KentBank d.d.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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GENERAL INFORMATION AND ANNUAL REPORT

About the Bank

In 1998, Štedionica Brod was founded which grew into Banka Brod d.d. in 2002 with its headquarters in Slavonski Brod and founding share capital of HRK 20,216 thousand. In July 2005, the Bank had a capital increase following which the total share capital amounted to HRK 41,158 thousand.

In July 2011, Eksen Holding (Süzer Group) took over Banka Brod d.d. and at the beginning of 2012, increased the capital by an additional 10 million euros, to HRK 117,029 thousand. In April 2013, the majority owner increased the capital by a further 10 million euros and as at 31 December 2013 the ordinary share capital amounted to HRK 192,025 thousand. The Bank had not acquired its own shares in previous financial years.

In addition to the ordinary shares described above the Bank has issued preference shares in the amount of HRK 9,679 thousand (presented in the financial statements increased by interest payable in total amount of HRK 10,453 thousand) which are classified as a liability in the statement of financial position but which are included as capital when calculating capital adequacy, and which are also registered with the Commercial Court in Zagreb.

In July 2012, the Bank changed its name to KentBank d.d. and moved its headquarters to Zagreb, Gundulićeva 1. At that time, the Bank had 9 branches (Zagreb, Slavonski Brod, Požega, Nova Gradiška, Osijek, Pula, Rijeka) and 2 affiliated branches (Zagreb and Slavonski Brod). During 2012 and 2013 the Bank opened new branches in Zagreb, Split and Dubrovnik.

In January 2013, the Bank successfully introduced a new IT system which gives a strong base for the realization of its future plans. Over the past two years, the Management Board and Owner of the Bank have been investing considerable effort in modernization and business improvement. The Bank continued to be focused towards small and medium-sized enterprises and citizens, being aware of the fact that fast and flexible services and products tailored to meet clients' needs, together with acquiring new knowledge and technology, represent the main strategic guidelines. The most important achievements during this period include the modernization of business systems and processes, the expansion of the branch network and strengthening the balance sheet.

About Süzer Group

Süzer Group was established in 1952, in Gaziantep, as a local construction and trading company. The Group grew by rapid, yet balanced expansion beginning from the 1960's and 1970's in the fields of construction, tourism and foreign trade. With the liberalization of the Turkish Economy starting from the 1980's the Group embarked on a new phase in expansion, becoming in due course one of the few Turkish companies whose foreign trade volume exceeds 1 billion dollars. Today the Group is a conglomerate of companies, all of which represent Turkey in international competition and have partnerships with global leaders in their respective sectors.

GENERAL INFORMATION AND ANNUAL REPORT (CONTINUED)

About Süzer Group (continued)

The Süzer Group portfolio covers a wide range of sectors including real estate development, retail, finance, tourism and energy. In Turkey, Süzer Group owns Kent Leasing and Kent Factoring, and apart from finance, it also owns the Ritz Carlton Hotel in Istanbul. Its energy interests are represented by a majority share of Bahçeşehir Gas Distribution Inc., which is the first private company dealing with natural gas distribution in Turkey.

Business activities of the Bank

KentBank d.d. was registered as a joint stock company at the Commercial Court in Zagreb under MBS 080129579, with headquarters in Zagreb, Gundulićeva 1, for 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 (*forfaiting*) ;
- 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 and 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.

Operations of the Bank in 2013

Total assets of the Bank as at 31 December 2013 amounted HRK 884,136 thousand, representing growth of 46% compared to 31 December 2012, and, in the category of customer loans, recorded an increase of 78%, with loans amounting to HRK 462,232 thousand as at 31 December 2013. During 2013, the share of corporate loans in total loans increased in relation to previous years. The ratio between retail and corporate gross loans at the end of the 2013 is 64% compared to 36%, while at the end of 2012 the ratio was 73% compared to 27%. This clearly shows that in 2013 there was a significant increase of the share of corporate loans in total loans in the Bank's portfolio. There was also a significant increase of avista funds, which gerw by 59%, in the liabilities of the Bank.

Operations of the Bank in 2013 (continued)

Term deposits also recorded increased growth during 2013, especially in the last quarter of the year. The majority owner increased the share capital in 2013 by HRK 74,996 thousand, after which the share capital of the Bank amounted to HRK 192,025 thousand. In 2013, the Bank generated HRK 49 million of interest income, while interest expenses amounted HRK 21 million. Net interest income amounted to HRK 28 million and increased by 37% in relation to the previous year. Net income from fees and commissions in 2013 was realized in the amount of HRK 4 million, which is a 6% decrease compared to the previous year.

As evident from the financial statements for 2013, the Bank achieved balance sheet growth, but continued to make losses. In part this reflects an increase in owned and rented property over the last two years as the Bank expands its network. The result was also influenced by the macroeconomic situation, which was characterized by continued recession, high unemployment and very low liquidity in the real sector. Such situation in the region resulted in an increase in impairment losses. In the course of 2013, specific provision expenses increased by 50% compared to 2012. Furthermore, due to the previously mentioned increased balance sheet growth, provisions for unidentified losses also increased. During 2013, expenses for unidentified losses amounted to HRK 3 million.

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 these 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.

a) Credit risk

Credit risk management is described in notes 28, 29 and 33b to the financial statements.

b) Liquidity risk

Liquidity risk management is described in notes 30 and 33c to the financial statements.

c) Market risk

Market risk management is described in notes 31, 32 and 33d to the financial statements.

d) Operational risk management

Operational risk management is described in note 33f to the financial statements.

Corporate governance

In accordance with legislation and for the purpose of establishing high standards of corporate governance, KentBank d.d., as a company with shares listed on the regular market on the Zagreb Stock Exchange d.d., applies in its operations the Code of Corporate Governance set by the Croatian Financial Services Supervisory Agency (HANFA) and Zagreb Stock Exchange.

The corporate values which we use in daily operations include not only commercial success but also care for people, the environment and overall improvement of the quality of life of the community in which we operate.

General Assembly

At the end of the fiscal year, the share capital of the Bank consisted of 50,533 ordinary shares and 2,547 preference shares, with a nominal value of HRK 3,800.00. The majority owner, Eksen Holding Anonim Sirketi, holds 50,532 ordinary shares. After an increase in the ordinary share capital as at 19 March 2014 in the amount of HRK 38,209,000.00, the share capital will consist of 60,588 ordinary shares and 2,547 preference shares. The additional capital in 2013 was paid by the majority shareholder of the Bank. In the previous period the Bank has not repurchased any own shares nor it has such intention in the coming period.

Supervisory Board

During 2013, the Supervisory Board of the Bank consisted of three members. Their term of office is four years and they may be reappointed. In 2013 Mr. Hakan Barut was appointed President of the Supervisory Board, after the resignation submitted by the previous President of the Supervisory Board, Mr. Burak Ekmekcioglu. After changes in the membership of the Supervisory Board, it currently has two members chosen by the majority shareholder pursuant to the Companies Act and one independent member.

The powers of the Supervisory Board are governed by the Statutes of the Bank and the Rules of Procedure of the Supervisory Board, all in accordance with applicable regulations of the Companies Act and Credit Institutions Act.

The members of the Supervisory Board in office from 1 January 2013 up to date of issuance of these financial statements, are as follows:

Hakan Barut	President of the Supervisory Board since 26 June 2013
Burak Tashkinov Ekmekchiev	President of the Supervisory Board until 26 June 2013
Mehmet Koçak	Deputy President of the Supervisory Board
Boris Zenić	Supervisory Board Member

The Supervisory Board established an Audit Committee which consists of all members of the Supervisory Board. The role of Audit Committee is to assist the Supervisory Board in performing the function of supervising operations of the Bank, and particularly the following:

Corporate governance (continued)

- monitoring financial reporting process;
- monitoring the effectiveness of internal control systems, internal audit and risk management system;
- analyzing internal audit reports and making stands in this regard;
- monitoring audits of annual financial and consolidated statements;
- monitoring the independence of the external audit company that performs the audit of the financial statements, particularly the relation to contracts for additional services;
- cooperating with the external auditor;
- discussing the annual internal audit plan and report and significant issues related to this area;
- performing other activities in accordance with applicable regulations and its internal document which regulates the work of the Committee.

Management Board

In accordance with the provisions of the Statutes of the Bank, the Management Board may consist of up to three (3) members. Members of the Management Board including the President of the Management Board shall be appointed by the Supervisory Board for a term up to five (5) years. Only a person who meets the conditions prescribed by the Credit Institutions Act may be appointed as member of the Management Board, with prior approval from the Croatian National Bank.

The Management Board has rights, duties and obligations prescribed by the Companies Act, Credit Institutions Act and Statutes of the Bank. The Management Board manages the operations of the Bank and its assets and has responsibility and powers to take all actions and make all decisions necessary for successful management of the operations of the Bank and its performance.

Currently, the management Board comprises two (2) members. The members of the Management Board in office from 1 January 2013 up to date of issuance of these financial statements, are as follows:

Mehmet Murat Sabaz	President of the Management Board
Mićo Tomičić	Management Board Member
Ela Dogan Gölönü	Procurator until 20 June 2013

Major events after the end of the reporting date

The decision to increase the share capital of the Bank adopted at an Extraordinary General Assembly held as at 19 March 2014 has been the most important event after the end of the previous fiscal year, so far. The decision was to increase the share capital by an additional HRK 38,209 thousand by the majority owner Eksen Holding Anonim Sirketi. After the share capital increase in 2014, the share capital will amount HRK 230,234 thousand, thus opening opportunities for further growth of the Bank and strengthening its market position. Apart from strengthening its market position, the Bank will also use this capital increase for expansion into regions in which it currently does not actively participate. In the course of 2014, the Bank plans to expand its branch network to Zadar and Varaždin, and thus cover the whole Croatian market by the end of the year.

Development plan

The basic strategic direction of the Bank is to achieve continuous growth of banking activities which will ensure the preservation of the loan portfolio quality, good liquidity management practice and capital adequacy, i.e. income growth and profit realization.

The key concept of the operations of the Bank is an individual approach to clients, as well as flexibility and efficiency in decision-making in relation to the larger banking system. In addition to this, after changing the owner and expanding from being a regional to a more national bank, the Bank opened up the possibility of doing business with customers from more developed Croatian regions than before, thus providing a basis for better and stronger growth than before.

Strategic objectives

- increasing the assets by 2.6 times by the end of 2016 in relation to the end of 2013;
- generating a positive business result;
- affirmation as a flexible, efficient and innovative Bank that creates value for shareholders, clients, employees and the environment in which it works and operates;
- improving the organization of the Bank, business processes and IT support for the purpose of continuous improvement in efficiency and flexibility of the operations and cost efficiency;
- ensuring stable growth of return on equity and shareholder value.

In the coming period and in accordance with applicable regulations and economic circumstances, the Bank intends to continue with the activities aimed at affirmation of the Bank as a dynamic, fast, flexible, efficient, innovative organization, capable of creating new values for shareholders, clients, employees and the environment in which it works and operates.

The Management Board, together with other employees, will continuously work on improving the management system of the business processes, the risk management system, the expansion of the product range, the branch network, increasing the Bank's market share and enhancing the overall stability and reputation of the Bank.

For and on behalf of KentBank d.d.

KENTBANK d.d.
Zagreb

Mehmet Murat Sabaz	Mićo Tomičić
President of the Management Board	Member of the Management Board

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

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

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

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

The financial statements set out on pages 12 to 71 as well as the schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08) presented on pages 72-75 with the reconciliation to statutory financial statements presented on pages 76 to 79 were authorised by the Management Board on 9 April 2014 for issue to the Supervisory Board and are signed below to signify this.

The Management Board is also responsible for the preparation and content of the annual report, as required by Article 18 of the Accounting Act. The annual report set out on pages 3 to 8 was authorised by the Management Board on 9 April 2014 and signed accordingly.

For and on behalf of KentBank d.d.

Mehmet Murat Sabaz	KENTBANK d.d.	Mićo Tomičić
President of the Management Board	Zagreb	Member of the Management Board

Independent auditors' report to the shareholders of KentBank d.d.

We have audited the accompanying financial statements of KentBank d.d. ("the Bank"), which comprise the statement of financial position as at 31 December 2013, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Financial Statements

The Management Board 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 control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles 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.

Opinion

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

Independent auditors' report to the shareholders of KentBank d.d. (continued)

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those financial statements on 30 April 2013.

Other Legal and Regulatory Requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08), the Management Board of the Bank has prepared the schedules set out on pages 72 to 75 ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2013, and of the income statement, statement of changes in equity and cash flow statement for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements as presented on pages 76 to 79. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Bank set out on pages 12 to 71 on which we have expressed an opinion as set out above.

Further, pursuant to the requirements of Article 18 of the Accounting Act, the Management Board of the Bank has prepared its annual report to shareholders, set out on pages 3 to 8. The Management Board of the Bank is responsible for the preparation and content of the annual report. In accordance with Article 17 of the Accounting Act, we have carried out the procedures which we considered appropriate in order to form a view on the consistency of the relevant financial information in the annual report with the financial statements. Based on these procedures we report that the financial information in the annual report is consistent with the financial statements set out on pages 12 to 71.

