KentBank d.d.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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GENERAL INFORMATION

KentBank d.d. (hereinafter 'the Bank') is the legal successor of Banka Brod d.d. that changed its name to KentBank in the middle of 2012, which has been registered in the Commercial Court. In July 2012, the Bank moved its headquarters from Slavonski Brod to Zagreb, Gundulićeva 1.

In 2012, the share capital of the Bank was increased by the majority owner (Eksen Holding Anonim Sirketi). A total of 19,863 ordinary shares were issued by a title, in non-materialized form each with a nominal amount of HRK 3,800.00, marked BRBA-RA. By the Decision of the Extraordinary General Assembly as of 27 February 2012, the share capital was increased from the amount of HRK 51,228 thousand to the amount of HRK 126,707 thousand. Decision on Capital Increase was registered by Decision of the Commercial Court in Zagreb.

As at 13 June 2012, KentBank d.d. received an approval from the Croatian National Bank (hereinafter 'the CNB') on performing payment services in accordance with the special law (international payment transactions) and this was adopted by the Articles of Association dated 26 June 2012. The scope of the Bank's business is performing the following activities:

- receiving deposits or other repayable funds,
- lending, including consumer lending, mortgage loans and, where permitted under a special law, financing of commercial transactions, including export finance based on the purchase at a discount without recourse of long-term, non-current, non-matured receivables collateralized with a financial instrument (*forfeiting*),
- repurchase of receivables with or without recourse (*factoring*),
- issue of guarantees or other sureties,
- trading for its own account, or for the account of clients, in: money market instruments, negotiable securities, foreign exchange, including currency exchange transactions,
- payment processing services, in accordance with special laws,
- services ancillary to lending, such as e.g. collection, analysis and provision of information on the creditworthiness of legal and natural persons conducting business,
- renting safety deposit boxes,
- intermediary services in money market transactions
- receiving deposits or other repayable funds from the public and granting credits out of these funds, for the Bank's own account.

The Bank performs all its registered activities primarily in order to support economic activity of citizens, small and medium enterprises.

MANAGEMENT AND CORPORATE GOVERNANCE

Management Board	
Mehmet Murat Sabaz	President of the Management Board since 27 February 2012
Mićo Tomičić	Board Member
Ela Dogan Gölönü	Procurator
Arsen Kantarci	President of the Management Board until 27 February 2012
Supervisory Board	
Burak Tashkinov Ekmekchiev	President of the Supervisory Board until 27 February 2012 Supervisory Board Member from 27 February 2012 until 15 May 2012 President of the Supervisory Board from 15 May 2012
Mehmet Koçak	Deputy President of the Supervisory Board until 27 February 2012 Supervisory Board Member from 27 February 2012 until 15 May 2012 Deputy President of the Supervisory Board from 15 May 2012
Boris Zenić	Supervisory Board Member
Arsen Kantarci	President of the Supervisory Board from 27 February 2012 until 15 May 2012
Ali Baran Sűzer	Deputy President of the Supervisory Board from 27 February 2012 until 15 May 2012

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law in force, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with statutory accounting requirements for banks in Croatia which give a true and fair view of the financial position and results of the Bank for that period.

The Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed;
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law in force. The Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for submitting its annual reports of the Bank to the Supervisory Board together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The financial statements were authorised by the Management Board on 30 April 2013 for issue to the General Assembly and Supervisory Board and are signed below to signify this.

On behalf of KentBank d.d.

Mehmet Murat Sabaz

President of the Management Board

KENTBANK d.d.

Zagreb

Mićo Tomičić

Board Member

ERNST & YOUNG

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Račun / Account: 2402006-1100280716
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Independent Auditor's Report

Report on the Financial statements

To the Shareholders of KentBank d.d.:

We have audited the accompanying financial statements ('the financial statements') of the company KentBank d.d. (hereinafter 'the Bank'), which comprise statement on financial position as at 31 December 2012, statement on comprehensive income, statement on changes of equity and statement on cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (as set out on pages 8 to 69).

Management Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

ERNST & YOUNG

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2012, their financial performance and cash flows for the year then ended in accordance with statutory accounting requirements for banks in the Republic of Croatia.

Report on other Legal and Regulatory Requirements

In accordance with the Bylaw on the structure and content of the annual financial statements (National Gazette no 62/08) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 70 to 76, and which contain a balance sheet as at 31 December 2012, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with notes on the reconciliation of the forms with the primary financial statements of the Bank. This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting requirements for banks in the Republic of Croatia, not a required part of the financial statements, but is required by the Bylaw. Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements of the Bank which were prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia as presented on pages 8 to 69 and are based on underlying accounting records of the Bank.

Other matters

Financial statements of the Company for the year which ended on 31 December 2011 were audited by another auditor, which as at 18 April 2012 issued an unmodified opinion.

Ernst & Young

Ernst & Young d.o.o. Zagreb
Republic of Croatia
Zagreb, 30 April 2013

Statement of financial position

As at 31 December 2012

	Notes	31 December 2012	31 December 2011
		HRK 000	*HRK 000*
ASSETS			
Cash and current accounts with banks	3g), 3r), 12	76,290	119,852
Obligatory reserve with Croatian National Bank	14	43,911	43,571
Placements with other banks	3g),16	21,505	15,242
Financial assets available for sale	3f),15a)	122,576	86,564
Financial assets held to maturity	3f),15b)	51,368	26,851
Loans and advances to customers	3g),17a)	259,781	220,639
Tangible assets	3h),18a)	12,667	8,323
Intangible assets	3i),18b)	14,633	1,830
Repossessed assets	3k),19	578	892
Receivables for income tax	3o)	302	1,069
Other assets	20	4,762	4,087
TOTAL ASSETS		**608,373**	**528,920**
LIABILITIES			
Demand deposits	21a)	24,888	23,329
Term deposits	21b)	461,695	437,427
Provisions	22	745	338
Other liabilities	23	23,635	22,052
Total liabilities		**510,963**	**483,146**
EQUITY			
Share capital	3p),24a)	126,707	51,228
Reserves	3p),24b)	8,008	2,602
Profit (Loss) for the year	24	(29,249)	(8,123)
Retained earnings	24	67	67
Loss brought forward	24	(8,123)	-
Total equity	24	**97,410**	**45,774**
TOTAL LIABILITIES AND EQUITY		**608,373**	**528,920**
OFF-BALANCE ITEMS	3n),27	**6,206**	**5,524**

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

The financial statements were signed and approved by the Management Board on 30 April 2013.

Mehmet Murat Sabaz

President of the Management Board

KENTBANK d.d.

Zagreb

Mićo Tomičić

Board Member

Income statement

For the year ended 31 December 2012

	Notes	2012	2011
		HRK 000	*HRK 000*
Interest and similar income	3a),5	40,650	42,235
Interest expense and similar charges	3a),6	(20,015)	(21,350)
Net interest income		**20,635**	**20,885**
Fee and commission income	3b),8a)	6,730	6,933
Fee and commission expense	3b),8b)	(2,005)	(1,960)
Net fee and commission income		**4,725**	**4,973**
Profit (loss) from financial assets available for sale		(106)	-
Net gains (losses) from foreign exchange differences	9	3,038	4,014
Other income		458	821
		3,390	**4,835**
Total income		**28,750**	**30,693**
Depreciation	18	2,209	1,496
Employee expenses	10	21,174	10,212
Other administrative expenses	10	20,456	13,291
Total general and administrative expenses		**43,839**	**24,999**
Impairment and provision expenses	7	(14,160)	(13,817)
PROFIT (LOSS) BEFORE TAX		**(29,249)**	**(8,123)**
Income tax	3o),11	-	-
PROFIT (LOSS) FOR THE YEAR	24	**(29,249)**	**(8,123)**
EARNINGS (LOSS) PER SHARE (in HRK)	25	**(968.63)**	**(602.55)**

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

The financial statements were signed and approved by the Management Board on 30 April 2013.

Mehmet Murat Sabaz

President of the Management Board

KENTBANK d.d.
Zagreb

Mićo Tomičić

Board Member

Statement of comprehensive income
For the year ended 31 December 2012

	2012	2011
	HRK 000	*HRK 000*
PROFIT (LOSS) OF THE YEAR	**(29,249)**	**(8,123)**
Other comprehensive income (loss)		
Unrealized (loss) / profit from valuation of financial assets available for sale	6,179	(2,145)
Other comprehensive income (loss) for the period	**6,179**	**(2,145)**
TOTAL COMPREHENSIVE INCOME (LOSS)	**(23,070)**	**(10,268)**
Total comprehensive income (loss) attributable to:		
Equity holders of the Bank	(23,070)	(10,268)

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

Statement of changes in shareholders' equity
For the year ended 31 December 2012

HRK 000	Share capital	Reserves 24b)	Retained earnings	Loss brought forward	Profit / (Loss) for the year	Total
Balance at 1 January 2011	**51,228**	**4,543**	**67**	**-**	**4,077**	**59,915**
Unrealized (loss) / profit from valuation of financial assets available for sale	-	(2,145)	-	-	-	**(2,145)**
Total other comprehensive income (loss)	-	(2,145)	-	-	-	**(2,145)**
Loss of the period	-	-	-	-	(8,123)	**(8,123)**
Total comprehensive income / (loss)	**-**	**(2,145)**	**-**	**-**	**(8,123)**	**(10,268)**
Transactions with owners:						
Allocation of part of profit to legal reserves	-	204	-	-	(204)	-
Dividend payment	-	-	-	-	(3,873)	**(3,873)**
Balance at 31 December 2011	**51,228**	**2,602**	**67**	**-**	**(8,123)**	**45,774**
Balance at 1 January 2012	**51,228**	**2,602**	**67**	**-**	**(8,123)**	**45,774**
Unrealized (loss) / profit from valuation of financial assets available for sale	-	6,179	-	-	-	**6,179**
Total other comprehensive income (loss)	-	6,179	-	-	-	**6,179**
Loss for the period	-	-	-	-	(29,249)	**(29,249)**
Total comprehensive income / (loss)	**-**	**6,179**	**-**	**-**	**(29,249)**	**(23,070)**
Transactions with owners:						
Allocation of result from previous year	-	-	-	(8,123)	8,123	**-**
Increase in capital	75,479	-	-	-	-	**75,479**
Dividend payment	-	(773)	-	-	-	**(773)**
Balance at 31 December 2012	**126,707**	**8,008**	**67**	**(8,123)**	**(29,249)**	**97,410**

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

Cash Flow Statement
for the year ended 31 December 2012

	For the year ended 31 December	
	2012	**2011**
	HRK 000	*HRK 000*
Cash flow from operating activities		
Profit/loss for the year	(29,249)	(8,123)
Other changes in shareholders equity	6,179	(2,145)
Depreciation	2,209	1,496
Write-off and sale of tangible and intangible assets	(1,176)	-
Impairment and provision costs	14,160	13,817
Changes in operating assets and liabilities		
(Increase) in obligatory reserve with Croatian National Bank	(340)	(4,074)
Decrease / (increase) of loans and advances to customers	(36,776)	39,555
(Increase) / decrease of other assets	1,197	(1,517)
Increase / (decrease) of demand deposits	1,559	(23,944)
Increase / (decrease) of term deposits	24,268	11,394
Increase / (decrease) of other liabilities	1,570	1,220
Net cash flow from operating activities	***(16,399)***	***27,679***
Cash flow from investment activities		
(Increase) / decrease of financial assets held to maturity	(24,517)	(8,147)
(Increase) / decrease of financial assets available for sale	(36,012)	(48,641)
Purchase of tangible and intangible assets	(19,835)	(3,008)
Net cash flow used in investment activities	***(80,364)***	***(59,796)***
Cash flow from financial activities		
Increase in share capital	75,479	-
(Decrease) in Borrowings	-	(821)
Dividend payment	(773)	(3,873)
Net cash flow from financial activities	***74,706***	***(4,694)***
Net decrease of cash and cash equivalents	(22,057)	(36,811)
Cash and cash equivalents as at 1 January	119,852	156,663
Cash and cash equivalents as at 31 December	97,795	119,852
Decrease in cash and cash equivalents	(22,057)	(36,811)

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

Notes to the Financial Statements

1. GENERAL INFORMATION

KentBank d.d. (hereinafter: the Bank), with its headquarters in Zagreb, Gundulićeva 1, was established in the Republic of Croatia and provides commercial banking services. The Bank was entered in the register of the Commercial Court in Zagreb, with the share capital of HRK 126,707 thousand.

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

a) Statement of Compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. The Bank's operations are subject to the Credit Institutions Act, under which the Bank's financial reporting should be in accordance with IFRS published by the Croatian FRSB and regulations issued by the Croatian National Bank ("the CNB") which is the central regulatory institution of the banking system in Croatia. These financial statements are prepared in line with the above mentioned banking regulations.

