN '000 HRK		
COMMITMENTS – UNDRAWN OVERDRAFT FACILITIES ON TRANSACTION ACCOUNTS	109,663	173,033
COMMITMENTS – UNDRAWN LOANS	192,207	169,114
GUARANTEES	44,825	66,774
FOREIGN CURRENCY LETTERS OF CREDIT	20,646	16,420
	367,341	425,341

The primary purpose of commitments and contingencies is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Future minimum lease payments under operating leases are as follows:

	31 DECEMBER 2013	31 DECEMBER 2012
GROUP IN '000 HRK		
UP TO 1 YEAR	6,591	5,203
FROM 2 TO 5 YEARS	10,780	8,187
OVER 5 YEARS	3,448	2,839
TOTAL	20,819	16,229

	31 DECEMBER 2013	31 DECEMBER 2012
BANK IN '000 HRK		
UP TO 1 YEAR	6,591	5,203
FROM 2 TO 5 YEARS	10,780	8,187
OVER 5 YEARS	3,448	2,839
TOTAL	20,819	16,229

Upon the expiry of the lease term, the lease agreements are renewable at the market price.

31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such transactions are made in the ordinary course of business at market terms and conditions, and market interest rates. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Parties related to the Group include the Group's Management Board, its officers with the general power of attorney, members of the Supervisory Board and their related persons. Related party transactions at the year end were as follows:

GROUP IN '000 HRK	KEY MANAGEMENT AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2013	2012	2013	2012
LOANS				
OPENING BALANCE	4,358	3,928	22,034	9,078
INCREASE DURING THE YEAR	(151)	430	1,206	12,956
CLOSING BALANCE	4,207	4,358	23,240	22,034
INTEREST INCOME	200	201	1,440	890
DEPOSITS RECEIVED				
OPENING BALANCE	7,078	6,084	2,194	288
INCREASE / (DECREASE) DURING THE YEAR	187	994	(1,297)	1,906
CLOSING BALANCE	7,265	7,078	897	2,194
INTEREST EXPENSE	264	289	1	51

Key management remuneration

IN '000 HRK	2013	2012
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	13,427	9,698

BANK IN '000 HRK	KEY MANAGEMENT AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2013	2012	2013	2012
LOANS				
OPENING BALANCE	3,324	2,839	22,034	9,078
INCREASE DURING THE YEAR	(126)	485	1,206	12,956
CLOSING BALANCE	3,198	3,324	23,240	22,034
INTEREST INCOME	160	160	1,440	890
DEPOSITS RECEIVED				
OPENING BALANCE	6,594	5,586	2,194	288
INCREASE / (DECREASE) DURING THE YEAR	186	1,008	(1,297)	1,906
CLOSING BALANCE	6,780	6,594	897	2,194
INTEREST EXPENSE	249	265	1	51

Key management remuneration

IN '000 HRK	2013	2012
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	13,066	9,205

The Management Board consists of three members.

Key transactions with related parties were as follows:

IN '000 HRK	ASSETS		LIABILITIES	
	2013	2012	2013	2012
POBA FAKTOR D.O.O.	35,446	31,803	32,607	30,240

	INCOME		EXPENSE	
	2013	2012	2013	2012
INTEREST INCOME/EXPENSE	2,625	19	1,298	950

32. FINANCIAL RISK MANAGEMENT POLICIES

This section provides details of the Group's exposure to risk and describes the methods used by the management to control the risk.

The Group's operations expose it to various types of financial risks. These operations include analysing, assessing, accepting and managing a certain level of risk, or a combination of risks. Assuming risk is a fundamental feature of financial operations, with risks being inherent to the business. The Group's aim is to achieve an appropriate balance between the risk and return, whilst minimising potential negative effects on its financial performance.

The Group's risk policies have been designed to identify and analyse those risks in order to define appropriate limits and controls, and to monitor those risks and limit compliance by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect any changes in its markets, products and best practices. The most important types of financial risks to which the Group is exposed are the credit risk, liquidity risk, market risk and operational risk. The market risk includes the currency risk, interest rate risk and equities and securities price risk.

An integrated system of risk management is being established at Group level by introducing a set of policies and procedures, determining the risk level limits acceptable to the Group. The limits are applied to all types of risks. The methodology and models for managing the operational risk have been developed.

Credit risk

The Group takes on exposure to credit risk, which may be defined as the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Major changes in the economy or the status of an industry in which the Group's portfolio is concentrated, may lead to losses not provided for at the reporting date. Therefore, the Board manages its exposure to credit risk with a high level of prudence. The exposure to credit risk arises primarily in respect of loans and advances, debt and other securities. Credit risk is also present in off-balance sheet financial arrangements, such as commitments to extend credit and guarantees issued. Credit risk management and control have been centralised within the Risk Management Division.

The Group manages credit risk in accordance with its policies, procedures and other internal guidelines. The Group has defined its Credit policy as a set of measures for allocating loan funds to loan applicants with the aim of sound and prudent credit risk management, by ensuring unbiased lending principles and goals and setting them as a general rule and reliable guidance in making every decision to lend. The credit policy defines the focus of considerations to be made in performing credit operations. If a proposal to extend a loan departs from the credit policy, the final decision is made by the Group's management.

The structure of loans over a certain period is defined by the credit policy. Loans are structured by type of customer, or groups of customers, type or group of products, by sector and industry. The policy sets limits for individual placements in accordance with the guidelines of the Croatian National Bank. Given that loans are approved using the four eye principle, it is very unlikely that a loan authorised by overriding the procedures might remain undetected.

The credit policy defines and sets out policies and procedures for extending loans to individuals and legal entities. Credit risk is reviewed on an ongoing basis and reported on regularly to promptly identify any indication of impairment in the loan portfolio. The Group has been continually applying prudent methods and models used in the process of the credit risk assessment.

Loans are classified into the following three main groupings, in accordance with the regulations of the Croatian National Bank:

- Performing loans – A Risk Group – subject to a collective assessment
- Substandard loans – B Risk Group – subject to individual assessment
- Non-performing loans (bad debt) – C Risk Group – subject to individual assessment.

All three levels contain sub-categories, which are mandatory for the substandard loans.

Loans are classified into the groupings by criteria specified in the applicable Decision of the Croatian National Bank and the Group's internal decision. In assessing each individual customer, the Group considers the credit rating of the borrower, the past debt service history and the collaterals obtained for loans, guarantees and other placements.

The Group reviews the risk assessment of its loans and advances on a quarterly basis. Based on the risk assessment and the risk groupings as defined by the Decision on the Internal Loan Classification System, the required level of provision is determined for every individual debtor impaired or type of placement. The final decision on the required level of provisions for identified potential losses is made by the Group's management.

Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates, and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including different types of deposits, borrowings, subordinated liabilities including deposits, borrowings and share capital. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as a part of its liquidity risk management.

The Group adjusts its business activities related to liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, by matching liabilities and assets, monitoring compliance with the externally and internally set limits, preferred liquidity ratios and contingency planning procedure. The Treasury manages liquidity reserves daily, ensuring also the accomplishment of all customers' needs.

Concentration indicators indicate the concentration in the deposit portfolio (top 20 individual and corporate depositors in the total deposits) which is regularly reported to the Group's Management Board on a monthly level.

In addition to the regulatory requirements set out above, the Group has the obligation to monitor the structural indicators of the liquidity and concentration levels, which have been set in the internal regulations of the Group.

The structural liquidity level indicators present the correlations between certain items of assets and liabilities such as: the ratio of total loans to total deposits received; the ratio of total loans to total assets; the ratio of liquid assets to total deposits received; the ratio of total loans to total liabilities.

Market risk

The majority of available for sale 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. Market risks represent potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Group. Changes in market rates imply all changes in interest rates, exchange rates, prices of financial instruments, indices or other market factors that affect the value of financial instruments. The instruments are recognised at fair value, and all changes in market conditions directly affect revaluation reserves. The Group manages its use of trading instruments in response to changing market conditions.

The limits are defined in accordance with the Group's requirements and strategy, and the senior management risk policy indications. The exposure to market risk is formally managed within the risk limits approved by the Management Board and revised annually at the least.

Key liquidity data about the liquidity positions in the local and foreign currency is provided to the Groups' Board and senior management on a daily basis, with a focus on the most significant fluctuations in interest and foreign exchange rates. The Treasury Division provides the Management Board with weekly reports on currency risk exposure. Also, the Risk Management Division provides the Management Board with monthly reports on the total currency risk exposure.

In managing its market risks, the Group resorts to various strategies. Value-at-risk (VaR) methodology is applied to the Group's open foreign currency position to estimate the maximum potential losses on the basis of certain assumptions regarding various changes in market conditions. The methodology defines the maximum loss that the Group may suffer with a limited level of reliability 99%, based on 260 days. However, this approach does not preclude any losses outside the defined limits in case of major changes in market terms and conditions.

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The foreign exchange risk exposure is monitored on the overall balance sheet level in terms of foreign exchange open position as prescribed by the regulatory provisions and additionally through the internal limits on a daily basis.

The currency position of the Group is monitored daily through the report on the open foreign currency positions in accordance with the CNB requirements. For the purposes of analysing the currency risk exposure, the Market, Operational and other risks management Division prepares regular management reports.

The Group has the obligation to adjust its foreign currency position in line with the currency risk to ensure that the foreign exchange open position does not exceed 30% of the Group's regulatory capital, as determined by the CNB.

Interest rate risk

The interest rate risk is the sensitivity of the Group's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period generate interest rate risk.

The Group's operations are subject to the risk of interest rate fluctuations to the extent that the interest-earning assets and interest-bearing liabilities mature or change rates at different times or in differing amounts. In case of the floating rate, the assets and liabilities of the Group are also exposed to the basis risk which is the difference in re-pricing characteristics of the various floating rate indices.

Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using re-pricing gap analysis in the sensitivity to changes in interest rates, the net interest income and economic value of equity. Risk management activities are aimed at optimising the net interest income and economic value of equity, when the market interest rate levels are consistent with the Group's business strategies.

Interest rate risk is reported through an interest rate gap report, by which the Management Board approves internally set limits for individual time horizons. The Group's Management Board and Asset and Liability Committee control and manage the interest rate risk by involving all organisational units that operatively apply the prescribed interest rates.

Equity and debt security price risk

Equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments and other instruments that derive their value from these investments. The primary exposure to equity price risk arises from the available-for-sale equity shares accounted for at fair value.

Derivative financial instruments

The Group enters into derivative financial instruments primarily to satisfy the needs and requirements of the customers. Derivative financial instruments used by the Group include a one-way foreign currency clause.

Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk.

Operational risk management falls within the area of competence of the Market, Operational and Other Risk Management Division (“the Division”). The objectives of the Division are to collect data, prepare reports and analyses of the current and potential operational risk events at the Group and the underlying root causes, as well as to provide information that will allow operational risk at the Group to be managed efficiently.

Operational risk events are aggregated in a single data base using a web application.

According to the Basel II guidelines and EU Directives, there are three operational risk assessment methods, which are as follows:

- Basic Indicator Approach (BIA)
- Standardised Approach (SA)
- Advanced Measurement Approach (AMA).

The Group has opted to adopt the Basic Indicator Approach (BIA).

For the purpose of actively managing operational risk and ensuring independent control and analysis of the risk, the Division monitors the operational risk exposure with reference to the defined internal by-laws and standards, collects operational risk data (risk events, key risk indicators, sensitivity analyses), proposes measures to reduce and/or avoid operational risk, monitors and reports about the Group’s operational risk profile, participates in the implementation of new products and significant changes, organises operational risk training and provides regular operational risk exposure reports to the Group’s Managing Board, Operational Risk Board and senior management.

The purpose and main principles of taking-on and managing operational risk as well as the Group’s operational risk appetite are defined in the Operational Risk Management Policy and other internal by-laws of the Group.

For the purpose of protection against operational risk, the Group has developed a risk map and implemented an operational risk monitoring system. Given the nature of operational risk, the controls are performed comparing the losses with the determined risk assessment. The risk assessment is defined using an internal methodology or by reference to operational risk losses. Key risk indicators are monitored on an ongoing basis.

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Loans and advances to customers and assets held to maturity are measured at amortised cost less impairment.

The following methods and assumptions have been made in estimating the fair value of financial instruments:

Loans and advances to customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected future cash flows are estimated considering credit risk and any indication of impairment. Since the Group has a limited portfolio of loans and advances with fixed rate and longer term maturity, the fair values of loans and advances are not significantly different from their carrying amounts.