KPMG Croatia doo za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

Zagreb, 9 April 2014

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
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For and on behalf of KPMG Croatia doo za reviziju:

Ismet Kamal
Director

Ljubica Oreščanin
Croatian Certified Auditor

Statement of financial position
As at

	Notes	31 December 2013	Restated 31 December 2012	Restated 1 January 2012
		HRK 000	*HRK 000*	*HRK 000*
ASSETS				
Cash and current accounts with banks	12	120,001	76,290	119,852
Obligatory reserve with Croatian National Bank and compulsory CNB bills	14	62,866	43,911	43,571
Placements with other banks	16	-	21,505	15,362
Financial assets available for sale	15a)	139,939	123,372	87,361
Financial investments held to maturity	15b)	70,683	51,318	26,864
Loans to and receivables from customers	17a)	462,232	258,318	221,614
Property, plant and equipment	18a)	10,851	12,667	8,323
Intangible assets	18b)	15,521	14,633	1,830
Foreclosed assets	19	597	578	892
Income tax prepayment		302	302	1,069
Other assets	20	1,144	2,151	1,227
TOTAL ASSETS		**884,136**	**605,045**	**527,965**
LIABILITIES				
Current accounts and deposits from banks and financial institutions	21a)	2,016	-	11
Current accounts and deposits from customers	21b)	729,684	499,208	474,204
Liabilities for preference shares	21c)	10,453	10,453	10,453
Provisions for liabilities and charges	22	223	745	338
Other liabilities	23	7,513	7,682	7,638
Deferred tax liability		112	-	-
Total liabilities		**750,001**	**518,088**	**492,644**
EQUITY				
Issued share capital	24a)	192,025	117,028	41,549
Legal and other reserves	24b)	2,137	3,622	3,622
Accumulated loss		(60,476)	(38,853)	(8,830)
Fair value reserve		449	5,160	(1,020)
Total equity		**134,135**	**86,957**	**35,321**
TOTAL LIABILITIES AND EQUITY		**884,136**	**605,045**	**527,965**

The accompanying notes on pages 17 to 71 form an integral part of these financial statements.

Income statement
For the year ended 31 December

	Notes	2013	Restated 2012
		HRK 000	*HRK 000*
Interest and similar income	5	49,288	40,650
Interest expense and similar charges	6	(21,660)	(20,789)
Net interest income		**27,628**	**19,861**
Fee and commission income	8a)	6,280	6,730
Fee and commission expense	8b)	(1,831)	(2,005)
Net fee and commission income		**4,449**	**4,725**
Net realised gains/(losses) from financial assets available for sale	9a)	4,945	(106)
Net gains from translation of monetary assets and liabilities and foreign exchange spot trading	9b)	4,250	3,038
Other income		794	458
		9,989	**3,390**
Total income		**42,066**	**27,976**
Depreciation and amortisation	18a); 18b)	(6,156)	(2,209)
Staff costs	10a)	(25,755)	(21,174)
Other administrative expenses	10b)	(17,884)	(20,456)
Total general and administrative expenses		**(49,795)**	**(43,839)**
Impairment losses and provisions	7	(15,379)	(14,160)
LOSS BEFORE TAX		**(23,108)**	**(30,023)**
Income tax expense	11	-	-
LOSS FOR THE YEAR		**(23,108)**	**(30,023)**
LOSS PER SHARE (in HRK)	25	**(506.77)**	**(1,092.26)**

The accompanying notes on pages 17 to 71 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December

	2013	Restated 2012
	HRK 000	*HRK 000*
LOSS FOR THE YEAR	(23,108)	**(30,023)**
Other comprehensive income, net of income tax		
Change in fair value of financial assets available for sale, net of amounts realised and deferred tax	(4,711)	6,180
Other comprehensive income for the year	**(4,711)**	**6,180**
TOTAL COMPREHENSIVE INCOME	**(27,819)**	**(23,843)**

The accompanying notes on pages 17 to 71 form an integral part of these financial statements.

Statement of changes in shareholders' equity

As at and for the year ended

HRK 000	Issued share capital (Note 24a)	Legal and other reserves (Note 24b)	Accumulated loss	Fair value reserve	Total
Balance at 1 January 2012 as previously reported	**51,228**	**3,622**	**(8,056)**	**(1,020)**	**45,774**
Reclassification of preference shares to financial liabilities and accrual of dividend on reclassified preference shares through profit or loss	**(9,679)**	**-**	**(774)**	**-**	**(10,453)**
Balance at 1 January 2012 as restated	**41,549**	**3,622**	**(8,830)**	**(1,020)**	**35,321**
Change in fair value of financial assets available for sale, net of amounts realised	-	-	-	6,180	**6,180**
Total other comprehensive income	-	-	-	6,180	**6,180**
Loss for the year as restated (Note 35)	-	-	(30,023)	-	**(30,023)**
Total comprehensive income / (loss) as restated	**-**	**-**	**(30,023)**	**6,180**	**(23,843)**
Transactions with owners:					
Increase in issued share capital	75,479	-	-	-	**75,479**
Appropriations of declared dividends as restated	-	-	-	-	-
Balance at 31 December 2012 as restated	**117,028**	**3,622**	**(38,853)**	**5,160**	**86,957**
Balance at 1 January 2013 as restated	**117,028**	**3,622**	**(38,853)**	**5,160**	**86,957**
Change in fair value of financial assets available for sale, net of amounts realised and deferred tax	-	-	-	(4,711)	**(4,711)**
Total other comprehensive income/(loss)	-	-	-	(4,711)	**(4,711)**
Loss for the year	-	-	(23,108)	-	**(23,108)**
Total comprehensive income / (loss)	**-**	**-**	**(23,108)**	**(4,711)**	**(27,819)**
Transactions with owners:					
Increase in issued capital	74,997	-	-	-	**74,997**
Appropriations of reserves for general banking risks for covering of losses	-	(1,485)	1,485	-	**-**
Balance at 31 December 2013	**192,025**	**2,137**	**(60,476)**	**449**	**134,135**

The accompanying notes on pages from 17 to 71 form an integral part of these financial statements.

Cash Flow Statement
For the year ended 31 December

	Note	2013	Restated 2012
		HRK 000	*HRK 000*
Cash flow from operating activities			
Loss for the year		(23,108)	(30,023)
Depreciation and amortisation	18a), 18 b)	6,156	2,209
Impairment losses and provisions	7	15,379	14,160
Other changes		(3,999)	7,433
Changes in operating assets and liabilities			
Increase in obligatory reserve and obligatory treasury bills with Croatian National Bank		(18,955)	(340)
Increase in loans to and advances from customers		(219,059)	(45,444)
(Increase)/decrease in other assets		890	10,519
(Decrease)/increase in deposits from banks and financial institutions		2,016	(11)
Increase in deposits from customers		230,476	25,004
Decrease of other liabilities and provisions		(572)	31
Payment of dividends on preference shares		(774)	(774)
Net cash from operating activities		***(11,550)***	***(17,236)***
Cash flow from investment activities			
Increase in financial investments held to maturity		(19,365)	(24,454)
Increase in financial assets available for sale		(16,567)	(36,011)
Net purchase of property, plant and equipment and intangible assets		(5,309)	(19,835)
Net cash from investment activities		***(41,241)***	***(80,300)***
Cash flow from financing activities			
Increase in issued share capital		74,997	75,479
Net cash from financing activities		***74,997***	***75,479***
Net increase/(decrease) of cash and cash equivalents		22,206	(22,057)
Cash and cash equivalents as at 1 January		97,795	119,852
Cash and cash equivalents as at 31 December	13	120,001	97,795

The accompanying notes on pages from 17 to 71 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 is entered in the register of the Commercial Court in Zagreb, with share capital of HRK 126,707 thousand.

2. Basis for preparation of the financial statements

a) Statement of Compliance

The Bank's operations are subject to the Credit Institutions Act. The Croatian National Bank ("the CNB") is the central regulatory institution of the banking system in Croatia, which also prescribes accounting banking regulations. In accordance with CNB regulations the financial statements of banks and other credit institutions are prepared in accordance with statutory accounting regulations for banks in the Republic of Croatia. These financial statements are prepared in line with the above-mentioned banking regulations. Where accounting policies of the Bank are aligned with International Financial Reporting Standards as adopted by the EU ("IFRS as adopted by the EU"), reference may be made to certain standards, in force as at 31 December 2013.

The accounting regulations of the CNB differ from the IFRS as adopted by the EU especially with regards to measurement and recognition. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of IFRS as adopted by the EU are as follows:

- The CNB requires banks to recognise impairment losses on assets not identified as impaired (including sovereign risk assets not carried at fair value) at prescribed rates. In line with the above-mentioned requirements, the Bank made portfolio-based provisions in the amount of HRK 6,550 thousand (2012: HRK 3,544 thousand), and recognised an expense in the amount of HRK 3,086 thousand related to these provisions within impairment losses for the year (2012: reversal of impairment loss of HRK 69 thousand). Although, in accordance with International Accounting Standard 39: *Financial Instruments: Recognition and Measurement* ("IAS 39"), 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 IAS 39. Due to the lack of observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at the reporting date, the Bank is not yet able to assess provisions for unidentified credit losses which were incurred at the reporting date, as required by IAS 39.
- Additionally, the CNB prescribes minimum levels of impairment allowance against certain specifically identified impaired exposures, irrespective of the net present value of expected future cash flows, which may be different from the impairment allowance required to be recognised in accordance with IAS 39.
- In accordance with local regulations, interest income on impaired exposures is recognised on a cash basis, as opposed to IAS 39, which prescribes recognition of interest income on impaired exposures through unwinding of the discount.
- In accordance with local regulations, the Bank recognises provisions for court cases incorporating the likelihood of the loss into measurement of the provision (i.e. if the likelihood of the loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which prescribes recognition of the full amount of potential loss, once it is probable that the court case will be lost.

Notes to the financial statements (continued)

2. Basis for preparation of the financial statements (continued)

b) Basis of measurement

These financial statements are prepared on an amortised or historical cost basis except for financial assets available for sale, which are measured at fair value.

The financial statements have been prepared in a format generally adopted and internationally recognised by banks.

c) Judgments and estimates

In preparing the financial statements, the Management Board has made judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, disclosure of commitments and contingencies at the reporting 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 judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions 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.

Judgments of management in the implementation of standards which have a risk of significant adjustment in the following year are described in Note 4.

d) Change in accounting policy for preference shares

In accordance with the requirements of IAS 32 *Financial Instruments: Presentation*, the Bank changed its accounting policy for preference shares with guaranteed dividends. These were accordingly reclassified from equity and presented as financial liabilities, with the related dividend accounted for through profit or loss as a part of interest expenses.

The change in accounting policy was accounted for retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8").

e) Change in presentation of accrued interest and related fees

The Bank changed its accounting policy for the presentation of accrued interest and related fees, which have been reclassified from other assets and liabilities and added to the related principal balances. The change was accounted for retrospectively in accordance with IAS 8.

f) Change in accounting policy for fair value measurement

In accordance with the transitional provisions of IFRS 13: *Fair values* ("IFRS 13"), the Bank has applied the new definition of fair value. The change has been applied prospectively in accordance with the requirements of IFRS13 and has no significant impact on the measurement of the Bank's assets and liabilities or related disclosures.

g) Functional and reporting currency

Financial statements are prepared in kuna which is the official currency of the environment in which the Bank operates (functional currency), and the amounts are presented in HRK, rounded to the nearest thousand.

h) Restatement of previously presented amounts

Details of the restatement of previously presented amounts are disclosed in Note 35 of these financial statements.

Notes to the financial statements (continued)

3. Accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements, except as previously noted otherwise.

a) Interest income and expense

Interest income and expenses are recognised in the income statement for all interest-bearing instruments using the effective interest rate method. Interest expense also includes dividends payable on preference shares.

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.

b) Fee and commission income and expense

Fee and commission income and expense are 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.

c) Defined contribution plans

The Company pays contributions to obligatory pension funds on a mandatory, contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as staff costs in profit or loss as they accrue.

d) 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 remeasured at each reporting date at the official mid spot foreign exchange rate of the Croatian National Bank ruling on the reporting date.

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. The Bank had no such assets at the reporting date. 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.

3. Accounting policies (continued)

d) Foreign currencies (continued)

Official mid spot exchange rates effective as at 31 December 2013 were:

7.637643 = 1 EUR;

5.549000 = 1 USD;

6.231758 = 1 CHF.

Official mid spot exchange rates effective as at 31 December 2012 were:

7.545624 = 1 EUR;

5.726794 = 1 USD;

6.245343 = 1 CHF.

e) Financial instruments

Classification

The Bank classifies its financial instruments into the following categories:

- loans and receivables;
- investments held to maturity;
- financial assets available for sale and
- other financial liabilities.

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 placements with, and loans to, other banks and loans to and receivables from customers and various other receivables.

Investments 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 loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss.

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

Financial assets available for sale comprise various debt securities.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. Other financial liabilities include current accounts and deposits from financial institutions and customers and various payables.

3. Accounting policies (continued)

e) Financial instruments (continued)

Recognition and derecognition

Loans and receivables and other financial liabilities are recognised when cash is advanced to borrowers or received from lenders. Regular way purchases of financial assets available for sale and financial investments held to maturity are recognised on the trade date when the Bank committed to purchase the asset.

The Bank derecognises financial instruments (in full or in part) 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 significantly, 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, except from the financial assets 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 assets available for sale at their fair value. Equity instruments classified as available for sale (at the reporting date the Bank did not have such assets) 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 any impairment. Loans and receivables and held-to-maturity investments are measured at amortised cost, decreased if appropriate, for any impairment. Other financial liabilities are measured at amortised cost.