The accounting regulations of the CNB are based on International Financial Reporting Standards ("IFRS"). The principal difference between the accounting regulations of the CNB and recognition and measurement requirements of IFRS is as follows:

- The CNB requires banks to recognise impairment losses on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value through profit and loss account). In line with the above mentioned requirements, the Bank has made portfolio-based provisions in the amount of HRK 3,544 thousand (in 2011: HRK 3,620 thousand), and it recognized income in the amount of HRK 69 thousand related to these provisions within impairment losses for the year (income in 2011: HRK 99 thousand). Although, in accordance with International Financial Reporting Standards, such provisions should more properly be presented as an appropriation within equity, the Bank continues to recognise such provisions as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of International Financial Reporting Standards. Due to a lack of observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at the balance sheet date, the Bank is not yet able to assess provisions for unidentified losses which exist on the date of the balance sheet, as required by IFRS.
- Contrary to IFRS, CNB requires the amortization of the discount calculated on the impaired loans to be presented in the income statement within the movement in impairment losses on loans and advances to customers and other assets, rather than as interest income, as required by IFRS.
- Additionally, the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRS
- CNB regulations stipulate that interest income that is calculated and charged in the form of fees / commissions during loan origination or during the loan agreement, should be recognized on a time proportion basis for the period to which the income relates. In accordance with IFRS, such revenues are part of the effective interest rate and are recognized in the income statement on such basis over the life of the loan.

The principal accounting policies applied in the preparation of these financial statements are summarised below.

b) Basis of preparation

The financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, and 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 have been prepared in a format generally adopted and internationally recognised by banks.

In preparing the financial statements, the Managing Board has made judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, disclosure of commitments and contingencies at the balance sheet date, as well as amounts of income and expense 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 the preparation of the financial statements, the results of which form the basis of making the judgements 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 to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements of the management in implementation of standards which have a significant effect on the financial statements and assessments and the risk of significant adjustments in the following year are described in Note 4.
The accounting policies have been consistently applied and, except where disclosed otherwise, are consistent with those used in the previous year.

The accounting policies adopted are consistent with those of the previous financial year except for the following changes of IFRS effective from 01 January 2012:

- *IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets;*
- *IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters;*
- *IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

Impact of adopting these standards or interpretations is described below.

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amended standard is effective for annual periods beginning on or after 1 January 2012 and had no effect on the Bank's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact on the Bank.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Banks financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Bank does not have any assets with these characteristics so this amendment did not affect the Bank's financial statements.

Notes to the Financial Statements (continued)

Standards issued but not yet effective

Standards and interpretations that were issued but were not yet effective up to the date of issuance of the Bank's financial statements are listed below. The Bank intends to adopt these standards, if they are applicable, when they enter into force.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Bank's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank does not expect that the amendment will have an impact on its financial position or results.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Bank.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangements or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments will not have an impact on the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 could have an effect on the classification and measurement of the Bank's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. IFRS 10 is not expected to have any impact on the currently held investments of the Bank.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures related to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but have no impact on the Bank's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Bank.

The annual improvements from May 2012

These improvements will have no impact on the Bank and include:

IFRS 1 First-Time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that has ceased to apply IFRS in the past and decided, or is required, to apply IFRS, has the option of re-applying IFRS 1. If IFRS 1 is not re-applied, the entity must retrospectively restate its financial statements as if it had never ceased to apply IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the distinction between voluntary additional comparative information and the minimum required comparative information. Generally, minimum required comparative information is the previous period.

IAS 16 Property, Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that the income tax arising from the distribution to equity owners is calculated in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

c) Functional and reporting currency

Financial statements are prepared in kuna, the official currency of the Bank's business environment (functional currency), and the amounts are presented in thousand HRK, with numbers rounded to the nearest figure marking the thousand.

The exchange rate effective as at 31 December 2012 was:

7.545624 = 1 EUR;

5.726794 = 1 USD;

6.245343 = 1 CHF.

The exchange rate effective as at 31 December 2011 was:

7.530420 = 1 EUR;

5.819940 = 1 USD;

6.194817 = 1 CHF.

3. ACCOUNTING POLICIES

a) Interest income and expenses

Interest income and expenses are recognised in the income statement for all interest bearing instruments using the effective interest rate method except fees for loans that are deferred and recognized in proportion to the duration of the loan (for fees paid in advance) or in the period in which they are calculated (for fees to be calculated per month throughout the entire period of the loan).

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts but does not include fees received and recognized evenly over the life of the loan.

When loans become impaired, they are adjusted to their recoverable amounts measured as the net present value of the future cash flows discounted at the effective interest rate, prior to impairment. This amount of discount is recognized as income from termination of impairment on an effective yield basis over the period from impairment recognition to collection.

b) Fee and commission income and expense

Fee and commission income and expense is recognised in the income statement when the related service is provided. Fee and commission income and expense mainly comprise fees receivable for guarantees and letters of credit issued by the Bank on behalf of customers, and fees for domestic and foreign payment transactions.

Fee and commission income mainly comprises fees for domestic and foreign payment transactions on the basis of transactions for issued guarantees. Fees are recognized as income when the service is executed.

Loan origination fees are deferred and recognized as reconciliation of effective yield on loans and thus reconcile the interest income. Fee and commission expenses include payment transactions services fees and fees for banking services, and are recognized as incurred.

c) Gains less losses from financial assets and liabilities at fair value through profit or loss

Gains less losses from financial assets and liabilities at fair value through profit or loss include unrealised and realised fair value gains on debt securities and derivatives. Foreign exchange differences on financial assets and liabilities at fair value through profit or loss are presented within gains less losses from dealing in foreign currencies in the income statement.

d) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

e) Foreign currencies

Transactions in foreign currencies are translated into Croatian Kuna ("HRK") at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are reported at each balance sheet date at the foreign exchange rate ruling on the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the income statement.

Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates ruling at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at the balance sheet date.

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.

f) Financial instruments

Classification

The Bank classifies its financial instruments into the following categories:

- financial assets and liabilities at fair value through profit or loss;
- loans and receivables;
- financial assets held to maturity;
- financial assets available for sale;
- other financial liabilities

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

This category has two sub-categories: financial instruments held for trading and financial instruments designated by the Management Board as Financial instruments at fair value through profit or loss.

A financial instrument is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near future or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; if it is a derivative; or as designated by the Management Board. Financial instruments at fair value through profit or loss include debt securities and derivatives.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money to a debtor with no intention of trading with the receivable and include purchased loans, placements with, and loans to, other banks and receivables.

Financial assets held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. These include debt securities.

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 and loss.

Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices.

Other financial liabilities

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

Recognition and derecognising

Regular way purchases of financial instruments other than originated loans and receivables are recognised on the trade date when the Bank committed to purchase the asset. Loans and receivables and financial liabilities at amortised cost are recognised when cash is advanced to borrowers or received from lenders.

The Bank derecognises financial instruments (in full or partially) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on those financial assets. It occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, apart from the financial asset or financial liability at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and available for sale financial instruments at their fair value. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment. Loans and receivables and held-to-maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortised cost using the effective interest method.

Gains and losses

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the income statement.

Gains or losses from a change in the fair value of available-for-sale monetary assets are recognised directly in a fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in the income statement. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in equity. Dividend income is recognised in the income statement when right to receive it has been established. Upon sale or other derecognising of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the income statement. Gains or losses arising from financial assets and financial liabilities carried at amortised cost may also arise, and are included in the income statement when a financial instrument is derecognised or when its value is impaired.

Determination of fair value of financial instruments

The fair value of quoted financial instruments in an active market is based on their closing bid prices. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Bank establishes fair value by using valuation techniques. These include the use of internal evaluation models, based on the present value of the future cash flows; prices achieved in recent arm's length transactions; reference to other instruments that are substantially the same; and option pricing models. In applying these techniques, the Bank makes maximum use of market inputs and relies as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

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

Notes to the Financial Statements (continued)

Impairment of financial assets

Assets carried at amortised cost

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

i) significant financial difficulty of the borrower;

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

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

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

v) the disappearance of an active market for the financial asset because of financial difficulties;

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Portfolio based provisions are calculated at rates prescribed by Croatian National Bank as described in note 4.

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

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

When this is possible, the bank implements loans restructuring rather than initiate enforcement action. This may include the extension of repayment period and change in credit conditions. After changing conditions, any further impairment calculation is made with the original effective interest rate applicable prior to changing conditions. The management continuously monitors restructured loans to ensure the fulfilment of the new conditions and security of future payments. These loans are subject to further regular testing of impairment on an individual or group basis using the original effective interest rate.

Financial assets available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through equity.

Assets carried at cost

Assets carried at cost include securities classified as available for sale for which there is no reliable fair value. The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.
An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted by the current market interest rate for similar financial assets. Impairment losses on such instruments, recognised in the income statement, are not subsequently reversed through the income statement.

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

g) Specific financial instruments

Treasury bills and debt securities
Short-term treasury bills are classified as available-for-sale financial assets. Debt securities held for the purpose of short-term profit taking are classified as trading financial assets and are included in financial assets at fair value through profit or loss. Debt securities that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other debt securities are classified as financial assets available for sale.

Equity securities
Equity securities are classified as assets available for sale. These equity securities represent the Bank's participating interests of less than 20% of the voting rights, but without significant influence or control. Given that discounted cash flow techniques give insufficiently reliable results and indicate a large range of values, due to uncertainties related to future cash flow estimates, these securities are stated as cost less impairment.

Placements with banks

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

Loans to customers

Loans and advances are presented net of impairment allowances to reflect the estimated recoverable amounts.

h) Property and equipment

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

Items of property and equipment are shown at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The Bank recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditures on repairs and maintenance are expensed as incurred.

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful life.

Land and assets under construction are not depreciated. The estimated annual depreciation rates are as follows:

	2012 %	2011 %
Buildings	2.5	2.5
Office furniture	20	20
Electronic equipment, computers	25	25
Other equipment	10	10

The residual value of assets, depreciation method and useful lives are reviewed and adjusted, if necessary, at each balance sheet date. The net carrying value of an asset is immediately impaired to the recoverable amount if the carrying value of the asset is higher than the estimated recoverable amount. Gains and losses from sale are measured as the difference between the collected amount and the net carrying value, and recognized in the income statement.

i) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight- line basis to write down the cost of assets to their residual values over their estimated useful life.

The estimated annual amortization rates are as follows

	2012 %	2011 %
Software	20	20
Other intangible assets	20	20

Costs incurred in order to restore or maintain the future economic benefits that the Bank can expect from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out. Costs incurred in order to enhance or extend the benefits of computer software programmes beyond their original specifications and lives are recognised as a capital improvement and added to the original cost of the software.

j) Impairment of non-financial assets

The recoverable amount of property, plant and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

k) Repossessed assets

Repossessed assets are stated at lower of the market value and the initial value of the related receivables. The Management Board has estimated that the carrying value of assets approximates the market value.

l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

m) Provisions for liabilities and risks

Provisions are recognised when the Bank 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.

The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

n) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit related commitments which are recorded in off-balance sheet accounts, such as guarantees, commitments to extend credit and letters of credit and undrawn loan commitments. These financial instruments are recorded in the balance sheet if and when they become payable.

o) Income tax

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

As various interpretations of numerous tax laws are possible, amounts stated in financial statements can be altered subsequently depending on decisions of tax authorities.

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the period in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

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

p) Share capital and reserves

Share capital is denominated in HRK at its nominal value. The amounts paid for repurchase of share capital, including direct costs, are recognized as decrease in equity and classified as treasury shares.

Operating results for the year are transferred to retained earnings. Dividends are recognised as a liability in the period in which they are declared.

The Bank recognizes reserves for general banking risks, which represents a reserve for potential losses that are higher than expected for which impairment losses are recognized.
Reserves were calculated in accordance with applicable regulations which required that a certain percentage of the net profit for the year is set aside into reserve within equity and reserves, if the growth of certain risk assets on an annual basis was greater than a certain amount as at 31 December 2009. After amended legislation in 2010, the obligation of calculating provisions for general banking risks was cancelled. In 2011 the reserve for general banking risks was attributed to retained earnings.

r) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, current accounts with banks and amounts due from banks on demand or with an original maturity of three months or less and Ministry of Finance treasury bills with an original maturity of three months or less.

s) Treasury shares

Acquisition of treasury shares is conducted in the cases envisaged by the Company Act, in order to eliminate contingent losses. Redeemed treasury shares are recognized at acquisition costs. Any positive difference created by the sale of treasury shares at a price higher than the acquisition cost is recognized as a capital gain, and any negative difference generated below the cost of acquisition is recognized as a capital loss.

t) Operating lease – Bank as a lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lesser are classified as operating lease arrangements. Lease payments under operating leases are recognised as expenses on a straight-line basis over the lease term and included in general administrative expenses.

Minimum future contractual payments in respect of operating leases arrangements are as follows:

Year	Lease *HRK 000*
2013	1,665
2014	1,816
2015	1,816
2016	1,816
2017	1,514

Notes to the Financial Statements (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Accounting estimates and judgements

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Significant judgements made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value are also described below.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Bank's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans and advances to corporate and retail customers (summarised in Note 17), and as provisions arising from off-balance sheet risk exposure to customers, mainly in the form of guarantees (as summarised in Notes 27). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value where the credit risk is not the primary impairment risk.

	Notes	2012 *HRK 000*	2011 *HRK 000*
Summary of impairment losses for customers			
Impairment losses on loans to customers	7	(7,366)	(8,222)
Provisions for off-balance-sheet exposure	22b	(7)	31
		(7,373)	**(8,191)**

The Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures).

The Bank estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers; and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

The Bank takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgement in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Bank also has regard to the ranges of impairment loss prescribed by the CNB based on the age of overdue amounts.