The fair value of securities is based on market prices, with the exception of unquoted equity investments whose fair value is based on the latest available financial statements of the issuer.

The fair value of certain investments carried at amortised cost less impairment for which no quoted market price is available is, where possible, estimated using mark to model techniques and, as a result, their estimated fair values appeared not to be materially different from their carrying value. However, the afore-mentioned techniques did not include market liquidity factor on similar instruments.

For demand deposits and deposits with no defined maturities, fair value is determined to be the amount payable on demand at the reporting date.

Most of the Group's long-term borrowings are at variable rates which are linked to the market and changed regularly. As such, the management believes that the book value of the long-term borrowings approximates their fair value.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2013 IN '000 HRK	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
AVAILABLE-FOR-SALE FINANCIAL ASSETS				
EQUITY SECURITIES	114,185	-	28,716	142,901
DEBT SECURITIES	210,373	98,010	30,678	339,061
TOTAL	324,558	98,010	59,394	481,962

The fair value level 3 includes investments in shares of companies HROK d.o.o., Središnje klirinško depozitarno društvo, Tržište novca d.d., Zagrebačka burza d.d., S.W.I.F.T Belgium, Centralna depozitarna agencija ad Podgorica Franck d.d., Oroplet d.d. u stečaju, Western Balkan Investment Fund, Podgorica i Atlasmont banka a.d Podgorica which are carried at cost. Level 3 debt securities consist of the securities issued by Jadrolinija Rijeka, JGL d.d., Rijeka, Odašiljači i veze d.o.o., Zagreb, and HEP-Hrvatska elektroprivreda d.d., Zagreb. There were no changes in levels during 2013.

2012 IN '000 HRK	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
AVAILABLE-FOR-SALE FINANCIAL ASSETS				
EQUITY SECURITIES	74,936	-	27,429	102,365
DEBT SECURITIES	238,228	-	-	238,228
TOTAL	313,164	-	27,429	340,593

The fair value level 3 includes investments in shares of companies HROK d.o.o., Središnje klirinško depozitarno društvo, Tržište novca d.d., Zagrebačka burza d.d., S.W.I.F.T Belgium, Centralna depozitarna agencija ad Podgorica and Atlasmont banka a.d Podgorica which are carried at cost. There were no changes in levels during 2012.

Fair value measurement

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE AS AT		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)	RELATIONSHIP
	31/12/2013	31/12/2012				OF UNOBSERVABLE INPUTS TO FAIR VALUE
EQUITY SECURITIES	114,185	74,936	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	NOT-APPLICABLE	NOT-APPLICABLE
EQUITY SECURITIES	28,716	27,429	LEVEL 3	IMPAIRMENT TEST (NO TRADING OR LIQUIDITY ON THE MARKET FOR THIS SHARES) OR VALUATION AT COST SINCE THIS IS NOT MATERIAL INVESTMENT	NOT-APPLICABLE	NOT-APPLICABLE
TOTAL EQUITY SECURITIES	142,901	102,365				
DEBT SECURITIES	210,373	238,228	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	NOT-APPLICABLE	NOT-APPLICABLE
DEBT SECURITIES	98,010	-	LEVEL 2	VALUATION ACCORDING TO THE SIMILAR PROPERTY (TREASURY BILLS AND COMERCIAL BILLS ARE COMPARED WITH THE PRICES FROM RECENT AUCTIONS OF TREASURY BILLS)	NOT-APPLICABLE	NOT-APPLICABLE
DEBT SECURITIES	30,678	-	LEVEL 3	VALUATION IN ACCORDANCE WITH THE EFFECTIVE INTEREST RATE (NO PRICE OR MARKET FOR THESE SECURITIES, ILLIQUID SECURITIES)	NOT-APPLICABLE	NOT-APPLICABLE
TOTAL DEBT SECURITIES	339,061	238,228				
TOTAL SECURITIES	481,962	340,593				

34. INTEREST RATE RISK

The tables below provide the Group's interest rate sensitivity position at 31 December 2013 and 2012 based upon the known re-pricing dates of fixed and floating rate assets and liabilities and the assumed re-pricing dates of other items.

AT 31 DECEMBER 2013 IN '000 HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON – INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	268,487	268,487
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	212,678	212,678
PLACEMENTS WITH OTHER BANKS	32,168	24,229	6,154	-	131	62,682
LOANS AND ADVANCES TO CUSTOMERS	1,584,370	138,675	77,950	67,792	20,181	1,888,968
FINANCIAL ASSETS AVAILABLE FOR SALE	-	15,247	124,858	194,469	147,388	481,962
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	27,126	65	27,191
INTANGIBLE ASSETS	-	-	-	-	40,765	40,765
PROPERTY AND EQUIPMENT	-	-	-	-	86,101	86,101
DEFERRED TAX ASSETS	-	-	-	-	5,957	5,957
OTHER ASSETS	-	-	-	-	24,622	24,622
TOTAL ASSETS	1,616,538	178,151	208,962	289,387	806,375	3,099,413
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	46,106	23,636	-	-	44	69,786
AMOUNTS DUE TO CUSTOMERS	839,634	318,944	834,819	188,194	25,392	2,206,983
OTHER BORROWED FUNDS	89,252	33,859	58,755	75,039	314	257,219
OTHER LIABILITIES	-	-	-	-	37,752	37,752
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,186	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	-	129,159	2,003	131,162
TOTAL LIABILITIES	974,992	376,439	893,574	392,392	69,691	2,707,088
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	130,562	130,562
PROFIT FOR THE YEAR	-	-	-	-	2,330	2,330
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	392,325	392,325
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	974,992	376,439	893,574	395,392	462,016	3,099,413
NET INTEREST GAP	641,546	(198,288)	(684,612)	(103,005)	344,359	-

AT 31 DECEMBER 2012 IN '000 HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON – INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	388,629	388,629
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	211,836	211,836
PLACEMENTS WITH OTHER BANKS	147,030	-	-	18,925	244	166,199
LOANS AND ADVANCES TO CUSTOMERS	1,452,681	60,915	171,652	67,901	14,259	1,767,408
FINANCIAL ASSETS AVAILABLE FOR SALE	132,055	3,122	44,506	156,901	4,009	340,593
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	27,416	65	27,481
INTANGIBLE ASSETS	-	-	-	-	31,801	31,801
PROPERTY AND EQUIPMENT	-	-	-	-	94,513	94,513
DEFERRED TAX ASSETS	-	-	-	-	6,619	6,619
OTHER ASSETS	-	-	-	-	13,112	13,112
TOTAL ASSETS	1,731,766	64,037	216,158	271,143	765,087	3,048,191
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	147,004	-	-	-	82	147,086
AMOUNTS DUE TO CUSTOMERS	27,976	12,758	102,332	65,090	513	208,669
OTHER BORROWED FUNDS	1,546,515	202,391	406,979	6,287	30,241	2,192,413
OTHER LIABILITIES	-	-	-	-	28,300	28,300
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,826	4,826
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	-	75,456	1,895	77,351
TOTAL LIABILITIES	1,721,495	215,149	509,311	146,833	65,857	2,658,645
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	120,674	120,674
PROFIT FOR THE YEAR	-	-	-	-	9,439	9,439
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	389,546	389,546
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,721,495	215,149	509,311	146,833	455,403	3,048,191
NET INTEREST GAP	10,271	(151,112)	(293,153)	124,310	309,684	-

The tables below provide the Bank's interest rate sensitivity position at 31 December 2013 and 2012 based upon the known re-pricing dates of fixed and floating rate assets and liabilities and the assumed re-pricing dates of other items.

AT 31 DECEMBER 2013 IN '000 HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON – INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	268,486	268,486
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	212,678	212,678
PLACEMENTS WITH OTHER BANKS	31,899	24,437	6,215	-	131	62,682
LOANS AND ADVANCES TO CUSTOMERS	900,160	235,115	664,718	67,792	20,181	1,887,966
FINANCIAL ASSETS AVAILABLE FOR SALE	-	15,247	124,858	194,469	147,388	481,962
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	27,126	65	27,191
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	40,754	40,754
PROPERTY AND EQUIPMENT	-	-	-	-	86,101	86,101
DEFERRED TAX ASSETS	-	-	-	-	5,957	5,957
OTHER ASSETS	-	-	-	-	24,580	24,580
TOTAL ASSETS	932,059	274,799	795,791	289,387	811,091	3,103,127
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	46,106	23,636	-	-	44	69,786
AMOUNTS DUE TO CUSTOMERS	844,987	315,366	838,875	184,126	25,392	2,208,746
OTHER BORROWED FUNDS	97,321	26,589	58,206	74,789	314	257,219
OTHER LIABILITIES	-	-	-	-	37,772	37,772
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,186	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	-	129,159	2,003	131,162
TOTAL LIABILITIES	988,414	365,591	897,081	388,074	69,711	2,708,871
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	133,770	133,770
PROFIT FOR THE YEAR	-	-	-	-	1,053	1,053
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	394,256	394,256
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	988,414	365,591	897,081	388,074	463,967	3,103,127
NET INTEREST GAP	(56,355)	(90,792)	(101,290)	(98,687)	347,124	-

AT 31 DECEMBER 2012 IN '000 HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON – INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	388,628	388,628
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	211,836	211,836
PLACEMENTS WITH OTHER BANKS	147,030	-	-	18,925	244	166,199
LOANS AND ADVANCES TO CUSTOMERS	1,452,681	66,152	171,652	67,901	14,259	1,772,645
FINANCIAL ASSETS AVAILABLE FOR SALE	132,055	3,122	44,506	156,901	4,009	340,593
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	27,416	65	27,481
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	31,787	31,787
PROPERTY AND EQUIPMENT	-	-	-	-	94,513	94,513
DEFERRED TAX ASSETS	-	-	-	-	6,619	6,619
OTHER ASSETS	-	-	-	-	13,141	13,141
TOTAL ASSETS	1,731,766	69,274	216,158	271,143	769,871	3,058,212
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	147,004	-	-	-	82	147,086
AMOUNTS DUE TO CUSTOMERS	1,553,236	202,391	406,979	6,287	30,241	2,199,134
OTHER BORROWED FUNDS	27,976	12,758	102,332	65,090	513	208,669
OTHER LIABILITIES	-	-	-	-	28,392	28,392
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,826	4,826
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	-	75,456	1,895	77,351
TOTAL LIABILITIES	1,728,216	215,149	509,311	146,833	65,949	2,665,458
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	125,192	125,192
PROFIT FOR THE YEAR	-	-	-	-	8,129	8,129
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	392,754	392,754
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,728,216	215,149	509,311	146,833	458,703	3,058,212
NET INTEREST GAP	3,550	(145,875)	(293,153)	124,310	311,168	-

During 2013, the weighted average effective interest rate on loans and advances to customers was 7.74% (2012: 8.62%).

During 2013, the weighted average effective interest rate on deposits from customers was 2.78% (2012: 3.13%).

The Table below presents the sensitivity of the Group's and Bank's variable rate assets and liabilities to the fluctuations in interest rates assuming the maximum recorded increase or decrease in the interest rates during 2013 and 2012. Changes in interest rates have a direct impact on net interest income. In case of a decrease interest rate in the same percentage, there would be interest expense in the same amount.

GROUP AND BANK IN '000 HRK	ASSUMED INCREASE OF THE INTEREST RATE	IMPACT ON 2013 PROFIT AND LOSS	IMPACT ON 2012 PROFIT AND LOSS
ASSETS	5%	6,529	5,949
LIABILITIES	5%	(1,002)	(1,804)
IMPACT ON NET INTEREST INCOME		5,527	4,145

35. CURRENCY RISK

The Group manages its exposure to currency risk through a variety of measures, including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies.

