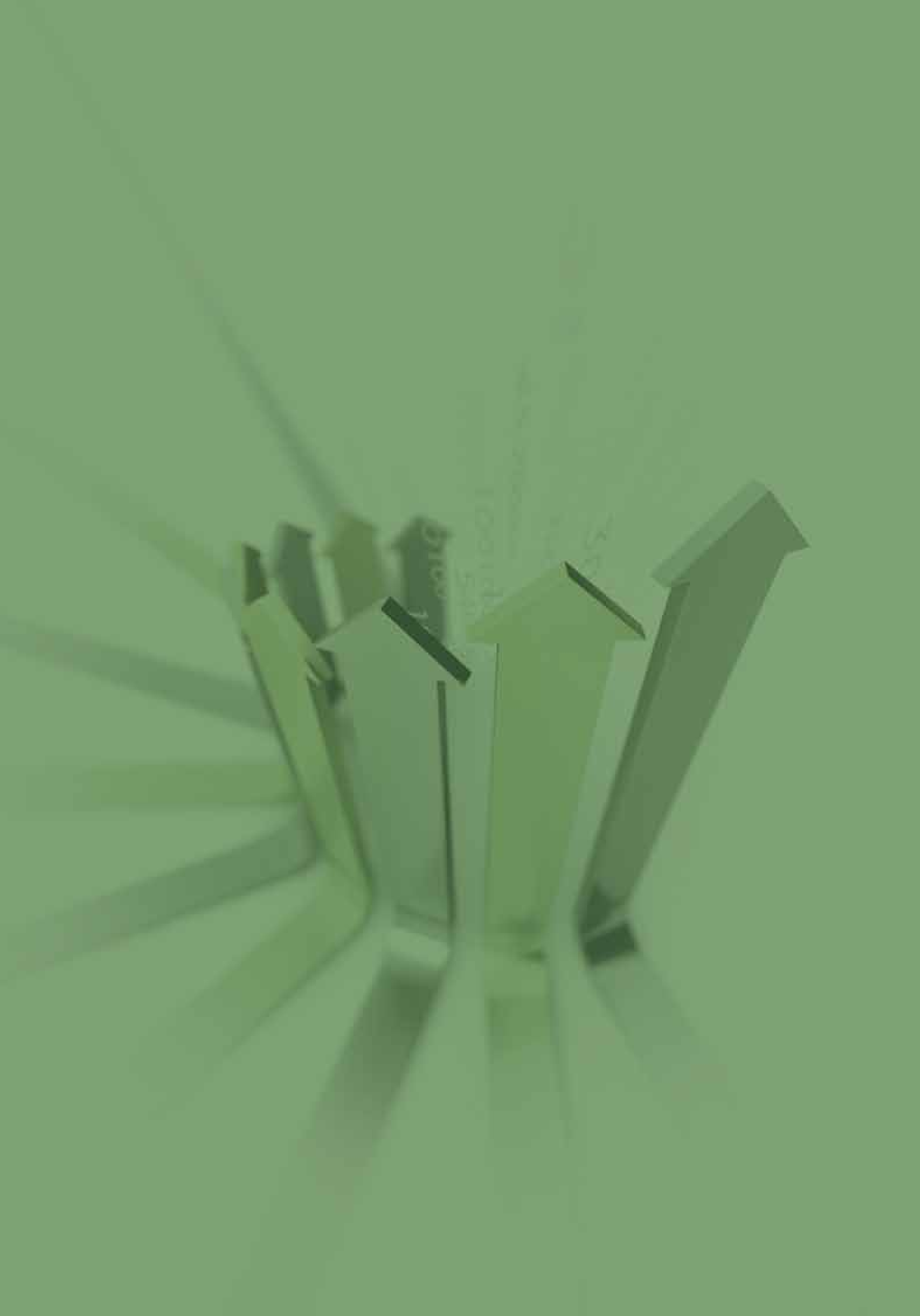
ANNUAL REPORT 2012



Management Board Report on the status of the company

Dear customers and business partners,

The year 2012 was ushered with expectations and endeavours of the Government to meet the objectives such as new investments gaining momentum and necessary structural reforms. Unfortunately, the end of the year showed that negative economic trends in Croatia had not been reversed. Quite the opposite, first forecasts for trends in gross domestic product indicate that the largest drop was recorded in the last quarter of the year, while on the annual level a decrease in the economic activity was 2 percent. Moreover, the biggest downfall was in the field of investments, which should have been the main driving force of the economy, considering their direct and indirect effects, and in the fields of personal consumption and export, due to lower demand in the region. A deterioration of the economic activity and a failure to start new investments resulted in losing of jobs, and consequent surge of the unemployment rate and plunge of consumption. On top of that, the inflation rate was increasing, and the combination of those factors results in lower demand across the market, where lower credit demand is no exception given the lack of quality projects and creditworthy customers. The Croatian financial sector saw a drop of total assets and a drop of profit of as much as 27.6 percent in 2012. The trend of companies deleveraging and decreasing their deposits with banks continued. As for banks' lending activity, it grew mainly through funding of the government, whilst on the deposit side there was an increase in deposits of retail customers, central government, and financial sector, but excluding banks.

Bank's results and activities in 2012

Despite such bad aspects in our surroundings and adverse trends in the banking sector in general in 2012, OTP banka saw a growth of net profit after tax in the amount of HRK 100 million, which was an increase of 0.6 percent compared to the last year's result. The total assets grew by 4.2 percent owing to growth of customers' deposits and maintaining of the results achieved earlier. As for the structure of deposits brought to the bank, growth was seen across all segments of customers, with an especially notable impact on the increase of the market share of corporate deposits of 0.26 percent. Contrary to the general trend in the entire banking sector, on the lending side OTP banka also recorded a growth of the retail credit portfolio, in the segment of housing and non-specific purpose loans alike, upping its total retail loans market share by 0.14 percent. OTP banka did not experience as much corporate deleveraging as the banking sector in general, which resulted in an increase of its market share also in this segment by 0.16 percent.

OTP banka continued profitable and sound operations in 2012, with the net interest income growth of 2.7 percent, and the fee income growth of 11.8 percent, whilst the banking system recorded a drop in both segments. The net interest income grew despite the negative trend in the interest rate market as we managed to keep the total interest income and cut the interest expenses by 3.4 percent.

The fee income went up by 6.6 percent and the fee expenses were cut by 7.5 percent, unlike the system in general where the income dropped and the expenses increased.

Despite the inflation, our prudent management ensured that the operating costs grew by mere 0.5 percent. With such management, the bank realised ROaA of 0.77 percent (whilst the system was at the level of 0.68 percent) and the return on average equity (ROaE) of 6.86 percent, which is also higher than ROaE realised by the system (4.84 percent).

During 2012 the bank boasted good domestic and foreign currency liquidity, with the capital adequacy rate as per 31st December 2012 equalling 16.04 percent (accounting for the capitalisation of profit). In addition to the above, last year OTP banka invested into upgrades and development of new products, thus keeping in step with the progress in technology, new needs and habits of its customers, and in refurbishment of its branches and expanding of the ATM and EFTPOS network.

Furthermore, the bank was committed to accelerated development of new products and services, so we were the first in the market to introduce contactless MasterCard PayPass debit card. We were also the first bank to start sending PIN via SMS, and we enabled activation of m-token application for mobile devices.

A good result last year reflected a consistent strategy which is based on maintaining of stability and on innovations, as well as industrious work of our 1020 employees. In a dialogue with our employees we chose new corporate values and a new slogan. In addition, new vision and mission of the bank were defined. The poll on employee satisfaction showed proportionate increase in their satisfaction across almost all categories.

Beside standard banking, the bank has been offering a wide range of additional services and financial products. In this segment the most significant activity is that of OTP Invest, a company managing five investment funds of various risk profiles, thus catering for all customers who are looking for alternative forms of investment, and taking into account their risk appetite. Company OTP Nekretnine provides real estate agency services, real estate appraisal and leasing services. Both majority owned subsidiaries operated in 2012 profitably, according to expectations and their financial plans.

Corporate social responsibility

OTP banka has a developed corporate social responsibility system under the name "Green light to...". As a part of this programme the bank invited tenders for donations intended for projects within four different categories: the young, education and science; protection of cultural, historic and traditional heritage and environmental protection; humanitarian projects and sports. Total of 30 projects were chosen because of their quality and evident contribution they would make to the society in general, and especially to the community directly involved. Projects with proven excellent results, innovative and creative approach, and especially valuable for sensitive social groups, were awarded the sum of HRK 200,000. This public tender shows bank's commitment to long-term and transparent relationship with the communities amid which it operates.
Apart from the invitation to tenders for donations, as a part of its programme "Green light to knowledge" in 2012 OTP banka provided almost HRK 600,000 for scholarships, thus providing

a number of students with better education. This scholarship project intended for secondary school and university students of lower financial standing, which the bank has been implementing in cooperation with the interested counties, towns and municipalities where it operates, has already become a tradition. Over the last three years the bank provided over HRK 2 million in scholarships and other grants through this project, investing into education and better schooling conditions. The bank has been nurturing its relationship with the communities it operates in, building additional ties through partnership projects and enabling better quality of life to the citizens concerned. Taking part in humanitarian campaigns and supporting quality cultural, educational and environmental projects constitute important segments of bank's corporate focus. In 2012 the bank set aside almost HRK 4 million for such projects.

Plans for 2013

Bank's stability, safety and strong liquidity are the most prominent objectives for the year 2013. According to the forecasts, 2013 will be even more difficult than the last year. We expect an increase in unemployment, which could have an adverse impact on loan collection and on risk management costs, while the operating income is expected to stagnate at the last year's level. In 2013 we will introduce a new mobile banking service under the name OTP m-banking. This service will open a new chapter in our customer relations, especially resonating with young or highly mobile customers who want simple banking services that they can use on the move. Simultaneously with the m-banking application, we will offer two new packages – InterNet and MiniNet, designed for customers who prefer electronic channels. Indeed, this whole year will revolve around the cooperation with those customers.

We will also put more emphasis on small and medium entrepreneurs and processes established for managing of those customers in 2013. Organisational changes we introduced in 2012 should start bearing fruit already at the beginning of 2013.

This year we plan on continuing our investments into the development of the network through renovation and modernisation of our branches and ATMs.

Finally, on my behalf, on behalf of the Management Board, our employees and the complete OTP Group, I would like to extend my thanks to our customers and business partners for the trust shown. Special thank is due to our employees and their contribution to good business results.

Yours faithfully,

Balázs Békeffy
President of the Management Board

Corporate Governance Code

Zadar, December 2012

By virtue of the provisions of the Companies Act and the views of the Croatian National Bank, the Management Board of OTP banka Hrvatska d.d. by its decision No 2001-285-3.21/12 of 30th October 2012, adopted the following

CORPORATE GOVERNANCE CODE

1. OBJECTIVES AND BASIC PRINCIPLES

OTP banka Hrvatska d.d. (hereinafter: the Bank) as a credit institution is well aware of the importance of a responsible and ethics-based conduct of corporate entities as an essential prerequisite for developing high-quality relations and loyal competition between business partners as well as for efficient functioning of the market.

To this end, the Bank is developing its business activities and acting in accordance with the good corporate management practice. Moreover, it is trying, by way of its business strategy, business policy, key internal acts and business practice, to contribute to transparent and efficient business activities and better-quality relations with its business environment.

Bank's adequate corporate management includes:

1. clear organisational structure with well defined authorisations and responsibilities;
2. efficient activities for establishing, measuring and monitoring of the risks the Bank is or may be exposed to as well as related reporting activities;
3. adequate internal controls mechanisms which also involve prudent administrative and accounting procedures, the strategies and the procedures for a constant assessment and review of the figures, the structure and the distribution of the internal capital required as coverage for current and future risks;
4. fulfilment of general transparency requirements dictated by investors, clients, rating assessment agencies, supervisors and other counterparties;
5. meeting the obligations and the responsibilities towards the shareholders, the employees and other interested parties;
6. safe and stable business activities in accordance with law and regulations.

It is considered that a vital segment of the Bank's identity is responsible management, therefore the Bank's view is that good corporate management is realised not just by fully meeting the regulatory requirements but that is also derives from the corporate culture prevailing in the Bank and personal integrity of all Bank's employees.

Basic corporate management principles of the Bank are the following:

1. transparency of the business activities;
2. clearly elaborated operating procedures;
3. avoidance of the conflict of interest;
4. efficient internal control;
5. efficient responsibilities system.

Any interpretation of the provisions contained herein should be governed primarily by accomplishment of the mentioned objectives and adherence to the mentioned principles.

2. PUBLICATION

In addition to the data the Bank publishes as it is required to do so by laws and other regulations, the Bank shall also publish and thus make available to any interested party, pertinent information on its work and activities which primarily refers to financial statements given that they are the most important and the most complete source of information on the Bank and the Annual Report on the company's status.

If the Bank's shares are listed on the stock exchange and they are traded in on a regulated securities market, the Bank shall:

1. give notice of any change to the rights under issued shares or other issued securities;
2. publish any information it is familiar with in respect of the shares and other securities of the Bank that are owned by any member of the Supervisory Board or the Management Board;
3. make public any other information that may be regarded vital in relation to the Bank, its financial standing, operating results, the ownership structure and management;
4. publish all the information categories clearly and unambiguously and enable any interested party equal and timely access to such information;
5. publish instantly any information that may have an impact on the making of decisions on investments into shares and other securities of the Bank, covering equally the positive and the negative aspects, with a view to allowing the investor to understand and correctly assess the Bank's standing.

Publishing of information is carried out in the manner laid down in law or the Bank's Articles of Association, whereas the Bank also ensures that pieces of information are published on own web pages and over the Internet.

3. BODIES OF THE BANK

The bodies of the Bank ensuring that good corporate management practice is implemented are the ones stated below:

1. General Meeting
2. Supervisory Board
3. Management Board

3.1 GENERAL MEETING

The General Meeting is the body of the Bank whereby shareholders exercise their main management rights by passing decisions on the Bank's activities that fall under their competence. The decisions passed by the General Meeting are laid down in law and the Bank's Articles of Association.

General Meetings are called when necessary, but at least once a year, and whenever the interests of the company require so.

General Meetings shall be called by the Management Board.

General Meetings may be called by the Supervisory Board in cases prescribed by law, and whenever the Supervisory Board deems it necessary.

The General Meeting shall also be called if so requested by shareholders who separately or together hold no less than 1/20 (One Twentieth) of the Bank's share capital providing that the Management Board has been notified about the purpose of the General Meeting.

Shareholders decide on their rights and obligations at the General Meeting in accordance with law and the Articles of Association.

Shareholders must meet the conditions prescribed by law and the Articles of Association in order to participate in the work of the General Meeting.

Each share, except for those not carrying the right to vote, entitles the shareholder to one vote, in proportion to the nominal value of each share.

The Bank issues shares made out to a name, and depending on the rights they carry they are either regular or preferential.

The Bank shall treat and accord equal conditions to all shareholders regardless of the number of shares they hold. The Bank shall equally accord same treatment to the investors notwithstanding the nature of the investor i.e. individual or institutional investors.
The General Meeting shall make its decisions by votes given by the shareholders present in person or by proxy at the General Meeting.

The General Meeting shall have a quorum if shareholders representing at least 50% (Fifty per cent) of the total share capital of the Bank are present (either in person or represented by proxy).

The General Meeting shall make decisions by a simple majority of the votes, except when deciding on the matters that require a certain necessary majority determined by law and the Articles of Association.

The right of a shareholder to participate in the General Meeting and exercise his/her voting rights may be realised by proxy, a legal entity or a natural person.

A power of attorney shall be issued and verified in the form prescribed by the Management Board and certified by a Notary Public.

3.2 SUPERVISORY BOARD

The Supervisory Board shall supervise the management of the Bank. The competence of the Supervisory Board is laid down by law, the Articles of Association and other acts of the Bank.

It has authority to inspect the Bank's business books and all the Bank's documents and assets including cash and securities, which and when it deems necessary.

Supervisory Board members shall act in the Bank's interest, keep business and bank secrets and act with the due care of a good businessman.

The Supervisory Board members shall dedicate sufficient time to their obligations in the Bank and carry out activities based on complete and reliable information, whilst driven by good intentions.

The Supervisory Board shall have 7 members, one of whom is independent. The members of the Supervisory Board are elected by the General Meeting. The election of the Supervisory Board members is based on the acceptance or rejection of the proposed list of members as a whole. The members of the Supervisory Board shall elect the Chairman and the Deputy of the Supervisory Board among themselves.

The mandate of each Supervisory Board member is two years from the date of the General Meeting at which the member was elected.

The Supervisory Board members can be re-elected. The Supervisory Board's activities are carried out at its meetings.

The Supervisory Board's meetings are chaired by the Chairman of the Supervisory Board or the Deputy. The Supervisory Board shall make valid decisions if at least 4 (four) members attend the meeting. Each member of the Supervisory Board has one vote.

The Supervisory Board can pass decisions without convening a meeting, if votes are cast by a letter, phone, fax or by using other envisaged technical possibilities for that purpose, if none of the Supervisory Board members objects to such manner of voting.

The Supervisory Board shall have its own Rules of procedure whereby the arrangement of meetings, decision-making process, position of the committees and their authorities shall be governed.

The Management Board can perform particular types of business activities subject to prior consent of the Supervisory Board.

3.2.1 Audit Committee

In accordance with law, the Supervisory Board established the Audit Committee and appointed its members.