For a small loan portfolio (exposure up to HRK 200 thousand), the Bank uses the following matrix to determine provisions based on days overdue:

RISK GROUP	IMPAIRMENT	NUMBER OF DAYS
B 1	10%	91-120
B 1	20%	121-180
B 2	30%	181-210
B 2	40%	211-230
B 2	50%	231-250
B 2	60%	251-270
B 3	70%	271-300
B 3	80%	301-330
B 3	90%	331-365
C	100%	More than 365

Counting the number of delay days begins when the total debt due by the client exceeds HRK 1,750.00.

At the year end, ratio of impairment loss in total gross value of loans and advances recognized, was as follows:

			2012			**2011**
			HRK 000			***HRK 000***
	Corporate	Retail	**Total**	Corporate	Retail	**Total**
Gross value of exposure	79,572	215,149	**294,721**	62,615	185,562	**248,177**
Impairment rate	18.11%	10.49%	**12.55%**	17.31%	11.02%	**12.61%**

Assuming that portfolio quality remains at the same level, each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2012 would cause an additional impairment loss in the amount of HRK 2,445 thousand (in 2011: HRK 3,085 thousand). The effect of decrease in impairment loss by HRK 640 thousand shows stabilization of the Bank's portfolio quality.

The Bank also seeks to recognise impairment losses which are known to exist at the balance sheet date, but which have not yet been specifically identified. In estimating unidentified impairment losses existing in collectively assessed portfolios, and in the absence of reliable data on historical loss rates and the emergence period for the identification of these impairment losses, the Bank uses the range of impairment loss rates from 0.85% to 1.20% prescribed by the CNB to be calculated on all credit risk exposures except those carried at fair value through profit and loss account, as well as the positive fair value of embedded derivatives, including off-balance-sheet amounts (including contingent credit and card exposure) and Croatian sovereign risk.

Notes to the Financial Statements (continued)

The amount of impairment loss as at 31 December 2012 estimated on a portfolio basis amounted to HRK 3,544 thousand (in 2011: HRK 3,620 thousand) of the relevant on- and off-balance-sheet exposure. The total of the portfolio based impairment loss amounted to 1.00% of balance and off-balance-sheet exposure to credit risk, in both cases net of amounts individually assessed as impaired.

At the minimum rate prescribed by the CNB, portfolio based impairment losses would amount to HRK 532 thousand (in 2011: HRK 543 thousand) lower than the amount recognised by the Bank. At the maximum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 709 thousand (in 2011: HRK 724 thousand) higher than the amount recognised by the Bank.

Legal cases

The Bank performs a risk classification of lawsuits taking into consideration the following principles: legal grounds of the claim; prior legal practice; opinions of relevant outsourced attorneys and other independent legal or other experts.

Lawsuits are classified into three groups: where the Bank expects a fully successful outcome; where the Bank expects to lose the case; and uncertain lawsuits, where the probability of a successful or unsuccessful outcome cannot be readily determined. The Bank seeks to make provisions for those cases where, in management's opinion, the eventual outcome is that the Bank is more likely to lose than to win the legal case.

The amount of provisions per case falls within 4 (four) categories, as follows:

- the amount of provisions referring to the principal,
- the amount of provisions referring to interest,
- the amount of provisions referring to lawyers' fees,
- the amount of provisions referring to court expenses.

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of a taxpayer's records.

Notes to the Financial Statements (continued)

5. Interest and similar income

a) Interest income is realized on the basis of:

	2012	2011
	HRK 000	*HRK 000*
Interest income from loans	30,541	34,230
Interest income from financial assets available for sale	6,415	2,599
Interest income from financial assets held to maturity	3,228	2,583
Interest income from deposits	466	2,823
TOTAL	**40,650**	**42,235**

b) Interest income according to the sectors:

	2012	2011
	HRK 000	*HRK 000*
Companies	7,506	7,819
Financial institutions	569	3,094
Individuals (retail)	26,090	28,457
State units (Republic of Croatia)	6,424	2,717
Other	61	148
	40,650	**42,235**

6. Interest expense and similar charges

Interest expense refers to:

	2012	2011
	HRK 000	*HRK 000*
Interest to individuals (retail)	19,424	20,603
Interest to non-residents	496	519
Interest to companies	65	195
Interest to financial institutions	-	10
Other	30	23
TOTAL	**20,015**	**21,350**

7. Impairment and provisions costs

	2012	2011
	HRK 000	*HRK 000*
Impairment of loans and advances to customers (note 17c)	7,442	8,290
Corporate	*5,337*	*3,966*
Retail	*2,105*	*4,324*
Impairment on placements with other banks (note 16)	5,000	5,000
Impairment on other bases	1,374	396
Special provisions for identified cumulative losses (note17c)	(76)	(68)
Provisions for court disputes (note 22a)	413	230
Provisions for contingent liabilities (note 22b)	7	(31)
TOTAL	**14,160**	**13,817**

8. Fee and commission income and expense

a) Fee and commission income includes:

	2012	2011
	HRK 000	*HRK 000*
Payment transaction service fees	5,876	5,840
Currency exchange fees	496	617
Loan origination fees	329	425
Other banking services	29	51
TOTAL	**6,730**	**6,933**

b) Fee and commission expenses include:

	2012	2011
	HRK 000	*HRK 000*
FINA commission	1,498	1,409
CNB	35	44
Domestic banks	455	496
Domestic clients	17	11
TOTAL	**2,005**	**1,960**

Notes to the Financial Statements (continued)

9. Net gains (losses) from foreign exchange differences

	2012	2011
	HRK 000	*HRK 000*
Gain / (loss) from revaluation of balance sheet positions to mid exchange rate		
- fx items	(705)	(6,051)
- positions with foreign currency clause	601	5,653
Net gain from FX trading	3,142	4,412
TOTAL	**3,038**	**4,014**

10. Employee expenses and other administrative expenses

Other administrative expenses:

	2012	2011
	HRK 000	*HRK 000*
Rent expenses	4,016	1,345
Intellectual services	3,651	2,054
Other services	3,178	1,953
Marketing and advertisement expenditure	1,779	725
Material costs and similar charges	1,433	1,037
Costs of deposit insurance	1,298	1,241
Mail and phone expenditure	805	561
Maintenance expenses	594	510
Other expenditure	3,702	3,865
TOTAL	**20,456**	**13,291**

Employee expenses:

	2012	2011
	HRK 000	*HRK 000*
Salaries of employees		
- Net salaries for employees	10,416	5,472
- Contributions on salaries	2,780	1,412
- Contributions, taxes and surtaxes from salaries	7,141	2,783
- Other	837	545
TOTAL	**21,174**	**10,212**

During 2012, average number of employees was 114 (31 December 2011: 84).

The Bank pays pension contributions to mandatory pension funds. Contributions are calculated as a percentage of gross salaries of employees.

11. Income tax

The reconciliation of the calculated tax and accounting profit is presented below:

	2012	2011
	HRK 000	*HRK 000*
Accounting loss before tax	**(29,249)**	**(8,123)**
Items which increase taxable income	4,472	468
Items which decrease taxable income	(1,163)	-
Tax loss	**(25,940)**	**(7,655)**
Tax losses brought forward from previous periods	(7,655)	-
Tax losses carried forward into next periods	(33,595)	(7,655)

The Bank is subject to income tax in accordance with local legislation. Tax losses can be carried forward for up to five years and are subject to change in accordance with the supervision of the Ministry of Finance. Deferred tax is calculated using tax rates that are expected to be applied to the temporary differences when they are to be recovered or settled

On the reporting date the Bank did not recognise any deferred tax asset in respect of tax losses carried forward on the grounds of uncertainty as to whether sufficient future taxable profits will be available to utilise those losses before their expiry. The Bank did not recognize in its books a deferred tax liability on unrealized gains financial assets available for sale as it expects that due to unused tax losses from previous years, the expected tax rate will be 0% in the year when they are realized.

The availability of tax losses in future periods, calculated at 20% rate enacted at the reporting date, subject to review by the Ministry of Finance, is as follows:

	Net per rate of 20%. 31 December 2012	**Net per rate of 20%. 31 December 2011**
	HRK 000	*HRK 000*
No later than 1 year	-	-
No later than 2 years	-	-
No later than 3 years	-	-
No later than 4 years	1,531	-
No later than 5 years	5,188	1,531
Total transferable tax losses not recognized as deferred tax assets	**6,719**	**1,531**

12. Cash and current accounts with banks

Cash includes:

	2012		2011	
	HRK 000		*HRK 000*	
	HRK	Foreign currency	HRK	Foreign currency
Cash in accounts at CNB	33,962	-	39,332	-
Cash in accounts at other banks	-	21,290	-	52,874
Cash in hand	8,282	12,756	10,038	17,608
TOTAL	**42,244**	**34,046**	**49,370**	**70,482**
Grand total	**76,290**		**119,852**	

13. Cash and cash equivalents

Cash and cash equivalents include cash and balances in accounts with banks and bank placements:

	2012	2011
	HRK 000	*HRK 000*
Cash in accounts at CNB	33,962	39,332
Cash in accounts at other banks	21,290	52,874
Cash in hand	21,038	27,646
Placements with banks with maturity less than 3 months	21,505	-
TOTAL	**97,795**	**119,852**

14. Obligatory reserve with the Croatian National Bank

Banks are obliged to calculate an obligatory reserve in kuna and foreign currency at a rate which, as at 31 December 2012, accounted for 13.5% of kuna and foreign currency funds (14% as at 31 December 2011). In 2012 the reserve requirement ratio changed twice: an increase from 14% to 15% in January, decrease from 15% to 13.5% in April.

The part of the obligatory reserve in kuna is increased by 75% of the calculated obligatory reserve on foreign currency funding sources. 70% of the obligatory reserve should be deposited into a special account held with the CNB, while the rest is maintained by account balances and accounts to settle the NCS accounts. The rate of remuneration on the allocated kuna component of obligatory reserve on 31 December 2012 amounted to 0%, and was decreased in March 2011 from 0.25%.

The foreign exchange component of the calculated obligatory reserve is reduced by 75% which is added to section calculated in kuna, while the remainder represents foreign currency liabilities. Percentage of the foreign currency component of obligatory reserve calculated on the basis of foreign currency funds from non-residents and foreign funds received from legal entities in a special relationship with the bank amounts 100%, while the percentage allocation of the remaining foreign currency obligatory reserve is 60% (allocation of funds can be in Euro and U.S. dollar). The remaining amount in foreign currency can be maintained as average balance of liquid foreign currency claims in foreign currency. The rate of remuneration for the obligatory reserve in foreign currency is 0%.

	2012	**2011**
	HRK 000	***HRK 000***
Allocated obligatory reserve in HRK	35,611	35,529
Allocated obligatory reserve in foreign currency	8,300	8,042
Total obligatory reserve	**43,911**	**43,571**

The obligatory reserve represents amounts required to be deposited with the CNB and is not available for use in the Bank's day-to-day operations.

Notes to the Financial Statements (continued)

15. Financial assets

a) Financial assets available for sale

	2012	2011
	HRK 000	*HRK 000*
Domestic government bonds	43,911	36,522
Domestic treasury bills	78,665	50,042
TOTAL	**122,576**	**86,564**

b) Financial assets held to maturity

	2012	2011
	HRK 000	*HRK 000*
Bills of exchange - companies	38,521	8,738
Factoring – receivables from companies	2,683	15,254
Factoring – receivables from state	10,164	2,859
TOTAL	**51,368**	**26,851**

16. Placements with other banks

	2012	2011
	HRK 000	*HRK 000*
Deposits in domestic banks - in HRK	10,000	10,000
Impairment on placements with other banks in HRK	(10,000)	(5,000)
Deposits in domestic banks - in foreign currency	13,959	10,242
Deposits in foreign banks - in foreign currency	7,546	-
TOTAL	**21,505**	**15,242**

Movement of allowance for impairment on placements with other banks in HRK:

	2012	2011
	000 kn	*000 kn*
Balance at 1 January	**5,000**	-
Increase in provisions (note 7)	5,000	5,000
Balance at 31 December	**10,000**	**5,000**

17. Loans and advances to customers

a) Analysis according to types of loans:

	2012	2011
	HRK 000	*HRK 000*
Short-term loans:		
Companies	32,034	25,247
Retail customers	33,280	35,375
Other customers	1,995	1,276
Total short-term loans	**67,309**	**61,898**
Long-term loans:		
Companies	47,538	37,366
Retail customers	181,856	150,174
Other customers	5,413	6,566
Total long-term loans	**234,807**	**194,106**
Total short-term and long-term loans	**302,116**	**256,004**
Provisions	(42,335)	(35,365)
TOTAL	**259,781**	**220,639**

All retail loans relate to non purpose loans.

b) Concentration of credit risk

The following table represents gross loan exposures before impairment of corporate placements according to industry and for loans to retail customers according to types of loans.