GROUP IN '000 HRK AT 31 DECEMBER 2013	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	119,361	4,075	21,999	145,435	123,052	268,487
BALANCES WITH THE CROATIAN NATIONAL BANK	18,109	4,245	-	22,354	190,324	212,678
PLACEMENTS WITH OTHER BANKS	36,669	11,012	-	47,681	15,001	62,682
LOANS AND ADVANCES TO CUSTOMERS	1,016,506	8,725	-	1,025,231	863,737	1,888,968
FINANCIAL ASSETS AVAILABLE FOR SALE	224,267	57,235	6,384	287,886	194,076	481,962
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	27,191	27,191
INTANGIBLE ASSETS	-	-	-	-	40,765	40,765
PROPERTY AND EQUIPMENT	-	-	-	-	86,101	86,101
DEFERRED TAX ASSETS	-	-	-	-	5,957	5,957
OTHER ASSETS	127	-	-	127	24,495	24,622
TOTAL ASSETS	1,415,039	85,292	28,383	1,528,714	1,570,699	3,099,413
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	33,873	30,902	-	64,775	5,011	69,786
AMOUNTS DUE TO CUSTOMERS	1,185,361	25,411	22,592	1,233,364	973,619	2,206,983
OTHER BORROWED FUNDS	56,267	25,002	-	81,269	175,950	257,219
OTHER LIABILITIES	3,480	773	12	4,265	33,487	37,752
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,186	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,162	-	-	131,162	-	131,162
TOTAL LIABILITIES	1,410,143	82,088	22,604	1,514,835	1,192,253	2,707,088
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	130,562	130,562
PROFIT FOR THE YEAR	-	-	-	-	2,330	2,330
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	392,325	392,325
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,410,143	82,088	22,604	1,514,835	1,584,578	3,099,413
NET FX GAP	4,896	3,204	5,779	13,879	(13,879)	-

Group in '000 HRK

AT 31 DECEMBER 2012	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	121,259	8,350	61,105	190,714	197,915	388,629
BALANCES WITH THE CROATIAN NATIONAL BANK	21,347	4,925	-	26,272	185,564	211,836
PLACEMENTS WITH OTHER BANKS	55,306	4,966	-	60,272	105,927	166,199
LOANS AND ADVANCES TO CUSTOMERS	1,017,979	9,799	7	1,027,785	739,623	1,767,408
FINANCIAL ASSETS AVAILABLE FOR SALE	201,496	24,025	22,439	247,960	92,633	340,593
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	27,481	27,481
INTANGIBLE ASSETS	-	-	-	-	31,801	31,801
PROPERTY AND EQUIPMENT	-	-	-	-	94,513	94,513
DEFERRED TAX ASSETS	-	-	-	-	6,619	6,619
OTHER ASSETS	153	1	1	155	12,957	13,112
TOTAL ASSETS	1,417,540	52,066	83,552	1,553,158	1,495,033	3,048,191
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	77,379	14,714	49,965	142,058	5,028	147,086
AMOUNTS DUE TO CUSTOMERS	1,191,855	35,481	27,437	1,254,773	937,640	2,192,413
OTHER BORROWED FUNDS	56,721	-	-	56,721	151,948	208,669
OTHER LIABILITIES	359	18	18	395	27,905	28,300
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,826	4,826
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	77,351	-	-	77,351	-	77,351
TOTAL LIABILITIES	1,403,665	50,213	77,420	1,531,298	1,127,347	2,658,645
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	120,674	120,674
PROFIT FOR THE YEAR	-	-	-	-	9,439	9,439
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	389,546	389,546
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,403,665	50,213	77,420	1,531,298	1,516,893	3,048,191
NET FX GAP	13,875	1,853	6,132	21,860	(21,860)	-

The Bank manages its exposure to currency risk through a variety of measures, including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies.

BANK IN '000 HRK AT 31 DECEMBER 2013	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	119,361	4,075	21,999	145,435	123,051	268,486
BALANCES WITH THE CROATIAN NATIONAL BANK	18,109	4,245	-	22,354	190,324	212,678
PLACEMENTS WITH OTHER BANKS	36,669	11,012	-	47,681	15,001	62,682
LOANS AND ADVANCES TO CUSTOMERS	1,016,506	8,725	-	1,025,231	862,735	1,887,966
FINANCIAL ASSETS AVAILABLE FOR SALE	224,267	57,235	6,384	287,886	194,076	481,962
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	27,191	27,191
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	40,754	40,754
PROPERTY AND EQUIPMENT	-	-	-	-	86,101	86,101
DEFERRED TAX ASSETS	-	-	-	-	5,957	5,957
OTHER ASSETS	127	-	-	127	24,453	24,580
TOTAL ASSETS	1,415,039	85,292	28,383	1,528,714	1,574,413	3,103,127
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	33,873	30,902	-	64,775	5,011	69,786
AMOUNTS DUE TO CUSTOMERS	1,185,361	25,411	22,592	1,233,364	975,382	2,208,746
OTHER BORROWED FUNDS	56,267	25,002	-	81,269	175,950	257,219
OTHER LIABILITIES	3,480	773	12	4,265	33,507	37,772
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,186	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,162	-	-	131,162	-	131,162
TOTAL LIABILITIES	1,410,143	82,088	22,604	1,514,835	1,194,036	2,708,871
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	133,770	133,770
PROFIT FOR THE YEAR	-	-	-	-	1,053	1,053
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	394,256	394,256
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,410,143	82,088	22,604	1,514,835	1,588,292	3,103,127
NET FX GAP	4,896	3,204	5,779	13,879	(13,879)	-

BANK IN '000 HRK AT 31 DECEMBER 2012	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	121,259	8,350	61,105	190,714	197,914	388,628
BALANCES WITH THE CROATIAN NATIONAL BANK	21,347	4,925	-	26,272	185,564	211,836
PLACEMENTS WITH OTHER BANKS	55,306	4,966	-	60,272	105,927	166,199
LOANS AND ADVANCES TO CUSTOMERS	1,017,979	9,799	7	1,027,785	744,860	1,772,645
FINANCIAL ASSETS AVAILABLE FOR SALE	201,496	24,025	22,439	247,960	92,633	340,593
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	27,481	27,481
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	31,787	31,787
PROPERTY AND EQUIPMENT	-	-	-	-	94,513	94,513
DEFERRED TAX ASSETS	-	-	-	-	6,619	6,619
OTHER ASSETS	153	1	1	155	12,986	13,141
TOTAL ASSETS	1,417,540	52,066	83,552	1,553,158	1,505,054	3,058,212
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	77,379	14,714	49,965	142,058	5,028	147,086
AMOUNTS DUE TO CUSTOMERS	1,191,855	35,481	27,437	1,254,773	944,361	2,199,134
OTHER BORROWED FUNDS	56,721	-	-	56,721	151,948	208,669
OTHER LIABILITIES	359	18	18	395	27,997	28,392
PROVISIONS FOR CONTINENT LIABILITIES AND CHARGES	-	-	-	-	4,826	4,826
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	77,351	-	-	77,351	-	77,351
TOTAL LIABILITIES	1,403,665	50,213	77,420	1,531,298	1,134,160	2,665,458
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	125,192	125,192
PROFIT FOR THE YEAR	-	-	-	-	8,129	8,129
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	392,754	392,754
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,403,665	50,213	77,420	1,531,298	1,526,914	3,058,212
NET FX GAP	13,875	1,853	6,132	21,860	(21,860)	-

The Table below presents the sensitivity of the Group's and Bank's net assets and profit and loss to an increase in the CNB's middle exchange rate. By applying the same assumed percentage to a decrease of the CNB middle exchange rate, the impact on the profit or loss, on the net principle, by individual currency would be the same and opposite, that is, the aggregate impact on all currencies would result as an expense for the year 2013 and as an income for the year 2013. The results of fluctuations in exchange rates are reported in the income statement as foreign exchange gains or losses.

CURRENCY ON 31 DECEMBER 2013	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	INFLUENCE ON PROFIT AND LOSS	INFLUENCE ON PROFIT AND LOSS	INFLUENCE ON PROFIT AND LOSS
'000 HRK		ASSETS	LIABILITIES	NET
ASSETS	2.00%	30,574	-	-
LIABILITIES	2.00%	-	30,297	-
NET ASSETS / (LIABILITIES)		30,574	30,297	277

CURRENCY ON 31 DECEMBER 2012	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	INFLUENCE ON PROFIT AND LOSS	INFLUENCE ON PROFIT AND LOSS	INFLUENCE ON PROFIT AND LOSS
'000 HRK		ASSETS	LIABILITIES	NET
ASSETS	2.00%	31,063	-	-
LIABILITIES	2.00%	-	30,626	-
NET ASSETS / (LIABILITIES)		31,063	30,626	437

36. LIQUIDITY RISK

AT 31 DECEMBER 2013 GROUP IN '000 HRK	FROM 3					TOTAL
	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	TO 1 YEAR	FROM 1 TO 3 YEARS OVER 3 YEARS	YEARS OVER 3 YEARS	
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	268,487	-	-	-	-	268,487
BALANCES WITH THE CROATIAN NATIONAL BANK	189,513	-	-	23,165	-	212,678
PLACEMENTS WITH OTHER BANKS	32,299	24,229	6,154	-	-	62,682
LOANS AND ADVANCES TO CUSTOMERS	426,567	308,620	498,220	321,611	333,950	1,888,968
FINANCIAL ASSETS AVAILABLE FOR SALE	137,161	15,655	131,707	95,313	102,126	481,962
FINANCIAL ASSETS HELD TO MATURITY	-	-	65	27,126	-	27,191
INTANGIBLE ASSETS	-	-	-	-	40,765	40,765
PROPERTY AND EQUIPMENT	-	-	-	-	86,101	86,101
DEFERRED TAX ASSETS	-	-	5,957	-	-	5,957
OTHER ASSETS	22,548	13	34	60	1,967	24,622
TOTAL ASSETS	1,076,575	348,517	642,137	467,275	564,909	3,099,413
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	46,150	23,636	-	-	-	69,786
AMOUNTS DUE TO CUSTOMERS	847,627	321,575	845,610	176,123	16,048	2,206,983
OTHER BORROWED FUNDS	89,566	33,859	58,755	46,543	28,496	257,219
OTHER LIABILITIES	37,150	339	263	-	0	37,752
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	663	403	1,796	938	386	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	1,918	85	-	129,159	131,162
TOTAL LIABILITIES	1,021,156	381,730	906,509	223,604	174,089	2,707,088
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	130,562	130,562
PROFIT FOR THE YEAR	-	-	-	-	2,330	2,330
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	392,325	392,325
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,021,156	381,730	906,509	223,604	566,414	3,099,413
NET LIQUIDITY GAP	55,419	(33,213)	(264,372)	243,671	(1,505)	-

AT 31 DECEMBER 2012 GROUP IN '000 HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	388,629					388,629
BALANCES WITH THE CROATIAN NATIONAL BANK	-	98,659	88,264	20,092	4,821	211,836
PLACEMENTS WITH OTHER BANKS	109,881	18,864	4,947	23,318	9,189	166,199
LOANS AND ADVANCES TO CUSTOMERS	350,355	191,848	642,691	219,293	363,221	1,767,408
FINANCIAL ASSETS AVAILABLE FOR SALE	133,141	4,807	45,744	91,679	65,222	340,593
FINANCIAL ASSETS HELD TO MATURITY	-	-	65	27,416	-	27,481
INTANGIBLE ASSETS	-	-	-	-	31,801	31,801
PROPERTY AND EQUIPMENT	-	-	-	-	94,513	94,513
DEFERRED TAX ASSETS	-	-	6,619	-	-	6,619
OTHER ASSETS	6,497	-	6,615	-	-	13,112
TOTAL ASSETS	988,503	314,178	794,945	381,798	568,767	3,048,191
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	132,769	14,317	-	-	-	147,086
AMOUNTS DUE TO CUSTOMERS	869,876	330,507	870,655	103,682	17,693	2,192,413
OTHER BORROWED FUNDS	28,489	12,758	102,332	27,833	37,257	208,669
OTHER LIABILITIES	23,617	254	250		4,179	28,300
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	2,551	168	1,822	110	175	4,826
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	1,895			75,456	77,351
TOTAL LIABILITIES	1,057,302	359,899	975,059	131,625	134,760	2,658,645
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	120,674	120,674
PROFIT FOR THE YEAR	-	-	-	-	9,439	9,439
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	389,546	389,546
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,057,302	359,899	975,059	131,625	524,306	3,048,191
NET LIQUIDITY GAP	(68,799)	(45,721)	(180,114)	250,173	44,461	-