Gains and losses

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 and interest income on an effective-interest-rate basis on available-for-sale monetary assets are recognised in the income statement. Foreign exchange differences on non-monetary equity instruments classified as available for are recognised in other comprehensive income (at the reporting date the Bank did not have any such assets). Dividend income is recognised in the income statement when the 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 (in the case of assets) is impaired.

e) Financial instruments (continued)

Determination of fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Impairment of financial assets

Assets carried at amortised cost

The Bank assesses at each reporting 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 direct 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.

e) Financial instruments (continued)

Impairment of financial assets (continued)

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 asset'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 possible, the Bank implements loan restructuring rather than initiate enforcement action. This may include the extension of repayment period and other changes 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 with regards to the fulfillment 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 (if they are not individually assessed as impaired or if they belong to the portfolio of collectively provisioned loans) using the original effective interest rate.

Financial assets available for sale

The Bank assesses at each reporting 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 income statement. Impairment losses on equity instruments available for sale are not reversed through income statement until the final derecognition of the asset (at the reporting date the Bank did not have any such assets)..

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.

3. Accounting policies (continued)

f) Specific financial instruments

Treasury bills and debt securities

Short-term treasury bills are classified as available-for-sale financial assets. Debt securities that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity investments. Other debt securities are classified as financial assets available for sale.

Placements with other banks

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

Loans to customers

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

Current accounts and deposits from banks and customers

Current accounts and deposits from banks and customers are classified as other liabilities and stated at amortised cost.

Preference shares

Preference shares are classified as other liabilities and stated at their nominal value, increased by the related interest accrual.

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.

g) Property and equipment

Property and equipment 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 any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The Bank capitalise the cost of replacing part of such an item when 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 useful lives are as follows:

	2013 ***years***	**2012** ***years***
Buildings	40	40
Office furniture	4	4
Electronic equipment and computers	4-5	4-5
Other equipment	2-10	2-10

3. Accounting policies (continued)

g) Property and equipment (continued)

The residual value of assets, depreciation method and useful lives are reviewed and adjusted, if necessary, at each reporting 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 recognised in the income statement.

h) 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 useful lives are as follows

	2013 *years*	**2012** *years*
Software	5	5
Leasehold improvements	5	5

Leasehold improvements are amortised over the shorter of the life of the lease or 5 years. Costs incurred in order to enhance or extend the benefits of computer software programmes beyond their original specifications and lives which can be measured reliably are capitalised to the original cost of the software. All other maintenance is expensed as incurred.

i) Impairment of non-financial assets

The recoverable amount of non-financial assets, other than deferred tax 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 groups of assets that generate separately identifiable cash inflows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

j) Foreclosed assets

Foreclosed 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 these assets approximates their market value.

k) Leases

Leases in accordance with the terms of which the Bank as lessee assumes substantially all the risks and rewards of ownership are classified as finance leases (at the reporting date the Bank did not have any finance leases). All other leases are classified and accounted for as operating leases. For operating leases in which the Bank is a lessee the related assets are not recognised on the Bank's statement of financial position. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

l) Provisions for liabilities and charges

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.

m) 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.

n) 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 other comprehensive income/equity, in which case it is recognised in other comprehensive income/equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

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 reporting 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 reporting date, to recover or settle the carrying amount of its assets and liabilities.

3. Accounting policies (continued)

n) Income tax (continued)

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. 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 reporting date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

o) 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 recognised as a decrease in equity and classified as treasury shares.

p) 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.

r) Treasury shares

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

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments

Accounting estimates and judgments

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. 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 judgments 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 to and receivables from customers and provisions for off-balance-sheet exposure to credit risk

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). The Bank also recognises provisions arising from off-balance-sheet exposure to credit risk to customers, mainly in the form of guarantees (as summarised in Notes 22b and 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. Provisions for unidentified losses calculated for placements with banks and debt securities carried at amortised cost at the rates prescribed by the CNB are deducted from loans to and receivables from customers for the purpose of presentation of these financial statements.

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.

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Accounting estimates and judgments (continued)

Impairment losses on loans and receivables (continued)

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

For the small loan portfolio (exposure up to HRK 100 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 days of delay begins when the total debt due by the client exceeds HRK 1,750.00.

At the year end, the ratio of impairment allowance in the total gross value of impaired loans was as follows:

				2013				**2012**
				HRK 000				***HRK 000***
	Corporate	Retail	Other	**Total**	Corporate	Retail	Other	**Total**
Gross value of impaired loans	36,969	41,798	3,817	**82,584**	31,771	38,369	3,833	**73,973**
Impairment rate	59%	67%	47%	**63%**	47%	63%	41%	**55%**

Assuming that the portfolio remains at the same level, each additional increase of one percentage point in the impairment rate on the gross impaired portfolio at 31 December 2013 would cause an additional impairment loss in the amount of HRK 826 thousand (in 2012: HRK 740 thousand).

The Bank also seeks to recognise impairment losses which are known to exist at the reporting date, but which have not yet been specifically identified. In estimating unidentified impairment losses existing in collectively assessed portfolios, 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 rate of 1.00% which is in the range prescribed by the CNB for application to all credit risk exposures except those carried at fair value, including off-balance-sheet exposure to credit risk and Croatian sovereign debt.

4. Significant accounting estimates and judgments (continued)

Accounting estimates and judgments (continued)

Impairment losses on loans and receivables (continued)

Impairment losses estimated on a portfolio basis as at 31 December 2013 amounted to HRK 6,694 thousand (in 2012: HRK 3,606 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.

The Management Board believes that both individual and collective impairment losses and provisions are sufficient.

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 management Board believes that the provisions for legal cases are sufficient at the reporting date.

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.

The Bank did not recognise deferred tax asset on tax losses carried forward as it is not probable there would be sufficient taxable profits to utilise them before their expiry.

Notes to the financial statements (continued)

5. Interest and similar income

a) Interest income analysed by product:

	2013	2012
	HRK 000	*HRK 000*
Interest income from loans to and receivables from customers	40,601	30,541
Interest income from financial assets available for sale	3,831	6,415
Interest income from financial investments held to maturity	4,765	3,228
Interest income from deposits	91	466
TOTAL	**49,288**	**40,650**

b) Interest income analysed by sectors:

	2013	2012
	HRK 000	*HRK 000*
Companies	14,375	7,506
Financial institutions	159	569
Individuals (retail)	30,958	26,090
Central government and local authorities	3,792	6,424
Other	4	61
	49,288	**40,650**

6. Interest expense and similar charges

Interest expense analysed by sector:

	2013	Restated 2012
	HRK 000	*HRK 000*
Interest expense to individuals (retail)	19,231	19,424
Interest expense to non-residents	1,032	496
Interest expense to companies	520	65
Interest expense to financial institutions	80	-
Dividends on preference shares	774	774
Other	23	30
TOTAL	**21,660**	**20,789**

Notes to the financial statements (continued)

7. Impairment losses and provisions

	2013
	HRK 000
Impairment of loans to and receivables from customers	14,990
Specific (Note 17c)	*11,984*
General (Note 17c)	*3,006*
Impairment of other assets *(Note 20a)*	396
Provisions for court cases (Note 22a)	(89)
Provisions for off-balance-sheet exposure to credit risk *(Note 22b)*	82
TOTAL	**15,379**

It is not practicable to disclose comparatives for 2012.

8. Fee and commission income and expense

a) Fee and commission income

	2013	2012
	HRK 000	*HRK 000*
Payment transaction service fees	5,971	5,876
Currency exchange fees	10	496
Loan origination fees	250	329
Other banking services	49	29
TOTAL	**6,280**	**6,730**

b) Fee and commission expenses

	2013	2012
	HRK 000	*HRK 000*
FINA commission	1,232	1,498
CNB	36	35
Domestic banks	511	455
Domestic clients	52	17
TOTAL	**1,831**	**2,005**

Notes to the financial statements (continued)

9a Realised net gains/(losses) from financial assets available for sale

	2013	2012
	HRK 000	*HRK 000*
Domestic government bonds available for sale	4,954	-
Domestic treasury bills available for sale	-	(106)
TOTAL	**4,954**	**(106)**

9b Net gains/(losses) from translation of monetary assets and liabilities and foreign exchange spot trading

	2013	2012
	HRK 000	*HRK 000*
Net gains/(losses) from translation of monetary assets and liabilities and foreign exchange spot trading		
- items denominated in foreign currency	(4,368)	(705)
- items linked to foreign currency	4,926	601
Net gain from foreign exchange spot trading	3,692	3,142
TOTAL	**4,250**	**3,038**

10. Staff costs and other administrative expenses

a) Staff costs

	2013	2012
	HRK 000	*HRK 000*
- Net salaries to employees	12,849	10,416
- Contributions on salaries	3,322	2,780
- Contributions, taxes and surtaxes from salaries	9,000	7,141
- Other	584	837
TOTAL	**25,755**	**21,174**

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

Staff costs include HRK 4,092 thousand (2012: HRK 3,087 thousand) of defined pension contributions payable into obligatory pension plans.

During 2013, average number of employees was 120 (2012: 114).

10. Staff costs and other administrative expenses (continued)

b) Other administrative expenses

	2013	2012
	HRK 000	*HRK 000*
Rent expenses	4,194	4,016
Intellectual services	1,497	3,651
Other services	2,024	3,178
Marketing and advertisement expenditure	1,570	1,779
Material costs and similar charges	1,542	1,433
Costs of deposit insurance	1,552	1,298
Mail and phone expenditure	990	805
Maintenance expenses	750	594
Other expenditure	3,765	3,702
TOTAL	**17,884**	**20,456**

11. Income tax

	2013	Restated 2012
	HRK 000	*HRK 000*
Accounting loss before tax	**(23,108)**	**(30,023)**
Income tax at 20% (2012: 20%)	(4,622)	(6,005)
Non-deductible expenses	1,566	1,050
Non-taxable income	(529)	(233)
Tax loss for the year	**(3,585)**	**(5,188)**
Income tax expense recognised in profit or loss	-	-
Effective income tax rate	-	-

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 recognised in its books a deferred tax liability on unrealised gains from financial assets available for sale in the amount of HRK 112 thousand (2012: nil).

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

	31 December 2013	Restated 31 December 2012
	HRK 000	*HRK 000*
No later than 1 year	-	-
No later than 2 years	-	-
No later than 3 years	1,531	-
No later than 4 years	5,188	1,531
No later than 5 years	3,585	5,188
Total tax losses carried forward not recognised as deferred tax assets	**10,304**	**6,719**

Notes to the financial statements (continued)

12. Cash and current accounts with banks

	2013			2012		
	HRK 000			*HRK 000*		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Current accounts with the CNB	35,409	-	35,409	33,962	-	33,962
Current accounts with other banks	-	47,862	47,862	-	21,290	21,290
Cash in hand	14,197	22,533	36,730	8,282	12,756	21,038
TOTAL	**49,606**	**70,395**	**120,001**	**42,244**	**34,046**	**76,290**

13. Cash and cash equivalents

	2013	2012
	HRK 000	*HRK 000*
Cash on accounts with the CNB (Note 12)	35,409	33,962
Cash on accounts with other banks (Note 12)	47,862	21,290
Cash in hand (Note 12)	36,730	21,038
Placements with banks with original maturity less than 3 months (Note 16)	-	21,505
TOTAL	**120,001**	**97,795**

14. Obligatory reserve with Croatian National Bank and compulsory CNB bills

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.

Banks are obliged to calculate obligatory reserve in kuna and foreign currency at a rate which, as at 31 December 2013, accounted for 12% of kuna and foreign currency funds (31 December 2012: 13.5%).

The part of the obligatory reserve calculated in kuna is increased by 75% of the calculated obligatory reserve on eligible foreign currency funding sources. 70% of the obligatory reserve should be deposited into a special account held with the CNB, while the rest may be maintained in eligible liquid assets.

After reduction by 75% which is added to obligatory reserve requirement calculated in kuna, the remainder of 25% of obligatory reserve calculated in foreign currency is maintained in foreign currency. Foreign currency 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 of mandatory allocation of the remaining foreign currency obligatory reserve is 60% (allocation of funds can be in Euro and U.S. dollar). The remaining part can be maintained in eligible liquid assets.

In accordance with CNB decision on the purchase of compulsory Croatian National Bank treasury bills (Official Gazette 142/2013) issued in December 2013, the Bank invested the amount of shortage of the total kuna component of reserve requirement in compulsory CNB treasury bills.

	2013	**2012**
	HRK 000	***HRK 000***
Allocated obligatory reserve in HRK	47,353	35,611
Allocated obligatory reserve in foreign currency	10,746	8,300
Compulsory CNB bills	4,767	-
Total obligatory reserve	**62,866**	**43,911**

Notes to the financial statements (continued)

15. Financial investments

a) Financial assets available for sale

	2013	Restated 2012
	HRK 000	*HRK 000*
Domestic central government bonds	55,352	43,491
Domestic corporate bonds	1,142	1,215
Domestic central government treasury bills	64,359	78,666
Foreign treasury bills	19,086	-
Listed	55,352	43,491
Unlisted	84,587	79,881
TOTAL	**139,939**	**123,372**

Foreign treasury bills are issued by France and Germany.

b) Financial investments held to maturity

	2013	Restated 2012
	HRK 000	*HRK 000*
Bills of exchange - companies	35,296	38,521
Bills of exchange – state and local authorities	5,963	-
Factoring – receivables from companies	23,227	2,683
Factoring – receivables from state and local authorities	6,197	10,114
TOTAL - UNLISTED	**70,683**	**51,318**

16. Placements with other banks

	2013	2012
	HRK 000	*HRK 000*
Placements with other domestic banks - in HRK	10,220	10,220
Impairment allowance on placements with other banks in HRK	(10,220)	(10,220)
Placements with other domestic banks - in foreign currency (Note 13)	-	13,959
Placements with other foreign banks - in foreign currency (Note 13)	-	7,546
TOTAL	**-**	**21,505**

Notes to the financial statements (continued)

16. Placements with other banks (continued)

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

	2013	2012
	HRK 000	*HRK 000*
Balance 1 January as previously reported	**10,220**	**5,000**
Increase due to reclassification of interest receivable from other assets (Note 20a)	**-**	220
Balance at 1 January as restated	**10,220**	**5,220**
Increase in provisions recognised in profit or loss	-	5,000
Balance at 31 December	**10,220**	**10,220**

17. Loans to and receivables from customers

a) Analysis according to types of loans

	2013	Restated 2012
	HRK 000	*HRK 000*
Short-term loans:		
Companies	85,075	32,465
Retail customers	37,617	35,148
Other customers	3,876	2,073
Total short-term loans	**126,568**	**69,686**
Long-term loans:		
Companies	100,927	47,099
Retail customers	293,021	180,132
Other customers	-	5,341
Total long-term loans	**393,948**	**232,572**
Total short-term and long-term loans	**520,516**	**302,258**
Impairment allowance	(58,284)	(43,940)
TOTAL	**462,232**	**258,318**

All retail loans relate to non-purpose loans.