- Corporate loans by industry:

	2012	2011
	HRK 000	*HRK 000*
Manufacturing	14,783	5,185
Trade	20,007	10,775
Tourism	1,042	948
Agriculture	5,903	6,372
Construction	25,597	29,971
Services	18,267	15,398
Other	315	260
Total by sector	**85,914**	**68,909**
Impairments and provisions for loan losses	(15,920)	(11,304)
TOTAL	**69,994**	**57,605**

c) Movements on impairments and provisions:

HRK 000	2012 Impairment	2012 Special reserves for identified cumulative losses	2012 Total	2011 Impairment	2011 Special reserves for identified cumulative losses	2011 Total
Balance at 1 January	**31,745**	**3,620**	**35,365**	**23,652**	**3,688**	**27,340**
Net impairment i.e. provision (note 7)	7,046	(76)	**6,970**	8,093	(68)	**8,025**
Balance at 31 December	**38,791**	**3,544**	**42,335**	**31,745**	**3,620**	**35,365**

18. Tangible and intangible assets

a) Movement in tangible assets in thousand HRK

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Acquisition cost						
Balance at 1 January 2012	469	5,781	5,406	1,900	826	14,382
Additions	-	163	4,046	1,746	99	6,054
Write-off, sale, transfer	(2)	(478)	-	-	(347)	(827)
Balance 31 December 2012	**467**	**5,466**	**9,452**	**3,646**	**578**	**19,609**
Depreciation						
Balance as at 1 January 2012	-	435	4,430	1,194	-	6,059
Charge for the year	-	89	493	301	-	883
Write-off, sale, transfer	-	-	-	-	-	-
Balance 31 December 2012	**-**	**524**	**4,923**	**1,495**	**-**	**6,942**
Present value 1 January 2012	**469**	**5,346**	**976**	**706**	**826**	**8,323**
Present value 31 December 2012	**467**	**4,942**	**4,529**	**2,151**	**578**	**12,667**

18. Tangible and intangible assets (continued)

a) Movement in tangible assets in thousand HRK (continued)

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	**Total**
Acquisition cost						
Balance at 1 January 2011	469	4,780	4,996	2,090	-	12,335
Additions	-	1,739	625	286	826	3,476
Write-off, sale, transfer	-	(738)	(215)	(476)	-	(1,429)
Balance at 31 December 2011	**469**	**5,781**	**5,406**	**1,900**	**826**	**14,382**
Depreciation						
Balance as at 1 January 2011	-	347	4,213	1,084	-	5,644
Charge for the year	-	88	497	204	-	789
Write-off, sale, transfer	-	-	(280)	(94)	-	(374)
Balance 31 December 2011	**-**	**435**	**4,430**	**1,194**	**-**	**6,059**
Present value 1 January 2011	**469**	**4,433**	**783**	**1,006**	**-**	**6,691**
Present value 31 December 2011	**469**	**5,346**	**976**	**706**	**826**	**8,323**

18. Tangible and intangible assets (continued)

b) Movement in intangible assets in thousand HRK

	Leasehold improvements	Software	**Total**
Acquisition cost			
Balance at 1 January 2012	1,537	4,663	6,200
Additions	12,753	1,028	13,781
Write-off, sale, transfer	349	-	349
Balance 31 December 2012	**14,639**	**5,691**	**20,330**
Amortization			
Balance as at 1 January 2012	1,224	3,147	4,371
Charge for the year	708	618	1,326
Write-off, sale, transfer	-	-	-
Balance 31 December 2012	**1,932**	**3,765**	**5,697**
Present value 1 January 2012	**313**	**1,517**	**1,830**
Present value 31 December 2012	**12,707**	**1,926**	**14,633**

b) Movement in intangible assets in thousand HRK (continued)

	Leasehold improvements	Software	**Total**
Acquisition cost			
Balance as at 1 January 2011	1,533	4,080	5,613
Additions	4	583	587
Write-off, sale, transfer	-	-	-
Balance 31 December 2011	**1,537**	**4,663**	**6,200**
Amortization			
Balance as at 1 January 2011	612	3,051	3,663
Charge for the year	612	95	707
Write-off, sale, transfer	-	-	-
Balance at 31 December 2011	**1,224**	**3,146**	**4,370**
Present value 1 January 2011	**921**	**1,029**	**1,950**
Present value 31 December 2011	**313**	**1,517**	**1,830**

19. Repossessed assets

	2012	2011
	HRK 000	*HRK 000*
Long-term tangible assets repossessed in exchange for uncollectible receivables	578	892
TOTAL	**578**	**892**

The Management Board of the Bank has estimated that the book value of the repossessed long-term tangible assets approximates the market value of these assets.

20. Other assets

Other assets include:

	2012	2011
	HRK 000	*HRK 000*
Interest receivables	3,926	3,846
Receivables for advances	1,101	301
Receivables for fees and commissions	678	656
Prepaid expenses	307	242
Derivative financial assets	18	13
Receivables from customers	-	2
Impairment	(2,091)	(1,677)
Other receivables	823	704
TOTAL	**4,762**	**4,087**

21. Demand deposits and term deposits

a) Demand deposits

HRK 000

	2012		2011	
	HRK	Foreign currency	HRK	Foreign currency
Retail deposits	5,260	3,946	10,093	5,945
Companies	8,743	148	6,609	90
Financial institutions	-	-	11	-
State and other institutions	397	-	369	-
Foreign individuals	152	6,242	181	31
TOTAL	14,552	10,336	17,263	6,066
Grand total	**24,888**		**23,329**	

b) Term deposits

HRK 000

	2012		2011	
	HRK	Foreign currency	HRK	Foreign currency
Retail	62,332	387,110	63,139	363,870
Companies	50	200	52	419
State and other institutions	161	-	53	-
Foreign individuals	333	11,509	168	9,726
TOTAL	62,876	398,819	63,412	374,015
Grand total	**461,695**		**437,427**	

Deposits of ten largest depositors amount to 5.51% of total deposit potential of the Bank as at 31 December 2012 (7.21% as at 31 December 2011).

22. Provisions

	2012	2011
	HRK 000	*HRK 000*
Provisions for legal cases initiated against the Bank	683	283
Provisions for identified losses on off-balance contingent liabilities	62	55
TOTAL	**745**	**338**

a) Movements in provisions for legal cases initiated against the Bank:

	2012	2011
	HRK 000	*HRK 000*
Balance at 1 January	**283**	**102**
Increase in provisions (note 7)	413	230
Write off	(13)	(49)
Balance at 31 December	**683**	**283**

b) Movements in provisions for identified losses on off-balance contingent liabilities

	2012	2011
	HRK 000	*HRK 000*
Balance at 1 January	**55**	**86**
Increase in provisions (note 7)	7	-
Write off (note 7)	-	(31)
Balance at 31 December	**62**	**55**

23. Other liabilities

Other liabilities include:

	2012	2011
	HRK 000	*HRK 000*
Interest liabilities	12,625	13,458
Deferred interest income	3,328	953
Liabilities to suppliers	2,772	4,015
Liabilities for loan prepayments	2,004	1,790
Liabilities to employees	1,919	1,175
Liabilities for taxes and contributions	86	87
Dividend liabilities	22	25
Other liabilities	879	549
TOTAL	**23,635**	**22,052**

24. Share capital and reserves

Share capital and reserves of the Bank (shareholders' equity) amount to HRK 97,410 thousand as at 31 December 2012 (HRK 45,774 thousand as at 31 December 2011):

	2012	2011
	HRK 000	*HRK 000*
Share capital	126,707	51,228
Reserves	8,008	2,602
Profit (loss) for the year	(29,249)	(8,123)
Retained earnings	67	67
Loss brought forward	(8,123)	-
TOTAL	**97,410**	**45,774**

a) Share capital

Share capital amounts to HRK 126,707 thousand and it is divided into 33,344 shares with a nominal value of HRK 3,800.00 comprising of 30,797 ordinary and 2,547 preference shares.

	Ordinary shares		Preference shares		TOTAL	
	Number	Nominal value *HRK 000*	Number	Nominal value *HRK 000*	Number	Nominal value *HRK 000*
Balance at 31 Dec 2012	30,797	117,028	2,547	9,679	33,344	**126,707**
Balance at 31 Dec 2011	10,934	41,549	2,547	9,679	13,481	**51,228**

According to the Decision of the Extraordinary General Assembly as of 27 February 2012, the share capital of the Bank increased by the amount of HRK 75,479 thousand (from the amount of HRK 51,228 thousand to the amount of HRK 126,707 thousand). A total of 19,863 ordinary shares are issued by title with a nominal value of HRK 3,800.00 from the majority shareholder of the Bank, Eksen Holding Anonim Sirketi, by payment in cash.

With this increase in share capital, Eksen Holding Anonim Sirketi holds 92.36% share of the total share capital of the Bank.

The structure of the largest shareholders is presented in the following table:

Name / Owner	Code of the security	Balance at 31 December 2012	% of the share capital	Balance at 31 December 2011	% of the share capital
EKSEN HOLDING A.S.	BRBA-R-A	30,796	92.3584	10,906	80.8990
HYPO ALPE-ADRIA-BANK D.D./ SZIF D.D.	BRBA-P-A	634	1.9014	634	4.7029
JELČIĆ NEDJO	BRBA-P-A	220	0.6598	220	1.6319
BILOBRK ROBERTINO	BRBA-P-A	200	0.5998	200	1.4836
BARANČIĆ MIHOVIL	BRBA-P-A	170	0.5098	170	1.2610
BOROŠA BORIS	BRBA-P-A	135	0.4049	130	0.9643
TOMIČIĆ MIĆO	BRBA-P-A	104	0.3119	104	0.7715
VIDAKOVIĆ ZDENKO	BRBA-P-A	102	0.3059	102	0.7566
TADIĆ STIPO	BRBA-P-A	96	0.2879	150	1.1127
OTHERS		887	2.6602	865	6.4165
TOTAL		**33,344**	**100.00**	**13,481**	**100.00**

b) Reserves

Reserves include legal reserves, unrealized profit / (loss) from valuation of financial assets available for sale and other reserves. Legal reserves represent accumulated transfers from retained earnings in accordance with the Croatian Company Law, which stipulates that a minimum of 5% of current profits is transferred to legal reserves and cannot be distributed, until they reach a level of 5% of the registered capital. The legal reserve can be used for covering losses from previous years if the losses are not covered from the profit of the current year, or if there are no other available reserves.

Other reserves are reserves for general banking risks. Till 31 December 2009, in line with the CNB regulations, the Bank was required to form and maintain provisions for general banking risks, as a result of significant balance and off-balance growth and increased exposure to risk. In 2010 legislation was changed, calculation of provision for general banking risks is not longer required. In 2011 provisions for general banking risks was transferred to the retained earnings.

	2012	2011
	HRK 000	*HRK 000*
Legal reserves	2,137	2,137
Other reserves	711	1,485
Unrealized profit / (loss) on assets available for sale	5,160	(1,020)
TOTAL	**8,008**	**2,602**

25. Earnings per share

Earnings per share for 2012, calculated based on net profit and weighted number of ordinary shares (30,196 for 2012) was HRK -968.63. Earnings per share for 2011, calculated based on net profit and weighted number of ordinary shares (13,481 for 2011) was HRK -602.55.

Owners of preferential shares, by the legal requirements, are entitled to the guaranteed dividends in the amount of 8% of the nominal value of share. Preferential shares give their holders preferential rights when paying out liquidation assets. Payment of dividends to the holders of preferential shares of KentBank d.d. is possible provided that the Bank realized profit in the business year or are charged to retained earnings or reserves from previous years.

Preference shares are unconditionally, immediately and fully available to cover risks or losses as part of the share capital, and in the case of bankruptcy or initiating liquidation process of the Bank they are available in its entirety and without limitation to cover losses of the Bank after settling the claims of all other creditors of the Bank.

26. Related parties transactions

The Bank considers that it has an immediate related party relationship with its key shareholders and their direct and indirect subsidiaries, the Supervisory Board members, Management Board members and other executive management (together "key management personnel"), close family members of key management personnel, and entities controlled by their close family members, in accordance with the definitions contained in International Financial Reporting Standard IAS 24 "Related Party Disclosures".

The Majority owner of the Bank is Eksen Holding Anonim Sirketi with the headquarters in Turkey. In addition to the increase of share capital in 2012 and the deposit on a vista account, there were no other transactions with related parties.

The amount of such transactions for the year ended 31 December 2012 and 31 December 2011 was as follows:

		2012	2011
		HRK 000	*HRK 000*
Received deposits			
	A vista accounts	6,179	209
	Term deposits	136	-
Granted loans		1,482	1,479
TOTAL		**7,797**	**1,688**

		2012	2011
		HRK 000	*HRK 000*
Expenses on received deposits			
	A vista accounts	(1)	(1)
	Term deposits	(5)	-
Income on granted loans		226	
TOTAL		**220**	**37**

Compensation to key management is as follows:

	2012	2011
	HRK 000	*HRK 000*
Compensation to key management	8,406	2,694
TOTAL	**8,406**	**2,694**

The key management in the Bank are the members of the Supervisory Board, Management Board, Procurator and first line management.

27. Contingencies and commitments

Commitments include given guarantees and granted unused overdraft facilities based on current accounts of retail customers.