AT 31 DECEMBER 2012 BANK IN '000 HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	268,486	-	-	-	-	268,486
BALANCES WITH THE CROATIAN NATIONAL BANK	189,513	-	-	23,165	-	212,678
PLACEMENTS WITH OTHER BANKS	32,299	24,229	6,154	-	-	62,682
LOANS AND ADVANCES TO CUSTOMERS	426,567	307,618	498,220	321,611	333,950	1,887,966
FINANCIAL ASSETS AVAILABLE FOR SALE	137,161	15,655	131,707	95,313	102,126	481,962
FINANCIAL ASSETS HELD TO MATURITY	-	-	65	27,126	-	27,191
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	40,754	40,754
PROPERTY AND EQUIPMENT	-	-	-	-	86,101	86,101
DEFERRED TAX ASSETS	-	-	5,957	-	-	5,957
OTHER ASSETS	22,506	13	34	60	1,967	24,580
TOTAL ASSETS	1,076,532	347,515	642,137	467,275	569,668	3,103,127
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	46,150	23,636	-	-	-	69,786
AMOUNTS DUE TO CUSTOMERS	849,390	321,575	845,610	176,123	16,048	2,208,746
OTHER BORROWED FUNDS	89,566	33,859	58,755	46,543	28,496	257,219
OTHER LIABILITIES	37,170	339	263	-	-	37,772
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	663	403	1,796	938	386	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	1,918	85	-	129,159	131,162
TOTAL LIABILITIES	1,022,939	381,730	906,509	223,604	174,089	2,708,871
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	133,770	133,770
PROFIT FOR THE YEAR	-	-	-	-	1,053	1,053
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	394,256	394,256
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,022,939	381,730	906,509	223,604	568,345	3,103,127
NET LIQUIDITY GAP	53,593	(34,215)	(264,372)	243,671	1,323	-

AT 31 DECEMBER 2012 BANK IN '000 HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	388,628	-	-	-	-	388,628
BALANCES WITH THE CROATIAN NATIONAL BANK	-	98,659	88,264	20,092	4,821	211,836
PLACEMENTS WITH OTHER BANKS	109,881	18,864	4,947	23,318	9,189	166,199
LOANS AND ADVANCES TO CUSTOMERS	350,355	197,085	642,691	219,293	363,221	1,772,645
FINANCIAL ASSETS AVAILABLE FOR SALE	133,141	4,807	45,744	91,679	65,222	340,593
FINANCIAL ASSETS HELD TO MATURITY	-	-	65	27,416	-	27,481
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	31,787	31,787
PROPERTY AND EQUIPMENT	-	-	-	-	94,513	94,513
DEFERRED TAX ASSETS	-	-	6,619	-	-	6,619
OTHER ASSETS	6,293	-	6,848	-	-	13,141
TOTAL ASSETS	988,298	319,415	795,178	381,798	573,523	3,058,212
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	132,769	14,317	-	-	-	147,086
AMOUNTS DUE TO CUSTOMERS	876,597	330,507	870,655	103,682	17,693	2,199,134
OTHER BORROWED FUNDS	28,489	12,758	102,332	27,833	37,257	208,669
OTHER LIABILITIES	23,709	254	250	-	4,179	28,392
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	2,551	168	1,822	110	175	4,826
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	1,895	-	-	75,456	77,351
TOTAL LIABILITIES	1,064,115	359,899	975,059	131,625	134,760	2,665,458
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	125,192	125,192
PROFIT FOR THE YEAR	-	-	-	-	8,129	8,129
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	392,754	392,754
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,064,115	359,899	975,059	131,625	527,514	3,058,212
NET LIQUIDITY GAP	(75,817)	(40,484)	(179,881)	250,173	46,009	-

37. CREDIT RISK

a) Overall exposure to credit risk – on-balance sheet and off-balance sheet

GROUP IN '000 HRK AS AT 31 DECEMBER 2013	PROVISIONS			NET PLACEMENTS
	GROSS ON PLACEMENTS	INDIVIDUAL PROVISIONS ON BASIS	GENERAL BASIS	
A. BALANCE SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	212,678	-	-	212,678
PLACEMENTS WITH OTHER BANKS	63,282	(600)	-	62,682
ASSETS AVAILABLE FOR SALE	486,298	(4,336)	-	481,962
ASSETS HELD TO MATURITY	27,191	-	-	27,191
LOANS AND ADVANCES TO CUSTOMERS				
- PERFORMING	1,690,590	-	(20,393)	1,670,197
- SUBSTANDARD	254,230	(35,459)	-	218,771
- NON-PERFORMING (BAD)	125,269	(125,269)	-	-
OVERALL BALANCE SHEET EXPOSURE	2,859,538	(165,664)	(20,393)	2,673,481
B. OFF-BALANCE SHEET EXPOSURE				
CUSTOMERS				
- PERFORMING	349,269	-	(3,712)	345,557
- SUBSTANDARD	191	(53)	-	138
- NON-PERFORMING (BAD)	171	(171)	-	-
OVERALL OFF-BALANCE SHEET EXPOSURE	349,631	(224)	(3,712)	345,695
OVERALL EXPOSURE (A+B)	3,209,169	(165,888)	(24,105)	3,019,176

GROUP IN '000 HRK AS AT 31 DECEMBER 2012	PROVISIONS ON			NET PLACEMENTS
	GROSS PLACEMENTS	INDIVIDUAL PROVISIONS ON BASIS	GENERAL BASIS	
A. BALANCE SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	211,836	-	-	211,836
PLACEMENTS WITH OTHER BANKS	166,799	(600)	-	166,199
ASSETS AVAILABLE FOR SALE	344,892	(4,299)	-	340,593
ASSETS HELD TO MATURITY	27,481	-	-	27,481
LOANS AND ADVANCES TO CUSTOMERS				
- PERFORMING	1,604,831	-	(22,040)	1,582,791
- SUBSTANDARD	216,559	(31,942)	-	184,617
- NON-PERFORMING (BAD)	111,003	(111,003)	-	-
OVERALL BALANCE SHEET EXPOSURE	2,683,401	(147,844)	(22,040)	2,513,517
B. OFF-BALANCE SHEET EXPOSURE				
CUSTOMERS				
- PERFORMING	405,922	-	(4,150)	401,772
- SUBSTANDARD	251	(75)	-	176
- NON-PERFORMING (BAD)	351	(351)	-	-
OVERALL OFF-BALANCE SHEET EXPOSURE	406,524	(426)	(4,150)	401,948
OVERALL EXPOSURE (A+B)	3,089,925	(148,270)	(26,190)	2,915,465

BANK IN '000 HRK AS AT 31 DECEMBER 2013	PROVISIONS ON			NET PLACEMENTS
	GROSS PLACEMENTS	INDIVIDUAL PROVISIONS ON BASIS	GENERAL BASIS	
A. BALANCE SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	212,678	-	-	212,678
PLACEMENTS WITH OTHER BANKS	63,282	(600)	-	62,682
ASSETS AVAILABLE FOR SALE	486,298	(4,336)	-	481,962
ASSETS HELD TO MATURITY	27,191			27,191
LOANS AND ADVANCES TO CUSTOMERS				
- PERFORMING	1,690,208	-	(20,393)	1,669,815
- SUBSTANDARD	252,990	(34,839)	-	218,151
- NON-PERFORMING (BAD)	124,511	(124,511)	-	-
OVERALL BALANCE SHEET EXPOSURE	2,857,158	(164,286)	(20,393)	2,672,479

B. OFF-BALANCE SHEET EXPOSURE

CUSTOMERS				
- PERFORMING	366,979	-	(3,712)	363,267
- SUBSTANDARD	191	(53)	-	138
- NON-PERFORMING (BAD)	171	(171)	-	-
OVERALL OFF-BALANCE SHEET EXPOSURE	367,341	(224)	(3,712)	363,405
OVERALL EXPOSURE (A+B)	3,224,499	(164,510)	(24,105)	3,035,884

BANK IN '000 HRK AS AT 31 DECEMBER 2012	PROVISIONS			NET PLACEMENTS
	GROSS ON PLACEMENTS	INDIVIDUAL PROVISIONS ON BASIS	GENERAL BASIS	
A. BALANCE SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	211,836	-	-	211,836
PLACEMENTS WITH OTHER BANKS	166,799	(600)	-	166,199
ASSETS AVAILABLE FOR SALE	344,892	(4,299)	-	340,593
ASSETS HELD TO MATURITY	27,481	-	-	27,481
LOANS AND ADVANCES TO CUSTOMERS				
- PERFORMING	1,610,068	-	(22,040)	1,588,028
- SUBSTANDARD	216,559	(31,942)	-	184,617
- NON-PERFORMING (BAD)	111,003	(111,003)	-	-
OVERALL BALANCE SHEET EXPOSURE	2,688,638	(147,844)	(22,040)	2,518,754

B. OFF-BALANCE SHEET EXPOSURE

CUSTOMERS				
- PERFORMING	424,739	-	(4,150)	420,589
- SUBSTANDARD	251	(75)	-	176
- NON-PERFORMING (BAD)	351	(351)	-	-
OVERALL OFF-BALANCE SHEET EXPOSURE	425,341	(426)	(4,150)	420,765
OVERALL EXPOSURE (A+B)	3,113,979	(148,270)	(26,190)	2,939,519

b) Past due claims

Outstanding receivables comprise amounts with unimpaired principal, determined on the level of the individual placement, including outstanding interest. Other receivables past due comprise outstanding balances, the collection of which is still in progress.

GROUP AND BANK IN '000 HRK AS AT 31 DECEMBER 2013	PAST DUE UP TO 30 DAYS	PAST DUE BETWEEN 31 AND 90 DAYS	PAST DUE BETWEEN 91 AND 180 DAYS	PAST DUE BETWEEN 181 AND 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE OVER 3 YEARS
PLACEMENTS WITH OTHER BANKS	-	-	-	-	-	-	600
LOANS AND ADVANCES TO CUSTOMERS							
CITIZENS	8,124	2,329	2,024	2,538	6,541	3,973	48,425
COMPANIES	11,724	11,609	3,742	11,980	112,791	21,458	99,353
PUBLIC AND OTHER SECTORS	-	-	-	-	-	-	-
OTHER PAST DUE CLAIMS	2,123	216	202	471	756	635	1,755
TOTAL PAST DUE CLAIMS	21,971	14,154	5,968	14,989	120,088	26,066	150,133

GROUP AND BANK IN '000 HRK AS AT 31 DECEMBER 2012	PAST DUE UP TO 30 DAYS	PAST DUE BETWEEN 31 AND 90 DAYS	PAST DUE BETWEEN 91 AND 180 DAYS	PAST DUE BETWEEN 181 AND 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE OVER 3 YEARS
PLACEMENTS WITH OTHER BANKS	-	-	-	-	-	-	600
LOANS AND ADVANCES TO CUSTOMERS							
CITIZENS	7,809	2,047	4,354	3,108	5,406	7,607	44,158
COMPANIES	41,858	50,032	23,192	33,878	21,656	11,228	91,070
PUBLIC AND OTHER SECTORS	-	-	-	-	-	-	-
OTHER PAST DUE CLAIMS	1,258	308	123	921	414	2,121	755
TOTAL PAST DUE CLAIMS	50,925	52,387	27,669	37,907	27,476	20,956	136,583

c) Placements covered by collaterals

AS AT 31 DECEMBER 2013 GROUP IN '000 HRK	DEPOSIT	HOUSING MORTGAGES	BUSINESS MORTGAGES	OTHER COLLATERALS	NO COLLATERAL
A. BALANCE SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	212,678
PLACEMENTS WITH OTHER BANKS	-	-	-	-	62,682
LOANS AND ADVANCES TO CUSTOMERS	26,464	126,726	148,691	101,304	1,485,783
ASSETS AVAILABLE FOR SALE	-	-	-	-	481,962
ASSETS HELD TO MATURITY	-	-	-	-	27,191
OVERALL BALANCE SHEET EXPOSURE	26,464	126,726	148,691	101,304	2,270,296
B. OFF-BALANCE SHEET EXPOSURE					
CUSTOMERS	2,414	2,611	1,089	5,577	337,940
OVERALL OFF-BALANCE SHEET EXPOSURE	2,414	2,611	1,089	5,577	337,940
OVERALL EXPOSURE (A+B)	28,878	129,337	149,780	106,881	2,608,236
FAIR VALUE OF COLLATERALS	-	-	-	-	-
AS AT 31 DECEMBER 2012					
	DEPOSIT	HOUSING MORTGAGES	BUSINESS MORTGAGES	OTHER COLLATERALS	NO COLLATERAL
A. BALANCE SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	211,836
PLACEMENTS WITH OTHER BANKS	-	-	-	-	166,199
LOANS AND ADVANCES TO CUSTOMERS	35,871	127,420	141,787	9,863	1,452,467
ASSETS AVAILABLE FOR SALE	-	-	-	-	340,593
ASSETS HELD TO MATURITY	-	-	-	-	27,481
OVERALL BALANCE SHEET EXPOSURE	35,871	127,420	141,787	9,863	2,198,576
B. OFF-BALANCE SHEET EXPOSURE					
CUSTOMERS	5,742	5,409	338	-	395,035
OVERALL OFF-BALANCE SHEET EXPOSURE	5,742	5,409	338	-	395,035
OVERALL EXPOSURE (A+B)	41,613	132,829	142,125	9,863	2,593,611
FAIR VALUE OF COLLATERALS	-	166,036	213,188	-	-