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

b) Corporate loans by industry

	2013	2012
	HRK 000	*HRK 000*
Manufacturing	56,946	14,804
Trade	48,135	20,091
Tourism	4,325	1,051
Agriculture	10,437	6,003
Construction	40,806	25,615
Services	23,370	18,188
Other	1,983	314
Total by sector before impairment allowance	**186,002**	**86,066**
Impairment allowance	(23,821)	(14,828)
TOTAL	**162,181**	**71,238**

c) Movements in impairment allowance

	2013			2012		
HRK 000	Impairment	General provision	**Total**	Impairment	General provision	**Total**
Balance 1 January as previously reported	**38,791**	**3,544**	**42,335**	**31,745**	**3,620**	**35,365**
Increase due to reclassification of interest receivable from other assets	1,605	-	1,605	1,523	(6)	1,517
Balance at 1 January as restated	**40,396**	**3,544**	**43,940**	**33,268**	**3,614**	**36,882**
Increase in provisions	25,951	3,006	**28,957**	n/a	n/a	**n/a**
Decrease in provisions	(13,967)	-	**(13,967)**	n/a	n/a	**n/a**
Net impairment charge recognised in income statement	11,984	3,006	**14,990**	7,128	(70)	**7,058**
Write off	(646)	-	**(646)**	-	-	**-**
Balance at 31 December	**51,734**	**6,550**	**58,284**	**40,396**	**3,544**	**43,940**

Net impairment charge for loans to and receivables from customers is included in the analysis within Note 7 Impairment losses and provisions and is recognised in the income statement.

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets

a) Movement in property, plant and equipment in thousand HRK

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Cost						
Balance at 1 January 2013	467	5,466	9,452	3,646	578	19,609
Additions	24	159	968	113	-	1,264
Transfer	-	-	(1,615)	(7)	94	(1,528)
Write-off and disposals	-	-	(18)	-	-	(18)
Balance 31 December 2013	**491**	**5,625**	**8,787**	**3,752**	**672**	**19,327**
Depreciation						
Balance as at 1 January 2013	-	524	4,923	1,495	-	6,942
Charge for the year	-	89	1,038	547	-	1,674
Transfer	-	-	(121)	(6)		(127)
Write-off and disposals	-	-	(13)	-	-	(13)
Balance 31 December 2013	**-**	**613**	**5,827**	**2,036**	**-**	**8,476**
Net carrying amount 1 January 2013	**467**	**4,942**	**4,529**	**2,151**	**578**	**12,667**
Net carrying amount 31 December 2013	**491**	**5,012**	**2,960**	**1,716**	**672**	**10,851**

Assets under construction relate to assets acquired in lieu of uncollectible loans to and receivables from customers, acquired on public auctions. The remainder of foreclosed assets is presented in Note 19 Foreclosed assets.

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

a) Movement in property, plant and equipment in thousand HRK (continued)

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
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 and disposals	(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 and disposals	-	-	-	-	-	-
Balance 31 December 2012	**-**	**524**	**4,923**	**1,495**	**-**	**6,942**
Net carrying amount 1 January 2012	**469**	**5,346**	**976**	**706**	**826**	**8,323**
Net carrying amount 31 December 2012	**467**	**4,942**	**4,529**	**2,151**	**578**	**12,667**

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

b) Movement in intangible assets in thousand HRK

	Leasehold improvements	Software	**Total**
Cost			
Balance at 1 January 2013	14,639	5,691	20,330
Additions	2,226	1,818	4,044
Transfer	(10)	1,374	1,364
Write-off and disposals	-	(124)	(124)
Balance 31 December 2013	**16,855**	**8,759**	**25,614**
Amortisation			
Balance as at 1 January 2013	1,932	3,765	5,697
Charge for the year	3,101	1,381	4,482
Transfer	-	-	-
Write-off and disposals	-	(86)	(86)
Balance 31 December 2013	**5,033**	**5,060**	**10,093**
Net carrying amount 1 January 2013	**12,707**	**1,926**	**14,633**
Net carrying amount 31 December 2013	**11,822**	**3,699**	**15,521**

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

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

	Leasehold improvements	Software	**Total**
Cost			
Balance at 1 January 2012	1,538	4,663	6,201
Additions	12,753	1,028	13,781
Write-off and disposals	348	-	348
Balance 31 December 2012	**14,639**	**5,691**	**20,330**
Amortisation			
Balance as at 1 January 2012	1,224	3,147	4,371
Charge for the year	708	618	1,326
Write-off and disposals	-	-	-
Balance 31 December 2012	**1,932**	**3,765**	**5,697**
Net carrying amount 1 January 2012	**314**	**1,516**	**1,830**
Net carrying amount 31 December 2012	**12,707**	**1,926**	**14,633**

Notes to the financial statements (continued)

19. Foreclosed assets

	2013	2012
	HRK 000	*HRK 000*
Properties acquired in exchange for uncollectible receivables	597	578
TOTAL	**597**	**578**

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.

Foreclosed assets acquired at public auctions are classified separately under Property, plant and equipment (note 18 a).

20. Other assets

	2013	Restated 2012
	HRK 000	*HRK 000*
Receivables for advances	168	1,101
Receivables for fees and commissions	223	167
Prepaid expenses	359	307
Receivables from customers	28	-
Other receivables	1,392	842
Impairment allowance	(1,026)	(266)
TOTAL	**1,144**	**2,151**

a) Movement in impairment allowance against other assets

	2013
	HRK 000
Balance at 1 January as previously reported	**2,091**
Change due to reclassification of interest receivable from loans to and receivables from customers (Note 17c)	(1,605)
Change due to reclassification of interest receivable from placements with other banks (Note 16a)	(220)
Balance at 1 January as restated	**266**
Increase in provisions (Note 7)	396
Write off and reversal	(1,688)
Balance at 31 December	**(1,026)**

The presentation of comparative information for 2012 is not practicable.

Notes to the financial statements (continued)

21. Current accounts and deposits and liabilities for preference shares

a) Current accounts and deposits from banks and financial institutions

	2013		Restated 2012	
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*
	HRK	Foreign currency	HRK	Foreign currency
Current accounts	16	-	-	**-**
Term deposits	2,000	-	-	**-**
TOTAL	**2,016**	**-**	**-**	**-**

b) Current accounts and deposits from customers

ba) Current accounts from customers

HRK 000

	2013			Restated 2012		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	5,379	7,654	**13,033**	5,272	3,947	**9,219**
Corporate	17,061	3,817	**20,878**	8,780	148	**8,928**
State and other institutions	3,312	-	**3,312**	399	-	**399**
Foreign individuals	170	8,416	**8,586**	152	6,242	**6,394**
Total current accounts	25,922	19,887	**45,809**	14,603	10,337	**24,940**

bb) Term deposits from customers

HRK 000

	2013			Restated 2012		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	94,402	546,564	**640,966**	63,851	397,714	**461,565**
Corporate	5,673	23,297	**28,970**	50	245	**295**
State and other institutions	595	-	**595**	162	-	**162**
Foreign individuals	356	12,988	**13,344**	346	11,900	**12,246**
Total term deposits	101,026	582,849	**683,875**	64,409	409,859	**474,268**

Notes to the financial statements (continued)

21. Current accounts and deposits and liabilities for preference shares (continued)

b) Current accounts and deposits from customers (continued)

bc) Total current accounts and deposits from customers

HRK 000

	2013			Restated 2012		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	99,781	554,218	**653,999**	69,123	401,661	**470,784**
Corporate	22,734	27,114	**49,848**	8,830	393	**9,223**
State and other institutions	3,907	-	**3,907**	561	-	**561**
Foreign individuals	526	21,404	**21,930**	498	18,142	**18,640**
TOTAL	126,948	602,736	**729,684**	79,012	420,196	**499,208**

c) Liability for preference shares

The Bank‘s funding resources include 2,547 shares issued at par value of HRK 3,800 per share, carrying a guaranteed dividend of 8% of nominal value. At the reporting date the principal amounted to HRK 9,679 thousand (2012: HRK 9,679 thousand), while accrued interest amounted to HRK 774 thousand (2012: HRK 774 thousand). In accordance with CNB regulations, these preference shares are part of tier I capital for the purpose of capital adequacy calculation.

Preference shares are unconditionally, immediately and fully available to cover risks or losses, and in the case of bankruptcy or initiating a liquidation process of the Bank they are available in their entirety and without limitation to cover losses of the Bank after settling the claims of all other creditors of the Bank. Preferential shares give their holders preferential rights when paying out liquidation assets over ordinary shareholders.

Holders of preference shares are analysed below:

Holder of preference shares	ISIN	**Number of preference shares at 31 December 2013**	**% of holding of preference shares at 31 December 2013**	Number of preference shares at 31 December 2012	% of holding of preference shares at 31 December 2012
HYPO ALPE-ADRIA-BANK D.D./ SZIF D.D.	BRBA-P-A	633	24.85	633	24.85
JELČIĆ NEDJO	BRBA-P-A	220	8.64	220	8.64
BILOBRK ROBERTINO	BRBA-P-A	200	7.85	200	7.85
BOROŠA BORIS	BRBA-P-A	200	7.85	135	5.31
BARANČIĆ MIHOVIL	BRBA-P-A	150	5.89	170	6.68
TOMIČIĆ MIĆO	BRBA-P-A	104	4.08	104	4.08
VIDAKOVIĆ ZDENKO	BRBA-P-A	102	4.00	102	4.00
KAMBER HELO	BRBA-P-A	86	3.38	-	-
KRESO DAMIR	BRBA-P-A	79	3.10	-	-
OTHERS	BRBA-P-A	773	30.36	983	38.59
TOTAL		**2,547**	**100.00**	**2,547**	**100.00**

Notes to the financial statements (continued)

22. Provisions for liabilities and charges

	2013	2012
	HRK 000	*HRK 000*
Provisions for legal cases initiated against the Bank	79	683
Provisions for identified losses for off-balance-sheet exposure to credit risk	144	62
TOTAL	**223**	**745**

Provisions are included in the analysis in Note 7 Impairment losses and provisions and are recognised in the income statement.

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

	2013	2012
	HRK 000	*HRK 000*
Balance at 1 January	**683**	**283**
Increase in provisions	251	413
Release of unused amounts	(340)	-
Net (release)/charge recognised in profit or loss	(89)	413
Used during year	(515)	(13)
Balance at 31 December	**79**	**683**

b) **Movements in provisions for identified losses on off-balance-sheet exposure to credit risk**

	2013	2012
	HRK 000	*HRK 000*
Balance at 1 January	**62**	**55**
Increase in provisions recognised in profit or loss	82	7
Write offs	-	-
Balance at 31 December	**144**	**62**

Notes to the financial statements (continued)

23. Other liabilities

	2013	2012 restated
	HRK 000	*HRK 000*
Liabilities to suppliers	1,244	2,772
Liabilities for loan prepayments	3,681	2,004
Liabilities to employees	1,923	1,919
Liabilities for taxes and contributions	89	86
Other liabilities	576	901
TOTAL	**7,513**	**7,682**

24. Equity

	2013	Restated 2012
	HRK 000	*HRK 000*
Issued share capital (Note 24a)	192,025	117,028
Legal and other reserves (Note 24b)	2,137	3,622
Accumulated loss	(60,476)	(38,853)
Fair value reserve	449	5,160
TOTAL	**134,135**	**86,957**

a) Issued share capital

Issued share capital amounts to HRK 192,025 thousand (31 December 2012: HRK 117,028 thousand) and it is divided into 50,533 ordinary shares (31 December 2012: 30,797 shares) with a nominal value of HRK 3,800.00 each.

According to the Decision of the Extraordinary General Assembly as of 11 March 2013, the share capital of the Bank was increased by the amount of HRK 74,997 thousand. The Bank issued 19,736 ordinary shares with a nominal value of HRK 3,800.00 to the majority shareholder of the Bank, Eksen Holding Anonim Sirketi. The issued share capital of the Bank is fully paid up in cash.