The authority of the Audit Committee is laid down in the provisions of the Audit Act and the Credit Institutions Act.
The work of the Audit Committee is laid down in detail in the Rules of procedure of the Audit Committee.

The Audit Committee shall always have uneven number of members.

3.3 MANAGEMENT BOARD

The Management Board is responsible for conducting the Bank's business. The Management Board acts jointly.

The Bank is represented individually and independently by the president of the Management Board and Management Board members. The Bank can be represented by procura holder providing that he/she acts jointly with a Management Board member.

The Management Board consists of 3 (Three) to 5 (Five) members appointed by the Supervisory Board, subject to prior consent of the Croatian National Bank.

Any person who meets the requirements of the Companies Act and the Credit Institutions Act can be appointed a member of the Management Board.

Members of the Management Board are appointed for a period not longer than 5 (Five) years and may be re-elected. When appointing Management Board members, it shall be attempted that they possess the following characteristics:

- experience in banking operations management
- developed organisational skills
- experience in detection and monitoring of risks and dealing with crisis situations
- knowledge of accounting and finance
- familiarization with Bank's business scope
- understanding of domestic and international money market
- ability to incorporate all the interests within the Bank
- personality that contributes to the realisation of the Bank's objectives
- knowledge of good corporate management practice
- strategic vision.

The Management Board shall unanimously adopt the Rules of Conduct of the Management Board, subject to prior consent of the Supervisory Board.

The scope of the Management Board's activities and responsibilities includes the activities in line with law, the Articles of Association and the Rules of Conduct of the Management Board.

During his/her term of office, no member of the Management Board shall without prior written consent of the Supervisory Board:

a) take or have employment, mandate or engagement with any other company or bank,
b) in his/her own name and on his/her own behalf directly or indirectly be concerned or interested in business activities which are related to the Bank's business

activities;

c) take or have membership in any limited liability company/partnership.
d) directly or indirectly own, conduct, contract, invest or acquire shares, engage or take part in some other way in any business activity or enterprise, which would represent competition to activities of the Bank.

4. RELATIONS BETWEEN THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND THE COMPANY

The Management Board and the Supervisory Board shall establish the strategic goals and the corporate values of the Bank and familiarize all the employees therewith.

The Management Board shall adopt the strategy and the risk policy, subject to prior consent of the Supervisory Board.

The Bank shall ensure a reasonable, transparent and documented decision-making procedure and see to that assigning of responsibilities and competences within the Bank is clear.

The Bank shall clearly define in writing the powers and key responsibilities of the Management Board, the Supervisory Board, the employees, committees and advisory bodies in the Bank.

The Management Board and the Supervisory Board shall cooperate in the best interest of the Bank as well as negotiate and come to a mutual agreement on the strategic features of the Bank's business activities.

The members of both the Management Board and the Supervisory Board shall avoid conflict of interest or a potential conflict of interest, including also spending of company funds for personal purposes and abuse of power with regard to transactions with related parties.

The Management Board shall timely and in full report to the Supervisory Board on all the facts and circumstances that may have an impact on the business activities, the financial standing and the balance of the Bank's assets and shall grant access to all the required data and the documents necessary to exercise their powers.

Members of the Management Board are entitled to remuneration for their work. The Supervisory Board shall sign contracts with members of the Management Board in order to regulate mutual rights and obligations.

Members of the Supervisory Board shall receive reward for their work in the amount decided by the General Meeting. The reward may be different for each member of the Supervisory Board, depending on the duties entrusted to them.

4.1 CONFLICT OF INTEREST

Conflict of interest exists in a member of the Supervisory Board, that is, a member of the Management Board who is not neutral in respect of the matter to be decided or it can be assumed on the grounds of his connection with other companies, persons or deals that his interests and inclinations do not necessarily correspond to Bank's interests.

Members of the Management Board and the Supervisory Board shall not pass decisions based on personal interests or the interests of the persons they are closely involved with.

All the activities the members of the Management Board or the Supervisory Board or their related parties and the Bank or its related parties are engaged in shall be market-based particularly as concerns deadlines, interest, guarantees etc.

All the contracts or agreements between a member of the Supervisory Board or a Management Board member and the Bank are subject to prior consent of the Supervisory Board.

4.2 PROHIBITION OF COMPETITION

Members of the Management Board i.e. the Supervisory Board shall not, for own or someone else's account, personally or through third parties carry out the activities under the Bank's scope nor shall they supply advice to the persons that may be deemed Bank's competition.

Moreover, members of the Management Board and the Supervisory Board shall not hold a significant stake in the companies that may be deemed Bank's competitors.

5. INDEPENDENT EXTERNAL AUDITOR

The Bank is aware of the importance and the role of the audit function for the success of the corporate management, the legality and the transparency in the performance of all business processes in the Bank.

One of the important corporate management factors is to contract an independent external auditor, which the Bank must do, with a view to ensuring that financial statements adequately reflect the actual and the overall situation in the Bank.

Before signing of the contract on audit of annual financial statement, or before passing of the decision on appointment of auditor, the external auditor is to deliver to the bank the auditor's independence declaration, in line with the Credit Institutions Act and the Audit Act.

The external auditor shall be deemed any auditor who is not related to the Bank by ownership or interests and does not provide, on its own or through related parties, any other service to the Bank.

The independent external auditor shall, as clearly and unambiguously as possible, give own opinion on whether the financial statements prepared by the Management Board adequately reflect the capital balance and the Bank's financial standing and assets as well as the results for the given period.

6. INTERNAL CONTROLS SYSTEM

The Bank shall ensure an adequate internal controls system which enables it to timely monitor and detect any material risk the Bank is or may be exposed to in the pursuit of its business activities.

The Management Board is responsible for developing and maintaining the system which allows for efficient business activities, adequate risk control, reliability of financial and other non-financial information as well as compliance of the Bank's business activities with laws, regulations and Bank's internal acts.

In addition to the members of the Management Board and the Supervisory Board, employees and all organisational units of the Bank partake in the implementation of the mentioned control measures which are directly or indirectly integrated into the business processes.

In the Bank the internal controls system is realised through three mutually independent functions:

1. risk monitoring function
2. compliance monitoring function
3. internal audit function.

When establishing the mentioned functions the Management Board shall adhere to the following principles:

1. all three functions must be co-independent;
2. each function independently and directly reports on its work to the persons and/or bodies in line with laws, regulations and Bank's internal acts;
3. the Management Board should employ sufficient number of the persons qualified to exercise the mentioned functions.

7. BUSINESS BOOKS AND FINANCIAL STATEMENTS

The Bank keeps business books and other business documentation and records, evaluates assets and liabilities, prepares and publishes annual financial statements and the Annual Report on the company's status as required by applicable regulations and professional standards.

The Bank keeps business books and other business documentation and records by applying a method by way of which it may be checked at any time whether the Bank operates in line with applicable regulations and professional standards.

8. RISKS

The Bank manages risks by implementing the procedures and the methods for detecting, measuring i.e. assessing, controlling and monitoring risks and also by reporting on the risks it is or may be exposed to in its business activities.

The Bank prescribes procedures, criteria and methods for measuring, assessing and managing of risks in its acts, in accordance with statutory regulations, standards and rules of profession.

Risk management includes continuous detection, measuring, assessing and reporting on all materially significant risks the Bank is or may be exposed to.

The risk policy is connected to the Bank's strategy and encompasses defining of the type and the level of risk the Bank is willing to assume in order to reach its business objectives.

The Bank possesses written policies and procedures relating to risk management which are updated and the implementation of which is controlled.

9. TRANSPARENT AND TIMELY REPORTING

The Bank publishes corporate management data and information which are based on statutory regulations and good practice.

The information being published must be true, relevant, timely and available so that all the interested parties' needs are met.

The Bank places special emphasis on transparent and timely reporting to both the Bank's clients and the Bank's shareholders, as well as to any other interested party.

10. STATEMENT ON ADHERING TO THE CORPORATE MANAGEMENT CODE

The Bank's shares are not traded in on a regulated securities market, that is to say, the shares are not listed on the stock exchange.

If the shares of the Bank are listed and traded in on a regulated securities market, the Management Board and the Supervisory Board shall ensure that the Management Board publishes the data laid down in Article 272 p of the Companies Act in a special section of the Annual Report on the company's status.

In accordance with Article 18 of the Accounting Act the Bank shall also introduce into the Annual Report on the company's status an overview of the corporate management rules it applies.

Summary of the Remuneration Policy of the OTP banka Hrvatska Group

Pursuant to the provisions of the Companies Act, the views of the Croatian National Bank on corporate governance in banks, and the relevant European Union directive according to which banks have limited freedom in creating of their remuneration schemes, by their Decision No. 2001-41/12 of 8th February 2012 the Management Board of OTP Banka Hrvatska d.d. Zadar adopted the Remuneration Policy of the OTP banka Hrvatska Group, which was confirmed by Supervisory Board Decision No. NO-11-3.13/12 of 23rd February 2012.

1. Purpose of the Policy

The purpose of the Policy is to recognise, to the extent of risk tolerance within the OTP Group, the efforts of the Bank's management and key executives, as well as of subsidiaries' managers, considering the performance on the level of the Bank and of the Group, and to support this by means of incentives.

2. Scope of the Remuneration Policy

The persons that the Remuneration Policy of the OTP banka Hrvatska Group relates to are the following:

- President of the Management Board of OTP banka Hrvatska d.d. and all the presidents of the management boards of the companies within the Bank's Group,

The Supervisory Board shall decide on the persons that the Remuneration Policy of the OTP banka Hrvatska d.d. Group relates to.

3. Manner of payment of performance-based remuneration

Considering their management structure, the complexity of their activities and their special market circumstances, the form of performance-based remuneration, which is founded on the principle of proportionality, shall be determined differently for each member of the OTP banka Hrvatska Group:

- In case of credit institutions, payment of performance-based remuneration shall be made by combining cash payment and shares of the parent bank, where the allocation of shares shall be subject to deferral.
- In case of investment funds and other companies involved on the basis of the scope of their activities, payment of performance-based remuneration shall be made in cash, without a deferral period.

4. Fixed remuneration to performance-based remuneration ratio

With respect to the persons covered by the Remuneration Policy of the OTP banka Hrvatska Group, remuneration shall consist of fixed and variable components. The ratio of those components shall be determined by the Bank's Supervisory Board with prior consent of the Bank's General Meeting, according to the function, size and complexity of the organization managed.

5. Criteria for performance appraisal

With respect to performance-based remuneration, evaluation of the performance (target, appraisal) in OTP Group members shall differ depending on the nature of respective company's activity. When it comes to OTP Group members belonging to various categories, the key performance appraisal criteria shall be defined as follows:

- In case of **credit institutions**, in addition to RORAC (return on risk-adjusted capital), the ratios applied to measuring of collection/ recovery of overdue receivables, revenue figures and individual targets can be used as appraisal criteria;

- In case of **investment funds management companies** - RORAC (return on risk-adjusted capital), calculated as follows: profit/loss of the company / capital requirements proportionate to the managed fund, calculated on the basis of international benchmarks.

Further performance indicators include the market share of the managed funds and the yield of the investment funds measured against the benchmark;

- In case of **factoring companies** the most essential appraisal criterion is the index measuring the success of collection;

- In case of **leasing companies** the return on assets (ROA) is the key appraisal criterion.

As for other members of OTP Group, the key performance appraisal criteria must ensure strengthening of financial management and market position, creating conditions for growth and sound operations.

6. Determining entitlement to performance-based remuneration

In respect of the year evaluated, the entitlement to performance-based remuneration and the extent thereof must be determined within 30 days following the regular annual General Meeting closing the year in question.

With respect to the persons covered by the Remuneration Policy of the OTP banka Hrvatska Group, the entitlement to performance-based remuneration and its amount shall be determined by the Supervisory Board with prior consent of the General Meeting.

7. Principles and rules concerning the payment of performance-based remuneration

- Upon assessing the performance for the year evaluated ("T year"), the amount of performance-based remuneration is broken down to the level of individuals. The amount of performance-based remuneration is determined in consideration of individual performance.

- Performance-based variable remuneration shall be paid out in the form of a cash bonus and shares allocated at preferential rates.

- The number of shares that can be allocated to a single person at preferential rate shall be computed in a way to divide the amount provided for such shares by the value of the preferential rate of a share at the time of performace assessment.

- The value of shares allocated at preferential rates at the time of performance assessment must be determined on the basis of the average daily mean quoted price of the ordinary shares issued by OTP Bank Nyrt, as registered by the Budapest Stock Exchange, on the three business days preceding the date of performance assessment.

- A portion of the share-based remuneration shall be deferred for a period of 3 years, where the rate of deferred payment shall be the same for each year.

- During the entire deferment period the impacts occurring meanwhile in connection with the activity of the persons covered by the Policy shall be considered, and depending on those the amount of the remuneration subject to deferred payment should be reduced as necessary.

- 50% of the first (non-deferred) shares allocated shall be retained for a period of 1 year.

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law and the Croatian Credit Institutions Act (NN, 117/08, 74/09, 153/09, 108/12), the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with the applicable legislation and regulatory requirements, which give a true and fair view of the financial position of OTP banka Hrvatska d.d. Zadar (the "Bank") and of the results of her operations, changes in equity and cash flows for that period.

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

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose, with reasonable accuracy at any time, the financial position of the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law and the Croatian Credit Institutions Act (NN, 117/08, 74/09, 153/09, 108/12). The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These financial statements were authorized for issue by the Management Board on 20 March 2013 and were therefore signed on its behalf as follows:

Balázs Békeffy
President of the Management Board

Zorislav Vidović
Member of the Management Board

OTP banka Hrvatska d.d.
Domovinskog rata 3
23 000 Zadar
Republic of Croatia

20 March 2013

Independent Auditor's report

TO THE SHAREHOLDERS OF OTP BANKA HRVATSKA D.D.:

We have audited the financial statements of OTP banka Hrvatska d.d. ("the Bank") which comprise the Statements of Financial position as at 31 December 2012 and the Statements of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements, set out on pages 4 to 72, give a true and fair view of the financial position of the Bank, respectively, as at 31 December 2012 and of their financial performances and their cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 73 to 82, which comprise the statement of financial position as of 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 4 to 72, but rather a requirement specified by the Decision. The financial information provided in those forms have been derived from the financial statements of the Bank.

Deloitte.

Deloitte d.o.o.

Branislav Vrtačnik

Certified Auditor

Zagreb, 20 March 2013

All amounts are expressed in thousands of HRK

Statements of comprehensive income

For the year ended 31 December 2012

	Note	2012	2011
Interest and similar income	3	725,422	725,112
Interest and similar expense	3	(300,794)	(311,518)
Net interest income		424,628	413,594
Fee and commission income	4	151,306	141,915
Fee and commission expense	4	(35,055)	(37,904)
Net fee and commission income		116,251	104,011
Net trading and valuation gains on financial instruments	5	32,347	164,545
Other operating income	6	9,213	16,949
Net trading and other income		41,560	181,494
Income before impairment and operating expenses		582,439	699,099
Impairment losses and provisions, net	8	(99,134)	(220,362)
Operating expenses	7	(355,701)	(353,926)
Profit before tax		127,604	124,811
Income tax	9a	(27,532)	(25,364)
Net profit for the year		100,072	99,447
Other comprehensive income			
Assets available for sale:			
Gain/(loss) of financial assets available for sale	28	48,411	(116,144)
Tax on items taken directly to or transferred from equity	9	(9,682)	23,229
		38,729	(92,915)
Total comprehensive income		138,801	6,532
EARNINGS PER SHARE			
- Basic and diluted (in HRK)	10	24,34	24,19

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

All amounts are expressed in thousands of HRK

Statements of financial position

As at 31 December 2012

	Note	2012	2011
ASSETS			
Cash and balances with the Croatian National Bank	11	1,840,382	1,483,434
Amounts due from other banks	12	614,821	1,069,818
Financial assets at fair value through profit or loss	13a	15,397	39,164
Amounts due from customers	14	8,573,921	8,659,478
Financial assets available for sale	15	1,774,195	1,079,668
Held-to-maturity investments	16	64,833	9,769
Investments in subsidiaries	17	72,858	82,430
Investment property	18	-	-
Property, plant and equipment	19	211,700	199,734
Intangible assets	20	31,699	41,434
Goodwill	21	42,966	42,966
Deferred tax assets	9c	3,104	11,643
Other assets	22	58,111	52,815
Total assets		13,303,987	12,772,353
LIABILITIES			
Amounts due to other banks	23	21,077	21,343
Amounts due to customers	24	10,670,752	10,320,047
Other borrowed funds	25	911,387	895,173
Financial liabilities at fair value through profit or loss	13b	2,096	505
Provisions	26	66,385	53,631
Current income tax	9d	7,947	6,459
Other liabilities	27	95,359	85,009
Total liabilities		11,775,003	11,382,167
SHAREHOLDERS' EQUITY			
Share capital	28	822,280	822,280
Share premium		171,260	171,260
Statutory and legal reserves	28	82,228	82,228
Other reserves	28	121,852	83,126
Retained earnings		331,364	231,292
Total shareholders' equity		1,528,984	1,390,186
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		13,303,987	12,772,353