AS AT 31 DECEMBER 2013 BANK IN '000 HRK	DEPOSIT	HOUSING MORTGAGES	BUSINESS MORTGAGES	OTHER COLLATERALS	NO COLLATERAL
A. BALANCE SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	212,678
PLACEMENTS WITH OTHER BANKS	-	-	-	-	62,682
LOANS AND ADVANCES TO CUSTOMERS	26,464	126,726	148,691	101,304	1,484,781
ASSETS AVAILABLE FOR SALE	-	-	-	-	481,962
ASSETS HELD TO MATURITY	-	-	-	-	27,191
OVERALL BALANCE SHEET EXPOSURE	26,464	126,726	148,691	101,304	2,269,294
B. OFF-BALANCE SHEET EXPOSURE					
CUSTOMERS	2,414	2,611	1,089	5,577	355,650
OVERALL OFF-BALANCE SHEET EXPOSURE	2,414	2,611	1,089	5,577	355,650
OVERALL EXPOSURE (A+B)	28,878	129,337	149,780	106,881	2,624,944
FAIR VALUE OF COLLATERALS	-	-	-	-	-
AS AT 31 DECEMBER 2012	DEPOSIT	HOUSING MORTGAGES	BUSINESS MORTGAGES	OTHER COLLATERALS	NO COLLATERAL
A. BALANCE SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	211,836
PLACEMENTS WITH OTHER BANKS	-	-	-	-	166,199
LOANS AND ADVANCES TO CUSTOMERS	35,871	127,420	141,787	9,863	1,457,704
ASSETS AVAILABLE FOR SALE	-	-	-	-	340,593
ASSETS HELD TO MATURITY	-	-	-	-	27,481
OVERALL BALANCE SHEET EXPOSURE	35,871	127,420	141,787	9,863	2,203,813
B. OFF-BALANCE SHEET EXPOSURE					
CUSTOMERS	5,742	5,409	338	-	413,852
OVERALL OFF-BALANCE SHEET EXPOSURE	5,742	5,409	338	-	413,852
OVERALL EXPOSURE (A+B)	41,613	132,829	142,125	9,863	2,617,665
FAIR VALUE OF COLLATERALS	-	166,036	213,188	-	-

d) Provision ratio in performing and non-performing loans

GROUP IN '000 HRK	2013		2012	
	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)
PERFORMING LOANS	81.7	1.2	83.0	1.4
SUBSTANDARD LOANS	12.3	13.9	11.2	14.7
NON-PERFORMING LOANS	6.1	100.0	5.7	100.0
TOTAL	100		100	

BANK IN '000 HRK	2013		2012	
	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)
PERFORMING LOANS	81.7	1.2	83.1	1.4
SUBSTANDARD LOANS	12.2	13.8	11.2	14.7
NON-PERFORMING LOANS	6.0	100.0	5.7	100.0
TOTAL	100		100	

38. PRICE RISK

Equity and debt instrument price risk represents the sensitivity of the available-for-sale assets to fluctuations in market prices, with effects on the income statement and the revaluation reserve within the Group's and Bank's equity.

GROUP AND BANK IN '000 HRK	ASSUMED PRICE CHANGE	INFLUENCE OF PRICE INCREASE ON REVALUATION RESERVES
AT 31 DECEMBER 2013	3%	14,459
AT 31 DECEMBER 2012	3%	10,218

39. CONCENTRATIONS OF ASSETS AND LIABILITIES

There is a significant concentration of the Group's and Bank's assets towards the Republic of Croatia, which is analysed as follows:

GROUP AND BANK IN '000 HRK	2013	2012
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	81,015	156,952
OTHER CASH RESERVE FUNDS	10,000	10,000
MANDATORY RESERVE WITH THE CROATIAN NATIONAL BANK	212,678	211,836
TREASURY BILLS OF THE REPUBLIC OF CROATIA	96,123	29,563
BONDS OF THE REPUBLIC OF CROATIA	58,169	41,589
OTHER ASSETS	2,944	4,537
DEPOSITS RECEIVED	(559)	(558)
CURRENT TAX LIABILITY	(272)	(3,225)
	460,098	450,694

At 31 December 2013, the Group's and Bank's indirect exposure to the Republic of Croatia in respect of debt securities issued by local and municipal authorities, loans and other exposures were as follows:

GROUP AND BANK IN '000 HRK	2013	2012
STATE AGENCY FOR DEPOSIT INSURANCE AND BANK REHABILITATION	(1,237)	(1,130)
HBOR LOANS GUARANTEED BY THE STATE	-	18,926
CUSTOMER LOANS GUARANTEED BY THE STATE	21,225	9,863
OTHER LOANS	103,986	-
OTHER LIABILITIES	(3,067)	-
DEPOSITS RECEIVED	(60,732)	(93,446)
LOANS RECEIVED FROM HBOR	(144,327)	(163,026)
	(84,152)	(228,813)

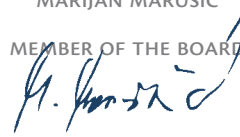
40. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 28 April 2014 and were signed on its behalf by:

JULIO KURUC
PRESIDENT OF THE BOARD



MARIJAN MARUŠIĆ
MEMBER OF THE BOARD



 PODRAVSKA BANKA



A close-up, shallow depth-of-field photograph of a person's hand typing on a white keyboard. The hand is positioned on the left side of the frame, with fingers pressing down on the keys. The background is blurred, showing what appears to be a person's face and torso. A dark blue, rounded rectangular text box is overlaid in the center of the image. The text 'ABOUT THE BANK' is written in white, bold, uppercase letters within this box. A series of thin, white, curved lines radiate from the right side of the text box, extending towards the top right corner of the image.

ABOUT THE BANK

BANK'S MANAGEMENT AND ORGANISATIONAL STRUCTURE

The Bank's operations are supervised by the Supervisory Board and managed by the Management Board.

Supervisory Board

Miljan Todorovic, Chairman
Sigilfredo Montinari, Deputy Chairman
Maurizio Dallochio, Member
Filippo Disertori, Member
Dario Montinari, Member
Djuro Predovic, Member
Dolly Predovic, Member

Bank's Management Board

Julio Kuruc, Chairman of the Management Board
Davorka Jakir, Member of the Management Board
Marijan Marušić, Member of the Management Board

Chief Executive Officer

Moreno Marson

Units

Internal Audit Unit – Krunoslav Vnučec
Compliance Monitoring Unit – Božica Širić
Risk Control Unit – Mario Brajnić
Risk Management Unit – Renata Vinković
Operations and Organisation Unit – Marko Žigmund
Administration and HR Management Unit – Božana Kovačević
Accounting and Reporting Unit – Vesna Laloš
Support Unit – Dragica Hrkalović
Head of Information System Security – Damir Vukelić

Departments

Treasury Department - Goran Varat
Commercial Banking Department - Daniel Unger
Retail Banking Department - Sanda Fuček Šanjić
Payments and Back-Office Department - Snježana Pobi



Legend

 Commercial center

 Branches

RETAIL CENTRES

Commercial Centre Zagreb

Zagreb, Green Gold - Ulica grada Vukovara 269f,
tel. 072 655 450, fax. 072 655 459

Zagreb, Nova galerija - Zagrebačka avenija 104,
tel. 072 655 490, fax. 072 655 499

Zagreb, Gajeva 5,
tel. 072 655 400, fax. 072 655 409

Zagreb, Vlaška ulica 129,
tel. 072 655 410, fax. 072 655 419

Commercial Centre Koprivnica

Koprivnica, Opatička 3,
tel. 072 655 000, fax. 072 655 200

Koprivnica, Trg bana Jelačića 10,
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Koprivnica, Trg Eugena Kumičića 11,
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Koprivnica, Ivana Meštrovića bb,
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Gola, Trg kardinala A. Stepinca 6b,
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Legrad, Trg Svetog Trojstva bb,
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Ludbreg, Petra Zrinskog 32,
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Commercial Centre Bjelovar

Bjelovar, Trg Eugena Kvaternika 12,
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Grubišno Polje, 77. samostalnog bataljuna ZNG 1,
tel. 072 655 820, fax. 072 655 829

Veliki Grđevac, Kralja Tomislava 26,
tel. 072 655 840, fax. 072 655 849

Đurđevac, Stjepana Radića 16,
tel. 072 655 370, fax. 072 655 379

	Križevci, I. Z. Dijankovečkog 2, tel. 072 655 360, fax. 072 655 369
Commercial Centre Osijek	Osijek, Kapucinska 38, tel. 072 655 790, fax. 072 655 799
Commercial Centre Požega	Požega, Republike Hrvatske 1b, tel. 072 655 700, fax. 072 655 709
	Požega, Trg Svetog Trojstva 8, tel. 072 655 740, fax. 072 655 749
	Velika, Bana Josipa Jelačića 24, tel. 072 655 760, fax. 072 655 769
	Pleternica, Ivana Šveara 4, tel. 072 655 770, fax. 072 655 779
	Kutjevo, Kralja Tomislava 2, tel. 072 655 780, fax. 072 655 789
Commercial Centre Rijeka	Rijeka, Ivana Zajca 18, tel. 072 655 660, fax. 072 655 669
Commercial Centre Split	Split, Ulica slobode 33, tel. 072 655 630, fax. 072 655 639
Commercial Centre Varaždin	Varaždin, Trg slobode 2, tel. 072 655 600, fax. 072 655 609
Commercial Centre Zadar	Zadar, Stjepana Radića 2f, tel. 072 655 650, fax. 072 655 659

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APPENDIX 1

**SUPPLEMENTARY
REPORTS FOR
THE CROATIAN
NATIONAL BANK**

Pursuant to the Croatian Accounting Act (Official Gazette No. 109/07), the Croatian National Bank has promulgated the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 62/08). The following tables present financial statements in accordance to the above mentioned decision:

CONSOLIDATED INCOME STATEMENT

	2013 UNAUDITED HRK '000	2012 UNAUDITED HRK '000
1. INTEREST INCOME	157,086	170,399
2. INTEREST EXPENSES	(77,907)	(81,676)
3. NET INTEREST INCOME	79,179	88,723
4. COMMISSION AND FEE INCOME	34,458	34,861
5. COMMISSION AND FEE EXPENSES	(10,667)	(10,732)
6. NET COMMISSION AND FEE INCOME	23,791	24,129
7. GAIN/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
8. GAIN/(LOSS) FROM TRADING ACTIVITIES	5,795	7,581
9. GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-
10. GAIN/(LOSS) FROM FINANCIAL ASSETS NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
11. GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	5,809	(1,490)
12. GAIN/(LOSS) FROM FINANCIAL ASSETS HELD TO MATURITY	-	-
13. GAIN/(LOSS) FROM HEDGING TRANSACTIONS	-	-
14. INCOME FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
15. INCOME FROM OTHER EQUITY INVESTMENTS	1,479	1,236
16. GAIN/(LOSS) FROM FOREIGN EXCHANGE DIFFERENCES	1,512	2,207
17. OTHER INCOME	11,182	3,313
18. OTHER EXPENSES	(6,133)	(11,915)
19. GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(100,421)	(99,086)
20. NET INCOME BEFORE VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	22,193	14,698
21. EXPENSES FROM VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	(19,041)	(3,174)
22. PROFIT/(LOSS) BEFORE TAX	3,152	11,524
23. INCOME TAX	(822)	(2,085)
24. CURRENT YEAR PROFIT/(LOSS)	2,330	9,439
25. EARNINGS PER SHARE	3.48	14.11