The shareholder structure was as follows:

Shareholder	ISIN	**Number of shares at 31 December 2013**	**% of the share capital**	Number of shares at 31 December 2012	% of the share capital
EKSEN HOLDING A.S.	BRBA-R-A	50,532	100.00	30,796	100.00
HYPO ALPE-ADRIA-BANK D.D./ SZIF D.D.	BRBA-R-A	1	0.00	1	0.00
TOTAL		**50,533**	**100.00**	**30,797**	**100.00**

24. Equity (continued)

b) Legal and other reserves

Reserves include legal reserves 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 undistributable legal reserves, until such reserves along with other capital reserves reach a minimum of 5% of the issued 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 relate to reserves for general banking risks. In line with the CNB regulations applicable to 31 December 2009, the Bank was required to form and maintain a provision for general banking risks, as a result of significant balance-sheet and off-balance-sheet growth and the related increased exposure to risk. In 2010 the regulations were changed, abolishing the requirement for calculation of provision for general banking risks. In 2013 provisions for general banking risks was set off against the accumulated loss in the amount of HRK 1,485 thousand.

	2013	**Restated 2012**
	HRK 000	***HRK 000***
Legal reserves	2,137	2,137
Other reserves	-	1,485
TOTAL	**2,137**	**3,622**

25. Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the loss for the period attributable to equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares used for basic earnings per share was 45,599 (2012: 27,487). Given that there is no effect of options, convertible bonds or similar effect, the weighted average number of ordinary shares used for diluted earnings per share for 2013 was the same as used to calculate basic earnings per share.

Losses attributable to ordinary shareholders in HRK ‘000

	2013	**Restated 2012**
Losses attributable to ordinary shareholders in HRK ‘000	(23,108)	(30,023)
Weighted average number of shares	45,599	27,487
Basic and diluted loss per share in HRK	**(506.77)**	**(1,092.26)**

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 key management personnel or their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures".

The majority owner of the Bank is Eksen Holding Anonim Sirketi which is headquartered in Turkey. In addition to an increase of issued share capital in 2013 the Bank also entered into banking transactions with the majority owner during the year, generating income and expense for the year, and assets and liabilities at year end.

Related party transactions as at and for the year ended 31 December 2013 and 31 December 2012 were as follows:

EKSEN HOLDING	**2013**	**Restated 2012**
	HRK 000	***HRK 000***
Loans to and receivables from customers	-	-
Other receivables	15	-
	15	-
Received deposits		
Current accounts	6	-
Term deposits	7,927	6,112
Other liabilities	1	-
	7,934	6,112

	2013	**2012**
	HRK 000	***HRK 000***
Interest income on loans to and receivables from customers	-	-
Other income	7	-
	7	**-**
Expenses on received deposits		
Current accounts	(22)	(10)
Term deposits	(499)	-
Other expenses	(17)	-
	(538)	(10)

26. Related parties transactions (continued)

Key management personnel	2013	Restated 2012
	HRK 000	*HRK 000*
Loans to and receivables from customers	1,924	1,479
Other receivables	48	-
	1,972	1,479
Received deposits		
Current accounts	158	67
Term deposits	2,238	136
Other liabilities	10	-
	2,406	203

	2013	2012
	HRK 000	*HRK 000*
Interest income on loans to and receivables from customers	96	226
Other income	4	-
	100	226
Expenses on received deposits		
Current accounts	(19)	(1)
Term deposits	(37)	(5)
Other expenses	-	-
	(56)	**(6)**

Compensation to key management personnel was

	2013	2012
	HRK 000	*HRK 000*
Compensation to key management personnel	9,991	8,406
	9,991	**8,406**

The key management personnel in the Bank are the members of the Management and Supervisory Board, procurators and executive directors and other senior management. The expense of contributions paid to mandatory pension funds in the year ended 31 December 2013 for key management personnel amounted to HRK 1,349 thousand (for year ended 31 December 2012: HRK 1,143 thousand).

Notes to the financial statements (continued)

26. Related parties transactions (continued)

Transactions with owners of preference shares are as follows:

	2013	Restated 2012
	HRK 000	*HRK 000*
Loans to and receivables from customers	34	112
Other receivables	7	-
	41	112
Received deposits		
Current accounts	132	76
Term deposits	2,247	516
Other liabilities	-	1
Liabilities for dividends	774	774
	3,153	1,367

	2013	2012
	HRK 000	*HRK 000*
Interest income on loans to and receivables from customers	7	9
Other income	1	-
	8	9
Preference share dividend (recognised as interest expense)	(774)	(774)
Expenses on received deposits		
Current accounts	-	(1)
Term deposits	(73)	(43)
Other expenses	-	(4)
	(847)	**(822)**

27. Contingencies and commitments

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

	2013	2012
	HRK 000	*HRK 000*
Issued guarantees	6,748	5,915
Unused overdraft facilities	7,625	291
TOTAL	**14,373**	**6,206**
Identified provisions for off-balance-sheet exposure to credit risk (Note 22b)	(144)	(62)
TOTAL	**14,229**	**6,144**

Notes to the financial statements (continued)

28. Maximum exposure to credit risk and concentration of credit risk

a) Maximum exposure to credit risk

	Note	2013	Restated 2012
		HRK 000	*HRK 000*
Current accounts with the CNB and other banks	12	83,271	55,252
Obligatory reserve with the CNB and compulsory CNB bills	14	62,866	43,911
Placements with other banks	16	-	21,505
Financial assets available for sale	15a)	139,939	123,372
Financial investments held to maturity	15b)	70,683	51,318
Loans to and receivables from customers	17a)	462,232	258,318
Other assets	20	1,144	2,151
Total exposure to credit risk from balance-sheet items		**820,135**	**555,827**
Exposure to credit risk from off balance sheet items is as follows:			
Guarantees		6,748	5,915
Unused loans		7,625	291
Total exposure to credit risk from off-balance-sheet items	**27**	**14,373**	**6,206**
TOTAL		**834,508**	**562,033**

b) Concentration of credit risk

- Concentration of credit risk towards Central government

	Note	2013	Restated 2012
		HRK 000	*HRK 000*
Current account with the CNB	12	35,409	33,962
Obligatory reserve with the CNB and compulsory CNB bills	14	62,866	43,911
Treasury bills issued by Ministry of Finance available for sale	15a)	64,359	78,665
Bonds issued by Republic of Croatia available for sale	15a)	55,352	43,491
Financial investments held to maturity	15b)	12,160	10,114
Loans		-	93
Income tax prepayment		302	302
Other receivables		108	54
Impairment allowance		(1,108)	(445)
TOTAL		**229,448**	**210,147**

The impairment allowance presented in the above table relates to general provision calculated on the related balances, which is in these financial statements offset against loans to and receivables from customers and is presented for illustrative purpose only.

Aside from exposures towards central government, the maximum exposure to credit risk towards one customer (including groups of related parties) at the end of 2013 (*excluding off-balance-sheet risks*) amounted to HRK 23,800 thousand (2012: HRK 19,900 thousand).

Notes to the financial statements (continued)

29. Credit portfolio quality

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

Collateral and other security instruments

The amount and type of the necessary collateral depends on the 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
- Charges over movable property
- Guarantees.

As at 31 December 2013

	Neither past due nor impaired				
	Low-risk grades	**Standard and sub-standard grades**	**Past due but not impaired**	**Individually impaired**	**Total**
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Current accounts with banks (Note 12)	-	83,271	-	-	**83,271**
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	62,866	-	-	**62,866**
Financial assets available for sale	-	139,939	-	-	**139,939**
Financial investments held to maturity	-	70,274	409	-	**70,683**
Loans to and receivables from customers	**-**	**422,343**	**9,043**	**30,846**	**462,232**
* retail	-	283,750	2,058	13,804	299,612
* corporate	-	138,593	6,985	17,042	162,620
TOTAL	**-**	**778,693**	**9,452**	**30,846**	**818,991**

29. Credit portfolio quality (continued)

Analysis of neither past due nor impaired loans

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*
Current accounts with banks	-	55,252	-	-	**55,252**
Obligatory reserve with the CNB	-	43,911	-	-	**43,911**
Placements with other banks	-	21,505	-	-	**21,505**
Financial assets available for sale	-	123,372	-	-	**123,372**
Financial investments held to maturity	-	50,548	770	-	**51,318**
Loans to and receivables from customers	**-**	**222,462**	**4,101**	**31,755**	**258,318**
* retail	-	172,952	3,128	13,162	189,242
* corporate	-	49,510	973	18,593	69,076
TOTAL	**-**	**517,050**	**4,871**	**31,755**	**553,676**

Analysis of past due but not impaired loans:

As at 31 December 2013

	Due up to 30 days	Due 31 - 90 days	Due 91 – 180 days	Due 181-365 days	Due 1 to 2 years	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Loans to and receivables from customers	6,571	2,373	89	5	5	**9,043**
Financial investments held to maturity	-	409	-	-	-	**409**
Total	**6,571**	**2,782**	**89**	**5**	**5**	**9,452**

As at 31 December 2012

	Due up to 30 days	Due 31 - 90 days	Due 91 – 180 days	Due over 181 days	Due 1 to 2 years	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Loans to and receivables from customers	1,795	1,990	295	21	-	**4,101**
Financial investments held to maturity	770	-	-	-	-	**770**
Total	**2,565**	**1,990**	**295**	**21**	**-**	**4,871**

Notes to the financial statements (continued)

30. Maturity profile of assets and liabilities

Assets and liabilities are allocated within time buckets according to their remaining contractual maturity period. Obligatory reserve is analysed according to the time buckets of the funds representing the base for its calculation.

As at 31 December 2013 *HRK 000*

ASSETS	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 3 years**	**Over 3 years**	**Total**
Cash and current accounts with banks	120,001	-	-	-	-	**120,001**
Obligatory reserve with CNB and compulsory CNB bills	9,178	5,433	25,390	21,859	1,006	**62,866**
Financial assets available for sale	315	16,066	13,642	54,546	55,370	**139,939**
Financial investments held to maturity	11,507	19,875	39,301	-	-	**70,683**
Loans to and receivables from customers	34,400	108,885	41,238	87,964	189,745	**462,232**
Property, plant and equipment	-	-	-	-	10,851	**10,851**
Intangible assets	-	-	-	-	15,521	**15,521**
Foreclosed assets	-	-	-	-	597	**597**
Income tax prepayment	-	-	-	-	302	**302**
Other assets	1,144	-	-	-	-	**1,144**
TOTAL ASSETS	**176,545**	**150,259**	**119,571**	**164,369**	**273,392**	**884,136**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	16	-	-	2,000	-	**2,016**
Current accounts and deposits from customers	115,572	68,423	319,758	213,252	12,679	**729,684**
Liabilities for preference shares	774	-	-	-	9,679	**10,453**
Provisions for liabilities and charges	-	-	-	-	223	**223**
Other liabilities	7,288	7	33	184	1	**7,513**
Deferred tax liability	-	-	-	112	-	**112**
TOTAL LIABILITIES	123,650	68,430	319,791	215,548	22,582	**750,001**
EQUITY						
Issued share capital	-	-	-	-	192,025	**192,025**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	-	-	-	449	**449**
Accumulated loss	-	-	-	-	(60,476)	**(60,476)**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**134,135**	**134,135**
TOTAL LIABILITIES AND EQUITY	**123,650**	**68,430**	**319,791**	**215,548**	**156,717**	**884,136**
MATURITY GAP	**52,895**	**81,829**	**(200,220)**	**(51,179)**	**116,675**	**-**

Notes to the financial statements (continued)

30. Maturity profile of assets and liabilities (continued)

As at 31 December 2012 as restated *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	over 3 years	Total
Cash and current accounts with banks	76,290	-	-	-	-	**76,290**
Obligatory reserve with CNB and compulsory CNB bills	3,937	3,627	21,315	14,799	233	**43,911**
Placements with other banks	21,505	-	-	-	-	**21,505**
Financial assets available for sale	784	37,338	42,544	-	42,706	**123,372**
Financial investments held to maturity	10,106	12,784	28,428	-	-	**51,318**
Loans to and receivables from customers	11,823	2,214	19,422	41,255	183,604	**258,318**
Property, plant and equipment	-	-	-	-	12,667	**12,667**
Intangible assets	-	-	-	-	14,633	**14,633**
Foreclosed assets	-	-	-	-	578	**578**
Income tax prepayment	-	-	-	-	302	**302**
Other assets	2,151	-	-	-	-	**2,151**
TOTAL ASSETS	**126,596**	**55,963**	**111,709**	**56,054**	**254,723**	**605,045**
LIABILITIES						
Current accounts and deposits from customers	44,760	41,231	242,321	168,243	2,653	**499,208**
Liabilities for preference shares	774	-	-	-	9,679	**10,453**
Provisions for liabilities and charges	-	-	-	-	745	**745**
Other liabilities	7,682	-	-	-	-	**7,682**
Deferred tax liability	-	-	-	-	-	
TOTAL LIABILITIES	**53,216**	**41,231**	**242,321**	**168,243**	**13,077**	**518,088**
EQUITY						
Issued share capital	-	-	-	-	117,028	**117,028**
Legal and other reserves	-	-	-	-	3,622	**3,622**
Fair value reserve	-	-	-	-	5,160	**5,160**
Accumulated loss	-	-	-	-	(38,853)	**(38,853)**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**86,957**	**86,957**
TOTAL LIABILITIES AND EQUITY	**53,216**	**41,231**	**242,321**	**168,243**	**100,034**	**605,045**
MATURITY GAP	**73,380**	**14,732**	**(130,612)**	**(112,189)**	**154,689**	**-**

Notes to the financial statements (continued)

31. Exposure to foreign currency risk

Foreign currency structure of the balance sheet is presented in the following tables:

As at 31 December 2013 ***HRK 000***

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	61,647	1,329	6,485	934	49,606	**120,001**
Obligatory reserve with CNB and compulsory CNB bills	10,746	-	-	-	52,120	**62,866**
Financial assets available for sale	128,983	1,142	-	-	9,814	**139,939**
Financial investments held to maturity	1,323	-	-	-	69,360	**70,683**
Loans to and receivables from customers	396,938	15,084	18,322	-	31,888	**462,232**
Property, plant and equipment	-	-	-	-	10,851	**10,851**
Intangible assets	-	-	-	-	15,521	**15,521**
Foreclosed assets	-	-	-	-	597	**597**
Income tax prepayment	-	-	-	-	302	**302**
Other assets	-	-	-	-	1,144	**1,144**
TOTAL ASSETS	**599,637**	**17,555**	**24,807**	**934**	**241,203**	**884,136**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	-	-	-	-	2,016	**2,016**
Current accounts and deposits from customers	559,203	17,550	25,922	61	126,948	**729,684**
Liabilities for preference shares	-	-	-	-	10,453	**10,453**
Provisions for liabilities and charges	-	-	-	-	223	**223**
Other liabilities	43	-	-	-	7,470	**7,513**
Deferred tax liability	-	-	-	-	112	**112**
TOTAL LIABILITIES	**559,246**	**17,550**	**25,922**	**61**	**147,222**	**750,001**
EQUITY						
Issued share capital	-	-	-	-	192,025	**192,025**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	-	-	-	449	**449**
Accumulated loss	-	-	-	-	(60,476)	**(60,476)**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**134,135**	**134,135**
TOTAL LIABILITIES AND EQUITY	**559,246**	**17,550**	**25,922**	**61**	**281,357**	**884,136**
NET ASSETS/ LIABILITIES AND EQUITY	**40,391**	**5**	**(1,115)**	**873**	**(40,154)**	**-**

Notes to the financial statements (continued)

31. Exposure to foreign currency risk (continued)

As at 31 December 2012 as restated *HRK 000*

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	19,736	4,074	9,436	800	42,244	**76,290**
Obligatory reserve with CNB and compulsory CNB bills	8,300	-	-	-	35,611	**43,911**
Placements with other banks	21,505	-	-	-	-	**21,505**
Financial assets available for sale	107,400	1,215	-	-	14,757	**123,372**
Financial investments held to maturity	4,392	-	-	-	46,926	**51,318**
Loans to and receivables from customers	224,699	15,917	12,572	-	5,130	**258,318**
Property, plant and equipment	-	-	-	-	12,667	**12,667**
Intangible assets	-	-	-	-	14,633	**14,633**
Foreclosed assets	-	-	-	-	578	**578**
Income tax prepayment	-	-	-	-	302	**302**
Other assets	-	-	-	-	2,151	**2,151**
TOTAL ASSETS	**386,032**	**21,206**	**22,008**	**800**	**174,999**	**605,045**
LIABILITIES						
Current accounts and deposits from customers	378,226	20,893	21,001	77	79,011	**499,208**
Liabilities for preference shares	-	-	-	-	10,453	**10,453**
Provisions for liabilities and charges	-	-	-	-	745	**745**
Other liabilities	-	-	-	-	7,682	**7,682**
Deferred tax liability	-	-	-	-	-	**-**
TOTAL LIABILITIES	**378,226**	**20,893**	**21,001**	**77**	**97,891**	**518,088**
EQUITY						
Issued share capital	-	-		-	117,028	**117,028**
Legal and other reserves	-	-		-	3,622	**3,622**
Fair value reserve	-	-		-	5,160	**5,160**
Accumulated loss	-	-		-	(38,853)	**(38,853)**
TOTAL EQUITY	**-**	**-**		**-**	**86,957**	**86,957**
TOTAL LIABILITIES AND EQUITY	**378,226**	**20,893**	**21,001**	**77**	**184,848**	**605,045**
NET ASSETS/ LIABILITIES AND EQUITY	**7,806**	**313**	**1,007**	**723**	**(9,849)**	**-**

31. Exposure to foreign currency risk (continued)

Sensitivity of profit and loss to exchange rate fluctuations

The table below represents sensitivity of the profit or loss to exchange rate fluctuations. The effect of exchange rate fluctuations is presented using VaR (value-at-risk - 500 observations and 99% confidence level) on the currencies for which the Bank has significant exposures as follows:

Currency risk	2013	2012
Maximum overall open foreign currency position including options (% of the regulatory capital)	22.77%	7.51%
Open FX position including options in u EUR (% of the regulatory capital)	22.14%	6.52%
Open FX position including options in u USD (% of the regulatory capital)	0.05%	0.99%
VaR (EUR) / open FX position of the Bank in EUR (% of the regulatory capital)	0.16%	0.18%
VaR (USD) / open FX position of the Bank in EUR (% of the regulatory capital)	0.81%	1,00%

32. Exposure to interest-rate risk

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

				2013
Currency	Changes in interest rate	Sensitivity of profit or loss to interest rate movements	Changes in interest rate	Sensitivity of profit or loss to interest rate movements
		HRK 000		***HRK 000***
HRK	100 bp	(225)	200 bp	(449)
EUR	100 bp	6,323	200 bp	12,646
Other	100 bp	1,125	200 bp	2,250
TOTAL		**7,223**		**14,447**

				2012
Currency	Changes in interest rate	Sensitivity of profit or loss to interest rate movements	Changes in interest rate	Sensitivity of profit or loss 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		**1,507**		**3,015**

32. Exposure to interest-rate risk (continued)

Analysis of loans by type of interest rate

	As at 31 December 2013		As at 31 December 2012	
	Interest rate type			
	Fixed	Variable	Fixed	Variable
Assets	59.25%	40.75%	27.96%	72.04%
Liabilities	93.68%	6.32%	94.58%	5.42%

33. Risk and capital management

Note 33 complements notes 28 to 32, whereby note 33 provides general risk management policies and principles, notes 28 to 32 provide quantitative disclosures of exposure to various risks.

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 minimise 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 operations. Credit risk arises from the inability of the other party to service their liabilities as they fall due. 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 collateral. The Bank has established a Risk Assessment and Measurement Unit, (within the Risk Management Department) in charge of regular 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 lending policies.

In measurement of credit risk of loans and advances to customers and banks, the Bank uses three major factors:

(i) the creditworthiness;
(ii) regular settlement of contractual obligations;
(iii) the quality of collateral, as explained below.

Notes to the financial statements (continued)

33. Risk and capital management (continued)

b) Credit risk (continued)

i) The Bank assesses creditworthiness using internal rating tools. They have been developed internally and combine statistical and empirical analysis based on loan officers' judgment, and if required, they are assessed in comparison with available external data. Placements with customers are divided into three categories of evaluation: fully recoverable 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 receivable.

(iii) The quality of the collateral is determined by marketability, protection of legal documentation and the possibility of enforcing collection.

The Bank manages, limits and controls concentrations of credit risk wherever they are 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 a group of related parties, and industrial segments. Limits on the level of credit risk by industry sectors are regularly reviewed.

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 to enable timely identification of such placements and calculation of impairment losses.

c) Liquidity risk

Liquidity risk represents the risk that the Bank will not be able to settle its liabilities as they fall due, and finance or liquidate assets on the basis of acceptable prices. The Bank's lending portfolio is fully covered with customer deposits, which significantly decreases the liquidity risk and ensures funding flexibility.

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

The Bank prepares strategies in order to ensure that the needs of the Bank for cash funds in certain currencies are covered. The Bank's strategy is oriented towards ensuring adequate liquidity level which meets both estimated and unforeseen needs for cash funding. In case of an unforeseen need for cash funds, the Bank could take actions such as control of the Bank's credit activity, withdrawal of the available lines of credit and other necessary measures.

33. Risk and capital management (continued)

c) Liquidity risk (continued)

The Bank manages its assets and sources of funding taking into consideration financial flows, cash flows and concentrations, all with the aim of matching the cash inflows and outflows of the Bank. Such management includes the identification of known, expected and potential cash outflows 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 and monitoring limits as well as reporting on their utilisation.

Liquidity risk management is achieved by operational short-term liquidity management and long-term liquidity management.

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

d) Market risk

- *Foreign currency risk* mainly arises from transactions in EUR, USD and CHF, or linked to EUR, USD, CHF and to a lesser extent, other currencies.

Control and mitigation of foreign currency risk is implemented by monitoring foreign currency deposit and simultaneous contracting of loans with foreign currency clause. Foreign currency risk is controlled on a daily basis, according to regulatory, but also internally determined limits of certain currencies.

The Bank directs its business activities trying to minimise gaps between assets and liabilities denominated in foreign currency directly or with foreign currency clauses. The Bank manages its assets and liabilities by maintaining the alignment of certain foreign currency assets and liabilities in order optimize the risk and profitability relationship due to currency movements.

- *Interest rate risk* is the risk of change of the prices of financial assets available for sale as a result of the changes in interest rates. Interest rate risk is controlled through monitoring the interest rate sensitivity of assets and liabilities.

Risk management activities are mainly 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, which carry variable and /or fixed rates and / or reprice at a different time and it is monitored using the analysis of mismatch between assets and liabilities.

The objective of interest rate risk management is to ensure an optimal and stable net interest margin. In accordance with its asset and liability management policy, the Bank monitors the mismatch between assets and liabilities in the statement of financial position, using various the criteria for possible change of interest rate. The calculation represents the amount of changes in the value of equity resulting from simultaneous changes in interest rates by 100 basis points (stress test 200 basis points). The above amount should be within 10% change of economic value of regulatory capital.

Notes to the financial statements (continued)

33. Risk and capital management (continued)

e) Capital management

The primary goals of the Bank related to equity management are alignment with all legal capital requirements, by concurrently retaining sufficient capital adequacy for the purpose of supporting business activity, in order to maximise the value for shareholders.

The Bank manages the structure of equity and adjusts it to the market conditions and risks arising from its business activity.

The Bank's regulatory capital is divided into two types:

- Tier 1 capital: issued ordinary and preference share capital (less the carrying amount of treasury shares), reserves formed from profit after tax, capital gains and reserves for treasury shares.
- Tier 2 capital: additional own funds.

The table below summarises the composition of regulatory capital and ratios of the Bank:

	Unaudited 31 December 2013	**Unaudited 31 December 2012**
	HRK 000	***HRK 000***
Regulatory capital		
Issued share capital	201,704	126,707
Reserves – legal	2,137	2,137
Reserves for general banking risks	-	711
Capital gains	-	-
Retained earnings	-	67
Losses in previous years	(37,368)	(8,123)
Loss for the year	(23,108)	(29,249)
Total qualifying capital of the bank	**143,365**	**92,250**
Adjustment for intangible assets	(12,680)	(13,385)
Total regulatory capital	**130,685**	**78,865**
Risk-weighted assets		
Credit risk-weighted assets	588,274	364,799
Exposure to operational risk	51,886	51,701
Exposure to currency risk	31,386	7,522
Total risk weighted assets	**671,546**	**424,022**
Capital adequacy ratio	**19.46%**	**18.60%**

The minimum statutory capital adequacy ratio at the reporting date and as of 31 December 2012 was 12%.

f) Operational risk management

Operational risk represents risk of loss due to inadequate or unsuccessful internal processes, employees or due to external events.

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

34. Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

Cash and balances with Croatian National Bank

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

Placements with other banks

Placements with other banks are stated at amortised cost. The fair value calculated by discounting the expected future flows of principal and interest is not significantly different from their book 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 taking into account 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. It is not possible for the Bank to estimate the difference between the effect of the unidentified impairment losses calculated in accordance with the 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 the fair value of expected future losses which would reduce future cash flows.

Financial investments held to maturity

The fair value of financial investments held to maturity, in the opinion of the Management Board, also approximates their book value, given that these are short – term unquoted instruments.

Deposits from banks and customers

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

34. Fair value (continued)

Determination of fair value and fair value hierarchy

The Bank uses the 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 2013 and 2012.

Financial assets	LEVEL 1 *HRK 000*	LEVEL 2 *HRK 000*	LEVEL 3 *HRK 000*	2013 TOTAL *HRK 000*
Financial assets available for sale				
Local Government bonds	55,352	-	-	**55,352**
Local corporate bonds	-	1,142	-	**1,142**
Local treasury bills	-	64,359	-	**64,359**
Foreign treasury bills	-	19,086	-	**19,086**
Total financial assets	**55,352**	**84,587**	**-**	**139,939**

Financial assets	LEVEL 1 *HRK 000*	LEVEL 2 *HRK 000*	LEVEL 3 *HRK 000*	Restated 2012 TOTAL *HRK 000*
Financial assets available for sale				
Local Government bonds	43,491	-	-	43,491
Local corporate bonds	-	1,215	-	1,215
Local treasury bills	-	78,666	-	78,666
Total financial assets	**43,491**	**79,881**	**-**	**123,372**

35. Restatement of previously presented amounts

Note a)

In previous years the Bank presented receivables for interest within other assets, and according to the new presentation in 2013, the Bank presents this within the positions in which the related financial assets are reported. This reclassification resulted in a decrease of other assets by HRK 2,611 thousand on 31 December 2012 (1 January 2012: HRK 2,860 thousand) as previously reported and increase of:

- Placements with other banks by HRK 120 thousand at 1 January 2012
- Financial assets available for sale by HRK 796 thousand (1 January 2012: HRK 797 thousand)
- Financial investments held to maturity HRK 63 thousand at 1 January 2012
- Loans and advances to customers by HRK 1,815 thousand (1 January 2012: HRK 1,880 thousand)

These reclassifications did not have any effect on the loss for 2012 or accumulated loss on 1 January 2012 or 31 December 2012.