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

All amounts are expressed in thousands of HRK

Statements of Changes in Equity

For the year ended 31 December 2012

	Share capital	Share premium	Legal and statutory reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2011	822,280	171,260	82,228	176,045	231,845	1,483,658
Changes in equity during 2011						
Net profit for the year	-	-	-	-	99,447	99,447
Other comprehensive income	-	-	-	(92,915)	-	(92,915)
Total comprehensive income	-	-	-	(92,915)	99,447	6,532
Dividend paid	-	-	-	-	(100,000)	(100,000)
Other movements (in the reserve funds for housing units)	-	-	-	(4)	-	(4)
Balance at 31 December 2011	822,280	171,260	82,228	83,126	231,292	1,390,186
Changes in equity during 2012						
Net profit for the year	-	-	-	-	100,072	100,072
Other comprehensive income	-	-	-	38,729	-	38,729
Total comprehensive income	-	-	-	38,729	100,072	138,801
Dividend paid	-	-	-	-	-	-
Other movements (in the reserve funds for housing units)	-	-	-	(3)	-	(3)
Balance at 31 December 2012	822,280	171,260	82,228	121,852	331,364	1,528,984

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

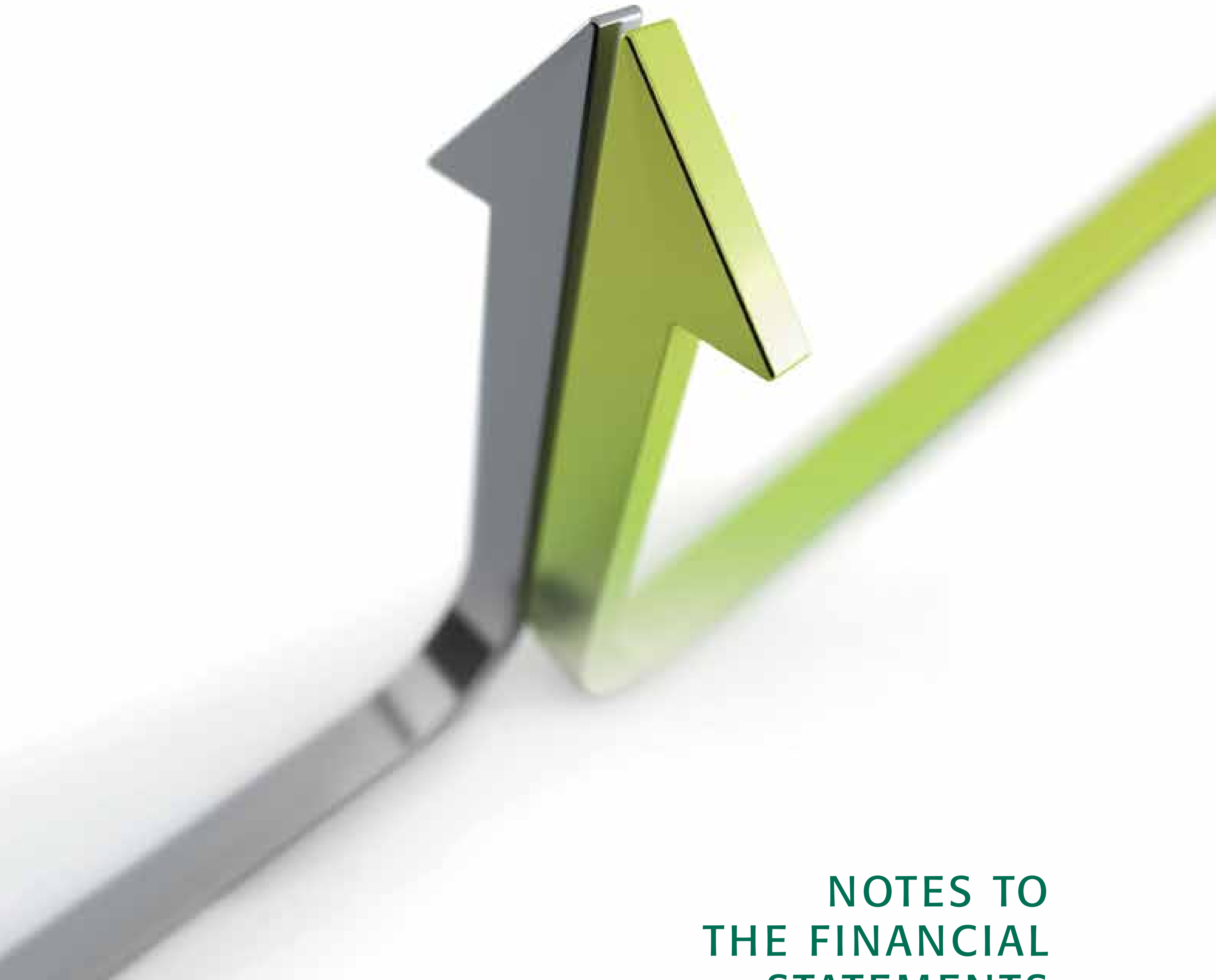
All amounts are expressed in thousands of HRK

Cash flow statements

For the year ended 31 December 2012

	Note	For the year ended 31 December 2012	
		2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxes		127,604	124,811
Adjustments to reconcile profit before taxes to net cash from operating activities			
Net impairment allowance on loans and receivables		82,081	195,950
Provisions for legal actions and off-balance sheet items		14,812	20,965
Depreciation and amortisation		34,956	37,596
Gain on disposal of property and equipment		(191)	(418)
Interest income		(725,422)	(725,112)
Interest expense		300,794	311,518
Realised loss/(gains) on assets available for sale		439	(113,357)
Operating income before changes in working capital		(164,927)	(148,047)
(Increase)/decrease in operating assets:			
Obligatory reserves with the CNB		4,006	(23,709)
Amounts due from other banks		-	(195)
Amounts due from customers		4,721	(250,708)
Assets at fair value through profit or loss		25,358	(16,110)
Assets available for sale		(656,237)	435,919
Other assets		2,020	(1,406)
Increase/(decrease) in operating liabilities:			
Amounts due to other banks		(266)	(289,728)
Amounts due to customers		350,705	313,308
Other liabilities		2,973	(14,774)
Net cash from operating activities before interest and income taxes paid		(431,647)	4,550
Income tax paid		(20,728)	(17,756)
Interests received		723,444	732,463
Interests paid		(298,816)	(316,034)
Net cash generated from / (used in) operating activities		(27,747)	403,223
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and investment property		36,996	(32,461)
Proceeds from sale of property, equipment and intangible assets and foreclosed assets		-	(435)
Decrease / (increase) in investments in subsidiaries		9,572	(1,040)
Proceeds from matured held to maturity securities		55,520	(8,870)
Net cash generated from investing activities		82,520	(42,806)
CASH FLOWS FROM FINANCING ACTIVITIES			
Paid dividend		-	(100,000)
Net increase/(decrease) in financial activities		16,214	96,774
Net cash from financing activities		16,214	(3,226)
Net increase/(decrease) in cash and cash equivalents		(94,053)	357,191
Cash and cash equivalents at beginning of year		1,555,873	1,198,682
Cash and cash equivalents at end of year	30	1,461,820	1,555,873

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



NOTES TO THE FINANCIAL STATEMENTS

All amounts are expressed in thousands of HRK

Notes to the financial statements

For the year ended 31 December 2012

1. GENERAL

The Bank is headquartered in Zadar, Domovinskog rata 3, and is incorporated in the Republic of Croatia as a joint stock company. The Bank provides retail and corporate banking services. The Bank is registered at the Commercial Court in Zadar, with the registered share capital in the amount of HRK 822,279,600 as at 31 December 2012 (2011: HRK 822,279,600).

The Bank's main areas of operation are as follows:

1. Foreign exchange operations in Croatia;
2. Domestic payment transactions;
3. Receipt of all types of deposits;
4. Issuance of all types of loans, opening of letters of credit, issuance of warranties and bank guarantees, and assuming other financial obligations;
5. Bill-of-exchange, cheque and deposit certificate operations for own account or on behalf of the Bank's customers;
6. Services related to securities (including brokerage and custody business);
7. Issuance and management of payment instruments (including cards);
8. Foreign credit operations and payment transactions;
9. Domestic payment operations.

Directors and Management

General Assembly	
Viktor Siništaj	President of the General Assembly

Supervisory Board	
Dr. Antal Pongrácz	President from 12 April 2012
Szabolcs Annus	Member from 12 April 2012
Balazs Fábián	Member from 12 April 2012
Branko Mikša	Member
Lászlo Kecskes	Member
Veronika Szabó	Member from 6 September 2012
Zsolt Szabő	Member
Antal Győrgy Kovács	President until 12 April 2012
Gábor Czikora	Member until 12 April 2012
Gábor Kovács	Member until 12 April 2012
Anita Szőrád	Member until 6 September 2012

Management Board	
Balazs Bekeffy	President
Helena Banjad	Member
Zorislav Vidović	Member
Slaven Celić	Member from 10 September 2012

All amounts are expressed in thousands of HRK

Shareholding structure

The shareholding structure of the Bank is as follows:

	31 December 2012		31 December 2011	
	Paid capital	Ownership %	Paid capital	Ownership %
OTP Bank Nyrt, Hungary	822,280	100.00	822,280	100.00
Total	822,280	100.00	822,280	100.00

2. ACCOUNTING POLICIES

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

2. Statement of compliance

These financial statements represent the separate, unconsolidated financial statements of the Bank. The Bank has not prepared consolidated financial statements, which would include the Bank and its subsidiaries (note 17) using the exemption available within International Accounting Standard 27 *Consolidated and Separate Financial Statements*, as both the Bank and its subsidiary are consolidated within the consolidated financial statements, prepared in accordance with IFRS, of the ultimate parent, OTP Bank NyRt, Hungary.

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. The Banking operations in Croatia are subject to the Credit Institutions Act (NN, 117/08, 74/09, 153/09, 108/12) in accordance with which the Bank's financial reporting is regulated by the Croatian National Bank ("the CNB") which is the central monitoring institution of the banking system in Croatia. These financial statements have been prepared in accordance with these banking regulations.

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

The CNB requires banks to recognise impairment losses, through profit and loss, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets at fair value through profit or loss and assets available for sale). The Bank has made portfolio based provisions of HRK 99.241 thousand (2011: HRK 100.038 thousand) carried in the statement of financial position in compliance with these regulations, and have recognised an income of HRK 797 thousand in relation to these provisions (2011: income of HRK 185 thousand). Although, in accordance with IFRS, such provisions should more properly be presented as an appropriation within equity. In accordance with CNB rules the Bank continues to recognise such provisions as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of IFRS. The Bank is in the process of compiling the observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at the statement of financial position date, determining the appropriate emergence period over which these losses come to light, and identifying, for each portfolio, the relevant current economic conditions with which the historical data should be adjusted, as a basis for estimating the extent of unidentified losses existing at the statement of financial position date on the basis required by IFRS.

A further difference between IFRS and the accounting regulations of the CNB relates to the determination of impairment losses by discounting the estimated cash flows of the impaired asset at the instrument's original effective interest rate. Contrary to IFRS, the amortisation of such discount should be recognised as a reversal of the impairment loss in accordance with local regulations, and not as interest income. Additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRS.

Management expects that unidentified impairment losses estimated on this basis will not exceed those required to be calculated in accordance with the accounting regulations of the CNB.

2.2 Basis of measurement and preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the consolidated statement of financial position 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 result of which form the basis for making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in the next year are discussed in Note 39.

The accounting policies have been consistently applied to all periods presented in these financial statements and are presented below. Accounting policies are unified for Bank except where emphasized.

These financial statements are prepared in HRK that is Bank functional currency.

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for:

- Amendments to IAS 1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009-2011 Cycle published in May 2012) (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets
- Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)

The Management Board has assessed the impact of these standards and has concluded that these changes do not have impact on the Bank's financial statements.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013),
- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 Disclosures of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013),
- IAS 19 (as revised in 2011) Employee Benefits (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (as revised in 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures(effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 Financial Instruments: Disclosures - Transfers of

Financial Assets (effective for annual periods beginning on or after 1 July 2013),
- Amendments to IAS 10 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013),

The Management Board has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of standards 7 and 9 will have significant impact on financial statements mostly in respect of financial instruments classification, while acceptance of other standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

2.3 Functional and presentation currency

Items included in the financial statements of Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Bank financial statements are presented in Croatian HRK ("HRK") which is the Bank's functional and presentation currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The principal rates of exchange set by the Croatian National Bank and used in the preparation of the Bank's statement of financial position at the reporting dates were as follows:

31 December 2012
1 EUR = HRK 7.545624 1 USD = HRK 5.726794

31 December 2011
1 EUR = HRK 7.530420 1 USD = HRK 5.819940

2.4 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss.

Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at statement of financial position date. The Bank does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 "Financial Instruments: Measurement and Recognition" ("IAS 39").

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

The Bank has certain assets and liabilities originated in HRK, which are linked to foreign currency with one-way currency clause. In accordance with this clause the Bank has an option to revalue relevant assets by the higher of the foreign exchange rate valid as of the date of maturity and foreign exchange rate valid as of the date of origination of the financial instrument. In the case of relevant liabilities the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia the fair value of this option cannot be calculated as forward rates for HRK for periods over 6 months are not available. The Bank therefore values its assets and liabilities governed by such clauses at the higher of the middle rate of the Croatian National Bank valid at the statement of financial position date and foreign exchange rate agreed by the option (rate valid at origination).

2.9 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Bank's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.10 Interest income and expense

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

Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments.

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

2.11 Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, granted loans and other credit instruments issued by the Bank.

Fees and commissions are generally recognized as income when due.

2.12 Employee benefits

Short-term service benefits

Obligations for contributions to defined contribution pension plans and other short-term benefits are recognised as an expense in the profit and loss as incurred.

Long-term service benefits

The Bank provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

2.13 Taxation

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

Current tax

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

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

2.14 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Croatian National Bank

('CNB'), current accounts with other banks and term placements with other banks with residual maturity up to 1 months.

Cash and cash equivalents exclude the obligatory reserves with the CNB, as these funds are not available for the Bank's day to day operations.

2.15 Financial instruments

Classification

The Bank classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, financial assets available for sale, held-to-maturity investments or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The management determines the classification of financial instruments upon initial recognition and, where appropriate, reviews this designation at every reporting date. Items are only classified as at fair value through profit or loss upon initial recognition. Items classified as at fair value through profit or loss are not reclassified.

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

This category has two sub-categories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit-taking, or designated as such by management.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at fair value through profit or loss include investments in the investment funds as well as derivatives.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Bank provides money to a debtor with no intention of trading with the receivable and include amounts due from other banks, loans to and receivables from customers, and the obligatory reserve with the Croatian National Bank. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Held-to-maturity investments

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 certain debt securities. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Available-for-sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities and units in open ended investment funds. Fair value is determined in the manner described in note 15. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not held for trading or designated at fair value through profit or loss. Other financial liabilities include amounts due to other banks, amounts due to customers and other borrowed funds.

Recognition and derecognition

Purchases and sales of financial instruments at fair value through profit or loss, held to maturity and available for sale are recognised on the settlement date, which is the date when the financial instrument is transferred from the Bank. Loans and receivables and other financial liabilities are recognised when advanced to borrowers or received from lenders.

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

Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Initial and subsequent measurement

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

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment. Debt securities that do not have a quoted market price in an active market are stated at cost of investment or indexed cost.

Loans and receivables and held-to-maturity investments and other financial liabilities are measured at amortised cost using the effective interest method.

Gains and losses

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the profit or loss.
Gains and 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 other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in the profit or loss. Dividend income is recognised in the profit or loss.

Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses are transferred to the profit or loss.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the profit or loss, when a financial instrument is derecognised or when its value is impaired.

Fair value measurement principles

The fair values of quoted investments are based on current closing bid prices. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Bank establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate. The fair value of non-exchange-traded derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and the current creditworthiness of the counterparties.

Reclassification of financial assets

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

2.16 Impairment of financial assets

Impairment of financial assets identified as impaired

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank. If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments 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 profit or loss. If a loan and receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Those individually significant assets which are not impaired are included in the basis for collective impairment assessment.

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, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

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 a reversal of impairment losses in the profit or loss.

Financial assets carried at fair value

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of other comprehensive income investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are 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 profit or loss. Impairment losses recognised in the profit or loss on equity securities are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

Financial assets carried at cost

These include equity securities classified as available for sale for which there is no reliable fair value. The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted by the current market interest rate for similar financial assets. Impairment losses on such instruments, recognised in the profit or loss, are not subsequently reversed through the profit or loss.

Impairment of financial assets not identified as impaired

In addition to the above described impairment losses on financial assets identified as impaired, the Bank recognises impairment losses, in income, on on- and off-balance sheet credit risk exposures not identified as impaired at rates from 0.85-1.20% in accordance with the accounting regulations of the CNB.

Debt securities at fair value through profit or loss were excluded from the basis of such calculation at the statement of financial position date.

2.17 Derivative financial instruments

The Bank uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Bank does not hold or issue derivative financial instruments for speculative trading purposes. No derivatives are accounted for as hedging instruments.

All derivatives are classified as financial instruments held for trading, within financial instruments at fair value through profit or loss. Derivative financial instruments including foreign exchange contracts, forward rate agreements and cross currency swaps are initially recognised in the statement of financial position and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

Changes in the fair value of derivatives are included in the profit or loss.

2.18 Sale of repurchase agreement

If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized, as the Bank retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the statement of financial position as originally classified or the Group reclassifies the asset on its statement of financial position as a repurchase receivable if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in amounts due to banks or amounts due to customers as appropriate.