APPENDIX TO THE INCOME STATEMENT

	2013 HRK '000	2012 HRK '000
CURRENT YEAR PROFIT/(LOSS)	2,330	9,439
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	2,330	9,439
MINORITY INTEREST	-	-

CONSOLIDATED BALANCE SHEET

	2013 UNAUDITED HRK '000	2012 UNAUDITED HRK '000
ASSETS		
1. CASH AND DEPOSITS WITH THE CNB	346,849	420,161
1.1. CASH	43,156	41,374
1.2. DEPOSITS WITH THE CNB	303,693	378,787
2. DEPOSITS WITH BANKING INSTITUTIONS	184,204	308,062
3. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	96,123	29,563
4. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	654,759	459,057
6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	96,510	67,459
7. SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8. DERIVATIVE FINANCIAL ASSETS	-	-
9. LOANS TO FINANCIAL INSTITUTIONS	-	18,925
10. LOANS TO OTHER CLIENTS	1,541,122	1,590,431
11. INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
12. REPOSSESSED ASSETS	16,418	6,748
13. TANGIBLE AND INTANGIBLE ASSETS (MINUS DEPRECIATION AND AMORTISATION)	126,970	126,440
14. INTERESTS, FEES AND OTHER ASSETS	36,458	30,813
A. TOTAL ASSETS	3,099,413	3,057,659
LIABILITIES AND EQUITY		
1. BORROWINGS FROM FINANCIAL INSTITUTIONS	256,905	208,156
1.1. SHORT-TERM BORROWINGS	120,582	33,600
1.2. LONG-TERM BORROWINGS	136,323	174,556
2. DEPOSITS	2,232,292	2,289,953
2.1. DEPOSITS ON GIRO-ACCOUNTS AND CURRENT ACCOUNTS	442,546	365,296
2.2. SAVINGS DEPOSITS	210,197	202,989
2.3. TERM DEPOSITS	1,579,549	1,721,668
3. OTHER BORROWINGS	-	-
3.1. SHORT-TERM BORROWINGS	-	-
3.2. LONG-TERM BORROWINGS	-	-
4. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING FINANCIAL LIABILITIES	-	-
5. ISSUED DEBT SECURITIES	-	-
5.1. ISSUED SHORT-TERM DEBT SECURITIES	-	-
5.2. ISSUED LONG-TERM DEBT SECURITIES	-	-
6. ISSUED SUBORDINATED INSTRUMENTS	52,783	-
7. ISSUED SUBORDINATED DEBT	76,376	75,456
8. INTERESTS, FEES AND OTHER LIABILITIES	88,037	93,842
B. TOTAL LIABILITIES	2,706,393	2,667,407
EQUITY		
1. SHARE CAPITAL	259,433	259,433
2. CURRENT YEAR GAIN/LOSS	2,330	9,439
3. RETAINED EARNINGS/(LOSS)	-	-
4. LEGAL RESERVES	114,426	104,987
5. STATUTORY AND OTHER CAPITAL RESERVES	30,080	30,203
6. UNREALISED GAIN/(LOSS) FROM AVAILABLE FOR SALE FAIR VALUE ADJUSTMENT	(13,249)	(13,810)
C. TOTAL EQUITY	393,020	390,252
D. TOTAL LIABILITIES AND EQUITY	3,099,413	3,057,659

APPENDIX TO THE BALANCE SHEET

	2013 HRK '000	2012 HRK '000
TOTAL EQUITY	393,020	390,252
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	393,020	390,252
MINORITY INTEREST	-	-

CONSOLIDATED CASH FLOW STATEMENT

	2013 UNAUDITED HRK '000	2012 UNAUDITED HRK '000
OPERATING ACTIVITIES		
1.1. GAIN/(LOSS) BEFORE TAX	3,152	11,524
1.2. VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	19,041	3,174
1.3. DEPRECIATION AND AMORTISATION	9,572	9,483
1.4. NET UNREALISED (GAIN)/LOSS FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
1.5. GAIN/(LOSS) FROM SALE OF TANGIBLE ASSETS	140	(195)
1.6. OTHER (GAINS)/LOSSES	-	-
1. OPERATING CASH FLOW BEFORE CHANGES IN OPERATING ASSETS	31,905	23,986
2.1. DEPOSITS WITH THE CNB	(842)	(1,486)
2.2. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	(66,560)	(29,068)
2.3. DEPOSITS WITH BANKING INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	18,925	675
2.4. LOANS TO OTHER CLIENTS	30,268	83,790
2.5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
2.6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	(195,140)	(16,913)
2.7. SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
2.8. OTHER OPERATING ASSETS	(4,336)	5,273
2. NET (INCREASE)/DECREASE IN OPERATING ASSETS	(217,685)	42,271
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
3.1. DEMAND DEPOSITS	77,250	(31,524)
3.2. SAVINGS AND TERM DEPOSITS	(134,911)	71,243
3.3. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING LIABILITIES	-	-
3.4. OTHER LIABILITIES	(9,314)	1,808
3. NET INCREASE/(DECREASE) IN OPERATING LIABILITIES	(66,975)	41,527
4. NET CASH FLOW FROM OPERATING ACTIVITIES BEFORE PROFIT TAX	(252,755)	107,784
5. PROFIT TAX PAID	(272)	(3,225)
6. NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(253,027)	104,559
INVESTING ACTIVITIES		
7.1. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF TANGIBLE AND INTANGIBLE ASSETS	(10,102)	(42,297)
7.2. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	(1,200)
7.3. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	(29,051)	36,391
7.4. DIVIDENDS RECEIVED	1,479	1,236
7.5. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	(9,670)	(56)
7. NET CASH FLOW FROM INVESTING ACTIVITIES	(47,344)	(5,926)
FINANCING ACTIVITIES		
8.1. NET INCREASE/(DECREASE) IN BORROWINGS	48,749	74,326
8.2. NET INCREASE/(DECREASE) IN ISSUED DEBT SECURITIES	-	-
8.3. NET INCREASE/(DECREASE) IN SUBORDINATED DEBT AND HYBRID AND SUBORDINATED INSTRUMENTS	53,703	152
8.4. RECEIPTS FROM ISSUED SHARE CAPITAL	-	-
8.5. (DIVIDENDS PAID)	-	-
8.6. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	(12)	(12)
8. NET CASH FLOW FROM FINANCIAL ACTIVITIES	102,440	74,466
9. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(197,931)	173,099
10. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	518,330	345,231
11. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	320,399	518,330

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL	TREASURY SHARES	LEGAL, STATUTORY AND OTHER RESERVES	RETAINED EARNINGS/ (LOSS)	CURRENT YEAR PROFIT/ LOSS	UNREALISED GAIN/ LOSSES FROM AVAILABLE FOR SALE FINANCIAL ASSETS FAIR VALUE ADJUSTMENT	MINORITY INTEREST	TOTAL CAPITAL AND RESERVES
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
1. BALANCE AT 1 JANUARY 2013	270,515	(11,082)	132,428	9,439	-	(11,048)	-	390,252
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
3. RESTATED CURRENT YEAR BALANCE	270,515	(11,082)	132,428	9,439	-	(11,048)	-	390,252
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5. FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	562	-	562
6. TAX ON ITEMS RECOGNISED DIRECTLY IN, OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	(112)	-	(112)
7. OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	-
8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	-	-	-	-	-	450	-	450
9. CURRENT YEAR GAIN/ (LOSS)	-	-	-	-	2,330	-	-	2,330
10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR	-	-	-	-	2,330	450	-	2,780
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	(12)	-	-	-	-	(12)
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
16. ALLOCATION OF PROFIT	-	-	9,439	(9,439)	-	-	-	-
17. BALANCE AT 31 DECEMBER 2013	270,515	(11,082)	141,855	-	2,330	(10,598)	-	393,020

	SHARE CAPITAL	TREASURY SHARES	LEGAL, STATUTORY AND OTHER RESERVES	RETAINED EARNINGS/ (LOSS)	CURRENT YEAR PROFIT/ LOSS	UNREALISED GAIN/ LOSSES FROM AVAILABLE FOR SALE FINANCIAL ASSETS FAIR VALUE ADJUSTMENT	MINORITY INTEREST	TOTAL CAPITAL AND RESERVES
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
1. BALANCE AT 1 JANUARY 2012	270,515	(11,082)	119,974	12,466	-	(27,933)	-	363,940
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
3. RESTATED CURRENT YEAR BALANCE	270,515	(11,082)	119,974	12,466	-	(27,933)	-	363,940
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5. FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	21,106	-	21,106
6. TAX ON ITEMS RECOGNISED DIRECTLY IN, OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	(4,221)	-	(4,221)
7. OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	-
8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	-	-	-	-	-	16,885	-	16,885
9. CURRENT YEAR GAIN/ (LOSS)	-	-	-	9,439	-	-	-	9,439
10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR	-	-	-	-	9,439	16,885	-	26,324
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	(12)	-	-	-	-	(12)
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
16. ALLOCATION OF PROFIT	-	-	12,466	(12,466)	-	-	-	-
17. BALANCE AT 31 DECEMBER 2012	270,515	(11,082)	132,428	-	9,439	(11,048)	-	390,252

The data in the financial statements prepared in accordance with the Croatian National Bank ("CNB") Decision is classified differently from that in the financial statements prepared according to the statutory accounting requirements for banks in Croatia. Comparatives for the income statement ended 31 December 2013 and 2012:

	2013 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK '000	2013 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK '000	2013 DIFFERENCE HRK '000	2012 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK '000	2012 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK '000	2012 DIFFERENCE HRK '000
INTEREST AND SIMILAR INCOME	157,086	157,663	(577)	170,399	172,613	(2,214)
INTEREST AND SIMILAR EXPENSE	(77,907)	(72,910)	(4,997)	(81,676)	(77,430)	(4,246)
NET INTEREST INCOME	79,179	84,753	(5,574)	88,723	95,183	(6,460)
FEE AND COMMISSION INCOME	34,458	34,457	1	34,861	34,862	(1)
EXPENSE FOR FEES AND COMMISSIONS	(10,667)	(10,667)	-	(10,732)	(10,732)	-
NET FEE AND COMMISSION INCOME	23,791	23,790	1	24,129	24,130	(1)
NET TRADING GAIN	5,795	5,795	-	7,581	7,581	-
GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-	-	-	-	-
GAIN/(LOSS) FROM ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	-	-
GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	5,809	5,809	-	(1,490)	1,583	(3,073)
INCOME FROM OTHER INVESTMENTS IN EQUITY SECURITIES	1,479	1,479	-	1,236	1,236	-
NET FOREIGN EXCHANGE DIFFERENCES	1,512	688	824	2,207	(26)	2,233
OTHER OPERATING INCOME	11,182	10,383	799	3,313	3,337	(24)
TOTAL OTHER INCOME	25,777	24,154	1,623	12,847	13,711	(864)
GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(100,421)	(110,484)	10,063	(99,086)	(115,217)	16,131
IMPAIRMENT ALLOWANCE AND PROVISIONS	(19,041)	(19,061)	20	(3,174)	(6,283)	3,109
OTHER OPERATING EXPENSES	(6,133)	-	(6,133)	(11,915)	-	(11,915)
TOTAL OTHER EXPENSES	(125,595)	(129,545)	3,950	(114,175)	(121,500)	7,325
PROFIT BEFORE TAX	3,152	3,152	-	11,524	11,524	-
INCOME TAX EXPENSE	(822)	(822)	-	(2,085)	(2,085)	-
NET PROFIT FOR THE YEAR	2,330	2,330	-	9,439	9,439	-
EARNINGS PER SHARE (IN HRK)	3.48	3.48	-	14.11	14.11	-

The difference of HRK 577 thousand (2012: HRK 2,214 thousand) for the year ended 31 December 2013 on the line item Interest and similar income relates to exchange differences on interest income.

The difference of HRK 4,997 thousand (2012: HRK 4,246 thousand) on the line item Interest and similar expense relates mainly to savings deposit insurance premiums, which amount to HRK 4,749 thousand (2012: HRK 4,461 thousand) and are presented

in the audited income statement under the line item General and administrative expenses. Other differences relate to the reclassification of exchange differences on interest expense to the net foreign exchange gains in the amount of HRK 248 thousand.

The differences in the positions included in "Net foreign exchange differences" relates to foreign exchange differences based on the translation of foreign currency balances to mid or contracted exchange rate in the amount of HRK 818 thousand.