Note b)

Deferred fees from loans that form part of effective interest rate, were previously presented within other liabilities in the amount of HRK 3,328 thousand on 31 December 2012 (1 January 2012: HRK 955 thousand) and have been reclassified to loans to and receivables from customers, in the amount of HRK 3,278 thousand kuna on 31 December 2012 (1 January 2012: HRK 905 thousand) and financial investments held to maturity in the amount of HRK 50 thousand on 31 December 2012 (1 January 2012: HRK 50 thousand).
These reclassifications did not have an effect on profit for 2012 or accumulated loss on 1 January 2012 or 31 December 2012.

Note c)

In previous years the Bank presented deposits in categories demand for deposits and term deposits. According to the revised presentation in 2013 which is aligned with the customary presentation of financial statements of financial institutions, the Bank presents deposits in separate categories for current accounts and deposits from banks and financial institutions and for current accounts and deposits from customers. This reclassification resulted in the revised presentation of:

- current accounts of and deposits from banks and financial institutions of HRK 11 thousand at 1 January 2012
- current accounts and deposits from customers in the amount of HRK 499,208 thousand on 31 December 2012 (1 January 2012: HRK 474,204 thousand)

This reclassification did not have an effect on the loss for 2012 or accumulated loss on 1 January 2012 or 31 December 2012.

Note d)

In previous years the Bank presented the fair value reserve as a part of other reserves in equity. The Bank changed the presentation in 2013 to present the fair value reserve as a separate position in equity which is in line with good financial reporting practice. This reclassification resulted in a decrease of other reserves by HRK 5,160 thousand on 31 December 2012 (1 January 2012: HRK 1,020 thousand).
This reclassification did not have an effect on the loss for 2012 or accumulated loss on 1 January 2012 or 31 December 2012.

35. Restatement of previously presented amounts (continued)

Note e)

In previous years the Bank presented liabilities for interest within other liabilities, but according to the new presentation adopted in 2013 the Bank now presents them within the positions in which the related financial liabilities are reported. This reclassification resulted in a decrease of other liabilities by HRK 12,625 thousand on 31 December 2012 (1 January 2012: HRK 13,459 thousand) and increase of current accounts and deposits from customers for the same amount.

Note f)

In line with requirements of IAS 32 the Bank reclassified preference shares with guaranteed dividends from equity to financial liabilities, changing also the accounting policy for the related dividend, from previously presenting it as an appropriation in equity to interest expense in profit or loss. This resulted in a decrease of the Bank’s equity by HRK 9,679 thousand on 31 December 2012 (1 January 2012: HRK 9,679 thousand) in respect of principal and HRK 774 thousand (2012: HRK 774 thousand) in respect of the related interest (guaranteed dividend) followed by an increase in the same amount for liabilities for preference shares and an increase of the related interest expense of HRK 774 thousand (2012: HRK 774 thousand) in respect of the related interest accrual.

Notes to the financial statements (continued)

35. Restatement of previously presented amounts (continued)

HRK '000	Notes	Previously presented	Effect of change in accounting policy for preference shares	Effect of reclassification	Restated 31 December 2012	As previously presented	Effect of change in accounting policy for preference shares	Effect of reclassification	Restated 1 January 2012
ASSETS									
Cash and current accounts with banks		76,290	-	-	76,290	119,852	-	-	119,852
Obligatory reserve with Croatian National Bank and compulsory CNB bills		43,911	-	-	43,911	43,571	-	-	43,571
Placements with other banks	a)	21,505	-	-	21,505	15,242	-	120	15,362
Financial assets available for sale	a)	122,576	-	796	123,372	86,564	-	797	87,361
Financial investments held to maturity	a), b)	51,368	-	(50)	51,318	26,851	-	13	26,864
Loans to and receivables from customers	a), b)	259,781	-	(1,463)	258,318	220,639	-	975	221,614
Property, plant and equipment		12,667	-	-	12,667	8,323	-	-	8,323
Intangible assets		14,633	-	-	14,633	1,830	-	-	1,830
Foreclosed assets		578	-	-	578	892	-	-	892
Income tax prepayment		302	-	-	302	1,069	-	-	1,069
Other assets	a)	4,762	-	(2,611)	2,151	4,087	-	(2,860)	1,227
TOTAL ASSETS		**608,373**	**-**	**(3,328)**	**605,045**	**528,920**	**-**	**(955)**	**527,965**
LIABILITIES									
Current accounts and deposits from banks and financial institutions	c)	-	-	-	-	-	-	11	11
Current accounts and deposits from customers	c)	486,583	-	12,625	499,208	460,756	-	13,448	474,204
Provisions for liabilities and charges		745	-	-	745	338	-	-	338
Liabilities for preference shares	f)	-	10,453	-	10,453	-	10,453	-	10,453
Other liabilities	b), e)	23,635	-	(15,953)	7,682	22,052	-	(14,414)	7,638
Deferred tax liability		-	-	-	-	-	-	-	-
Total liabilities		**510,963**	**10,453**	**(3,328)**	**518,088**	**483,146**	**10,453**	**(955)**	**492,644**
EQUITY									
Share capital		126,707	(9,679)	-	117,028	51,228	(9,679)	-	41,549
Legal and other reserves	f), d)	8,008	774	(5,160)	3,622	2,602	-	1,020	3,622
Accumulated loss	f)	(37,305)	(1,548)	-	(38,853)	(8,056)	(774)	-	(8,830)
Fair value reserve	d)	-	-	5,160	5,160	-	-	(1,020)	(1,020)
Total equity		**97,410**	**(10,453)**	**-**	**86,957**	**45,774**	**(10,453)**	**-**	**35,321**
TOTAL LIABILITIES AND EQUITY		**608,373**	**-**	**(3,328)**	**605,045**	**528,920**	**-**	**(955)**	**527,965**

Notes to the financial statements (continued)

35. Restatement of previously presented amounts (continued)

	Notes	2012 as previously presented *HRK 000*	Effect of change in accounting policy for preference shares *HRK 000*	Restated 2012 *HRK 000*
Interest and similar income		40,650	-	40,650
Interest expense and similar charges	f)	(20,015)	(774)	(20,789)
Net interest income		**20,635**	**(774)**	**19,861**
Fee and commission income		6,730	-	6,730
Fee and commission expense		(2,005)	-	(2,005)
Net fee and commission income		**4,725**	**-**	**4,725**
Realised gain/(loss) from financial assets available for sale		(106)	-	(106)
Net gains from translation of monetary assets and liabilities and foreign exchange spot trading		3,038	-	3,038
Other income		458	-	458
		3,390	**-**	**3,390**
Total income		**28,750**	**(774)**	**27,976**
Depreciation and amortisation		(2,209)	-	(2,209)
Staff costs		(21,174)	-	(21,174)
Other administrative expenses		(20,456)	-	(20,456)
Total general and administrative expenses		**(43,839)**	**-**	**(43,839)**
Impairment losses and provisions		(14,160)	-	(14,160)
LOSS BEFORE TAX		**(29,249)**	**(774)**	**(30,023)**
Income tax expense		-		-
LOSS FOR THE YEAR		**(29,249)**	**(774)**	**(30,023)**
LOSS PER SHARE (in HRK)		**(968.63)**	**(123.63)**	**(1,092.26)**

36. Events after the reporting date

According to the Decision of the Extraordinary General Assembly as of 19 March 2014, issued share capital of the Bank was increased by HRK 38,209 thousand, paid in cash.

Appendix 1 – Supplementary schedules for CNB

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

Supplementary schedules for the CNB prepared pursuant to the above Decision are presented below along with the reconciliation of the supplementary schedules for CNB with the statutory financial statements, prepared in accordance with the accounting regulations applicable for banks in Croatia.

INCOME STATEMENT for the period 01.01.2013. to 31.12.2013.

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
1. Interest income	**048**	40,649,860	49,289,183
2. (Interest expense)	**049**	-21,313,033	-22,437,357
3. Net interest income	**050**	19,336,827	26,851,826
4. Fee and commission income	**051**	6,730,092	6,280,335
5. (Fee and commission expense)	**052**	-2,004,907	-1,831,454
6. Net fee and commission income	**053**	4,725,185	4,448,881
7. Gain/(losses) from investment in subsidiaries, associates and joint ventures	**054**	0	0
8. Gains/(losses) from trading activities	**055**	3,141,778	3,691,407
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 financial assets	**058**	-105,681	4,944,602
12. Gains/(losses) from activties related to held to maturiry 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 equity investments	**062**	0	0
16. Gains/(losses) from foreign exchange differences	**063**	-104,386	558,181
17. Other income	**064**	457,670	1,133,759
18. Other expenses	**065**	3,820,630	3,579,447
19. General administrative expenses and depreciation	**066**	39,906,347	45,930,530
20. Net income from operations before impairment and other provisions (050+053 to 064-065-066)	**067**	-16,275,584	-7,881,321
21. Impairment losses and provisions	**068**	13,747,300	15,227,008
22. PROFIT/(LOSS) BEFORE TAX	**069**	-30,022,884	-23,108,329
23. INCOME TAX	**070**	0	0
24. PROFIT/(LOSS) FOR THE PERIOD	**071**	-30,022,884	-23,108,329

Appendix 1 – Supplementary schedules for CNB

BALANCE SHEET AS AT 31.12.2013.
Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
ASSETS			
1. Cash and deposits with CNB (002+003)	001	98,911,710	130,238,528
1.1.Cash	002	21,038,057	36,730,159
1.2.Deposits with the CNB	003	77,873,653	93,508,369
2. Deposits with banking institutions	004	42,795,314	47,861,228
3. MF treasury bills and CNB bills	005	78,664,628	69,126,053
4. Securities and other financial instruments held for trading	006	0	0
5. Securities and other financial instruments available for sale	007	43,911,038	74,457,873
6. Securities and other financial instruments held to maturity	008	51,367,795	70,960,419
7. Securities and other financial instruments which are not actively traded, but are designated at fair value throught profit or loss	009	0	0
8. Derivative financial assets	010	17,985	0
9. Loans to financial institutions	011	3,426,771	0
10. Loans to other clients	012	256,658,818	467,742,929
11. Investments in subsidiaries, associates and joint ventures	013	0	0
12. Foreclosed assets	014	577,898	597,407
13. Tangible assets (net of depreciation)	015	12,666,533	10,851,211
14. Interest, fees and other assets	016	19,374,631	20,042,368
A) TOTAL ASSETS (001+004 to 016)	017	608,373,121	891,878,016
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 (022 to 024)	021	486,541,285	715,640,181
2.1. Giro and current accounts	022	14,511,286	23,068,989
2.2. Saving deposits	023	10,335,135	19,783,316
2.3. Term deposits	024	461,694,864	672,787,876
3. Other borrowings (026+027)	025	241,007	208,074
3.1. Short-term borrowings	026	0	0
3.2. Long-term borrowings	027	241,007	208,074
4. Liabilities arising from derivatives and other liabilities held for trading	028	0	0
5. Issued debt securities (030+031)	029	0	0
5.1. Short-term issued debt securities	030	0	0
5.2. Long-term issued debt securities	031	0	0
6. Issued subordinate instruments	032	0	0
7. Issued hybrid instruments	033	0	0
8. Interest, fees and other liabilities	034	34,633,219	41,894,480
B) TOTAL LIABILITIES (018+021+025+028+029+032+033+034)	035	521,415,511	757,742,735
EQUITY			
1. Share capital	036	117,028,600	192,025,400
2. Profit (loss) for the year	037	-30,022,884	-23,108,331
3. Retained earnings/(loss)	038	-8,829,936	-37,367,957
4. Legal reserves	039	2,137,362	2,137,362
5. Statutory and other capital reserves	040	1,485,152	0
6. Unrealised gain/(loss) on value adjustments of assets available for	041	5,159,316	448,807
7. Hedge accounting reserves	042	0	0
C) TOTAL EQUITY (036 to 042)	043	86,957,610	134,135,281
D) TOTAL LIABILITIES AND EQUITY (035+043)	044	608,373,121	891,878,016