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets due from banks or as loans and receivables as appropriate, with the corresponding decrease in cash being included in cash and balances with the Croatian National Bank.

The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

All amounts are expressed in thousands of HRK

2.19 Property, plant, equipment and intangible assets

Property, plant, equipment and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment loss, if any. Land and assets under construction are not depreciated.

Depreciation and amortization are calculated for all assets, except for land and assets under construction, under the straight line method at rates estimated to write off the cost of each asset to their residual values over their estimated useful life as follows:

	2012	2011
Buildings	10-40 years	10-40 years
Computers	4 years	4 years
Furniture and equipment	2.5-10 years	2.5-10 years
Motor vehicles	4 years	4 years
Intangible assets	3.3-15 years	3.3-15 years

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Repairs and renewals are charged to the profit or loss when the expenditure is incurred. Improvements are capitalised.

2.20 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. The investment property is subsequently measured at cost less depreciation expense and impairment losses, if for any.

2.21 Impairment of property, plant and equipment and intangible assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each statement of financial position date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

The recoverable amount of property, plant and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss in respect of goodwill is not reversed.

Non-financial assets other than goodwill that 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. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.22 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

2.23 Off-balance-sheet commitments

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

2.24 Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the statement of financial position date. Provisions are discounted to present value where the effect is material.

2.25 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements when the Bank acts in a fiduciary capacity such as nominee, trustee or agent. Fees earned by the Bank for such services are recognised as income when earned.

2.26 Issued share capital

Issued share capital represents the nominal value of paid-in ordinary and preference shares classified as equity and is denominated in HRK.

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

2.27 Treasury shares

When Bank purchases the Bank's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed of and classified as treasury shares. When such shares are subsequently sold or reissued, any consideration received net of transaction costs is included in equity attributable to the Bank's equity holders.

2.28 Retained earnings

Any profit for the year is retained after appropriations are transferred to reserves.

2.29 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

All amounts are expressed in thousands of HRK

3. NET INTEREST INCOME

	2012	2011
Interest and similar income		
Cash reserves and amounts due from other banks	12,264	11,819
Balances with Croatian National Bank	132	900
Corporate loans	185,875	196,162
Retail loans	445,651	458,647
Debt securities	81,500	57,537
Other	-	47
	725,422	725,112
Interest and similar expense		
Amounts due to retail customers	247,171	257,750
Amounts due to corporate customers	30,904	28,866
Other borrowed funds and amounts due to other banks	21,729	23,776
Other	990	1,126
	300,794	311,518

Included within various line items under interest income for the year ended 31 December 2012 is a total of HRK 24,955 thousand (2011: HRK 27,894 thousand) relating to impaired financial assets.

4. NET FEE AND COMMISSION INCOME

a) Net fee and commission income by source

	2012	2011
Fee and commission income		
Corporate customers	34,808	30,454
Banks	28,149	25,154
Retail customers	88,349	86,307
	151,306	141,915
Fee and commission expense		
Corporate customers	15,801	17,969
Banks	19,254	19,935
	35.055	37.904

b) Net fee and commission income per type of fee

	2012	2011
Fee and commission income		
Loans related fees and commissions	13,146	12,596
Credit card related fees and commissions	40,204	35,746
Domestic payment transaction related fees and commissions	39,060	39,180
Foreign payment transaction related fees and commissions	6,893	6,456
Guarantee related fees and commissions	3,959	4,155
Investment management, brokerage and consultancy fees	1,421	1,600
Other fees and commissions	46,623	42,182
	151,306	141,915
Fee and commission expense		
Credit card related charges	13,569	12,115
Domestic payment transaction related charges	8,910	10,102
Foreign payment transaction related charges	7,858	6,262
Other fees and commissions	4,718	9,425
	35,055	37,904

All amounts are expressed in thousands of HRK

5. NET TRADING AND VALUATION GAINS ON FINANCIAL INSTRUMENTS

	2012	**2011**
Net gains on foreign currency spot transactions	48,114	45,429
Realized gain on securities available-for-sale securities	(439)	113,357
Net (loss)/ gain on derivatives	(23,060)	12,493
Net gain/(loss) on translation of foreign currency assets and liabilities	7,732	(6,734)
	32,347	164,545

6. OTHER OPERATING INCOME

	2012	**2011**
Income from litigations	1,464	90
Income on closing of dormant accounts	19	67
Dividend income	33	124
Accrued profit under the collective insurance policy	104	5,129
Gains on sale and disposal of property and equipment	191	418
Awards from Visa and Mastercard	713	-
Sale of written-off inventory	308	42
Income generated from bankruptcy estate	-	297
Write off liabilities	230	257
Income from rentals	2.031	2,806
Income from write-offs of previous years	1.341	1,580
Income from property replacement	-	3,046
Other income	2.779	3,093
	9.213	16.949
	35.055	37.904
Net book value of sold /disposed assets	-	(297)
Income from sale of assets	191	715
Gains on sale and disposal of property and equipment	191	418

All amounts are expressed in thousands of HRK

7. OPERATING EXPENSES

	2012	2011
Staff costs	148,759	150,800
Provisions for retirement benefits and bonuses to employees	671	375
	149,430	151,175
Professional services and cost of material	108,356	105,388
Savings deposit insurance premiums	23,585	23,044
Marketing	19,058	18,349
Amortisation and depreciation	34,956	37,596
Administrative expenses	16,893	15,510
Other taxes and contributions	1,067	1,188
Write-off of receivables	418	198
Other costs	1,938	1,478
	355,701	353,926

Staff costs:

	2012	2011
Gross salary	113,262	110,611
- Net salaries	77,875	77,169
- Taxes, surtaxes and contributions	35,387	33,442
Contributions on salaries	18,079	19,112
Other payments to employees	18,089	21,452
	149,430	151,175

At year end, the Bank had 1,025 (2011: 1,015) employees.

8. IMPAIRMENT LOSSES AND PROVISIONS, NET

	2012	2011
Impairment of loans receivables, net	80,836	186,107
Impairment of held-to-maturity investments, net	32	16,505
Impairment of other assets, net	1,223	776
Impairment of amounts due to banks, net	(10)	61
Litigation provisions, net	14,812	20,969
Provisions for off-balance sheet items, net	2,241	(4,056)
	99,134	220,362

All amounts are expressed in thousands of HRK

9. TAXATION

(a) Income tax expense recognised in the profit or loss

	2012	2011
Current income tax charge	28,675	24,215
Net deferred tax charge	(1,143)	1,149
	27,532	25,364

(b) Reconciliation of the accounting profit and income tax expense at 20%

	2012	2011
Profit before income tax	127,604	124,811
Tax calculated at statutory tax rate of 20% (2011: 20%)	25,521	24,962
Income not subject to tax net of non-tax deductible expenses	3,302	(640)
Utilisation of double-dip benefits	(148)	(107)
Tax loss in a subsidiary not recognised as deferred tax asset	-	-
Current Income tax charge	28,675	24,215
Effective income tax rate	22,5%	19,4%

(c) Movement in deferred tax asset and (liability)

	Deferred loan origination fees	Unrealised gain/ (losses) on available-for-sale securities	Other	Total
Balance at 1 January 2011	6,308	(16,745)	-	(10,437)
Charged to profit or loss	(1,149)	-	-	(1,149)
Charged to other comprehensive income	-	23,229	-	23,229
Balance at 31 December 2011	5,159	6,484	-	11,643
Charged to other comprehencive income	1,143	-	-	1,143
Charged to profit or loss	-	(9,682)	-	(9,682)
Balance at 31 December 2012	6,302	(3,198)	-	3,104

(d) Current income tax liability

	2012	2011
Current income tax charge	28,675	24,215
Paid income tax charge	(20,728)	(17,756)
Current income tax liability	7,947	6,459

The current income tax liability amounts to HRK 7,947 thousand (2011 HRK 6,459 thousand).

All amounts are expressed in thousands of HRK

10. EARNING PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders. A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

	31/12/2012	31/12/2011
Profit for the year	100,072	99,447
Profit attributable to ordinary shareholders	100,072	99,447
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	4,111,398	4,111,398
Earnings per ordinary share – basic and diluted (HRK)	24.34	24.19

11. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	31/12/2012	31/12/2011
Cash in hand	285,466	168,792
Giro account balance	326,218	263,418
Current accounts with foreign banks	227,139	43,480
Current accounts with domestic banks	5,568	7,848
Items in course of collection	3,049	2,948
Assets included in cash and cash equivalents (Note 30)	847,440	486,486
Obligatory reserve at Croatian National Bank		
- in HRK	827,839	825,178
- in foreign currency	165,103	171,770
Total obligatory reserve at Croatian National Bank	992,942	996,948
	1,840,382	1,483,434

The CNB determines the requirement for banks to hold obligatory reserves, both in the form of amounts required to be deposited with the CNB and in the form of other liquid receivables. The obligatory reserve with the CNB represents the amount required to be deposited with the CNB.

The obligatory reserve requirement at 31 December 2012 amounted to 13.5% (2011: 14%) of HRK and foreign currency denominated deposits, borrowings and issued debt securities.

At 31 December 2012, the required rate of the HRK obligatory reserve with the CNB amounted to 70% (2011: 70%), while the remaining 30% (2011: 30%) must be held in the form of other liquid receivables, excluding cash in the vault and in hand. The percentage includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

Of the total foreign currency obligatory reserve, 60% (2011: 60%) is maintained with the CNB, while the remaining 40% (2011: 40%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). The portion of the foreign currency obligatory reserve required to be held in HRK is 75% (2011: 75%), and it is added to the HRK obligatory reserve (see above).

All amounts are expressed in thousands of HRK

12. AMOUNTS DUE FROM OTHER BANKS

	31/12/2012	31/12/2011
Short-term placements with other banks	496,595	1,071,603
Loans and advances to other banks in Croatia	120,001	-
	616,596	1,071,603
Less: impairment allowance	(1,775)	(1,785)
	614,821	1,069,818

Movements in provisions for impairment for amounts due from other banks for the Bank were as follows:

	2012	2011
Balance as at 1 January	1,785	1,724
Provisions charged	(10)	61
Balance as at 31 December	1,775	1,785

The entire amount of amount due to banks is valued at amortised cost.

13. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

(a) Financial assets at fair value through profit and loss

	31/12/2012	31/12/2011
Units in open-ended investment funds	10,697	30,317
Fair value of derivatives	4,700	8,847
	15,397	39,164

The units in open-ended investment funds are valued at the net asset value of these funds.

(b) Financial liabilities at fair value through profit and loss

	2012	2011
Fair value of derivatives	2,096	505
	2,096	505

The Bank has entered into derivative contracts as noted below.

The Bank uses cross-currency swaps to reduce the currency exposures that are inherent in any banking business. As at 31 December 2012 the Bank has had an receivable for forward SWAP leg in amount of HRK 744,652 thousand in USD currency and HRK 543,797 thousand in EUR currency (2011: HRK 589,560 thousand in USD currency and HRK 105,426 thousand in EUR currency). In addition the Bank has a payable forward SWAP leg as at 31 December 2012

All amounts are expressed in thousands of HRK

in amount of HRK 576,470 thousand in CHF currency and HRK 709,631 thousand in HUF currency (2011.: HRK 685,701 thousand in CHF currency).These balances are shown in Bank's off balance. The Bank entered into the derivative agreements with financial institutions which include its related parties.
At 31 December 2012 the Bank had two currency forward contracts under which its receivables amounted to HRK 17,430 thousand and its liability amounted to HRK 17,355 thousand, both as retranslated from the original euro-denominated balances.
The Bank concluded the derivatives with a domestic commercial bank and one of its corporate clients.

The positive fair value of SWAP and forwards as at 31 December 2012 amounts to HRK 4,700 (2011: HRK 8,847), and negative fair value of SWAP in amount of HRK 2,096 thousand (in 2011: HRK 505 thousand). Counterparties of the Bank's derivative transactions are financial institutions (including related parties).

14. AMOUNTS DUE FROM CUSTOMERS

Analysis by type of product

	31/12/2012	31/12/2011
HRK denominated		
Retail customers	5,971,519	5,882,579
Corporate customers	2,902,965	2,905,946
Foreign currency denominated		
Retail customers	13	33
Corporate customers	433,471	526,158
Total loans	9,307,968	9,314,716
Less: allowance for impairment	(734,047)	(655,238)
	8,573,921	8,659,478

Included within Bank HRK loans are balances linked to foreign currency, such as Euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 5,987,507 thousand (2011: HRK 6,031,764thousand). Repayments of principal and interest payments are determined in foreign currency and paid in the HRK equivalent translated at the foreign exchange rate applicable on the date of payment.

Movements in allowance for impairment were as follows:

	2012	2011
Balance at 1 January	655,238	468,661
Amounts collected	(42,555)	(36,721)
New provisions made	123,391	222,828
Exchange differences	210	1,926
Amounts written off	(2,237)	(1,456)
Balance at 31 December	734,047	655,238

At 31 December 2012, the total gross amount of non-performing loans for the Bank and the Group was HRK 1,259,262 thousand (2011: HRK 1,059,232 thousand).

All amounts are expressed in thousands of HRK

Concentration of credit risk by industry

Set out below is an overview of the Bank's concentration by various types of industries (gross amounts before allowance for impairment):

	31/12/2012	31/12/2011
Agriculture, forestry and fisheries	233,896	340,555
Mining	25,005	23,123
Food and beverages	58,259	75,214
Leather and textiles	9,022	8,442
Publishing and printing	9,198	10,332
Non-metal mineral and chemical products	18,460	36,370
Metal-working industry	29,149	20,992
Other manufacturing industries	205,045	348,992
Energy, gas and water supply	35,767	55,530
Construction	569,279	553,269
Trade and commerce	505,079	483,482
Hotels and restaurants	432,806	418,400
Transport and communications	121,275	142,424
Financial intermediation	44,218	29,134
Real estate	335,022	212,349
Public administration and defence	505,532	468,007
Education, health and social welfare	114,261	121,741
Other services and social activities	85,163	83,748
Total corporate loans	3,336,436	3,432,104
Retail customers	5,971,532	5,882,612
	9,307,968	9,314,716
Less: impairment allowance	(734,047)	(655,238)
Total loans	8,573,921	8,659,478

15. FINANCIAL ASSETS AVAILABLE FOR SALE

	31/12/2012	31/12/2011
Equity securities	10,018	8,024
Debt securities	1,742,825	1,054,589
Units in open-ended investment funds	21,352	17,055
	1,774,195	1,079,668

Equity securities mostly refer to shares of the Zagreb stock exchange and Visa shares.

(a) Equity securities

	31/12/2012	31/12/2011
Equity securities at cost		
- unquoted	13,610	11,616
Less: impairment allowance	(3,592)	(3,592)
	10,018	8,024

All amounts are expressed in thousands of HRK

(b) Debt securities

	31/12/2012	31/12/2011
Quoted		
Bonds of the Ministry of Finance	248,611	17,565
CBRD bonds	-	4,508
Bonds of foreign governments	474,900	435,246
Subtotal: Quoted debt securities	723,511	457,319
Treasury bills of the Ministry of Finance	310,258	597,270
Replacement bonds of the Croatian Ministry of Finance	709,056	-
Subtotal: Unquoted debt securities	1,019,314	597,270
	1,742,825	1,054,589

RHMF-O-203E bonds of the Republic of Croatia were issued in 2010. They are denominated in Croatian HRK with foreign currency clause in EUR and bear interest at a rate of 6,50%, which is paid semi-annually. The bonds mature in 2020 and are quoted on the Zagreb Stock exchange. The fair value of debt securities not quoted on the Reuters website (ZB fixing), but which are quoted on the domestic market, is determined by reference to the bid price reported by Bloomberg on its website.

RHMF-0-172A bonds of the Republic of Croatia were issued in 2007. They are denominated in Croatian HRK and bear interest at a rate of 4.75%, which is paid semi-annually. The bonds mature in 2017 and are quoted on the Zagreb Stock Exchange. All debt securities which are quoted on the domestic market, fair value is determined using bid price published on Reuters website (ZB fixing). The bonds of the Croatian Bank for Reconstruction and Development ("CBRD") are issued with the guarantee of the Ministry of Finance on behalf of the Croatian Government. The bonds are denominated in Euro and the interest rate on these bonds is 5.75% and interest is paid annually. The bonds matured on 4 December 2012. The bonds of the Hungarian Government were issued in 2003, 2004 and 2009 and are denominated in EUR. They bear interest rate from 4,5% to 6,75% and are paid semi-annually. The bonds mature in 2013 and 2014 and are quoted on foreign stock exchanges. Fair value of the bond is determined using bid price published on Bloomberg website.

The Bank has in its portfolio Treasury Bills of the Ministry of Finance with maturities of 91, 182 and 364 days. The T-bills are HRK and EUR denominated, and bear interest at market rates. In 2012 the Bank acquired special-purpose 18-month euro-denominated treasury bills which mature in August 2013.

The treasury bills of the Hungarian Central Bank are Hungarian monetary policy instruments with a two-week maturity, denominated in the Hungarian forint (HUF), with an interest rate being the base rate of the Central Bank. The treasury bills are available for purchase to credit institutions in Hungary, and OTP Bank purchases them in the secondary market.

Shares in open-end investment funds

The Bank has investments in open-end investment funds managed by the investment fund manager OTP Invest d.o.o. These are: OTP Balanced Fund, OTP Cash Fund, OTP Index Fund, OTP Euro Bond Fund, and OTP Europa Plus.