The difference of HRK 20 on the line item Value adjustment and provisions for identified losses relates to subsequently recovered written-off receivables which were reclassified to other operating income.

The differences in the positions included in "Total other expenses" result from reclassification of representation and advertising expenses, and other and extraordinary expenses to "General and administrative expenses" in audited financial statements.

	2013 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK '000	2013 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK '000	2013 DIFFERENCE HRK '000	2012 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK '000	2012 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK '000	2012 DIFFERENCE HRK '000
ASSETS						
CASH AND DEPOSITS WITH THE CROATIAN NATIONAL BANK	346,849	481,165	(134,316)	420,161	600,465	(180,304)
TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	96,123	-	96,123	29,563	-	29,563
FINANCIAL ASSETS AVAILABLE FOR SALE	654,759	481,962	172,797	459,057	340,593	118,464
FINANCIAL ASSETS HELD TO MATURITY	96,510	27,191	69,319	67,459	27,481	39,978
PLACEMENTS WITH AND LOANS TO OTHER BANKS	184,204	62,682	121,522	326,987	166,199	160,788
LOANS AND RECEIVABLES	1,541,122	1,888,968	(347,846)	1,590,431	1,767,408	(176,977)
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	-	-
REPOSSESSED ASSETS	16,418	-	16,418	6,748	-	6,748
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	126,970	126,866	104	126,440	126,314	126
DEFERRED TAX ASSETS	5,957	5,957	-	6,619	6,619	-
OTHER ASSETS	30,501	24,622	5,879	24,194	13,112	11,082
TOTAL ASSETS	3,099,413	3,099,413	-	3,057,659	3,048,191	9,468
LIABILITIES						
DUE TO OTHER BANKS AND DEPOSITS FROM CUSTOMERS	2,489,197	2,533,988	(44,791)	2,498,109	2,548,168	(50,059)
PROVISIONS FOR LIABILITIES AND CHARGES	3,936	4,186	(250)	4,826	4,826	-
OTHER LIABILITIES	84,101	37,752	46,349	89,016	28,300	60,716
TOTAL LIABILITIES	2,577,234	2,575,926	1,308	2,591,951	2,581,294	10,657
HYBRID AND SUBORDINATED INSTRUMENTS	129,159	131,162	(2,003)	75,456	77,351	(1,895)
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	267,500	267,500	-	267,500	267,500	-
SHARE PREMIUM	3,015	3,015	-	3,015	3,015	-
TREASURY SHARES	(11,082)	(11,082)	-	(11,082)	(11,082)	-
NET PROFIT FOR THE YEAR	2,330	2,330	-	9,439	9,439	-
UNREALISED GAIN / (LOSS) FROM FAIR VALUE ADJUSTMENT OF AVAILABLE FOR SALE ASSETS	(13,249)	(13,249)	-	(13,810)	(13,810)	-
RESERVES	144,506	143,811	695	135,190	134,484	706
TOTAL EQUITY	393,020	392,325	695	390,252	389,546	706
TOTAL LIABILITIES AND CAPITAL	3,099,413	3,099,413	-	3,057,659	3,048,191	9,468

The most significant differences on the balance-sheet items arise from the different classification of interest receivable and payable. In the balance sheet prepared under the CNB Decision on the Structure and Content of the Annual Financial Statements of Banks, interest receivable and payable is presented under the line items Other assets and Other liabilities, respectively, whereas in the statutory balance sheet under the accounting requirements for banks in the Republic of Croatia they are presented as asset and liability items to which they relate.

Assets

Cash on current accounts with domestic and foreign banks as well as other deposits in the total amount of HRK 134,316 thousand (2012: HRK 180,303 thousand) are presented in the audited financial statements under the line-item Cash and balances with banks, whereas under the CNB Decision they are included in Deposits with banking institutions.

In the audited financial statements, placements with customers represent placements on the basis of discounted bills of exchange and receivables from factoring in the total amount of HRK 342,164 thousand (2012: HRK 167,217 thousand) included in the line item Loans to customers, whereas under the CNB Decision they are presented according to the portfolio of financial assets in which they are classified, as follows: HRK 272,780 thousand of discounted bills are included into available-for-sale assets (2012: HRK 152,036 thousand) and HRK 3,050 thousand into financial assets held to maturity (2012: HRK 2,153 thousand), whereas receivables from factoring in the amount of HRK 66,334 thousand (2012: HRK 37,890 thousand) are included in financial assets held to maturity.

Repossessed i.e. foreclosed assets are reported under the CNB Decision separately, while in the audited accounts they have been included within "Other assets". Small inventories of HRK 104 thousand (2012: HRK 126 thousand) are presented in the audited accounts within "Other assets", whereas under the CNB Decision they are included in "Property, plant and equipment, and intangible assets".

Deferred tax assets of HRK 5,597 thousand (2012: HRK 6,619 thousand) are reported separately in the audited accounts, whereas according to the reporting requirements of the CNB they are included within "Other assets".

Liabilities and capital

According to the CNB Decision, "Other liabilities" include provisions for contingent liabilities and legal cases, which have been presented separately in the audited accounts amounting to HRK 4,186 thousand (2012: HRK 4,826 thousand).

According to the CNB requirements, the position "Statutory and other capital reserves" include reserves of HRK 695 thousand, formed in respect of flats with tenancy rights not sold (2012: HRK 706 thousand), which are included in the audited accounts within "Other liabilities".

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2013 UNAUDITED HRK '000	2012 UNAUDITED HRK '000
1. INTEREST INCOME	155,789	169,708
2. INTEREST EXPENSES	(77,937)	(81,698)
3. NET INTEREST INCOME	77,852	88,010
4. COMMISSION AND FEE INCOME	33,901	34,377
5. COMMISSION AND FEE EXPENSES	(10,667)	(10,732)
6. NET COMMISSION AND FEE INCOME	23,234	23,645
7. GAIN/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
8. GAIN/(LOSS) FROM TRADING ACTIVITIES	5,795	7,581
9. GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-
10. GAIN/(LOSS) FROM FINANCIAL ASSETS NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
11. GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	5,809	(1,490)
12. GAIN/(LOSS) FROM FINANCIAL ASSETS HELD TO MATURITY	-	-
13. GAIN/(LOSS) FROM HEDGING TRANSACTIONS	-	-
14. INCOME FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
15. INCOME FROM OTHER EQUITY INVESTMENTS	1,479	1,236
16. GAIN/(LOSS) FROM FOREIGN EXCHANGE DIFFERENCES	1,512	2,207
17. OTHER INCOME	11,209	3,329
18. OTHER EXPENSES	(6,133)	(11,915)
19. GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(101,242)	(99,215)
20. NET INCOME BEFORE VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	19,515	13,388
21. EXPENSES FROM VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	(17,640)	(3,174)
22. PROFIT/(LOSS) BEFORE TAX	1,875	10,214
23. INCOME TAX	(822)	(2,085)
24. CURRENT YEAR PROFIT/(LOSS)	1,053	8,129
25. EARNINGS PER SHARE	1.57	12.16

APPENDIX TO THE INCOME STATEMENT

	2013 HRK '000	2012 HRK '000
CURRENT YEAR PROFIT/(LOSS)	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

UNCONSOLIDATED BALANCE SHEET

	2013 UNAUDITED HRK '000	2012 UNAUDITED HRK '000
ASSETS		
1. CASH AND DEPOSITS WITH THE CNB	346,849	420,161
1.1. CASH	43,156	41,374
1.2. DEPOSITS WITH THE CNB	303,693	378,787
2. DEPOSITS WITH BANKING INSTITUTIONS	184,203	308,061
3. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	96,123	29,563
4. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	634,075	443,974
6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	84,793	57,680
7. SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8. DERIVATIVE FINANCIAL ASSETS	-	-
9. LOANS TO FINANCIAL INSTITUTIONS	-	18,925
10. LOANS TO OTHER CLIENTS	1,572,521	1,620,530
11. INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	4,770	4,770
12. REPOSSESSED ASSETS	16,418	6,748
13. TANGIBLE AND INTANGIBLE ASSETS (MINUS DEPRECIATION AND AMORTISATION)	126,959	126,426
14. INTERESTS, FEES AND OTHER ASSETS	36,416	30,842
A. TOTAL ASSETS	3,103,127	3,067,680
LIABILITIES AND EQUITY		
1. BORROWINGS FROM FINANCIAL INSTITUTIONS	256,905	208,156
1.1. SHORT-TERM BORROWINGS	120,582	33,600
1.2. LONG-TERM BORROWINGS	136,323	174,556
2. DEPOSITS	2,234,055	2,296,674
2.1. DEPOSITS ON GIRO-ACCOUNTS AND CURRENT ACCOUNTS	444,309	372,017
2.2. SAVINGS DEPOSITS	210,197	202,989
2.3. TERM DEPOSITS	1,579,549	1,721,668
3. OTHER BORROWINGS	-	-
3.1. SHORT-TERM BORROWINGS	-	-
3.2. LONG-TERM BORROWINGS	-	-
4. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING FINANCIAL LIABILITIES	-	-
5. ISSUED DEBT SECURITIES	-	-
5.1. ISSUED SHORT-TERM DEBT SECURITIES	-	-
5.2. ISSUED LONG-TERM DEBT SECURITIES	-	-
6. ISSUED SUBORDINATED INSTRUMENTS	52,783	-
7. ISSUED SUBORDINATED DEBT	76,376	75,456
8. INTERESTS, FEES AND OTHER LIABILITIES	88,057	93,934
B. TOTAL LIABILITIES	2,708,176	2,674,220
EQUITY		
1. SHARE CAPITAL	259,433	259,433
2. CURRENT YEAR GAIN/LOSS	1,053	8,129
3. RETAINED EARNINGS/(LOSS)	-	-
4. LEGAL RESERVES	117,634	109,505
5. STATUTORY AND OTHER CAPITAL RESERVES	30,080	30,203
6. UNREALISED GAIN /(LOSS) FROM AVAILABLE FOR SALE FAIR VALUE ADJUSTMENT	(13,249)	(13,810)
C. TOTAL EQUITY	394,951	393,460
D. TOTAL LIABILITIES AND EQUITY	3,103,127	3,067,680

APPENDIX TO THE BALANCE SHEET

	2013 HRK '000	2012 HRK '000
TOTAL EQUITY	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

UNCONSOLIDATED CASH FLOW STATEMENT

	2013 UNAUDITED HRK '000	2012 UNAUDITED HRK '000
OPERATING ACTIVITIES		
1.1. GAIN/(LOSS) BEFORE TAX	1,875	10,214
1.2. VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	17,640	3,174
1.3. DEPRECIATION AND AMORTISATION	9,563	9,470
1.4. NET UNREALISED (GAIN)/LOSS FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
1.5. GAIN/(LOSS) FROM SALE OF TANGIBLE ASSETS	140	(195)
1.6. OTHER (GAINS)/LOSSES		
1. OPERATING CASH FLOW BEFORE CHANGES IN OPERATING ASSETS	29,218	22,663
2.1. DEPOSITS WITH THE CNB	(842)	(1,486)
2.2. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	(66,560)	(29,068)
2.3. DEPOSITS WITH BANKING INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	18,925	675
2.4. LOANS TO OTHER CLIENTS	30,369	83,790
2.5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
2.6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	(189,539)	(16,913)
2.7. SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
2.8. OTHER OPERATING ASSETS	(5,574)	6,432
2. NET (INCREASE)/DECREASE IN OPERATING ASSETS	(213,221)	43,430
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
3.1. DEMAND DEPOSITS	72,292	(31,524)
3.2. SAVINGS AND TERM DEPOSITS	(134,911)	71,243
3.3. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING LIABILITIES	-	-
3.4. OTHER LIABILITIES	(8,076)	1,957
3. NET INCREASE/(DECREASE) IN OPERATING LIABILITIES	(70,695)	41,676
4. NET CASH FLOW FROM OPERATING ACTIVITIES BEFORE PROFIT TAX	(254,698)	107,769
5. PROFIT TAX PAID	(272)	(3,225)
6. NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(254,970)	104,544
INVESTING ACTIVITIES		
7.1. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF TANGIBLE AND INTANGIBLE ASSETS	(10,096)	(42,284)
7.2. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	(1,200)
7.3. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	(27,113)	36,391
7.4. DIVIDENDS RECEIVED	1,479	1,236
7.5. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	(9,670)	(56)
7. NET CASH FLOW FROM INVESTING ACTIVITIES	(45,400)	(5,913)
FINANCING ACTIVITIES		
8.1. NET INCREASE/(DECREASE) IN BORROWINGS	48,749	74,326
8.2. NET INCREASE/(DECREASE) IN ISSUED DEBT SECURITIES	-	-
8.3. NET INCREASE/(DECREASE) IN SUBORDINATED DEBT AND HYBRID AND SUBORDINATED INSTRUMENTS	53,703	152
8.4. RECEIPTS FROM ISSUED SHARE CAPITAL	-	-
8.5. (DIVIDENDS PAID)	-	-
8.6. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	(12)	(12)
8. NET CASH FLOW FROM FINANCIAL ACTIVITIES	102,440	74,466
9. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(197,930)	173,097
10. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	518,328	345,231
11. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	320,398	518,328