Appendix 1 – Supplementary schedules for CNB

CASH FLOW STATEMENT - Indirect method in the period from 01.01.2013. to 31.12.2013.
Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
OPERATING ACTIVITIES			
1. Cash flow from operating activities before changes in operating assets (002 to 007)	**001**	-15,746,707	-1,725,561
1.1. Profit / (loss) before tax	**002**	-30,022,884	-23,108,329
1.2. Impairment	**003**	12,067,347	15,227,008
1.3. Depreciation	**004**	2,208,830	6,155,760
1.4. Net unrealised profit/(loss) from financial assets and liabilities at fair value through income statement	**005**	0	0
1.5. (Gains) / losses from sale of tangible assets	**006**	0	0
1.6. Other (gains)/losses	**007**	0	0
2. Net (increase)/decrease in operating assets (009 to 016)	**008**	-69,308,685	-264,212,459
2.1. Deposits with CNB	**009**	-3,686,045	-20,401,617
2.2. MF treasury bills and CNB bills	**010**	-28,622,519	14,305,476
2.3. Deposits with banking institutions	**011**	32,690,122	-5,065,914
2.4. Loans to other clients	**012**	-49,865,662	-222,802,206
2.5. Securities and other financial instruments held for trading	**013**	0	0
2.6. Securities nad other financial instruments available for sale	**014**	-7,388,501	-30,546,835
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**	-12,436,080	298,637
3. Net increase/(decrease) in operating liabilities (018 to 021)	**017**	28,616,762	237,052,013
3.1. Current accounts	**018**	-2,732,128	8,557,703
3.2. Saving accounts and time deposits	**019**	28,539,856	220,541,193
3.3. Derivative financial liabilities and other financial liabilities held for sale	**020**	-5,236	0
3.4. Other liabilities	**021**	2,814,270	7,953,117
4. Net cash flow from operating activities before tax (001+008+017)	**022**	-56,438,630	-28,886,007
5. Paid income tax	**023**	0	0
6. Net cash inflow / (outflow) from operating activities (022+023)	**024**	-56,438,630	-28,886,007
INVESTMENT ACTIVITIES			
7. Net cash flow from investing activities(026 to 030)	**025**	-31,023,877	-24,900,960
7.1. Cash receipts from (payments to acquire) tangible and intangible assets	**026**	-6,238,283	-5,308,336
7.2. Cash receipts from the disposal of (payments for the investment in) subsidiaries, associates and joint ventures	**027**	0	0
7.3. Cash receipts from sales of (cash payments to acquire) securities and other financial instruments held until maturity	**028**	-24,785,594	-19,592,624
7.4. Dividends received	**029**	0	0
7.5. Other receipts from(payments for) investments	**030**	0	0
FINANCIAL ACTIVITIES			
8. Net cash flow from financing activities (032 to 037)	**031**	80,854,248	69,479,069
8.1. Net increase / (decrease) in received loans	**032**	-30,587	-32,933
8.2. Net increase / (decrease) of issued debt securities	**033**	0	0
8.3. Net increase / (decrease) of subordinated and hybrid instruments	**034**	0	0
8.4. Proceeds from issue of share capital	**035**	75,479,400	74,996,800
8.5. (Dividends paid)	**036**	-774,288	-774,289
8.6. Other proceeds(payments) from financing activities	**037**	6,179,723	-4,710,509
9. Net increase / (decrease) of cash and cash equivalents (024+025+031)	**038**	-6,608,259	15,692,102
10. Effect of exchange differences on cash and cash equivalents	**039**	0	
11. Net increase / (decrease) of cash and cash equivalents (038+039)	**040**	-6,608,259	15,692,102
12. Cash and cash equivalents at the beginning of the year	**041**	27,646,316	21,038,057
13. Cash and cash equivalents at the end of the year(040+041)	**042**	21,038,057	36,730,159

Appendix 1 – Supplementary schedules for CNB

STATEMENT OF CHANGES IN EQUITY in the period from 1.1.2013 to 31.12.2013
Amounts in HRK

Position name	AOP code	Atributable to shareholders of the Bank						Minority interest	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	4	5	6	7	8	9	10	11
Balance ate 1 January 2013	**001**	126,707,200	0	2,848,514	-8,055,936	-29,248,884	5,159,316	0	97,410,210
Changes in accounting policies and errors	**002**	-9,678,600		774,000	-774,289	-774,000			-10,452,889
Restated balance at 1 January 2013 (001+002)	**003**	117,028,600	0	3,622,514	-8,830,225	-30,022,884	5,159,316	0	86,957,321
Disposal of available-for-sale portfolio	**004**								
Change in fair value of available-for-sale portfolio	**005**						-4,710,509		-4,710,509
Deferred tax on movements in fair value reserve of available-for-sale portfolio	**006**								
Other gains/losses directly recognised in equity	**007**								
Net gains/losses directly recognised in equity (004+005+006+007)	**008**	0	0	0	0	0	-4,710,509	0	-4,710,509
Profit/loss for the perriod	**009**					-23,108,331			-23,108,331
Total recognised income and expenses for 2013 (008+009)	**010**	0	0	0	0	-23,108,331	-4,710,509	0	-27,818,840
Increase/decrease of share capital	**011**	74,996,800							74,996,800
Acquisition/disposal of treasury shares	**012**								
Other movements	**013**			-1,485,152	1,485,152				0
Transfer to reserves	**014**				-30,022,884	30,022,884			0
Dividends paid	**015**								
Distribution of profit (014+015)	**016**	0	0		-30,022,884	30,022,884	0	0	0
Balance at 31 December 2013 (003+010+011+012+013+016)	**017**	192,025,400	0	2,137,362	-37,367,957	-23,108,331	448,807	0	134,135,281

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1

a) Comparison of profit and loss account

Statutory financial statements		Supplementary schedules for CNB				
Position name	**Amount in HRK '000**	**Position name**	**AOP code**	**Amount in HRK '000**	**Difference**	**Explanation of difference**
Interest and similar income	49,288	1. Interest income	**048**	49,289	- 1	Rounding difference
Interest expense and similar charges	- 21,660	2. Interest expense	**049**	- 22,438	778	HRK 1.552 thousand kuna of deposit insurance is presented within Other administrative expenses in statutory financial statements and for CNB reporting within "Interest expense" (Note a1). HRK 774 thousand relates to expense of dividends on preferance shares is presented within "General administrative expenses and depreciation" for CNB reporting (Note a2).
Fee and commission income	6,280	4. Fee and commission income	**051**	6,280	-	
Fee and commission expense	- 1,831	5. Fee and commission expense	**052**	- 1,831	-	
		7. Gain/(losses) from investment in subsidiaries, associates and joint ventures	**054**	-	-	
					-	
Net gains from translation of monetary assets and liabilities and foreign exchange spot trading	4,250	8. Gains/(losses) from trading activities	**055**	3,691	559	Foreign exchange differences in relation to dealing with foreign currencies reclassified to Gains and losses from foreign exchange differences (Note b)
		9. Gains/(losses) from embedded derivatives	**056**	-	-	
		10. Gains/(Losses) from assets which are not traded, but are designated at fair value value through profit or loss	**057**	-	-	
Realised gain/(loss) from financial assets available for sale	4,945	11. Gains/(losses) from activities related to available for sale financial assets	**058**	4,945	-	
		12. Gains/(losses) from activties related to held to maturiry investments	**059**	-	-	
		13. Gains/(Losses) from hedging transactions	**060**	-	-	
		14. Income from investments in subsidiaries, associates and joint ventures	**061**	-	-	
		15. Income from equity investments	**062**	-	-	
		16. Gains/(losses) from foreign exchange differences	**063**	558	- 558	Refer to Note b above
Other income	794	17. Other income	**064**	1,134	- 340	HRK 340 thousand kuna relates to revenue from reversal of provision for court cases which is presented in line Impairments and provisions in statutory financial statements (Note c).
		18. Other expenses	**065**	- 3,579	3,579	HRK 3,579 thousand relates to marketing and other expenses which are presented withn Other administrative expenses in statutory financial statements (Note d).
Depreciation and amortisation	- 6,156	19. General administrative expenses and depreciation	**066**	- 45,930	39,774	Refer to Note a1 above, Note a2 above, Note d above, also separate presentation of staff cost in the CNB supplementary schedules.
Staff costs	- 25,755				- 25,755	
Other administrative expenses	- 17,884				- 17,884	
Impairment losses and provisions	- 15,379	21. Impairment losses and provisions	**068**	- 15,227	- 152	Refer to Note c above. This position does not include impairment of propery and equipment for the purpose of the CNB reporting.
PROFIT (LOSS) BEFORE TAX	**- 23,108**	**22. PROFIT/(LOSS) BEFORE TAX (067-068)**	**069**	**- 23,108**	**0**	
Income tax expense	-	**23. INCOME TAX**	**070**	-	-	
LOSS FOR THE YEAR	**- 23,108**	**24. PROFIT/(LOSS) FOR THE PERIOD (069-070)**	**071**	**- 23,108**	**0**	

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1

b) Comparison of statement of financial position

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
ASSETS		**ASSETS**				
Cash and current accounts with banks	120,001	1.1.Cash	**002**	36,730	83,271	Current account with the CNB and current accounts with other bank for the CNB reporting included in Deposits with CNB and Deposits with banking institutions.
Obligatory reserve with Croatian National Bank and compulsory CNB bills	62,866	1.2.Deposits with the CNB	**003**	93,508	-30,642	CNB supplementary schedules also include current account with the CNB presented in Cash and current accounts with banks for the statutory reporting. CNB mandatory treasury bills excluded.
		2. Deposits with banking institutions	**004**	47,861	-47,861	Current accounts at banks are presented in Cash and current accounts with banks in Statutory financial statements.
Placements with other banks	-					
Financial assets available for sale	139,939	3. MF treasury bills and CNB bills	**005**	69,126	70,813	Financial assets available for sale includes investment in treasury bills in the amount of HRK 64,359 thousand which are included in position "MF treasury bills and CNB bills" for CNB schedules and investment in bonds presented in position " Securities and other financial instruments available for sale" in the amount of 74,458 thousand kuna. Also, HRK 1,121 thousand of receivable for interest is presented within the same line, while for CNB presentation it is included in position "Interest, fees and other assets". 1 is rounding difference. Also, CNB compulsory bills in the amount of HRK 4,767 thousand are presented wthin Obligatory reserve with Croatian National Bank and compulsory CNB bills for Statutory reporting, and for CNB reporting they are included in position "MF treasury bills and CNB bills" (Note a)
		4. Securities and other financial instruments held for trading	**006**	-	0	
		5. Securities and other financial instruments available for sale	**007**	74,458	-74,458	
Financial investments held to maturity	70,683	6. Securities and other financial instruments held to maturity	**008**	70,961	-278	Note a
		7. Securities and other financial instruments which are not actively traded, but are designated at fair value throught profit or loss	**009**	-	0	
		8. Derivative financial assets	**010**	-	0	
		9. Loans to financial institutions	**011**	-	0	
Loans to and receivables from customers	462,232	10. Loans to other clients	**012**	467,743	-5,511	Note a
		11. Investments in subsidiaries, associates and joint ventures	**013**	-	0	
Foreclosed assets	597	12. Foreclosed assets	**014**	597	0	
Property, plant and equipment	10,851	13. Tangible assets (net of depreciation)	**015**	10,851	0	
Intangible assets	15,521	14. Interest, fees and other assets	**016**	20,042	-4,521	
Income tax prepayment	302				302	Note a
Other assets	1,144				1,144	
TOTAL ASSETS	**884,136**	**A) TOTAL ASSETS (001+004 do 016)**	**017**	**891,877**	**-7,741**	

Note a: interest receivable and the related deferred fees added to relevant principal balances in the statutory financial statements.

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1

b) Comparison of statement of financial position (continued)

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
LIABILITIES		**LIABILITIS**		-	0	
		1.1. Short-term borrowings	**019**	-	0	
		1.2. Long-term borrowings	**020**	-	0	
Current accounts and deposits from banks and financial institutions	2,016	2.1. Giro and current accounts	**022**	23,069	-21,053	
Current accounts and deposits from customers	729,684	2.2. Saving deposits	**023**	19,783	709,901	Note b
		2.3. Term deposits	**024**	672,788	-672,788	
		3.1. Short-term borrowings	**026**	-	0	
		3.2. Long-term borrowings	**027**	208	-208	Liability for financial leasing is included in Other liabilities in statutory financial statements.
		4. Liabilities arising from derivatives and other liabilities held for trading	**028**	-	0	
					0	
		5.1. Short-term issued debt securities	**030**	-	0	
		5.2. Long-term issued debt securities	**031**	-	0	
		6. Issued subordinate instruments	**032**	-	0	
		7. Issued hybrid instruments	**033**	-	0	
Liabilities for preference shares	10,453			1	10,452	Separate presentation in the statutory financial statements.
Provisions for liabilities and charges	223	8. Interest, fees and other liabilities	**034**	41,893	-41,670	Note b and separate presentation of preference shares.
Other liabilities	7,513				7,513	
Deferred tax liability	112				112	
Total liabilities	**750,001**	**B) TOTAL LIABILITIES**	**035**	**757,742**	**-7,741**	
					0	
EQUITY		**EQUITY**		-	0	
Issued share capital	192,025	1. Share capital	**036**	192,025	0	
Accumulated loss	- 60,476	2. Profit/(loss) for the year	**037**	- 23,108	-37,368	Loss for the year is a separate line of equity for CNB reporting.
		3. Retained earnings/(loss)	**038**	- 37,368	37,368	
Legal and other reserves	2,137	4. Legal reserves	**039**	2,137	0	
		5. Statutory and other capital reserves	**040**	-	0	
Fair value reserve	449	6. Unrealised gain/(loss) on value adjustments of assets available for sale	**041**	449	0	
		7. Hedge accounting reserves	**042**	-	0	
Total equity	**134,135**	**C) TOTAL EQUITY (036 do 042)**	**043**	**134,135**	**0**	
TOTAL LIABILITIES AND EQUITY	**884,136**	**D) TOTAL LIABILITIES AND EQUITY (035+043)**	**044**	**891,877**	**-7,741**	

Note b: interest payable and the related deferred fees added to relevant principal balances in the statutory financial statements.

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1

c) Comparison of cash flow statement

Cash for CNB reporting includes only cash in hand, while in statutory financial statements it includes also current accounts at other banks and deposits with maturity up to 3 months which are classified as deposits at banks for CNB reporting. Other differences arise from different classification of items of statement of financial position for statutory reporting and CNB reporting as well as elimination of non-cash transactions from movements for statutory financial reporting purposes..

d) Comparison of statement of changes in equity

In statutory financial statements loss for the year and accumulated loss are both included in accumulated loss, while they are separately presented for CNB reporting.

e) Restatement

CNB reporting was also restated in line with the statutory financial statements restatement for the presentation of preference shares (Note 35). Other restatements carried out in the statutory financial statements have not been carried out for the purpose of the CNB reporting.