All amounts are expressed in thousands of HRK

16. HELD TO MATURITY INVESTMENTS

	31/12/2012	31/12/2011
Receivables for Bonds of the Croatian Ministry of Finance	16,538	16,505
Corporate bills of exchange	64,918	9,855
Less: allowance for impairment	(16,623)	(16,591)
	64,833	9,769

Movement in provision of the Bank related to impairment of held to maturity investments:

	2012	2011
Balance at 1 January	16,591	86
Provision charged	32	16,505
Balance at 31 December	16,623	16,591

The receivables for bonds of the Ministry of Finance relates to compensation for flats purchased by the Government of Croatia. Pending the clarification of the terms, the Bank has not recognised accrued interest on these bonds. As the collection of these receivables is trying to be realized through court proceedings, the Management of the Bank is aware that there is uncertainty related to the collection of these receivables because of which value adjustment has been recorded in 2011.

The investments held-to-maturity are not traded publicly.

The Management of the Bank believes that there are no indicators of impairment for held to maturity investments.

17. INVESTMENTS IN SUBSIDIARIES

Set out below are the operating subsidiaries of the Bank:

Name	Business activity	Effective share 31/12/2012	Effective share 31/12/2011
OTP Invest d.o.o.	Investment fund management	74.33%	74.33%
OTP Nekretnine d.o.o.	Real estate	100%	100%
Kratos nekretnine d.o.o	Real estate	100%	100%
OTP Aventin d.o.o.	Real estate	100%	-

As of 31 December 2012, total investment in subsidiaries was HRK 72,858 thousand (2011: HRK 82,430 thousand).

Investment in OTP Nekretnine d.o.o. is HRK 63,170 thousand (2011: HRK 72,762 thousand), OTP Invest d.o.o. HRK 9,648 thousand (2011: HRK 9,648 thousand) and in Kratos Nekretnine d.o.o. HRK 20 thousand (2011: HRK 20 thousand). The decrease of the investment in OTP Nekretnine d.o.o. relates to a division of the company by acqisition which took place at the end of the previous year, with the Bank as the acquiror. OTP Aventin was established in 2012 for the purpose of managing real estate acquired from company Pevec in bankruptcy.

The Bank assessed the recoverability of its investments in subsidiaries and determined that there is no impairment on these investments.

All amounts are expressed in thousands of HRK

18. INVESTMENT PROPERTY

The Bank has no investments in investment property.

19. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Assets under construction	Total
Cost:							
At 1 January 2011	227,283	56,002	136,310	1,654	969	17,625	439,843
Transfer from assets under construction	13,550	3,414	14,257	854	-	(32,075)	-
Additions	-	-	-	-	-	30,661	30,661
Disposals	(4,511)	(86)	(10,113)	(622)	-	-	(15,332)
At 31 December 2011	236,322	59,330	140,454	1,886	969	16,211	455,172
At 1 January 2012	236,322	59,330	140,454	1,886	969	16,211	455,172
Transfer from assets under construction	17,107	4,798	10,388	497	-	(32,790)	-
Additions	-	-	-	-	-	32,005	32,005
Disposals	-	(5,474)	(3,760)	(166)	-	-	(9,400)
At 31 December 2012	253,429	58,654	147,082	2,217	969	15,426	477,777
Accumulated depreciation/amortisation and impairment							
At 1 January 2011	102,113	43,004	98,369	1,359	-	-	244,845
Charge for the year	6,006	6,765	10,049	268	-	-	23,088
Disposals	(1,788)	-	(10,085)	(622)	-	-	(12,495)
At 31 December 2011	106,331	49,769	98,333	1,005	-	-	255,438
At 1 January 2012	106,331	49,769	98,333	1,005	-	-	255,438
Charge for the year	4,781	5,498	9,377	325	-	-	19,981
Disposals	-	(5,418)	(3,758)	(166)	-	-	(9,342)
At 31 December 2012	111,112	49,849	103,952	1,164	-	-	266,077
Net book value:							
At 1 January 2012	129,991	9,561	42,121	881	969	16,211	199,734
At 31 December 2012	142,317	8,805	43,130	1,053	969	15,426	211,700

20. INTANGIBLE ASSETS

Cost:	
At 1 January 2011	96,834
Additions	5,518
Disposals	(38)
At 31 December 2011	102,314
Additions	5,277
Disposals	(819)
At 31 December 2012	106,772
Accumulated amortisation	
At 1 January 2011	46,382
Charge for the year	14,508
Disposals	(10)
At 31 December 2011	60,880
Charge for the year	14,975
Disposals	(782)
At 31 December 2012	75,073
Net book value:	
At 31 December 2011	41,434
At 31 December 2012	31,699

All amounts are expressed in thousands of HRK

21. GOODWILL

Goodwill reported on the Bank's statement of financial position represents goodwill originally arisen on the acquisition of Istarska Bank d.d., Pula and Sisačka Bank d.d. Sisak (which is included in the Bank's accounts following the merger with these banks on 30 June 2002), and Dubrovačka Bank d.d., Dubrovnik (which is included in the Bank's accounts following the merger with this bank on 30 September 2004). The value of goodwill as of 31 December 2012 amounts to HRK 42,966 thousand (2011: HRK 42,966 thousand).

For the purposes of impairment testing, goodwill was allocated to each of the Bank's cash-generating units. For each of the cash-generating units present value of discounted cash flows has been calculated. Discounted cash flows have been compared to the carrying amount.

The Bank assessed the recoverability of the goodwill and determined that there is no impairment on goodwill as of 31 December 2012 and 2011.

22. OTHER ASSETS

	31/12/2012	31/12/2011
Accrued fees and commissions	14,763	14,014
Accounts receivable	11,981	11,374
Foreclosed assets	5,919	5,919
Receivables in respect of credit card operations	23,429	19,315
Prepaid expenses	9,099	8,205
Other	4,010	3,855
	69,201	62,682
Less: impairment allowance	(11,090)	(9,867)
	58,111	52,815

Movements in provisions for impairment for other assets for the Bank were as follows:

	31/12/2012	31/12/2011
Balance as at 1 January	9,867	9,091
Provision charged	1,223	776
Balance as at 31 December	11,090	9,867

23. AMOUNTS DUE TO OTHER BANKS

	31/12/2012	31/12/2011
Demand deposits		
HRK denominated	354	409
Foreign currency denominated	2,448	3,234
Time deposits		
Foreign currency denominated	18,275	17,700
	21,077	21,343

All amounts are expressed in thousands of HRK

24. AMOUNTS DUE TO CUSTOMERS

	31/12/2012	31/12/2011
Retail customers		
Demand deposits		
HRK denominated	912,941	927,825
Foreign currency denominated	1,142,181	1,150,657
Time deposits		
HRK denominated	1,173,975	1,109,508
Foreign currency denominated	6,177,719	5,954,641
Corporate customers		
Demand deposits		
HRK denominated	466,818	452,473
Foreign currency denominated	254,733	167,025
Time deposits		
HRK denominated	238,870	202,721
Foreign currency denominated	302,002	352,924
Current accounts and deposits of subsidiaries	1,513	2,273
	10,670,752	10,320,047

25. OTHER BORROWED FUNDS

	31/12/2012	31/12/2011
Domestic creditors:		
CBRD	869,863	848,209
Ministry of Finance	2,802	2,802
Other	2	2
Foreign creditors:		
Government agencies	38,664	38,653
Commercial banks	-	5,452
Other	56	55
	911,387	895,173

(a) Amounts due to the Croatian Bank for Reconstruction and Development (the "CBRD")

Other funds borrowed from CBRD are designated for approving loans to end users – corporate and retail customers – under the SME, tourist trade and agriculture incentive programme supported by the CBRD, at an average interest rate of 2.35% (2011: 2.41 %).

(b) Amounts due to commercial banks

Liabilities refer to a World Bank (IBRD) loan. The interest on the borrowings is determined at a variable rate in the amount of 6-month EURIBOR + 0.50% margin annually. The loan is repayable in semi-annual instalments and has matured in 2012.

(c) Amounts due to government agencies

The major portion of this debt relates to the debt to the Deutsche Investitions und Entwicklungsgeselschaft (the "DEG"). The loan was approved for a period of 6 years, at a variable interest rate (6-month EURIBOR + 1.3%); these funds are included in the Bank's supplementary capital in accordance with CNB regulations. The entire loan is due on 15 November 2014.

(d) Amounts due to the Croatian Ministry of Finance

This liability refers to the liability toward Ministry of Finance transferred from Dubrovačka banka and relates to interest based on „old" foreign currency savings.

All amounts are expressed in thousands of HRK

26. PROVISIONS

a) Analysis of provisions

	31/12/2012	31/12/2011
Provisions for off-balance sheet items	12,578	10,337
Litigation provision	53,807	43,294
	66,385	53,631

b) Movements in provisions for risks and charges

Provisions for off-balance sheet items	31/12/2012	31/12/2011
Balance at 1 January	10,337	14,393
Additional provisions established	2,272	411
Amounts released	(31)	(4,467)
Balance at 31 December	12,578	10,337

Litigation provisions	31/12/2012	31/12/2011
Balance at 1 January	43,294	25,768
Additional provisions established	14,812	20,969
Amounts released	(4,299)	(3,443)
Balance at 31 December	53,807	43,294

Litigation provision relates to the legal led against the Bank, i.e. where the Bank is the defendant. Bank has provided for these legal cases where it is expected that outcome of the legal case will result in an outflow from the Bank of resources embodying economic benefits.

27. OTHER LIABILITIES

	31/12/2012	31/12/2011
Provisions for retirement benefits, jubilees and vacation days	8,938	9,609
Bonuses to employees	10,872	11,516
Amounts due to suppliers	18,719	17,316
Salaries and contributions payable	11,080	11,821
Due to State agency for deposit insurance and bank rehabilitation for saving deposits insurance	6,002	5,887
Deferred income	1,315	1,312
Liabilities under credit card operations	9,731	3,867
Tax–liability from previous years	6,711	6,711
Liability for undistributed cash	8,321	-
Received advances	926	750
Value-added tax liability	586	1,265
Liabilities under opening accounts	2,949	3,162
Other liabilities	9,209	11,793
	95,359	85,009

Provisions for retirement benefits, jubilees and vacation days	2011
Beginning balance 1/1/2011	9,234
Expense from new provisions (net)	375
Balance as at 31/12/2011	9,609
Expense from new provisions (net)	(671)
Balance as at 31/12/2012	8,938

All amounts are expressed in thousands of HRK

28. SHAREHOLDERS' EQUITY

SHARE CAPITAL

As at 31 December 2012 the share capital of the Bank comprised 4,111,398 ordinary shares (2011: 4,111,398 ordinary shares), with a par value of HRK 200 each. All the ordinary shares are ranked equally and carry one vote per share.

No dividend was paid during 2012 (2011.: HRK 100 million).

RESERVES

	31/12/2012	31/12/2011
Legal reserve	41,114	41,114
Statutory reserve	41,114	41,114
Total legal and statutory reserves	82,228	82,228
Fair value reserve	12,792	(25,936)
General banking risks reserve	105,819	105,819
Other reserves	3,241	3,243
Total other reserves	121,852	83,126

Movements within the reserves related to fair valuation was as follows:

	2012	2011
Balance as at 1 January	(25,936)	90,658
Increase in reserves	48,486	35,165
Decrease in reserves	(76)	(174,988)
Taxes	(9,682)	23,229
Balance as at 31 December	12,792	(25,936)

Legal and statutory reserves

A legal reserve has been formed in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to this reserve until it reaches 5% of issued share capital. The legal reserve, in the amount of up to 5% of issued share capital, can be used for covering current and prior year losses. In addition, in accordance with the Bank's internal regulations, an additional reserve equivalent to the legal reserve has been created in an amount of up to 5% of the share capital to cover impairment losses, payment of dividend on preference shares and for the same purposes as legal reserve.

Reserve for general banking risks

According to earlier CNB regulations the Bank was obliged to create a reserve for general banking risks if the increase of relevant on- and off-balance-sheet exposure at the statement of financial position date exceeds 15% of the exposure at the prior year end. The general banking risk reserve is not transferrable to retained earnings or other reserves, or otherwise distributable until the expiry of a consecutive three-year period from the period in which the Bank has recorded an annual growth over 15%. As the period of three years passed in year 2011, the Bank can use the mentioned reserve as it could with retained earnings.

All amounts are expressed in thousands of HRK

Fair value reserve

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

Other reserves

Other reserves at Group mainly represent revaluation reserve related to properties that have been transferred to investment properties.The revaluation of these properties occurred prior to the transfer.

Retained earnings

Retained earnings include accumulated profits from prior years.

29. CONTINGENCIES AND COMMITMENTS

Presented below are contractual amounts of the Bank's off-balance-sheet financial instruments:

	31/12/2012	31/12/2011
Payment guarantees	71,312	91,196
Performance guarantees	59,020	54,977
Letters of credit	14,568	18,256
Approved unused loans	1,200,759	914,280
Other	170	-
	1,345,829	1,078,709

30. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statements, cash and cash equivalent comprise the following balances with maturities of up to 90 days:

	31/12/2012	31/12/2011
Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank – Note 11)	847,440	486,486
Amounts due from other banks – Note 12	494,511	1,069,387
	1,341,951	1,555,873

All amounts are expressed in thousands of HRK

31. CAPITAL RISK MANAGEMENT

The Croatian National Bank ("the CNB"), as the Bank's key regulator, determines and supervises capital requirements for the Bank as a whole. The amount of capital allocated to individual operations is based primarily on regulatory requirements. The allocation of capital to specific activities is performed independent of individuals in charge of those activities.

Although the maximisation of return on the risk-weighted capital is the key basis used in determining the allocation of capital within the Bank to individual activities, it is not the only basis in the decision-making process. Synergies with other activities, availability of the Management Board and other resources, as well as the alignment of the activities with the Bank's strategic goals in the long run. The directors review regularly the Bank's policies for managing and allocating capital.

The capital adequacy ratio is determined as the ratio between the regulatory capital and the risk-weighted assets, risk exposures,the overall uncovered FX exposure to the currency risk and operational risk. The Bank has included in its calculation of capital adequacy its net profit for the year, that it plans on transferring to retained earnings.

The capital adequacy ratio in accordance with CNB regulations is presented in the following table:

	2012	**2011**
Regulatory capital		
Tier 1 capital	1,455,274	1,336,384
Tier 2 capital	7,716	15,401
Items deductible from regulatory capital	(11,971)	(12,129)
Total regulatory capital	1,451,019	1,339,656
Capital requirements in respect of credit and counterparty risks	949,093	960,054
Capital requirements in respect of currency risk	-	-
Capital requirements in respect of position risk	5,597	4,139
Capital requirements in respect of operational risk	130,692	126,059
Total capital requirements for risks	1,085,382	1,090,252
Capital adequacy ratio %	16.0%	14.8%

All amounts are expressed in thousands of HRK

32. CREDIT RISK

The Bank take on exposure to credit risk, which is the risk upon credit approval that the counterparty will be unable to pay amounts in full when due. The Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to credit risk for all assets exposed to credit risk is limited by the carrying amount of that asset in the statement of financial position. The exposure to credit risk of derivatives which relate to foreign currency is equal to total of positive current market contract value and potential counterparty risk exposure. Additionally, the Bank is exposed to credit risk on off-balance-sheet items, including undrawn commitments to extend credit guarantees and letters of credit. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these ending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Concentration of assets and liabilities related to the Croatian state and its institutions.

	Notes	**31/12/2012**	**31/12/2011**
Current account with the Croatian National Bank	11	326,218	263,418
Obligatory reserve with the Croatian National Bank	11	992,942	996,948
Ministry of Finance – Treasury bills	15b)	310,258	597,270
Republic of Croatia bonds	15b)	248,611	17,565
Loans provided by Croatian Bank for Reconstruction and Development and Government		499,758	459,356
Replacement bonds	15b)	-	-
Factoring receivables from Ministry of Agriculture	14	4,006	14,048
Other assets		5	5
Current income tax payable	9d)	(7,947)	(6,459)
Other liabilities		(7,932)	(8,868)
		2,365,919	2,333,283

All amounts are expressed in thousands of HRK

Concentration of assets based on geographical division.