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL	TREASURY SHARES	LEGAL, STATUTORY AND OTHER RESERVES	RETAINED EARNINGS/ (LOSS)	CURRENT YEAR PROFIT/ LOSS	UNREALISED GAIN/ LOSSES FROM AVAILABLE FOR SALE FINANCIAL ASSETS FAIR VALUE ADJUSTMENT	MINORITY INTEREST	TOTAL CAPITAL AND RESERVES
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
1. BALANCE AT 1 JANUARY 2013	-	-	136,946	8,129	-	(11,048)	-	393,460
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
3. RESTATED CURRENT YEAR BALANCE	-	-	136,946	8,129	-	(11,048)	-	393,460
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5. FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	562	-	562	-
6. TAX ON ITEMS RECOGNISED DIRECTLY IN, OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	(112)	-	(112)	-
7. OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	-
8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	-	-	-	-	-	450	-	450
9. CURRENT YEAR GAIN/ (LOSS)	-	-	-	-	-	-	-	-
10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR	-	-	-	-	-	450	-	450
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	(12)	-	-	-	-	(12)
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
16. ALLOCATION OF PROFIT	-	-	8,129	(8,129)	-	-	-	-
17. BALANCE AT 31 DECEMBER 2013	270,515	(11,082)	145,063	-	-	(10,598)	-	393,898

	SHARE CAPITAL	TREASURY SHARES	LEGAL, STATUTORY AND OTHER RESERVES	RETAINED EARNINGS/ (LOSS)	CURRENT YEAR PROFIT/ LOSS	UNREALISED GAIN/ LOSSES FROM AVAILABLE FOR SALE FINANCIAL ASSETS FAIR VALUE ADJUSTMENT	MINORITY INTEREST	TOTAL CAPITAL AND RESERVES
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
1. BALANCE AT 1 JANUARY 2012	270,515	(11,082)	124,492	12,466	-	(27,933)	-	368,458
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
3. RESTATED CURRENT YEAR BALANCE	270,515	(11,082)	124,492	12,466	-	(27,933)	-	368,458
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5. FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	21,106	-	21,106
6. TAX ON ITEMS RECOGNISED DIRECTLY IN, OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	(4,221)	-	(4,221)
7. OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	-
8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	-	-	-	-	-	16,885	-	16,885
9. CURRENT YEAR GAIN/ (LOSS)	-	-	-	-	-	-	-	-
10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR	-	-	-	-	-	16,885	-	16,885
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	(12)	-	-	-	-	(12)
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
16. ALLOCATION OF PROFIT	-	-	12,466	(12,466)	-	-	-	-
17. BALANCE AT 31 DECEMBER 2012	270,515	(11,082)	136,946	-	-	(11,048)	-	385,331

The data in the financial statements prepared in accordance with the Croatian National Bank (“CNB”) Decision is classified differently from that in the financial statements prepared according to the statutory accounting requirements for banks in Croatia. Set out below are the comparative figures. Comparatives for the income statement ended 31 December 2013 and 2012:

	2013 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK '000	2013 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK '000	2013 DIFFERENCE HRK '000	2012 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK '000	2012 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK '000	2012 DIFFERENCE HRK '000
INTEREST AND SIMILAR INCOME	155,789	156,366	(577)	169,708	171,922	(2,214)
INTEREST AND SIMILAR EXPENSE	(77,937)	(72,940)	(4,997)	(81,698)	(77,452)	(4,246)
NET INTEREST INCOME	77,852	83,426	(5,574)	88,010	94,470	(6,460)
FEE AND COMMISSION INCOME	33,901	33,900	1	34,377	34,378	(1)
EXPENSE FOR FEES AND COMMISSIONS	(10,667)	(10,667)	-	(10,732)	(10,732)	-
NET FEE AND COMMISSION INCOME	23,234	23,233	1	23,645	23,646	(1)
NET TRADING GAIN	5,795	5,795	-	7,581	7,581	-
GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-	-	-	-	-
GAIN/(LOSS) FROM ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	-	-
GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	5,809	5,809	-	(1,490)	1,583	(3,073)
INCOME FROM OTHER INVESTMENTS IN EQUITY SECURITIES	1,479	1,479	-	1,236	1,236	-
NET FOREIGN EXCHANGE DIFFERENCES	1,512	688	824	2,207	(26)	2,233
OTHER OPERATING INCOME	11,209	10,410	799	3,329	3,353	(24)
TOTAL OTHER INCOME	25,804	24,181	1,623	12,863	13,727	(864)
GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(101,242)	(111,305)	10,063	(99,215)	(115,346)	16,131
IMPAIRMENT ALLOWANCE AND PROVISIONS	(17,640)	(17,660)	20	(3,174)	(6,283)	3,109
OTHER OPERATING EXPENSES	(6,133)	-	(6,133)	(11,915)	-	(11,915)
TOTAL OTHER EXPENSES	(125,015)	(128,965)	3,950	(114,304)	(121,629)	7,325
PROFIT BEFORE TAX	1,875	1,875	-	10,214	10,214	-
INCOME TAX EXPENSE	(822)	(822)	-	(2,085)	(2,085)	-
NET PROFIT FOR THE YEAR	1,053	1,053	-	8,129	8,129	-
EARNINGS PER SHARE (IN HRK)	1.57	1.57		12.16	12.16	

The difference of HRK 577 thousand (2012: HRK 2,214 thousands) on the line-item Interest and similar income relates to the exchange differences on interest income.

The difference of HRK 4,997 thousand (2012: HRK 4,246 thousand) on the line item Interest and similar expense relates mainly to savings deposit insurance premiums, which amount to HRK 4,749 thousand (2012: HRK 4,461 thousand) and are presented

in the audited income statement under the line item General and administrative expenses. Other differences relate to the reclassification of exchange differences on interest expense to the net foreign exchange gains in the amount of HRK 248 thousand.

The differences in the positions included in "Net foreign exchange differences" relates to foreign exchange differences based on the translation of foreign currency balances to mid or contracted exchange rate in the amount of HRK 818 thousand.

The difference of HRK 20 on the line item Value adjustment and provisions for identified losses relates to subsequently recovered written-off receivables which were reclassified to other operating income.

The differences on the line-item Other non-interest expenses relate to the reclassification of the entertainment, advertising and promotion expenses, other duties payable from income and other and extraordinary expenses to General and administrative expenses reported in the audited income statement.

Comparatives for the balance sheet at 31 December 2013 and 31 December 2012:

	2013 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK '000	2013 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK '000	2013 DIFFERENCE HRK '000	2012 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK '000	2012 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK '000	2012 DIFFERENCE HRK '000
ASSETS						
CASH AND DEPOSITS WITH THE CROATIAN NATIONAL BANK	346,849	481,164	(134,315)	420,161	600,464	(180,303)
TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	96,123	-	96,123	29,563	-	29,563
FINANCIAL ASSETS AVAILABLE FOR SALE	634,075	481,962	152,113	443,974	340,593	103,381
FINANCIAL ASSETS HELD TO MATURITY	84,793	27,191	57,602	57,680	27,481	30,199
PLACEMENTS WITH AND LOANS TO OTHER BANKS	184,203	62,682	121,521	326,986	166,199	160,787
LOANS AND RECEIVABLES	1,572,521	1,887,966	(315,445)	1,620,530	1,772,645	(152,115)
INVESTMENTS IN SUBSIDIARIES	4,770	4,770	-	4,770	4,770	-
REPOSSESSED ASSETS	16,418	-	16,418	6,748	-	6,748
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	126,959	126,855	104	126,426	126,300	126
DEFERRED TAX ASSETS	5,957	5,957	-	6,619	6,619	-
OTHER ASSETS	30,459	24,580	5,879	24,223	13,141	11,082
TOTAL ASSETS	3,103,127	3,103,127	-	3,067,680	3,058,212	9,468
LIABILITIES						
DUE TO OTHER BANKS AND DEPOSITS FROM CUSTOMERS	2,490,960	2,535,751	(44,791)	2,504,830	2,554,889	(50,059)
PROVISIONS FOR LIABILITIES AND CHARGES	3,936	4,186	(250)	4,826	4,826	-
OTHER LIABILITIES	84,121	37,772	46,349	89,108	28,392	60,716
TOTAL LIABILITIES	2,579,017	2,577,709	1,308	2,598,764	2,588,107	10,657
HYBRID AND SUBORDINATED INSTRUMENTS	129,159	131,162	(2,003)	75,456	77,351	(1,895)
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	267,500	267,500	-	267,500	267,500	-
SHARE PREMIUM	3,015	3,015	-	3,015	3,015	-
TREASURY SHARES	(11,082)	(11,082)	-	(11,082)	(11,082)	-
NET PROFIT FOR THE YEAR	1,053	1,053	-	8,129	8,129	-
UNREALISED GAIN / (LOSS) FROM FAIR VALUE ADJUSTMENT OF AVAILABLE FOR SALE ASSETS	(13,249)	(13,249)	-	(13,810)	(13,810)	-
RESERVES	147,714	147,019	695	139,708	139,002	706
TOTAL EQUITY	394,951	394,256	695	393,460	392,754	706
TOTAL LIABILITIES AND CAPITAL	3,103,127	3,103,127	-	3,067,680	3,058,212	9,468

The most significant differences on the balance-sheet items arise from the different classification of interest receivable and payable. In the balance sheet prepared under the CNB Decision on the Structure and Content of the Annual Financial Statements of Banks, interest receivable and payable is presented under the line items Other assets and Other liabilities, respectively, whereas in the statutory balance sheet under the accounting requirements for banks in the Republic of Croatia they are presented as asset and liability items to which they relate.

Assets

Cash on current accounts with domestic and foreign banks as well as other deposits in the total amount of HRK 134,316 thousand (2012: HRK 180,303 thousand) are presented in the audited financial statements under the line-item Cash and balances with banks, whereas under the CNB Decision they are included in Deposits with banking institutions.

In the audited financial statements, placements with customers represent placements on the basis of discounted bills of exchange and receivables from factoring in the total amount of HRK 309,763 thousand (2012: HRK 167,217 thousand) included in the line item Loans to customers, whereas under the CNB Decision they are presented according to the portfolio of financial assets in which they are classified, as follows: HRK 252,096 thousand of discounted bills are included into available-for-sale assets (2012: HRK 136,953 thousand) and HRK 3,050 thousand into financial assets held to maturity (2012: HRK 2,153 thousand), whereas receivables from factoring in the amount of HRK 54,617 thousand (2012: HRK 28,111 thousand) are included in financial assets held to maturity.

Under the CNB requirements, foreclosed assets are reported separately, whereas in the audited financial statements they are included in Other assets in the amount of HRK 16,418 thousand. In the audited financial statements, small inventory in the amount of HRK 104 thousand (2012: HRK 126 thousand) is included in Other assets, whereas under the CNB Decision it is included in the line item Property, plant and equipment, and intangible assets.

Deferred tax assets of HRK 5,957 thousand (2012: HRK 6,619 thousand) are reported separately in the audited financial statements, but are included in Other assets according to the CNB Decision.

Liabilities and equity

Under the CNB Decision, the line-item Other liabilities includes provisions for contingent liabilities and court costs, which are presented in the audited financial statements as a separate line item in the total amount of HRK 4,186 thousand (2012: HRK 4,826 thousand).

Under the CNB requirements, the line-item Statutory and other capital reserves includes reserves formed on the basis of unsold flats with tenancy rights of HRK 695 thousand (2012: HRK 706 thousand), which are included in the audited financial statements in Other liabilities.