	2012	2011
	HRK 000	*HRK 000*
Issued guarantees	5,915	5,370
Unused overdraft facilities	291	154
TOTAL	**6,206**	**5,524**
Provisions for contingencies and commitments (note 22b)	(62)	(55)
TOTAL	**6,144**	**5,469**

The amount of granted unused overdraft facilities does not represent the need to allocate cash assets in the whole amount, because the maturity for a part of these liabilities will expire before disbursing these funds, or there will be no more need to disburse the funds.

a) Legal proceedings

16 legal cases are currently initiated against the Bank. Based on the estimates of possible losses from the legal proceedings, the Bank established provisions in the financial statements as at 31 December 2012 in the total amount of HRK 683 thousand. Provisions as at 31 December 2011 amounted HRK 283 thousand.

b) Commitments under contracts

At 31 December 2012 all liabilities were settled and the Bank has no provisions for contractual commitments.

Notes to the Financial Statements (continued)

28. Credit risk

Credit exposure by sectors

a) Exposure of financial assets by sectors

(as at 31 December 2012) *HRK 000*

	Government	Cash in hand	CNB	Banks	Retail	Other legal entities	TOTAL
Cash and current accounts with banks	-	21,038	77,874	42,795	-	-	**141,707**
Financial assets available for sale	121,371	-	-	-	-	1,205	**122,576**
Loans and advances to customers	92	-	-	3,312	192,570	67,656	**263,630**
Financial assets held to maturity	10,164	-	-	-	-	41,204	**51,368**
TOTAL FINANCIAL ASSETS	**131,627**	**21,038**	**77,874**	**46,107**	**192,570**	**110,065**	**579,281**

(as at 31 December 2011) *HRK 000*

	Government	Cash in hand	CNB	Banks	Retail	Other legal entities	TOTAL
Cash and current accounts with banks	-	27,646	74,861	76,158	-	-	**178,665**
Financial assets available for sale	86,565	-	-	-	-	-	**86,565**
Loans and advances to customers	523	-	-	3,430	165,113	55,197	**224,263**
Financial assets held to maturity	19	-	-	-	-	26,832	**26,851**
TOTAL FINANCIAL ASSETS	**87,107**	**27,646**	**74,861**	**79,588**	**165,113**	**82,029**	**516,344**

b) The largest exposure to credit risk

Aside from exposures towards the Republic of Croatia and CNB, the maximum exposure to credit risk towards one customer at the end of 2012 amounted to HRK 19,900 thousand, while as at 31 December 2011 amounted to HRK 13,279 thousand (this exposure was not secured by collateral).

29. Portfolio quality

The Bank applies an internal system of assessment of the portfolio quality that is based on the assessment system prescribed by the CNB. The tables below show the credit quality by class of financial assets and ageing analysis of due outstanding receivables.

Collateral and other security instruments

The amount and type of the necessary collateral depends on assessment of counterparty credit risk. The Bank has defined guidelines for acceptance of the type of collateral and evaluation of collateral.

Basic types of collateral are:

- Deposits
- Mortgages over real estate
- Mortgages over movable property
- Guarantees.

	As at 31 December 2012				
	Neither past due nor impaired				
	Low grade	**Standard grade and Sub-standard grade**	**Past due but not impaired**	**Individually impaired**	**Total**
	HRK 000	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***
Cash and current accounts with banks	76,290				**76,290**
Obligatory reserve with CNB	43,911				**43,911**
Placements with other banks		21,505		0	**21,505**
Financial assets available for sale		122,576			**122,576**
Loans and advances to customers		**225,795**	**2,492**	**31,494**	**259,781**
* retail		174,523	2,483	15,933	192,939
* corporate		51,272	9	15,561	66,842
TOTAL	**120,201**	**369,876**	**2,492**	**31,494**	**524,063**

Notes to the Financial Statements (continued)

As at 31 December 2011

	Neither past due nor impaired: Low grade	Standard grade and Sub-standard grade	Past due but not impaired	Individually impaired	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Cash and current accounts with banks	119,852				**119,852**
Obligatory reserve with CNB	43,571				**43,571**
Placements with other banks		10,242		5,000	**15,242**
Financial assets available for sale		86,564			**86,564**
Loans and advances to customers		**191,636**	**2,497**	**26,506**	**220,639**
* retail		151,122	2,497	13,453	167,072
* corporate		40,514		13,053	53,567
TOTAL	**163,423**	**288,442**	**2,497**	**31,506**	**485,868**

Analysis of past due but not impaired loans:

As at 31 December 2012

	Due up to 30 days	Due 31 - 90 days	Due 91 – 180 days	Due181– 365 days	Due 1 to 2 years	Due 2 to 3 years	Due over 3 years	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Loans and advances to customers	8,161	14,021	2,299	63	-	-	-	24,544
Financial assets held to maturity	770	-	-	-	-	-	-	770
Total	**8,931**	**14,021**	**2,299**	**63**	**-**	**-**	**-**	**25,314**

As at 31 December 2011

	Due up to 30 days	Due 31 - 90 days	Due 91 – 180 days	Due181– 365 days	Due 1 to 2 years	Due 2 to 3 years	Due over 3 years	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Loans and advances to customers	19,180	25,292	2,319	81	-	-	-	46,872
Financial assets held to maturity	-	499	1,688	-	-	-	-	2,187
Total	**19,180**	**25,791**	**4,007**	**81**	**-**	**-**	**-**	**49,059**

Past due outstanding receivables are covered with collaterals in the amount of HRK 12,267 thousand as at 31 December 2012 (as at 31 December 2011: HRK 23,003 thousand).

30. Maturity profile of assets and liabilities and liquidity risk

Assets and liabilities are allocated within certain time buckets according to the residual maturity period:

As at 31 December 2012 *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	over 3 years	Total
Cash	21,038	-	-	-	-	**21,038**
Receivables from CNB	-	35,633	30,280	9,166	2,794	**77,873**
Placements with banks	42,795	-	-	-	-	**42,795**
Financial assets held to maturity	10,143	12,784	28,428	-	-	**51,355**
Financial assets available for sale	-	37,338	42,544	-	42,706	**122,588**
Derivative financial assets	18	-	-	-	-	**18**
Loans and advances to customers	18,087	2,726	19,339	41,549	181,929	**263,630**
Property, plant and equipment	-	-	-	-	12,667	**12,667**
Repossessed assets	578	-	-	-	-	**578**
Receivables for interests and fees	1,845	-	786	-	-	**2,631**
Other assets	2,112	-	-	-	14,632	**16,744**
Portfolio provisions	(560)	(512)	(703)	(294)	(1,475)	**(3,544)**
TOTAL ASSETS	**96,056**	**87,969**	**120,674**	**50,421**	**253,253**	**608,373**
LIABILITIES						
Demand deposits	24,846	-	-	-	-	**24,846**
Term deposits	18,842	32,728	242,321	165,151	2,653	**461,695**
Liabilities for loans	-	-	-	-	241	**241**
Other liabilities	12,586	8,503	-	3,092	-	**24,181**
TOTAL LIABILITIES	**56,274**	**41,231**	**242,321**	**168,243**	**2,894**	**510,963**
EQUITY						
Share capital	-	-	-	-	126,707	**126,707**
Reserves	-	-	-	-	2,849	**2,849**
Unrealised gains/ losses	-	-	-	-	5,159	**5,159**
Retained earnings/ loss	-	-	-	-	(8,056)	**(8,056)**
Current year profit	-	-	-	-	(29,249)	**(29,249)**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**97,410**	**97,410**
TOTAL LIABILITIES AND EQUITY	**56,274**	**41,231**	**242,321**	**168,243**	**100,304**	**608,373**
NET ASSETS/LIABILITIES AND EQUITY	**39,782**	**46,738**	**(121,647)**	**(117,822)**	**152,949**	**-**

Notes to the Financial Statements (continued)

(as at 31 December 2011) *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	over 3 years	Total
Cash	27,646	-	-	-	-	**27,646**
Receivables from CNB	74,861	-	-	-	-	**74,861**
Placements with banks	76,158	-	-	-	-	**76,158**
Financial assets held to maturity	2,241	3,921	3,560	17,129	-	**26,851**
Financial assets available for sale	-	50,042	-	-	36,523	**86,565**
Derivative financial assets	13	-	-	-	-	**13**
Loans and advances to customers	20,056	7,169	40,853	70,586	85,598	**224,262**
Property, plant and equipment	-	-	-	-	8,323	**8,323**
Repossessed assets	892	-	-	-	-	**892**
Receivables for interests and fees	-	-	-	-	1,830	**1,830**
Other assets	4,342	-	797	-	-	**5,139**
Portfolio provisions	(1,402)	(416)	(307)	(596)	(899)	**(3,620)**
TOTAL ASSETS	**204,807**	**60,716**	**44,903**	**87,119**	**131,375**	**528,920**
LIABILITIES						
Demand deposits	23,307	-	-	-	-	**23,307**
Term deposits	43,917	67,600	209,564	115,679	666	**437,426**
Liabilities for loans	-	-	-	-	272	**272**
Other liabilities	7,504	11,525	-	-	3,111	**22,140**
TOTAL LIABILITIES	**74,728**	**79,125**	**209,564**	**115,679**	**4,049**	**483,145**
EQUITY						
Share capital	-	-	-	-	51,228	**51,228**
Reserves	-	-	-	-	3,623	**3,623**
Unrealised gains/ losses	-	-	(1,020)	-	-	**(1,020)**
Retained earnings/loss	-	-	-	-	67	**67**
Current year profit	-	-	(8,123)	-	-	**(8,123)**
TOTAL EQUITY	**-**	**-**	**(9,143)**	**-**	**54,918**	**45,775**
TOTAL LIABILITIES AND EQUITY	**74,728**	**79,125**	**200,421**	**115,679**	**58,967**	**528,920**
NET ASSETS/LIABILITIES AND EQUITY	**130,079**	**(18,409)**	**(155,518)**	**(28,560)**	**72,408**	**-**

Notes to the Financial Statements (continued)

Legal requirements

Decision on Reserve Requirements

Banks are obliged to calculate an obligatory reserve in kuna and foreign currency at a rate which, as at 31 December 2012, accounted for 13.5% of kuna and foreign currency funds (14% as at 31 December 2011). In 2012 the reserve requirement ratio changed twice: an increase from 14% to 15% in January, decrease from 15% to 13.5% in April.

The part of the obligatory reserve in kuna is increased by 75% of the calculated obligatory reserve on foreign currency funding sources. 70% of the obligatory reserve should be deposited into a special account held with the CNB, while the rest is maintained by account balances and accounts to settle the NCS accounts. The rate of remuneration on the allocated kuna component of obligatory reserve on 31 December 2012 amounted to 0%, and decreased in March 2011 from 0.25%.

The foreign exchange component of the calculated obligatory reserve is reduced by 75% which is added to section calculated in kuna, while the remainder represents foreign currency liabilities. Percentage of the foreign currency component of obligatory reserve calculated on the basis of foreign currency funds from non-residents and foreign funds received from legal entities in a special relationship with the bank amounts 100%, while the percentage allocation of the remaining foreign currency obligatory reserve is 60% (allocation of funds can be in Euro and U.S. dollar) . The remaining amount in foreign currency can maintain as average balance of liquid foreign currency claims in foreign currency. The rate of remuneration for the obligatory reserve in foreign currency is 0%.

Decision on the Minimum Required Amount of Foreign Currency Claims

The Bank shall daily maintain at least 17% of foreign currency claims and liabilities in currency clause by short-term foreign currency claims, pursuant to the Decision on the Minimum Required Amount of Foreign Currency Claims.

The table below represents the minimum foreign currency claims figures as at 31 December 2012:

2012	**%**
Realised as at year end	19.99
Average	23.86
Maximum	32.12
Minimum	17.68

Decision on Liquidity Risk Management

According to the Decision, the expected inflows up to a week and the expected inflows up to a month should be higher than the expected outflows up to a week or expected outflows up to a month. The calculation shall be made separately for kuna and separately for convertible currencies (KVL). The Bank complied with the limit prescribed in 2012 and the following figures were realised:

2012	**HRK 1 week**	**HRK 1 month**	**KVL 1 week**	**KVL 1 month**
Year-end	12.63	14.24	17.70	6.36
Average III-XII 2012	24.45	22.09	20.54	7.41
Maximum value	47.44	35.76	34.88	11.15
Minimum value	6.67	12.46	8.34	3.45

Notes to the Financial Statements (continued)

31. Foreign currency risk

Foreign currency structure of the Balance Sheet is presented in the following tables:

(as at 31 December 2012) *HRK 000*

ASSETS	EUR (and EUR VK)	USD	Other currencies	HRK	Total
Cash	9,359	694	2,703	8,282	**21,038**
Receivables from CNB	8,300	-	-	69,573	**77,874**
Placements with banks	41,433	230	1,132	-	**42,795**
Financial assets held to maturity	4,379	-	-	46,976	**51,355**
Financial assets available for sale	106,627	1,205	-	14,756	**122,588**
Derivative financial assets	-	-	-	18	**18**
Loans and advances to customers	230,044	15,083	12,451	6,052	**263,630**
Property, plant and equipment	-	-	-	12,667	**12,667**
Repossessed assets	-	-	-	578	**578**
Receivables for interests and fees	2,631	-	-	-	**2,631**
Other assets	-	-	-	16,744	**16,744**
Portfolio provisions	-	-	-	(3,544)	**(3,544)**
TOTAL ASSETS	**402,773**	**17,212**	**16,286**	**172,102**	**608,373**
LIABILITIES					
Demand deposits	7,634	2,127	574	14,511	**24,846**
Term deposits	360,661	18,222	19,937	62,875	**461,695**
Liabilities for loans	-	-	-	241	**241**
Other liabilities	10,118	393	559	13,111	**24,181**
TOTAL LIABILITIES	**378,413**	**20,742**	**21,070**	**90,738**	**510,963**
EQUITY					
Share capital	-	-	-	126,707	**126,707**
Reserves	-	-	-	2,849	**2,849**
Unrealised gains/ losses	-	-	-	5,159	**5,159**
Retained earnings/loss	-	-	-	(8,056)	**(8,056)**
Current year profit	-	-	-	(29,249)	**(29,249)**
TOTAL EQUITY	**-**	**-**	**-**	**97,410**	**97,410**
TOTAL LIABILITIES AND EQUITY	**378,413**	**20,742**	**21,070**	**188,148**	**608,373**
NET ASSETS/ LIABILITIES AND EQUITY	**24,360**	**(3,530)**	**(4,784)**	**(16,046)**	**-**