	Croatia	Hungary	Austria	Switzerland	Belgium	Germany	USA	Other	Total
At 31 December 2012									
Assets									
Cash and balances with the Croatian National Bank	1,613,242	79,008	-	4,718	547	81,579	46,984	14,304	1,840,382
Amounts due from other banks	120,001	85,932	150,002	124,538	105,639	-	21,046	7,663	614,821
Financial assets at fair value through profit or loss	10,714	4,683	-	-	-	-	-	-	15,397
Amounts due from customers	8,573,872	40	-	-	-	-	-	9	8,573,921
Financial assets available for sale	583,911	1,183,956	-	-	81	-	6,247	-	1,774,195
Held-to-maturity investments	64,833	-	-	-	-	-	-	-	64,833
Investments in subsidiaries	72,858	-	-	-	-	-	-	-	72,858
Property, plant and equipment and intangible assets	286,365	-	-	-	-	-	-	-	286,365
Deferred tax assets	3,104	-	-	-	-	-	-	-	3,104
Other assets	55,966	21	6	7	1,137	67	789	118	58,111
	11,384,866	1,353,640	150,008	129,263	107,404	81,646	75,066	22,094	13,303,987

	Croatia	Hungary	Belgium	Germany	Italy	Netherlands	Norway	France	Other	Total
At 31 December 2011										
Assets										
Cash and balances with the Croatian National Bank	1,439,954	765	696	4,810	2,186	-	33	-	34,990	1,483,434
Amounts due from other banks	-	182,531	112,962	331,351	75,305	225,589	63,147	75,306	3,627	1,069,818
Financial assets at fair value through profit or loss	30,317	8,847	-	-	-	-	-	-	-	39,164
Amounts due from customers	8,659,467	-	-	-	-	-	-	-	11	8,659,478
Financial assets available for sale	640,089	435,246	81	-	-	-	-	-	4,252	1,079,668
Held-to-maturity investments	9,769	-	-	-	-	-	-	-	-	9,769
Investments in subsidiaries	82,430	-	-	-	-	-	-	-	-	82,430
Property, plant and equipment and intangible assets	284,134	-	-	-	-	-	-	-	-	284,134
Deferred tax assets	11,643	-	-	-	-	-	-	-	-	11,643
Other assets	52,006	18	329	52	39	2	1	3	365	52,815
	11,209,809	627,407	114,068	336,213	77,530	225,591	63,181	75,309	43,245	12,772,353

All amounts are expressed in thousands of HRK

Concentration of assets related to risk groups.

	Assets classified in A risk group	Assets classified in B risk group	Assets classified in C risk group	Assets not classified in risk groups	Value adjustment	Total
At 31 December 2012						
ASSETS						
Cash and balances with the Croatian National Bank	1,551,884	-	-	288,498	-	1,840,382
Amounts due from other banks	614,676	1,076	844	-	(1,775)	614,821
Financial assets at fair value through profit or loss	-	-	-	15,397	-	15,397
Amounts due from customers	7,995,904	986,265	325,799	-	(734,047)	8,573,921
Financial assets available for sale	-	-	-	1,774,195	-	1,774,195
Held-to-maturity investments	64,833	-	16,623	-	(16,623)	64,833
Investments in subsidiaries	-	-	-	72,858	-	72,858
Property, plant and equipment and intangible assets	-	-	-	286,365	-	286,365
Deferred tax assets	-	-	-	3,104	-	3,104
Other assets	43,481	4,772	7,813	13,135	(11,090)	58,111
Total assets	10,270,778	992,113	351,079	2,453,552	(763,535)	13,303,987

	Assets classified in A risk group	Assets classified in B risk group	Assets classified in C risk group	Assets not classified in risk groups	Value adjustment	Total
At 31 December 2011						
ASSETS						
Cash and balances with the Croatian National Bank	1,311,694	-	-	171,740	-	1,483,434
Amounts due from other banks	1,069,674	1,073	856	-	(1,785)	1,069,818
Financial assets at fair value through profit or loss	-	-	-	39,164	-	39,164
Amounts due from customers	8,203,160	804,517	307,039		(655,238)	8,659,478
Financial assets available for sale	-	-	-	1,079,668	-	1,079,668
Held-to-maturity investments	9,769	-	16,591	-	(16,591)	9,769
Investments in subsidiaries	-	-	-	82,430	-	82,430
Property, plant and equipment and intangible assets	-	-	-	284,134	-	284,134
Deferred tax assets	-	-	-	11,643	-	11,643
Other assets	34,077	4,759	5,858	17,988	(9,867)	52,815
Total assets	10,628,374	810,349	330,344	1,686,767	(683,481)	12,772,353

33. MARKET RISK

CURRENCY RISK

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial positions and cash flows.

The table below provides an analysis of the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies.' The Bank monitors their foreign exchange (FX) position for compliance with the regulatory requirements of the Croatian National Bank established in respect of limits on open positions. Measuring the open positions of the Bank includes monitoring the value at risk limit for the Bank. Other currencies also include CHF linked.

The Bank has made VaR analysis (Value at Risk). This analysis is defined as worst possible scenario in time frame in normal market conditions. For the calculation, 10 days frame is taken and reliability of 99%. Possibility that the Bank will lose more that VaR calculated in normal market conditions is 1%. VaR calculated as of 31 December 2012 is HRK 155 thousand (2011: HRK 157 thousand).

All amounts are expressed in thousands of HRK

	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2012							
Assets							
Cash and balances with the Croatian National Bank	206,382	-	206,382	219,389	1,384,194	30,417	1,840,382
Amounts due from other banks	105,775	-	105,775	107,012	270,004	132,030	614,821
Financial assets at fair value through profit or loss	-	-	-	-	15,397	-	15,397
Amounts due from customers	432,143	5,176,466	5,608,609	50,537	2,208,300	706,475	8,573,921
Financial assets available for sale	704,009	150,249	854,258	6,247	204,635	709,055	1,774,195
Held-to-maturity investments	-	-	-	-	64,833	-	64,833
Investments in subsidiaries	-	-	-	-	72,858	-	72,858
Property and equipment and intangible assets and goodwill	-	-	-	-	286,365	-	286,365
Deferred tax assets	-	-	-	-	3,104	-	3,104
Other assets	615	-	615	106	57,305	85	58,111
Total assets	1,448,924	5,326,715	6,775,639	383,291	4,566,995	1,578,062	13,303,987
Liabilities							
Amounts due to other banks	20,101	-	20,101	511	354	111	21,077
Amounts due to customers	6,462,374	45,307	6,507,681	1,130,478	2,746,109	286,484	10,670,752
Other borrowed funds	38,664	704,530	743,194	56	168,137	-	911,387
Financial liabilities at fair value through profit or loss	-	-	-	-	2,096	-	2,096
Provisions	-	-	-	-	66,385	-	66,385
Other liabilities and current income tax liability	4,314	-	4,314	671	98,264	57	103,306
Total liabilities	6,525,453	749,837	7,275,290	1,131,716	3,081,345	286,652	11,775,003
Net FX position	(5,076,529)	4,576,878	(499,651)	(748,425)	1,485,650	1,291,410	1,528,984
At 31 December 2011							
Total assets	1,672,430	5,389,343	7,061,773	516,262	4,235,687	958,631	12,772,353
Total liabilities	6,317,572	809,940	7,127,512	1,107,508	2,874,444	272,703	11,382,167
Net FX position	(4,645,142)	4,579,403	(65,739)	(591,246)	1,361,243	685,928	1,390,186

	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
At 31 December 2011							
Assets							
Cash and balances with the Croatian National Bank	49,563	-	49,563	187,947	1,206,155	39,769	1,483,434
Amounts due from other banks	657,564	-	657,564	275,442	11,301	125,511	1,069,818
Financial assets at fair value through profit or loss	-	-	-	-	39,164	-	39,164
Amounts due from customers	525,155	5,167,106	5,692,261	48,535	2,125,443	793,239	8,659,478
Financial assets available for sale	439,835	222,237	662,072	4,252	413,344	-	1,079,668
Held-to-maturity investments	-	-	-	-	9,769	-	9,769
Investments in subsidiaries	-	-	-	-	82,430	-	82,430
Property and equipment and intangible assets and goodwill	-	-	-	-	284,134	-	284,134
Deferred tax assets	-	-	-	-	11,643	-	11,643
Other assets	313	-	313	86	52,304	112	52,815
Total assets	1,672,430	5,389,343	7,061,773	516,262	4,235,687	958,631	12,772,353
Liabilities							
Amounts due to other banks	19,635	-	19,635	529	408	771	21,343
Amounts due to customers	6,250,664	49,525	6,300,189	1,106,111	2,641,871	271,876	10,320,047
Other borrowed funds	44,104	760,415	804,519	55	90,599	-	895,173
Financial liabilities at fair value through profit or loss	-	-	-	-	505	-	505
Provisions	-	-	-	-	53,631	-	53,631
Other liabilities and current income tax liability	3,169	-	3,169	813	87,430	56	91,468
Total liabilities	6,317,572	809,940	7,127,512	1,107,508	2,874,444	272,703	11,382,167
Net FX position	(4,645,142)	4,579,403	(65,739)	(591,246)	1,361,243	685,928	1,390,186
At 31 December 2010							
Total assets	1,599,866	5,454,668	7,054,534	449,468	4,251,800	1,002,320	12,758,122
Total liabilities	6,216,878	817,096	7,033,974	987,444	3,067,128	185,918	11,274,464
Net FX position	(4,617,012)	4,637,572	20,560	(537,976)	1,184,672	816,402	1,483,658

All amounts are expressed in thousands of HRK

INTEREST RATE RISK

Interest rate sensitivity of assets and liabilities

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprise to a market rate of interest before maturity, the next reprising date. It is the policy of the Bank to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of reprising mismatch in the statement of financial position. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in the 'Non-interest-bearing' category. Earnings will also be affected by the currency of the assets and liabilities. The Bank has a significant proportion of interest earning assets and interest-bearing liabilities denominated in or linked to foreign currency. A significant portion of loans and receivables from customers presented as at fixed rate relates to corporate loans where the Bank has the right to change the interest rates, but in practice has not done so to date.

The Bank has calculated the impact of a 200 bp change in interest rates, in which case the economic value would change to 0.90% percent of the regulatory capital.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest-bearing	Total
At 31 December 2012						
Assets						
Cash and balances with the Croatian National Bank	-	204	-	-	1,840,178	1,840,382
Amounts due from other banks	494,512	-	-	120,000	309	614,821
Financial assets at fair value through profit or loss	-	-	-	-	15,397	15,397
Amounts due from customers	6,218,133	133,889	772,435	1,403,266	46,198	8,573,921
Financial assets available for sale	824,485	190,892	383,953	325,972	48,893	1,774,195
Held-to-maturity investments	1,841	513	62,479	-	-	64,833
Investments in subsidiaries	-	-	-	-	72,858	72,858
Property and equipment and intangible assets and goodwill	-	-	-	-	286,365	286,365
Deferred tax assets	-	-	-	-	3,104	3,104
Other assets	-	-	--	-	58,111	58,111
Total assets	7,538,971	325,498	1,218,867	1,849,238	2,371,413	13,303,987
Liabilities						
Amounts due to other banks	18,264	-	-	-	2,813	21,077
Amounts due to customers	5,531,797	915,574	4,101,091	31,302	90,988	10,670,752
Other borrowed funds	1,312	34,235	113,922	757,745	4,173	911,387
Financial liabilities at fair value through profit or loss	-	-	-	-	2,096	2,096
Provisions	-	-	-	-	66,385	66,385
Other liabilities and current income tax liability	-	-	-	-	103,306	103,306
Total liabilites	5,551,373	949,809	4,215,013	789,047	269,761	11,775,003
On-balance-sheet interest rate gap	1,987,598	(624,311)	(2,996,146)	1,060,191	2,101,652	1,528,984

All amounts are expressed in thousands of HRK

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest-bearing	Total
At 31 December 2011						
Assets						
Cash and balances with the Croatian National Bank	19,687	-	-	-	1,463,747	1,483,434
Amounts due from other banks	1,069,387	-	-	-	431	1,069,818
Financial assets at fair value through profit or loss	-	-	-	-	39,164	39,164
Amounts due from customers	6,208,964	99,737	617,733	1,682,860	50,184	8,659,478
Financial assets available for sale	1,037,093	-	-	-	42,575	1,079,668
Held-to-maturity investments	4,119	2,100	3,550	-	-	9,769
Investments in subsidiaries	-	-	-	-	82,430	82,430
Property and equipment and intangible assets and goodwill	-	-	-	-	284,134	284,134
Deferred tax assets	-	-	-	-	11,643	11,643
Other assets	-	-	-	-	52,815	52,815
Total assets	8,339,250	101,837	621,283	1,682,860	2,027,123	12,772,353
Liabilities						
Amounts due to other banks	19,461	-	-	-	1,882	21,343
Amounts due to customers	5,663,277	886,954	3,640,865	37,682	91,269	10,320,047
Other borrowed funds	20,782	43,270	109,491	714,348	7,282	895,173
Financial liabilities at fair value through profit or loss	-	-	-	-	505	505
Provisions	-	-	-	-	53,631	53,631
Other liabilities and current income tax liability					91,468	91,468
Total liabilities	5,703,520	930,224	3,750,356	752,030	246,037	11,382,167
On-balance-sheet interest rate gap	2,635,730	(828,387)	(3,129,073)	930,830	1,781,086	1,390,186

The table below summarises the average effective interest rate at year-end for monetary financial instruments.

	31/12/2012	Interest rate %	31/12/2011	Interest rate %
Cash and balances with the Croatian National Bank	1,840,382	0.0	1,483,434	0.0
Amounts due from other banks	614,821	1.0	1,069,818	1.2
Loans and other financial assets created by the Bank	8,573,921	6.8	8,659,478	7.1
Held-to-maturity investments	64,833	7.8	9,769	8.4
Financial assets available for sale	1,774,195	4.8	1,079,668	4.2
	12,868,152		12,302,167	
Amounts due to other banks	22,695	1.0	21,343	1.4
Amounts due to customers	10,669,134	2.7	10,320,047	2.7
Other borrowed funds	911,387	2.3	895,173	2.4
	11,603,216		11,236,563	

All amounts are expressed in thousands of HRK

34. LIQUIDITY RISK

The Bank is exposed to daily calls on their available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdown's, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Uniden-tified	Total
At 31 December 2012							
Assets							
Cash and balances with the Croatian National Bank	1,221,201	146,153	456,272	8,779	7,977	-	1,840,382
Amounts due from other banks	473,776	-	-	-	141,045	-	614,821
Financial assets at fair value through profit or loss	15,397	-	-	-	-	-	15,397
Amounts due from customers	1,646,694	213,253	1,174,497	1,547,446	3,992,031	-	8,573,921
Financial assets available for sale	863,360	190,892	383,953	306,751	29,239	-	1,774,195
Held-to-maturity investments	1,841	513	62,479	-	-	-	64,833
Investments in subsidiaries	-	-	-	-	-	72,858	72,858
Property and equipment and intangible assets and goodwill	-	-	-	-	-	286,365	286,365
Deferred tax assets	-	-	-	-	-	3,104	3,104
Other assets	52,192	-	5,919	-	-	-	58,111
Total assets	4,274,461	550,811	2,083,120	1,862,976	4,170,292	362,327	13,303,987
Liabilities							
Amounts due to other banks	21,077	-	-	-	-	-	21,077
Amounts due to customers	4,095,607	1,561,123	4,873,626	140,396	-	-	10,670,752
Other borrowed funds	5,485	34,235	113,922	264,708	493,037	-	911,387
Financial liabilities at fair value through profit or loss	2,096	-	-	-	-	-	2,096
Provisions	-	-	-	-	-	66,385	66,385
Other liabilities and current income tax liability	103,306	-	-	-	-	-	103,306
Total liabilities	4,227,571	1,595,358	4,987,548	405,104	493,037	66,385	11,775,003
Net liquidity gap	46,890	(1,044,547)	(2,904,428)	1,457,872	3,677,255	295,942	1,528,984
At 31 December 2011							
Total assets	3,840,327	559,418	1,784,762	2,197,376	4,012,263	378,207	12,772,353
Total liabilities	4,160,133	1,651,788	4,642,668	319,036	554,911	53,631	11,382,167
Net liquidity gap	(319,806)	(1,092,370)	(2,857,906)	1,878,340	3,457,352	324,576	1,390,186

All amounts are expressed in thousands of HRK

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Uniden-tified	Total
At 31 December 2011							
Assets							
Cash and balances with the Croatian National Bank	868,964	154,620	440,596	9,514	9,740	-	1,483,434
Amounts due from other banks	1,069,818	-	-	-	-	-	1,069,818
Financial assets at fair value through profit or loss	39,164	-	-	-	-	-	39,164
Amounts due from customers	1,664,247	206,891	1,041,313	1,769,730	3,977,297	-	8,659,478
Financial assets available for sale	147,318	195,807	293,185	418,132	25,226	-	1,079,668
Held-to-maturity investments	4,119	2,100	3,550	-	-	-	9,769
Investments in subsidiaries	-	-	-	-	-	82,430	82,430
Property and equipment and intangible assets	-	-	-	-	-	284,134	284,134
Deferred tax assets	-	-	-	-	-	11,643	11,643
Other assets	46,697	-	6,118	-	-	-	52,815
Total assets	3,840,327	559,418	1,784,762	2,197,376	4,012,263	378,207	12,772,353
Liabilities							
Amounts due to other banks	3,647	17,696	-	-	-	-	21,343
Amounts due to customers	4,036,449	1,590,822	4,533,177	59,388	100,211	-	10,320,047
Other borrowed funds	28,064	43,270	109,491	259,648	454,700	-	895,173
Financial liabilities at fair value through profit or loss	505	-	-	-	-	-	505
Provisions	-	-	-	-	-	53,631	53,631
Other liabilities and current income tax liability	4,160,133	1,651,788	4,642,668	319,036	554,911	53,631	11,382,167
Total liabilities	(319,806)	(1,092,370)	(2,857,906)	1,878,340	3,457,352	324,576	1,390,186
Net liquidity gap	3,647	17,696	-	-	-	-	21,343
At 31 December 2010							
Total assets	2,835,212	883,784	2,502,198	1,900,528	4,266,594	369,806	12,758,122
Total liabilities	4,036,765	1,869,344	4,525,093	246,967	545,697	50,598	11,274,464
Net liquidity gap	(1,201,553)	(985,560)	(2,022,895)	1,653,561	3,720,897	319,208	1,483,658

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

35. OPERATIONAL RISK

Operational risk is the probability of loss resulting from inadequately defined or improperly executed business process, human error, inappropriate system operation or as a result of external factors. The Bank's activities in the area of managing operational risk are in line with the applicable regulations and good operational risk management practice, and are regularly revised to reflect any changes therein. The Operational Risk Management Rules and the Operational Risk Management Guidelines as well as the Guidelines for Operational Risk Self-assessment constitute the framework for managing operational risk at the Bank.