Notes to the Financial Statements (continued)

(as at 31 December 2011) HRK *000*

ASSETS	EUR	USD	Other currencies	HRK	Total
Cash	14,453	501	2,654	10,038	**27,646**
Receivables from CNB	-	-	-	74,861	**74,861**
Placements with banks	66,429	284	4,445	5,000	**76,158**
Financial assets held to maturity	18,094	-	-	8,757	**26,851**
Financial assets available for sale	86,565	-	-	-	**86,565**
Derivative financial assets	13	-	-	-	**13**
Loans and advances to customers	189,589	17,141	10,433	7,099	**224,262**
Property, plant and equipment	-	-	-	8,323	**8,323**
Repossessed assets	-	-	-	892	**892**
Receivables for interests and fees	-	-	-	1,830	**1,830**
Other assets	3,200	-	-	1,939	**5,139**
Portfolio provisions				(3,620)	**(3,620)**
TOTAL ASSETS	**378,343**	**17,926**	**17,532**	**115,119**	**528,920**
LIABILITIES					
Demand deposits	4,891	656	517	17,243	**23,307**
Term deposits	341,803	16,264	15,948	63,411	**437,426**
Liabilities for loans	-	-	-	272	**272**
Other liabilities	11,548	-	-	10,592	**22,140**
TOTAL LIABILITIES	**358,242**	**16,920**	**16,465**	**91,518**	**483,145**
EQUITY					
Share capital	-	-	-	51,228	**51,228**
Reserves	-	-	-	3,623	**3,623**
Unrealised gains/ losses	-	-	-	(1,020)	**(1,020)**
Retained earnings/loss	-	-	-	67	**67**
Current year profit	-	-	-	(8,123)	**(8,123)**
TOTAL EQUITY	**-**	**-**	**-**	**45,775**	**45,775**
TOTAL LIABILITIES AND EQUITY	**358,242**	**16,920**	**16,465**	**137,293**	**528,920**
NET ASSETS/ LIABILITIES AND EQUITY	**20,101**	**1,006**	**1,067**	**(22,174)**	**-**

b) Sensitivity of Profit and Loss to exchange rate fluctuations

The table below represents sensitivity of the Profit and Loss to the exchange rate fluctuations. The effect of exchange rate fluctuations on the Income Statement is presented using VaR (value-at-risk - 500 observations and 99% confidence level) on the currencies for which the Bank has significant exposures as at 31 December 2012.

Currency risk	
Maximum overall open foreign currency position including options (% of the regulatory capital)	7.51%
Open FX position including options in u EUR (% of the regulatory capital)	6.52%
Open FX position including options in u USD (% of the regulatory capital)	0.99%
VaR (EUR) / open FX position of the Bank in EUR (% of the regulatory capital)	0.18%
VaR (USD) / open FX position of the Bank in USD (% of the regulatory capital)	1,00%

32. Interest-rate risk

Interest rate risk represents sensitivity of the Income Statement to interest rate movements.

The following table shows sensitivity of the Income Statement to reasonable interest rate movements (parallel shift), on condition that all other variables are constant:

2012

Currency	Changes in interest rate	Sensitivity of Income Statement to interest rate movements	Changes in interest rate - stress	Sensitivity of Income Statement to interest rate movements
		HRK 000		*HRK 000*
HRK	100 bp	(144)	200 bp	(288)
EUR	100 bp	1,233	200 bp	2,467
Other	100 bp	418	200 bp	836
TOTAL	**100 bp**	**1,507**	**200 bp**	**3,015**

2011

Currency	Changes in interest rate	Sensitivity of Income Statement to interest rate movements	Changes in interest rate - stress	Sensitivity of Income Statement to interest rate movements
		HRK 000		*HRK 000*
HRK	100 bp	(118)	200 bp	(237)
EUR	100 bp	1,693	200 bp	3,386
Other	100 bp	(114)	200 bp	(229)
TOTAL	**100 bp**	**1,461**	**200 bp**	**2,920**

c) Analysis of loans by the type of interest rate

	As at 31 December 2012		**As at 31 December 2011**	
	Interest rate type			
	Fixed	**Variable**	**Fixed**	**Variable**
Assets	27.96%	72.04%	33.23%	66.77%
Liabilities	94.58%	5.42%	94.93%	5.07%

Loans and advances to customers are net of specific and general provisions for a principal impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash receipts. Expected future receipts of cash are estimated taking into account the credit risk and a possible indication of impairment. Since the Bank has a limited portfolio of loans and advances with fixed rates and maturities in the longer term, the fair value of loans and advances is not significantly different from their book value.

33. Risk management and fair value of assets, liabilities and capital management

a) Financial risk management

The operations of the Bank are exposed to various types of risk, which arise from the uncontrollable character of the financial market. The Bank tries to control and minimize the risks. The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes the risk of change of interest rates, risk of change of foreign exchange rates and change of market value of securities.

b) Credit risk

Credit risk is the most significant type of risk to which the bank is exposed in its business activity. Credit risk arises from the inability of the other party to service liabilities on the basis of the contract. The Bank monitors the exposure to credit risk and the quality of the portfolio on a regular basis.

Credit risk management is principally implemented through the choice of customers of good credit-worthiness and seeking adequate collateral.

In granting placements, the quality, i.e. creditworthiness of the customer is the main criteria. The Bank additionally reduces exposure to credit risk by securing placements with quality collaterals. The Bank has established Risk Assessment and Measurement Unit, (within Risk Management Department) in charge of regular and adequate credit risk management and monitoring. Risk Management Department also participates in the process of granting all significant placements, as well as in the process of approving the Bank's loan policies.

When measuring credit risk of loans and advances to customers and banks on a contract basis, the Bank uses three components:

(i) the credit worthiness;

(ii) regular settlement of contractual obligations;

(iii) the quality of collateral.

i) The Bank assesses the credit worthiness using internal rating tools. They have been developed internally and combine statistical and empirical analysis of credit officer judgment, and if required, they are valued by comparison with available external data. Placements to the customers are divided into three categories of evaluation: Performing loans (group A), partially recoverable (group B) and irrecoverable placements (group C).

ii) Settlement of obligations means payment of all obligations within contractual maturities, without establishing a new receivables

(iii) the quality of the collateral is determined by marketability, documentation and the possibility of enforced collection.

The Bank manages, limits and controls concentrations of credit risk wherever it is identified, especially with regard to individual clients and groups, industries and countries (where applicable).

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower and related parties, and industrial segments. Limits on the level of credit risk by industry sectors are reviewed at least twice a year or more frequently if required (for example, in case of changing business strategy).

Exposure to credit risk is also managed by regular analysis of the ability of borrowers and potential borrowers to meet all obligations to the Bank and by changing lending limits where appropriate. The assessment of possible losses is monitored on a regular basis which enables timely identification of such placements and calculation of impairment.

c) Liquidity risk

Liquidity risk represents the risk that the Bank will not be able to settle due liabilities, and finance assets or liquidate assets on the basis of acceptable prices.

In order to ensure the quality of sources, the Bank gathers assets from various sources: deposits of retail customers, special participations, assets from the money market, and share capital, which reduces dependence on only one source, and consequently liquidity risk.

In order to match cash inflows and outflows, the Bank monitors and plans liquidity in order to assess future needs for liquidity with respect to changes in economical, political, legal and other conditions in the operating environment. Such planning involves identification of the familiar, expected and potential cash outflows and monitoring early warning indicators of possible disturbances in the availability of funding sources.

The Bank prepares strategies in order to ensure the needs of the Bank for cash funds in certain currency. The Bank's strategy is oriented towards ensuring adequate liquidity level which meets the estimated and unforeseen needs for cash funds. In case of unforeseen need for cash funds, the bank takes actions such as control of the Bank's credit activity, withdrawal of the available lines of credit and other necessary measures.

The Bank manages its assets and sources of funding taking into consideration financial flows, cash flows and concentrations, all with the aim of matching cash inflows and outflows of the Bank. Such management includes the identification of known, expected and potential cash outflow and making different strategies of assets and liabilities management in order to ensure the needs of the Bank for cash inflows. Accordingly, liquidity risk management system includes: assessment and measurement of liquidity risk exposure, setting limits exposure to liquidity risk, reporting and monitoring limit utilization.

Liquidity risk management is achieved by operational short-term liquidity management and long-term liquidity management. Short-term liquidity management is realized by maintaining regular liquidity reserves in kuna, and planning and forecasting of daily or weekly cash flows.

The Management Board of the Bank is responsible for liquidity risk management.

d) Market risk

- Risk of change of exchange rate mainly arises from transactions in EUR, USD and CHF, or linked to EUR, USD, CHF and to a lesser extent, for other currencies. Control and mitigation of foreign currency risk is implemented by monitoring the foreign currency deposit and simultaneous contracting of the loans with an adequate foreign currency clause. Foreign currency risk is controlled on a daily basis, according to legal, but also internally determined limits of certain currencies.

The Bank directs its business activities trying to minimize gaps between assets and liabilities denominated in foreign currency or foreign currency claues. The Bank tends to manage its assets and liabilities by maintaining the alignment of certain foreign currency assets and liabilities in order to optimize the risk and profitability relationship due to adverse currency movements.

- Interest rate risk arises from the risk of change of the price of capital on the financial market, i.e. the change of interest rates. Interest rate risk is controlled through monitoring the interest sensitivity of assets and liabilities upon maturity.

Risk management activities of 'asset-liability' gap are carried out in the context of the Bank's sensitivity to interest rate changes. Exposure to interest rate risk is the result of mismatch between assets and liabilities due to the possibility of changes in interest rates, and it is monitored using the analysis of mismatch between assets and liabilities. The objective of interest rate risk management is to ensure optimal and stable net interest margin, and thus the net profit. In accordance with the asset and liability management policy, the Bank maintains the mismatch between assets and liabilities in the balance sheet, distributed by the criteria of possible change of interest rate. The calculation represents the amount of changes in the market value of equity, with the simultaneous changes in interest rates by 100 basis points (stress test 200 basis points). The above amount should not exceed 10% change of economic value of regulatory capital.

e) Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled in regular market conditions. Financial instruments held for trading and quoted available-for-sale instruments are measured at fair value. Loans and receivables and held to maturity assets are measured at amortised cost less impairment.

Cash and balances with Croatian National Bank

Booked value of cash and balances with the CNB approximate their fair value due to short-term maturity of these financial instruments.

Receivables from banks

Receivables from banks shall be valued by amortization cost. The fair value calculated by discounting the expected future flows of principal and interest would not be significantly different from their booked values.

Loans and advances

Management has considered the fair value of loans and advances. As most of the Bank's loan portfolio is contracted with variable interest rates and the Bank's portfolio of loans and advances with fixed rates and longer-term maturity were predominantly originated recently, management considers that the fair value of the overall portfolio of loans and advances, calculated by discounting expected future principal and interest cash flows (assuming that loan repayments will occur at contractual repayment dates based on existing identified impairment losses) would not be significantly different from the carrying amount before allowances for unidentified impairment losses. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available. It is not possible for the Bank to estimate the difference between the effect of the unidentified impairment losses calculated in accordance with CNB regulations, which are included in the carrying value of loans and advances, and the effect on the discounted cash flow calculations referred to above as an estimate of fair value of expected future losses which would reduce future cash flows.

Deposits from banks and customers

For demand deposits, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values, as most of the Bank's deposits with fixed interest rate are due within one year, being the market rate, and there is no significant difference between the fair value of these deposits and their carrying value.

Determination of fair value and fair value hierarchy

The Bank uses following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no transfers between levels in 2011 and 2012.

Financial assets	**LEVEL 1** *HRK 000*	**LEVEL 2** *HRK 000*	**LEVEL 3** *HRK 000*	**2012 TOTAL** *HRK 000*
Financial assets available for sale				
Local Government Bonds	43,911	-	-	43,911
Local Treasury Bills	-	78,665	-	78,665
Total financial assets	**43,911**	**78,665**	**-**	**122,576**

Financial assets	**LEVEL 1** *HRK 000*	**LEVEL 2** *HRK 000*	**LEVEL 3** *HRK 000*	**2011 TOTAL** *HRK 000*
Financial assets available for sale				
Local Government Bonds	36,522	-	-	36,522
Local Treasury Bills		50,042	-	50,042
Total financial assets	**36,522**	**50,042**	**-**	**86,564**

f) Equity management

The primary goals of the Bank related to equity management are alignment with all legal capital requirements, by concurrently retaining strong credit rating and sufficient capital adequacy for the purpose of support to the business activity, in order to maximize the value for the shareholders.
The bank manages the structure of equity and adjusts it to the market conditions and risks arising from its business activity. The table below represents essential equity management parameters.