The Bank has a Business Continuity Plan that defines the system supporting the continuity of operations in cases where they become temporarily discontinued as a result of an exceptional event.

Operational risks are managed centrally: the responsibility for managing operational risks rests with the managers and staff in charge of those organisational units in which operational risks are inherent to the activities performed by those units. They best understand, control and monitor the processes taking place in their organisational units and their duty is to ensure that the processes they manage follow appropriate procedures and are safe from the aspect of incurrence of operational risks. Operational risk management activities that are a joint responsibility of all the Bank's organisational units include the following: identification, measurement, assessment and analysis, as well as control and monitoring operational risk that arise. The Division for Quantitative Analysis, Market and Operational Risks operates as an independent unit within the Operational Risk Management Department and is responsible for suggesting the set-up of the operational risk management environment and the rules governing this area, for collecting data about losses caused by operational risks, informing the Bank's Management Board regularly on operational risk events, as well as for providing assistance and support to all the Bank's organisational units in understanding the structured approach to managing operational risks. In line with the decentralised operational risk management methodology, the owners of each of the processes at the Bank have the obligation to co-operate closely in assessing the risks inherent in those processes (self-assessment) or to assess those risks against the guidelines provided by the Division for Quantitative Analysis, Market and Operational Risks. In order to obtain a full view of the Bank's exposure to the risk, an Operational Risk Management Committee has been established.

The Bank applies a simplified approach in determining the capital requirements for operational risk.

All amounts are expressed in thousands of HRK

36. RELATED PARTY TRANSACTIONS

The Bank is the parent of the OTP Bank Group. The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its subsidiaries and associates; the investment funds managed by one of its subsidiaries, OTP invest; Supervisory Board members, Management Board members; close family members of Management Board; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" (the "IAS 24").

Outstanding balances at the year-end and relating expense and income for the year are as follows:

	31/12/2012		31/12/2011	
	Receivables	Payables	Receivables	Payables
OTP Bank Nyrt. Hungary	169,625	3,100	192,090	606
OTP Nekretnine d.o.o.	-	1,081	1,190	1,060
OTP invest d.o.o.	18	547	14	1,209
Kratos nekretnine d.o.o.	22	-	-	4
OTP Aventin d.o.o.	51,903	79	-	-
OTP Consulting d.o.o.	-	62	-	61
OTP Leasing d.o.o.	485	8,522	218	226
Z Plus d.o.o.	-	-	-	190
OTP Faktoring d.o.o.	785	-	-	113
	222,838	13,391	193,512	3,469

	31/12/2012		31/12/2011	
	Income	Expenses	Income	Expenses
OTP Bank Nyrt. Hungary	6,884	24,635	17,177	5,344
OTP Nekretnine d.o.o.	6	2,216	437	906
OTP invest d.o.o.	163	118	86	4
Kratos nekretnine d.o.o.	6	-	4	-
OTP Aventin d.o.o.	537	1	-	-
OTP Consulting d.o.o.	2	-	-	-
OTP Leasing d.o.o.	208	3,150	8	2,815
Z Plus d.o.o.	-	-	-	-
OTP Faktoring d.o.o.	17	221	-	-
	7,823	30,341	17,712	9,069

Remuneration paid to key management personnel amounted to HRK 5,116 thousand and relates to short-term employee benefits (2011: HRK 6,219 thousand). Included in key management personnel are Management Board members.

Remuneration paid to Supervisory Board members amounted to HRK 615 thousand (2011: HRK 512 thousand).

37. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Bank manages funds on behalf of third parties placed mainly as loans between enterprises through the Bank as agent. These assets are accounted for separately from those of the Bank and no liability falls on the Bank in connection with these transactions. The Bank charges a fee for these services.

At 31 December 2012, Funds managed by the Bank as an agent on behalf of third parties amounted to HRK 90,135 thousand (2011: HRK 112,965 thousand). Additionally, assets under the management of OTP Invest, a subsidiary of the Bank, amounted to HRK 546,385 thousand (2011: HRK 375,990 thousand).

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction, where available. Fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, fair value is estimated using alternative techniques, or financial assets are measured at cost, amortised cost or indexed cost.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

All amounts are expressed in thousands of HRK

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012				2011			
	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000	Level 1 HRK'000	Level 2 HRK'000	Level 3 HRK'000	Total HRK'000
Financial assets at fair value through profit or loss								
Non-derivative financial assets	10,697	-	-	10,697	30,317	-	-	30.317
Other derivative financial assets	-	4,700	-	4,700	-	8,847	-	8.847
Available-for-sale financial assets								
Equity securities	6,246	-	3,772	10,018	4,252	-	3,772	8.024
Debt securities	723,511	1,019,314	-	1,742,825	457,319	597,270	-	1.054.589
Units in open-ended investment funds	21,352	-	-	21,352	17,055	-	-	17.055
Total	761,806	1,024,014	3,772	1,789,592	508,943	606,117	3,772	1.118.832
Financial liabilities at fair value through profit or loss								
Other derivative financial liabilities	-	2,096	-	2096	-	505	-	505
Total	-	2,096	-	2096	-	505	-	505

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

All amounts are expressed in thousands of HRK

39. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with 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 to and receivables from corporate and retail customers (summarised in note 14), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees, letters of credit and unused credit card limits (summarised in note 26). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

	Notes	2012	2011
Summary of impairment losses on customers			
Impairment allowance on loans to and receivables from customers	14	734,047	655,238
Provisions for off-balance-sheet exposures	26	12,578	10,337
		746,625	665,575

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). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The 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.

All amounts are expressed in thousands of HRK

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

At the year end, the gross value of specifically impaired loans to and receivables from customers, and the rate of impairment loss recognised, was as follows:

			2012			2011
	Corporate	Retail	Total	Corporate	Retail	Total
Gross value of Exposure of impaired loans	643,321	615,941	1,259,262	523,357	535,875	1,059,232
Impairment rate	33.21%	61.68%	47.13%	35.09%	61.31%	48.36%

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2012 would lead to the recognition of an additional impairment loss of HRK 12,593 thousand for the Bank (2011 HRK 10,592 thousand).
The Bank has recognised an impairment allowance calculated on a portfolio basis in accordance with the range of impairment loss rates of 0.85% to 1.20% prescribed by the CNB, to be calculated on all credit risk exposures except those carried at fair value through profit or loss and available for sale portfolio, including off-balance-sheet amounts (including undrawn lending and credit card commitments) and sovereign risk. Amounts assessed as impaired are excluded from this calculation.
The amount of impairment allowance at 31 December 2012 calculated on a portfolio basis in accordance with local regulations amounted to HRK 99,241 thousand (2011 HRK 100,037 thousand) of the relevant on- and off-balance-sheet exposure for the Bank. The total of these portfolio based impairment losses amounted to 0.85% (2011: 0.85%) of eligible loans to and receivables from customers and commitments and contingencies of the Bank respectively, in both cases net of amounts individually assessed as impaired.
At the maximum rate prescribed by the CNB, portfolio based impairment losses would be HRK 40,863 thousand (2011: HRK 41,192 thousand) higher than the amount recognised by the Bank.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the nominal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Held-to-maturity investments

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

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 who are entitled to carry out subsequent inspections of taxpayers' records.

Regulatory requirements

The CNB is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

Legal actions

In the ordinary course of business, the Bank is subject to various legal actions and complaints, the outcome of which is uncertain. As of 31 December 2012, based on the advice of legal counsel, management created provisions for the related risks amounting to HRK 53,807 thousand (2011: HRK 43,294 thousand).

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements are signed by and approved for issuing by the Management Board of OTP banka Hrvatska d.d. Zadar on 20 March 2013.

Balázs Békeffy
President of the Management Board

Zorislav Vidović
Member of the Management Board

All amounts are expressed in thousands of HRK

Pursuant to the Croatian Accounting Law, Croatian National Bank issued the Decision on structure and contents of annual financial statement of the banks.

The following tables present financial statements in accordance to the above mentioned decision.

Statements of comprehensive income

	2012 HRK '000	2011 HRK '000
1. Interest income	725,347	726,310
2. (Interest expenses)	(324,265)	(336,660)
3. Net interest income	401,082	389,650
4. Commission and fee income	151,305	141,918
5. (Commission and fee expenses)	(35,055)	(37,906)
6. Net commission and fee income	116,250	104,012
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	25,054	57,924
9. Gain/(loss) from embedded derivatives	11	32
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	373	956
11. Gain/(loss) from financial assets available for sale	(439)	113,357
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	33	124
16. Gain/(loss) from foreign exchange differences	7,892	(3,942)
17. Other income	7,537	14,376
18. Other expenses	(26,051)	(39,284)
19. General and administrative expenses, depreciation and amortization	(320,949)	(312,654)
20. Net income before value adjustments and provisions for losses	210,793	324,551
21. Expenses from value adjustments and provisions for losses	(83,189)	(199,740)
22. Profit/(loss) before tax	127,604	124,811
23. Income tax	(27,532)	(25,364)
24. Current year profit/(loss)	100,072	99,447
25. Earnings per share	24,34	24,19
26. Current year profit/(loss)	100,072	99,447
27. Distributable to the parent company shareholders	100,072	99,447
28. Minority participation	-	-

All amounts are expressed in thousands of HRK

Statement of financial position

Assets	**2012**	**2011**
	HRK '000	HRK '000
1. Cash and deposits with the CNB	1,607,658	1,432,096
1.1. Cash	288,498	171,740
1.2. Deposits with the CNB	1,319,160	1,260,356
2. Deposits with banking institutions	727,470	1,120,966
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	310,258	597,270
4. Securities and other financial instruments held for trading	-	-
5. Securities and other financial instruments available for sale	1,446,038	463,706
6. Securities and other financial instruments held to maturity	68,838	23,816
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	10,697	30,317
8. Derivative financial assets	5,104	9,368
9. Loans to financial institutions	152,452	22,966
10. Loans to other clients	8,625,390	8,708,916
11. Investments in subsidiaries, affiliated companies and joint ventures	73,233	83,626
12. Repossessed assets	5,919	5,919
13. Tangible and intangible assets (minus depreciation and amortization)	216,295	205,047
14. Interests, fees and other assets	213,270	223,614
15. Special reserves for identified losses	(87,830)	(90,898)
A. Total assets	13,374,792	12,836,729
Liabilities and equity		
1. Borrowings from financial institutions	868,635	843,477
2. Deposits	10,587,776	10,237,378
2.1. Deposits on giro-accounts and current accounts	1,347,926	1,344,649
2.2. Savings deposits	1,417,153	1,341,412
2.3. Term deposits	7,822,697	7,551,317
3. Other borrowings	-	5,421
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	-	5,421
4. Derivative financial liabilities and other trading financial liabilities	2,431	996
5. Issued debt securities	-	-
6. Issued subordinated instruments	38,580	38,502
7. Issued Subordinated debt	-	-
8. Interests, fees and other liabilities	348,386	320,769
B. Total liabilities	11,845,808	11,446,543
1. Share capital	989,607	989,607
2. Current year gain/loss	100,072	99,447
3. Retained earnings/(loss)	231,293	131,845
4. Legal reserves	41,114	41,114
5. Statutory and other capital reserves	150,907	154,109
6. Unrealised gain /(loss) from available for sale fair value adjustment	15,991	(25,936)
C. Total equity	1,528,984	1,390,186
D. Total liabilities and equity	13,374,792	12,836,729
8. Total equity	1,528,984	1,390,186
9. Equity distributable to parent company shareholders	1,528,984	1,390,186
10. Minority participation	-	-

All amounts are expressed in thousands of HRK

Statement of Changes in Equity

Change in equity	Share capital	Legal statutory and other reserves	Retained earnings/ (losses)	Current year profit/ loss	Unrealised gain/(losses) from available for sale financial assets fair value adjustement	Total capital and reserves
1. Balance at 1 January 2012	989,607	195,223	131,846	99,447	(25,936)	1,390,187
2. Changes of Accounting policies and error corrections						
3. Restated balance at 1 January 2012(1+2)	989,607	195,223	131,846	99,447	(25,936)	1,390,187
4. Sale of financial assets available for sale	-	-	-	-	439	439
5. Fair value changes of financial assets available for sale	-	-	-	-	47,972	47,972
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	(9,682)	(9,682)
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	38,729	38,729
9. Current year gain/(loss)	-	-	-	100,072	-	100,072
10. Total income and expenses recognised for the current year 2012	-	-	-	100,072	38,729	138,801
11. Increase/ (decrease) in share capital	-	-	-	-	-	-
12. Buying/(sale) of treasury shares	-	-	-	-	-	-
13. Other changes	-	(3,202)	99,447	(99,447)	3,198	(4)
14. Transfer to reserves	-	-	-	-	-	-
15. Dividends paid	-	-	-	-	-	-
16. Distribution of profit (14+15)	-	-	-	-	-	-
17. Balance at 31 December 2012 (3+10+11+12+13+16)	989,607	192,021	231,293	100,072	15,991	1,528,984

Changes in equity	Share capital	Legal statutory and other reserves	Retained earnings/ (losses)	Current year profit/ loss	Unrealised gain/(losses) from available for sale financial assets fair value adjustement	Total capital and reserves
1. Balance at 1 January 2011	989,607	195,227	156,633	75,213	66,979	1,483,659
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-
3. Restated balance at 1 January 2011(1+2)	989,607	195,227	156,633	75,213	66,979	1,483,659
4. Sale of financial assets available for sale	-	-	-	-	(113,425)	(113,425)
5. Fair value changes of financial assets available for sale	-	-	-	-	(2,719)	(2,719)
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	23,229	23,229
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	(92,915)	(92,915)
9. Current year gain/(loss)	-	-	-	99,447	-	99,447
10. Total income and expenses recognised for the current year 2011	-	-	-	99,447	(92,915)	6,532
11. Increase/ (decrease) in share capital	-	-	-	-	-	-
12. Buying/(sale) of treasury shares	-	-	-	-	-	-
13. Other changes	-	(4)	75,213	(75,213)	-	(4)
14. Transfer to reserves	-	-	-	-	-	-
15. Dividends paid	-	-	(100,000)	-	-	(100,000)
16. Distribution of profit (14+15)			(100,000)			(100,000)
17. Balance at 31 December 2011 (3+10+11+12+13+16)	989,607	195,223	131,846	99,447	(25,936)	1,390,187

All amounts are expressed in thousands of HRK

Cash flow statement

	2012 HRK '000	2011 HRK '000
Operating activities		
1.1. Gain/(loss) before tax	127,604	124,811
1.2. Value adjustments and provisions for losses	(3,068)	3,640
1.3. Depreciation and amortization	34,956	37,596
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	-	-
1.5. Gain/(loss) from tangible assets sale	(191)	(853)
1. Operating cash flow before operating assets movements	159,301	165,194
2.1. Deposits with CNB	(58,804)	54,229
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	287,012	(319,086)
2.3. Deposits with banking institutions and loans to financial institutions	393,496	(447,774)
2.4. Loans to other clients	(45,960)	(16,521)
2.5. Securities and other financial instruments held for trading	23,884	850
2.6. Securities and other financial instruments available for sale	(940,405)	637,257
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	-	-
2.8. Other operating assets	10,344	32,350
2. Net (increase)/decrease in operating assets	(330,433)	(58,695)
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	3,277	16,008
3.2. Savings and term deposits	347,121	9,399
3.3. Derivative financial liabilities and other trading liabilities	1,435	(17,001)
3.4. Other liabilities	17,612	(12,807)
3. Net increase/(decrease) in operating liabilities	369,445	(4,401)
4. Net cash flow form operating activities before profit tax paying	198,313	102,098
5. Paid profit tax	(20,728)	(17,756)
6. Net inflows/(outflows) of cash from operating activities	177,585	84,342
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(46,013)	(43,103)
7.2. Receipts from sale /(payments for buying) investments in subsidiaries, affiliated companies and joint ventures	10,393	(1,415)
7.3. Receipts from collection/(payments for buying) securities and other financial instruments held to maturity	(45,022)	200
7. Net cash flow from investing activities	(80,642)	(44,318)
Financial activities		
8.1. Net increase/(decrease) in borrowings	19,737	92,111
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated and Subordinated debt	78	738
8.4. Receipts from issued share capital	-	-
8.5. (Dividends paid)	-	(100,000)
8.6. Other receipts/(payments) from financial activities	-	-
8. Net cash flow from financial activities	19,815	(7,151)
9. Net increase/(decrease) in cash and cash equivalents	116,758	32,873
10. Cash and cash equivalents at the beginning of the year	1,823,588	1,790,715
11. Cash and cash equivalents at the and of the year	1,940,346	1,823,588

All amounts are expressed in thousands of HRK

As data in financial statements prepared in accordance with the Croatian National Bank ("CNB") decision are classified differently from those in financial statements prepared according to the statutory accounting requirements for banks in Croatia the following tables present comparatives.