Bank's regulatory capital is divided into two types:

- Core capital: share capital (less the carrying amount of treasury shares), reserves formed at the expense of profit after tax, capital gains and reserves for treasury shares.
- Supplementary capital: qualifying capital and collective impairment provisions

Risk-weighted assets are measured by means of a hierarchy of six risk weights, which are classified in accordance with the nature of individual assets and customer, and reflecting an estimate of credit, market and other risks, taking into account all eligible collaterals or guarantees. Similar is with off-balance sheet exposure, with certain adjustments to reflect the more contingent nature of potential losses.
The CNB has expanded the scope of intangible assets as a deduction from regulatory capital of credit institutions with the new Decision on regular capital of credit institutions from 7 October 2011 in a way that it had been fully aligned with the position of intangible assets in the supervisory report *Balance sheet*, prepared in accordance with the Decision on supervisory reports of credit institutions. This amendment entered into force as of 31 December 2012 and the Bank accordingly reduced its regulatory capital by HRK 13,385 thousand.

The table below summarizes the composition of regulatory capital and ratios of the Bank for the years ended 31 December:

	31 December 2012 000 kn	31 December 2011 000 kn
Core capital		
Share capital	126,707	51,228
Reserves – legal	2,137	2,137
Reserves for general banking risks	711	1,485
Capital gains	-	-
Retained earnings	67	67
Losses in previous years	(8,123)	-
Loss for the year	(29,249)	(8,123)
Unrealized loss on impairment of financial assets available for sale (gain is not included in the calculation *)*	**5,159**	(1,020)
Total qualifying capital of the bank	**92,250**	**45,774**
Intangible assets	(13,385)	(1,165)
Total regulatory capital	**78,865**	**44,609**
Risk-weighted assets:		
Credit risk-weighted assets	43,786	31,929
Exposure to operational risk	6,204	5,818
Exposure to currency risk	903	470
Total risk weighted assets	**50,893**	**38,217**
Basel ratio	**18.60**	**14.01**

The minimum statutory capital adequacy ratio is 12% dated from 31 March 2010.

g) Operational risk management

Operational risk represents risk of loss due to inadequate or unsuccessful internal processes, employees or due to external events. In monitoring and recording operational risks, the Bank proceeds in accordance with the Rulebook on Operational Risk Management and the Directive for operational risks events collection. The Rulebook on Operational Risk Management has formally introduced adequate system for risk management (organizational structure, duties and responsibilities, rules for operational risk events classification and methods for calculation of capital requirements for operational risks coverage). The Directive for operational risks events collection contains instructions for implementation of adequate operating losses database, which is a necessary condition for successful control and reduction of operational risk.

Responsibility for the implementation of operational risk management system and control of operational risk management at the level of the Bank was assigned to the organizational unit of Risk control function.

h) Regulatory Requirements

The Bank is obliged to comply with the regulations of the Croatian National Bank, which define limits and other restrictions pertaining to minimum capital adequacy requirements, classification of placements and off-balance sheet liabilities, as well as provisions to cover credit risk, liquidity risk, interest rate risk and those relating to the foreign currency position.

h) Concentration of assets, liabilities and off balance sheet items

The Bank has no assets (excluding funds for the maintenance of foreign currency reserve requirements), obligations or commitments in any other country except Croatia.

34. Segment Reporting

Bank clients have been classified by segments as follows:

a) Income Statement by segments	*HRK 000*	*HRK 000*	*HRK 000*	**2012**
	Retail	**Corporate**	**Central unit**	**TOTAL**
Net interest income	6,160	4,229	10,246	**20,635**
Net fee and commission income	**4,508**	**217**	-	**4,725**
Other income	359	(1,06)	90	**343**
Depreciation	(881)	(392)	(936)	**(2,209)**
Operating expenses	(16,327)	(6,702)	(15,554)	**(38,583)**
Loss from impairment and provisions	**(483)**	**(2,442)**	**(11,235)**	**(14,160)**
Result of the segment	**(6,664)**	**(5,196)**	**(17,389)**	**(29,249)**
Income tax	-	-	-	-
Profit (loss) for the year	**(6,664)**	**(5,196)**	**(17,389)**	**(29,249)**

34. b) Balance Sheet by segments

	Retail	Corporate	Central unit	TOTAL
Cash	-	-	21,038	**21,038**
Receivables from CNB	-	-	77,873	**77,873**
Placements with banks	-	-	42,795	**42,795**
Financial assets held to maturity	-	-	51,355	**51,355**
Financial assets available for sale	-	-	122,588	**122,588**
Derivative financial assets	-	-	18	**18**
Loans and advances to customers	192,625	67,486	3,519	**263,630**
Property, plant and equipment	-	-	12,667	**12,667**
Repossessed assets	-	-	578	**578**
Intangible assets	-	-	2,631	**2,631**
Other assets	-	-	16,744	**16,744**
Portfolio provisions	-	-	(3,544)	**(3,544)**
TOTAL ASSETS	**192,625**	**67,486**	**348,262**	**608,373**
Demand deposits and term deposits	476,860	9,681	-	**486,541**
Liabilities for loans	-	-	241	**241**
Other liabilities	-	-	24,181	**24,181**
TOTAL LIABILITIES	**476,860**	**9,681**	**24,422**	**510,963**
EQUITY				
Share capital	-	-	126,707	**126,707**
Reserves	-	-	2,849	**2,849**
Unrealised gains/ losses	-	-	5,159	**5,159**
Retained earnings/loss	-	-	(8,056)	**(8,056)**
Current year profit	-	-	(29,249)	**(29,249)**
TOTAL EQUITY	**-**	**-**	**97,410**	**97,410**
TOTAL LIABILITIES AND EQUITY	**476,860**	**9,681**	**121,832**	**608,373**

c) Profit and loss account by segments

	HRK 000	*HRK 000*	*HRK 000*	2011
	Retail	Corporate	Central unit	TOTAL
Net interest income	7,330	5,203	8,352	**20,885**
Net fee and commission income	**4,791**	**175**	**7**	**4,973**
Other income	3,196	-	(606)	**2,590**
Depreciation	(775)	(295)	(426)	**(1,496)**
Operating expenses	(11,713)	(4,005)	(5,540)	**(21,258)**
Loss from impairment and provisions	**(2,035)**	**(2,679)**	**(9,103)**	**(13,817)**
Result of the segment	**794**	**(1,601)**	**(7,316)**	**(8,123)**
Income tax	-	-	-	**-**
Profit (loss) for the year	**794**	**(1,601)**	**(7,316)**	**(8,123)**

34. d) Balance sheet by segments	Retail	Corporate	Central unit	Total
Cash	-	-	27,646	**27,646**
Receivables from CNB	-	-	74,861	**74,861**
Placements with banks	-	-	76,158	**76,158**
Financial assets held to maturity	-	-	26,851	**26,851**
Financial assets available for sale	-	-	86,565	**86,565**
Derivative financial assets	-	-	13	**13**
Loans and advances to customers	165,112	55,197	3,953	**224,262**
Property, plant and equipment	-	-	8,323	**8,323**
Repossessed assets	-	-	892	**892**
Intangible assets	-	-	1,830	**1,830**
Other assets	-	-	5,139	**5,139**
Portfolio provisions	-	-	(3,620)	**(3,620)**
TOTAL ASSETS	**165,112**	**55,197**	**308,611**	**528,920**
Demand deposits and term deposits	453,340	7,382	11	**460,733**
Liabilities for loans	-	-	272	**272**
Other liabilities	-	-	22,140	**22,140**
TOTAL LIABILITIES	**453,340**	**7,382**	**22,423**	**483,145**
EQUITY				
Share capital	-	-	51,228	**51,228**
Reserves	-	-	3,623	**3,623**
Unrealised gains/ losses	-	-	(1,020)	**(1,020)**
Retained earnings/loss	-	-	67	**67**
Current year profit	-	-	(8,123)	**(8,123)**
TOTAL EQUITY	-	-	45,775	**45,775**
TOTAL LIABILITIES AND EQUITY	**453,340**	**7,382**	**68,198**	**528,920**

35. Events after the Balance Sheet date

According to the Decision of the Extraordinary General Assembly as of 11 April 2013, the share capital of the Bank is increased from the amount of HRK 126,707 thousand for the amount of HRK 74,997 thousand to the amount of HRK 201,704 thousand by payment in cash in full.

A total of 19,736 ordinary shares are issued by a title, in non-materialized form each with a nominal amount of HRK 3,800.00 marked BRBA-R-A. New shares are issued by private emission and it is made by the investment in cash from the majority owner Eksen Holding Anonim Sirketi, with the registered seat in Istanbul, Turkey.

Annex 1 – Prescribed forms

Croatian National Bank adopted on 19 May 2008 the Decision on the Structure and Contents of the Financial Statements of Banks (Official Gazette 62/08).

Prescribed reports are presented below in the form set out in the above decision of the Croatian National Bank as well as reconciliations of the prescribed forms with the basic financial statements, prepared in accordance with the accounting regulations applicable for banks in Croatia.

INCOME STATEMENT

for the period 01.01.2012 to 31.12.2012

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	3	4
1. Interest income	048	42,233,478	40,649,860
2. Interest expense	049	22,589,814	21,313,033
3. Net interest income (048-049)	050	19,643,664	19,336,827
4. Fee and commission income	051	6,932,041	6,730,092
5. Fee and commission expense	052	1,958,471	2,004,907
6. Net fee and commission income (051-052)	053	4,973,570	4,725,185
7. Gains/(losses) from investment in subsidiaries, associates and joint ventures	054	0	0
8. Gains/(losses) from trading activities	055	4,412,444	3,141,778
9. Gains/(losses) from embedded derivatives	056	0	0
10. Gains/(losses) from assets which are not traded, but are designated at fair value through profit or loss	057	0	0
11. Gains/(losses) from activities related to available for sale assets	058	0	-105,681
12. Gains/(losses) from activities related to held to maturity investments	059	0	0
13. Gains/(losses) from hedging transactions	060	0	0
14. Income from investments in subsidiaries, associates and joint ventures	061	0	0
15. Income from other equity investments	062	0	0
16. Gains/(losses) from foreign exchange differences	063	-398,411	-104,386
17. Other income	064	821,311	457,670
18. Other expenses	065	2,246,222	3,046,630
19. General administrative expenses and depreciation	066	21,743,643	39,906,347
20. Net income from operations before impairment and other provisions	067	5,462,713	-15,501,584
21. Impairment and provisions for losses	068	13,585,639	13,747,300
22. Income (loss) before tax (067-068)	069	-8,122,926	-29,248,884
23. Income tax	070		
24. Profit/(loss) for the period (069-070)	071	-8,122,926	-29,248,884
25. Earnings per share	072		
INCOME STATEMENT SUPPLEMENT (to be inputed by issuer preparing consolidated financial statements)			
1. Profit/(loss) for the period	073		
2. Attributable to shareholders of the Bank	074		
3. Attributable to minority interests (073-074)	075	0	0

Annex 1 – Prescribed forms

BALANCE SHEET

balance as at 31.12.2012

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	3	4
ASSETS			
1. Cash and Deposits with the CNB (002+003)	001	101,833,924	98,911,710
1.1.Cash	002	27,646,316	21,038,057
1.2.Deposits with the CNB	003	74,187,608	77,873,653
2. Deposits with banking institutions	004	75,482,156	42,795,314
3. MF Treasury bills and CNB bills	005	50,042,109	78,664,628
4. Securities and other financial instruments held for trading	006	0	0
5. Securities and other financial instruments available for sale	007	36,522,537	43,911,038
6. Securities and other financial instruments held to maturity	008	26,582,201	51,367,795
7. Securities and other financial instruments which are not actively traded, but are designated to fair value in income statement	009	0	0
8. Derivative financial assets	010	12,749	17,985
9. Loans to financial institutions	011	3,430,051	3,426,771
10. Loans to other customers	012	218,860,503	256,658,818
11. Investments in subsidiaries, associates and joint ventures	013	0	0
12. Repossessed assets	014	891,909	577,898
13. Tangible assets (minus amortisation)	015	8,323,069	12,666,533
14. Interest, fees and other assets	016	6,938,551	19,374,631
A) TOTAL ASSETS (001+004 do 016)	017	528,919,759	608,373,121
LIABILITIES			
1. Borrowings from financial institutions (019+020)	018	0	0
1.1. Short-term borrowings	019	0	0
1.2. Long-term borrowings	020	0	0
2. Deposits (AOP 022 to 024)	021	460,733,557	486,541,285
2.1. Giro and current accounts	022	17,243,414	14,511,286
2.2. Savings deposits	023	6,063,750	10,335,135
2.3. Term deposits	024	437,426,393	461,694,864
3. Other borrowings (026+027)	025	271,594	241,007
3.1. Short-term borrowings	026	0	0
3.2. Long-term borrowings	027	271,594	241,007
4. Liabilities arising from derivatives and other liabilities held for trading	028	0	0
5. Debt securities issued (030+031)	029	0	0
5.1. Short-term debt securities issued	030	0	0
5.2. Long-term debt securities issued	031	0	0
6. Subordinate instruments issued	032	0	0
7. Hybrid instruments issued	033	0	0
8. Interest, fees and other liabilities	034	22,140,349	24,180,619
B) TOTAL LIABILITIES (018+021+025+028+029+032+033+034)	035	483,145,500	510,962,911
EQUITY			
1. Share capital	036	51,227,800	126,707,200
2. Profit (loss) for the year	037	-8,122,926	-29,248,884
3. Retained earnings/(loss)	038	66,990	-8,055,936
4. Legal reserves	039	3,622,802	2,137,362
5. Statutory and other capital reserves	040	0	711,152
6. Unrealised gain/loss on value adjustment of assets available for sale	041	-1,020,407	5,159,316
7. Hedge accounting reserves	042	0	0
C) TOTAL EQUITY (036 to 042)	043	45,774,259	97,410,210
D) TOTAL LIABILITIES AND EQUITY (035+043)	044	528,919,759	608,373,121
BALANCE SHEET SUPPLEMENT (to be inputed by issuer preparing consolidated financial reports)			
1. TOTAL EQUITY	045		
2. Attributable to equity holders of the Bank	046		
3. Attributable to minority interests (045-046)	047	0	0

Annex 1 – Prescribed forms

CASH FLOW STATEMENT - Indirect method

in the period from 01.01. to 31.12.2012 — Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
OPERATING ACITIVITIES			
1. Cash flow from operating acitivites before changes in operating assets (002 to 007)	001	**5,605,047**	**-14,972,707**
1.1. Profit / (loss) before tax	002	-8,122,926	-29,248,884
1.2. Impairment and provisions for losses	003	13,789,532	12,067,347
1.3. Depreciation	004	1,496,260	2,208,830
1.4. Net unrealised profit /loss from financial assets and liabilities at fair value through income statement	005	-1,020,407	0
1.5. Profit /loss from sale of fixed assets	006	46,667	0
1.6. Other profit /loss	007	-584,079	0
2. Net cash inflow / (outflow) from operating from operating assets (009 to 016)	008	**-58,529,815**	**-69,308,685**
2.1. Deposits with CNB	009	-4,490,489	-3,686,045
2.2. MF Treasury bills and CNB bills	010	-50,042,109	-28,622,519
2.3. Deposits with banking institutions	011	-16,345,534	32,690,122
2.4. Due from customers	012	15,441,781	-49,865,662
2.5. Securities and other financial instruments held for trading	013	0	0
2.6. Securities and other financial instruments available for sale	014	0	-7,388,501
2.7. Securities and other financial instruments that are not actively traded but are evaluated at fair value through income statement	015	0	0
2.8. Other operating assets	016	-3,093,464	-12,436,080
3. Net cash inflow / outflow form operating liabilites (018 to 021)	017	**17,700,897**	**27,842,762**
3.1. Current accounts	018	5,778,358	-2,732,128
3.2. Savings accounts and time deposits	019	10,691,393	28,539,856
3.3. Derivative financial liabilities and other financial liabiilties held for sale	020	0	-5,236
3.4. Other liabilities	021	1,231,146	2,040,270
4. Net cash inflow / outflow from operating activities before tax (001+008+017)	022	**-35,223,871**	**-56,438,630**
5. Paid income tax	023	-1,068,629	0
6. Net cash inflow / outflow from operating activities (022+023)	024	**-36,292,500**	**-56,438,630**
INVESTMENT ACTIVITIES			
7. Net cash flow from investing activites (026 to 030)	025	-12,395,056	-31,023,877
7.1. Gain from disposal / payments for purchases of tangible and intangible assets	026	-4,061,001	-6,238,283
7.2. Gain from disposal / payments for purchases of investments in subsidiaries, associates and joint venture	027	0	0
7.3. Gain from collections /payments for purchases of securities and other financial instruments held to maturity	028	-8,334,055	-24,785,594
7.4. Dividends received	029	0	0
7.5. Other gains/ payments from investment activities	030	0	0
FINANCIAL ACTIVITIES			
8. Net cash flow from financial activities (032 to 037)	031	**-4,676,900**	**80,854,248**
8.1. Net increase / decrease in borrowed funds	032	-820,575	-30,587
8.2. Net increase / decrease of issued debt securities	033	0	0
8.3. Net increase / decrease of subordinated and hybred instruments	034	0	0
8.4. Gains from public offering of share capital	035	0	75,479,400
8.5. Paid dividends	036	-3,856,325	-774,288
8.6. Other gains / payments from financial activites	037	0	6,179,723
9. Net increase / decrease of cahs and cash equivlaent (024+025+031)	038	**-53,364,456**	**-6,608,259**
10. Imapact of changes in foreign exchange rates on cash and cash equivalents	039	-830,229	0
11. Net increase / decrease of cash and cash equivalent (038+039)	040	**-54,194,685**	**-6,608,259**
12. Cash and cash equivlalents at the beginning of period	041	**81,841,001**	**27,646,316**
13. Cash and cash equivlalents at the end of period (040+041)	042	**27,646,316**	**21,038,057**

STATEMENT OF CHANGES IN EQUITY

in the period from 31.12.2011 to 31.12.2012

Amounts in HRK

Position name	AOP code	Attributable to shareholders of the Bank						Minority interests	Total equity and reserves
		Share capital	Treasury shares	Legal, statutory, capital and other reserves	Retained earnings/ loss	Profit/loss for the year	Unrealised gain/loss from revaluation on AFS financial assets		
1	2	3	4	5	6	7	8	9	10
Balance at 1 January current period	001	51,227,800	0	3,622,802	-8,055,936	0	-1,020,407	0	45,774,259
Changes in accounting policies and errors	002								
Restated balance at 1 January current period (001+002)	003	51,227,800	0	3,622,802	-8,055,936	0	-1,020,407	0	45,774,259
Disposal of available-for-sale portfolio	004								
Change in fair value of available-for-sale portfolio	005						6,179,723		6,179,723
Deferred tax on change in fair value of available-for-sale portfolio	006								
Other gains/losses directly recognised in revaluation reserves	007								
Net gains/losses directly recognised in capital and reserves (004+005+006+007)	008	0	0	0	0	0	6,179,723	0	6,179,723
Profit/loss for the period	009					-29,248,884			-29,248,884
Total recognised income and expense for the current period (008+009)	010	0	0	0	0	-29,248,884	6,179,723	0	-23,069,161
Increase/decrease of share capital	011	75,479,400							75,479,400
Acquisition /disposal of treasury shares	012								
Other movements	013								
Transfer to reserves	014								
Dividends paid	015			-774,288					-774,288
Distribution of profit (014+015)	016	0	0	-774,288	0	0	0	0	-774,288
Balance at 31 December current period (003+010+011+012+013+016)	017	126,707,200	0	2,848,514	-8,055,936	-29,248,884	5,159,316	0	97,410,210

Annex 2
Reconciliation of prescribed forms presented in Annex 1 with the Financial Statements

a) Comparison of profit and loss account

Annual financial statements according to accounting regulations	2012	Report prescribed by the CNB	2012	Difference	Explanation
Interest income and similar income	40,650	Interest income	40,650	-	
Interest expense and similar charges	(20,015)	Interest expense	(21,313)	1,298	The difference in the amount of HRK 1,298 thousand relates to the costs of premium for deposit insurance that are included in item Interest expense in the report prescribed by the CNB, while in the Annual report they are included in Other administrative expenses.
Fee and commission income	6,730	Fee and commission income	6,730	-	
Fee and commission expense	(2,005)	Fee and commission expense	(2,005)	-	
Other income	458	Other income	458	-	
		Gain / (loss) from trading activities	3,142		
Net gains (losses) from foreign exchange differences	3,038	Gains / (loss) from foreign exchange differences	(104)		
Profit (Loss) from financial assets available for sale	(106)	Gain / (loss) from financial assets available for sale	(106)		
Total	2,932	**Total**	2,932	-	
Impairment and provisions costs	(14,160)	Impairment and provision for loses	(13,747)	(413)	Provisions for court disputes against the Bank in the amount of HRK 413 thousand are included in item Other expense in the report prescribed by the CNB.
Depreciation	(2,209)	Other expenses	(3,048)		
Employee expenses	(21,174)	General and administrative costs and depreciation	(39,906)		
Other administrative expenses	(20,456)				
Total	(43,839)	Total	(42,954)	(885)	The difference in the amount of HRK 885 thousand relates to provisions for court disputes against the Bank in the amount of HRK 413 thousand, shown in item Impairment and provision for loses in the Annual report and to the cost of premium of deposit insurance in the amount of HRK 1,298 thousand shown in item Interest expense in the report prescribed by the CNB.
Income tax	-	**Income tax**	-	-	
Profit (loss) of the year	**(29,249)**	**Profit (loss) of the year**	**(29,249)**	-	

Annex 2
Reconciliation of prescribed forms presented in Annex 1 with the Financial Statements

b) Comparison of balance sheet

Annual financial statements according to accounting regulations		Report prescribed by the CNB		Difference	Explanation
ASSETS	**2012**	**ASSETS**	**2012**		
Cash and current accounts with banks	76,290	Cash	21,038	21,290	In the Annual report, funds on current accounts with other banks in the amount of HRK 21,290 thousand are included in item Cash and current accounts with banks, while in the report prescribed by the CNB they are shown in item Deposits with banking institutions.
Obligatory reserve with Croatian National Bank	43,911	Deposits with the CNB	77,873		
Placements with other banks	21,505	Deposits with banking institutions	42,795	(21,290)	In the Annual report, Placements with other banks include only term deposits, while the prescribed report of the CNB includes funds on current accounts with other banks in the amount of HRK 21,290 thousand.
Loans and advances to customers	259,781	Loans to financial institutions	3,427		The difference in the amount of HRK 305 thousand relates to general provisions on assets in giro accounts that are included in item Loans and advances to customers in the Annual report, while in item Interest, fees and other assets in the report prescribed by the CNB.
		Loans to other customers	256,659		
Total	259,781	Total	260,086	(305)	
Financial assets available for sale	122,576	MF treasury bills and CNB bills	78,665		
		Securities and financial instruments held for trading	43,911		
Total	122,576	Total	122,576	-	
Financial assets held to maturity	51,368	Securities and other financial instruments held to maturity	51,368	-	
		Derivative financial assets	18	(18)	Derivative financial assets are shown in item Other assets in the Annual report
Tangible assets	12,667	Tangible assets (minus depreciation)	12,667	-	
Repossessed assets	578	Repossessed assets	578	-	
Intangible assets	14,633				The difference is made by general provisions in giro accounts in the amount of HRK 305 thousand that are included in the Annual report in item Loans and advances to customers, while they are included in item Interest, fees and other assets in the report prescribed by the CNB, and derivative financial assets in the amount of HRK 18 thousand, which is shown as a separate position in the report prescribed by the CNB.
Receivables for income tax	302	Interest, fees and other assets	19,374		
Other assets	4,762				
Total	19,697	Total	19,374	323	
TOTAL ASSETS	**608,373**	**TOTAL ASSETS**	**608,373**	-	

Annex 2
Reconciliation of prescribed forms presented in Annex 1 with the Financial Statements

Annual financial statements according to accounting regulations		Report prescribed by the CNB		Difference	Explanation
LIABILITIES	2012	LIABILITIES AND EQUITY	2012		
Demand deposits	24,888	Deposits:			
Term deposits	461,695	-giro accounts and current accounts	14,511		
		-Savings deposits	10,335		
		-Term deposits	461,695		
Total	486,583	Total	486,541	42	In the Annual report, restricted deposits in the amount of HRK 42 thousand are included in item Demand deposits, while in the report prescribed by the CNB they are involved in item Interest, fees and other liabilities.
		Other borrowings			
		- short- term borrowings			
Liabilities for loans	-	- long- term borrowings	241	(241)	Leasing commitments in the amount of HRK 241 thousand are included in Other liabilities in the Annual report and in item Other borrowings in the prescribed report by the CNB.
Provisions	745				
Other liabilities	23,635	Interests, fees and other liabilities	24,181		
Total	24,380	Total	24,181	199	Difference is made by restricted deposits in the amount of HRK 42 thousand that are included in the Annual report in item Demand deposits, and lease commitments in the amount of HRK 241 thousand, shown as Other borrowings in the report prescribed by the CNB and as Other liabilities in the Annual report
Total liabilities	**510,963**	**Total liabilities**	**510,963**	-	
Equity		**Equity**			
Share capital	126,707	Share capital	126,707	-	
		Legal reserves	2,137		
		Statutory and other capital reserves	711		
Reserves	8,008	Unrealized gain/loss on value adjustments of assets available for sale	5,160		Several items of the report prescribed by the CNB are shown within one item of the Annual report.
Total	8,008	Total	8,008	-	
Profit (loss) of the year	(29,249)	Profit (loss) for the year	(29,249)	-	
Retained earnings	67	Retained earnings (loss)	(8,056)		Several positions of the Annual report are shown within one item of the report prescribed by the CNB.
Loss brought forward	(8,123)				
Total	(8,056)	Total	(8,056)	-	
Total equity	**97,410**	**Total equity**	**97,410**	-	
TOTAL LIABILITIES AND EQUITY	608,373	TOTAL LIABILITIES AND EQUITY	608,373	-	