Comparative statements of comprehensive income for 2012 and 2011

	Croatian National Bank decision 2012	Accounting Requirements for banks in Croatia for 2012	Difference 2012	Croatian National Bank decision 2011	Accounting Requirements for banks in Croatia for 2011	Difference 2011
1. Interest income	725,347	725,422	(75)	726,310	725,112	1,198
2. (Interest expenses)	(324,265)	(300,794)	(23,471)	(336,660)	(311,518)	(25,142)
3. Net interest income	401,082	424,628	(23,546)	389,650	413,594	(23,944)
4. Commission and fee income	151,305	151,306	(1)	141,918	141,915	3
5. (Commission and fee expenses)	(35,055)	(35,055)	-	(37,906)	(37,904)	(2)
6. Net commission and fee income	116,250	116,251	(1)	104,012	104,011	1
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-	-	-	-	-
8. Gain/(loss) from trading activities	25,054	25,054	-	57,924	57,924	-
9. Gain/(loss) from embedded derivatives	11	-	11	32	-	32
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	373	-	373	956	-	956
11. Gain/(loss) from financial assets available for sale	(439)	(439)	-	113,357	113,357	-
12. Gain/(loss) from financial assets held to maturity	-	-	-	-	-	-
13. Gain/(loss) from hedging transactions	-	-	-	-	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-	-	-	-	-
15. Income from other equity investments	33	-	33	124	-	124
16. Gain/(loss) from foreign exchange differences	7,892	7,732	160	(3,942)	(6,735)	2,793
17. Other income	7,537	9,213	(1,676)	14,376	16,948	(2,572)
18. Other expenses	(26,051)	-	(26,051)	(39,284)	-	(39,284)
19. General and administrative expenses, depreciation and amortization	(320,949)	(355,701)	34,752	(312,654)	(353,926)	41,272
20. Net income before value adjustments and provisions for losses	210,793	226,738	(15,945)	324,551	345,173	(20,622)
21. Expenses from value adjustments and provisions for losses	(83,189)	(99,134)	15,945	(199,740)	(220,362)	20,622
22. Profit/(loss) before tax	127,604	127,604	-	124,811	124,811	-
23. Income tax	(27,532)	(27,532)	-	(25,364)	(25,364)	-
24. Current year profit/(loss)	100,072	100,072	-	99,447	99,447	-
25. Earnings per share	24.34	24.34	-	24.19	24.19	-
26. Current year profit/(loss)	100,072	100,072	-	99,447	99,447	-

Reconciliations between the statement of comprehensive income items disclosed in the Annual Report and those specified by the CNB Decision relate to the following categories:

Reconciliation notes to the 2012 Statements of comprehensive income

The difference in the total interest income reported CNB accounting requirements for banks in the Republic of Croatia versus the Annual Report relates to net foreign exchange difference relating to interest income, which is presented in Annual report with item "Net profit or loss from trading in foreign currencies, securities and translation of foreign-currency denominated assets and liabilities".

The difference in the total interest expenses reported CNB accounting requirements for banks in the Republic of Croatia versus the Annual Report relates to savings deposit insurance premiums, which were included in "Operating expenses" in the Annual Report as well as to the position "Net profit or loss from trading in foreign currencies, securities and translation of foreign-currency denominated assets and liabilities".

The items "Trading gains/losses", "Gains/losses on derivatives" and "Gains/losses on exchange differences" are presented separately under the CNB bank accounting requirements, whereas in the Annual Report they have been included in "Net proft or loss from trading in foreign currencies, securities and translation of foreign-currency denominated assets and liabilities".
Items "Profit/(loss) on assets not actively traded and measured at FVTPL", "Income from other equity investments", "Other income" and "Extraordinary income" are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are aggregated under "Other operating income".
Items "Other expenses", "Extaordinary expenses" and "General and administrative expenses and depreciation" are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are aggregated under "Operating expenses".

All amounts are expressed in thousands of HRK

Comparatives for Statement of financial position as at 31 December 2012 and 2011

Assets	Croatian National Bank decision 2012	Accounting Requirements for banks in Croatia for 2012.	Difference – 2012.	Croatian National Bank decision for 2011.	Accounting Requirements for banks in Croatia for 2011.	Difference – 2011.
1. Cash and deposits with the CNB	1,607,658	1,840,382	(232,724)	1,432,096	1,483,434	(51,338)
1.1. Cash	288,498	847,423	(558,925)	171,740	486,486	(314,746)
1.2. Deposits with the CNB	1,319,160	992,959	326,201	1,260,356	996,948	263,408
2. Deposits with banking institutions	727,470	614,821	112,649	1,120,966	1,069,818	51,148
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	310,258	-	310,258	597,270	-	597,270
4. Securities and other financial instruments held for trading	-	-	-	-	-	-
5. Securities and other financial instruments available for sale	1,446,038	1,774,195	(328,157)	463,706	1,079,668	(615,962)
6. Securities and other financial instruments held to maturity	68,838	64,833	4,005	23,816	9,769	14,047
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	10,697	15,397	(4,700)	30,317	39,164	(8,847)
8. Derivative financial assets	5,104	-	5,104	9,368	-	9,368
9. Loans to financial institutions	152,452	-	152,452	22,966	-	22,966
10. Loans to other clients	8,625,390	8,573,921	51,469	8,708,916	8,659,478	49,438
11. Investments in subsidiaries, affiliated companies and joint ventures	73,233	72,858	375	83,626	82,430	1,196
12. Repossessed assets	5,919	-	5,919	5,919	-	5,919
13. Tangible and intangible assets (minus depreciation and amortization)	216,295	286,365	(70,070)	205,047	284,134	(79,087)
14. Deferred tax assets	-	3,104	(3,104)	-	11,642	(11,642)
15. Interests, fees and other assets	213,270	58,111	155,159	223,614	52,816	170,798
16.Specifc reserves for indentified losses	(87,830)	-	(87,830)	(90,898)	-	(90,898)
A. Total assets	13,374,792	13,303,987	70,805	12,836,729	12,772,353	64,376

Liabilities and equity	Croatian National Bank decision 2012	Accounting Requirements for banks in Croatia for 2012.	Difference – 2012.	Croatian National Bank decision for 2011.	Accounting Requirements for banks in Croatia for 2011.	Difference – 2011.
1. Borrowings from financial institutions	868,635	911,387	(42,752)	843,477	895,173	(51,696)
2. Deposits	10,587,776	-	10,587,776	10,237,378	-	10,237,378
2.1. Deposits on giro-accounts and current accounts	1,347,926	-	1,347,926	1,344,649	-	1,344,649
2.2. Savings deposits	1,417,153	-	1,417,153	1,341,412	-	1,341,412
2.3. Term deposits	7,822,697	-	7,822,697	7,551,317	-	7,551,317
3. Other borrowings	-	-	-	5,421	-	5,421
3.1. Short-term borrowings	-	-	-	-	-	-
3.2. Long-term borrowings	-	-	-	5,421	-	5,421
4.Due to other banks and deposits from customers	-	21,077	(21,077)	-	21,343	(21,343)
5. Due to customers	-	10,670,752	(10,670,752)	-	10,320,047	(10,320,047)
6. Derivative financial liabilities and other trading financial liabilities	2,431	2,096	335	996	505	491
8. Issued subordinated instruments	38,580	-	38,580	38,502	-	38,502
9. Financial liabilities through fair value	-	-	-	-	-	-
10. Provisions	-	66,385	(66,385)	-	53,631	(53,631)
11. Deferred tax liabilities	-	-	-	-	-	-
12. Income tax liabilities	-	7,947	(7,947)	-	6,459	(6,459)
13. Interest, fees and other liabilities	348,386	95,359	253,027	320,769	85,009	235,760
B. Total liabilities	11,845,808	11,775,003	70,805	11,446,543	11,382,167	64,376
1. Share capital	989,607	822,280	167,327	989,607	822,280	167,327
Share premium	-	171,260	(171,260)	-	171,260	(171,260)
2. Current year gain/loss	100,072	-	100,072	99,447	-	99,447
3. Retained earnings/(loss)	231,293	331,364	(100,071)	131,845	207,613	(75,768)
4. Legal reserves	41,114	-	41,114	41,114	-	41,114
Statutory and other capital reserves	-	82,228	(82,228)	-	82,228	(82,228)
5. Statutory and other capital reserves	150,907	-	150,907	154,109	-	154,109
Other reserves	-	121,852	(121,852)	-	106,805	(106,805)
6. Unrealised gain /(loss) from available for sale fair value adjustment	15,991	-	15,991	(25,936)	-	(25,936)
C. Total equity	1,528,984	1,528,984	-	1,390,186	1,390,186	-
D. Total liabilities and equity	13,374,792	13,303,987	70,805	12,836,729	12,772,353	64,376

Reconciliations between the statement of financial position items disclosed in the Annual Report and those specified by the CNB Decision relate to the following categories:

Reconciliation notes to the 2012 Statement of financial position

ASSETS

Items "Cash and deposits with the CNB" and "Deposits and receivables from banking institutions" are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are captured under "Loans and receivables from other banks", "Mandatory reserve with the CNB" and "Loans to other banks".

The Treasury Bills of the Ministry of Finance and of the Croatian National Bank are presented separately, in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual Report, they are reported under "Financial assets available for sale". Securities and other financial instruments not actively traded and carried at FVTPL are presented separately under the CNB accounting requirements for banks, whereas in the Annual Report they are included in "Financial assets at fair value through profit or loss". Foreclosed assets are presented separately, in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual Report they are included in "Other assets".

Deferred tax assets are presented within item „Interest, fees and other assets" in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual report they are presented separately.

Accrued interest and fees due and not yet due as well as intangible assets are presented under the CNB accounting requirements for banks in the Republic of Croatia within "Interest, fees and other assets", whereas in the Annual Report they are presented separately, i.e. the interest is presented together with the principal due and not yet due and the related securities.

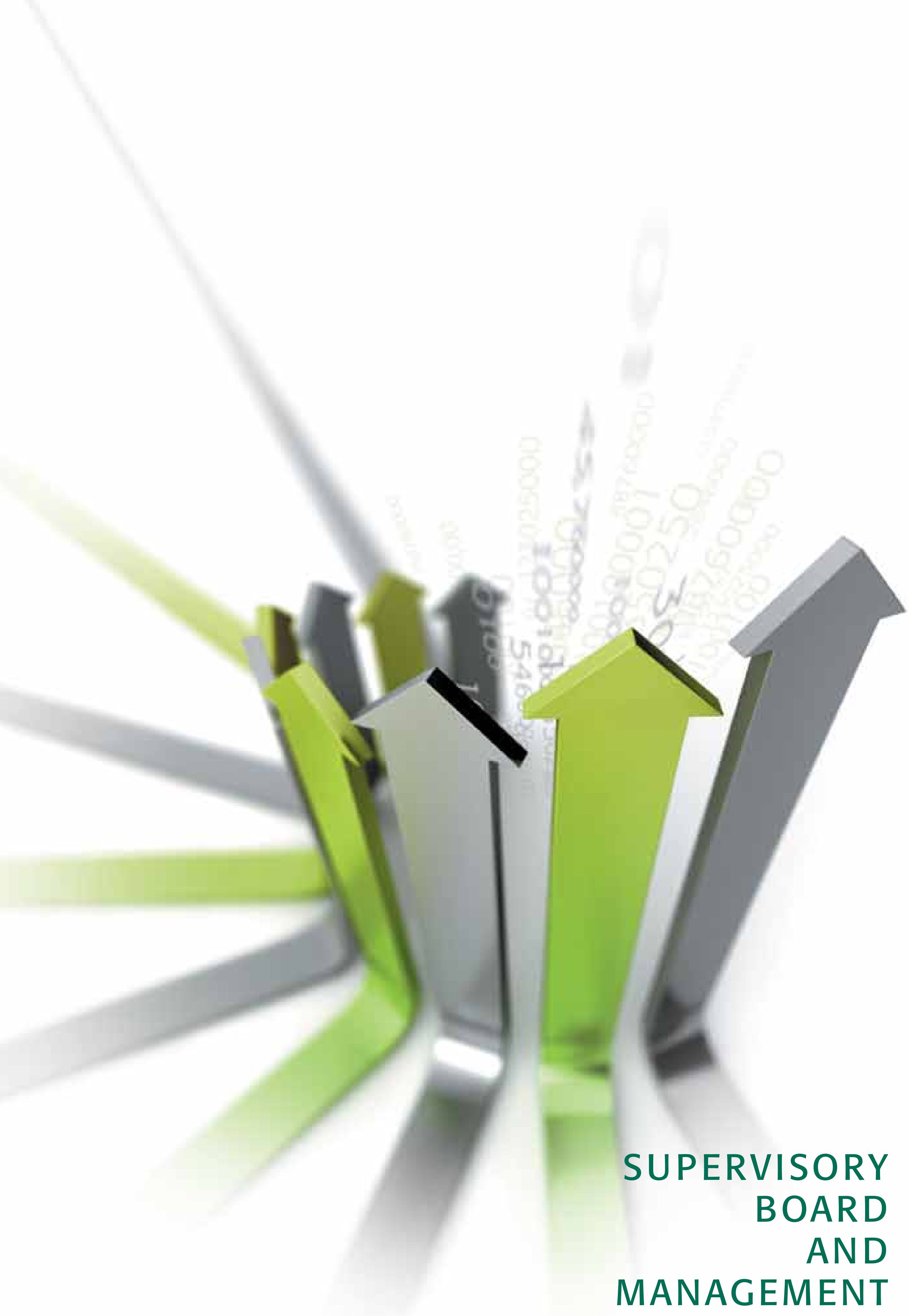
LIABILITIES AND EQUITY

In accordance with the CNB accounting requirements for banks in the Republic of Croatia, short-term and long-term loans from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are items to be presented separately, whereas in the Annual Report they are included under "Other borrowed funds".

Under the CNB accounting requirements for banks in the Republic of Croatia, balances on current and giro accounts, savings and term deposits are presented separately, whereas in the Annual Report they are included in "Amounts due to other banks" and "Amounts due to customers".

In accordance with the CNB accounting requirements for banks in the Republic of Croatia, provisions, deferred tax liabilities and current income tax are included in "Interest, fees and other liabilities", whereas they are presented separately in the Annual Report.

Accrued interest due and not yet due are presented in the Annual Report under the related principal due and not yet due, whereas under the CNB accounting requirements for banks in the Republic of Croatia they are included in "Interest, fees and other liabilities".



SUPERVISORY BOARD AND MANAGEMENT BOARD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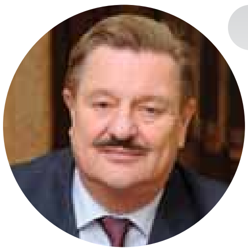
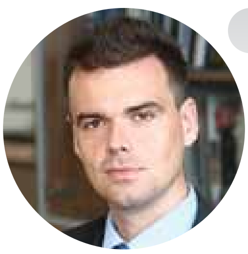
Supervisory Board



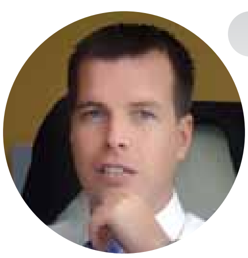
Dr. Antal Pongrácz
President of the Supervisory Board

Dr. Antal Pongrácz, president of the Supervisory Board, was born in 1946. He holds a PhD in Economic Sciences. Early in his career he worked as an analyst and later as manager at the at the Revenue Directorate as well as on various positions in Hungarian Ministry of Finance. He was also the first Deputy Chairman of the State Office for Youth and Sports. He came to OTP Bank for the first time in 1988 and was the first Deputy CEO of OTP Bank until 1990. Between 1991 and 1994 he was CEO, and then Chairman and CEO of the European Commercial Bank Rt., between 1994 and 1998 he was Chairman and CEO of Szerencsejáték Rt, then in 1998-99 he served as CEO of Hungarian flagship carrier Malév. Since 2001 he has been executive director of OTP Bank's Staff Division. He has been a member of OTP Bank's Board of Directors since 2002 and Deputy Chairman since June 2009.



Szabolcs Annus
Deputy president of the Supervisory Board

Szabolcs Annus was born in 1976. He graduated in economic studies and completed postgraduate degree in banking from the Budapest University. He works in OTP Bank since 2000, where he worked as controller, than advisor in staff division and head of Group-level coordination Department shortly after. Since 2007 he holds the position of country manager for Romania, and since September 2008 he is also in charge of Bank Group Supervision Department. Since 2007 he is also a member of different supervisory boards. From 2007 to 2008 he was the SB chairman at OTP Travel, since 2007 he is the SB member of OTP bank Romania. He was also a member of the Board in Portfolion Venture Capital Fund Management Company during 2010, and is the SB member since October 2010. In addition, he is the Board member of OTP Building Society since 2011.



Balázs Fábián
Member of the Supervisory Board

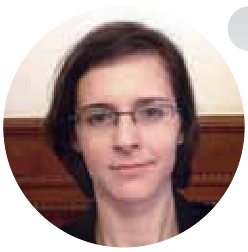
Balázs Fábián gradutedfrom the Faculty of Economics at the University of Pécs, and was educated in Portugal, Great Britain and United States. He began his career at Raiffeisenbank as the Corporate Customer Service and SME Representative and the head of Key Account Department at Kereskedelmi és Hitelbank Plc. Shortly after that he comes to OTP Bank where he remains at the position of key account manager until 2005 and than spends a year at the position of Raiffeisenbank regional manager. He returns to OTP Bank in 2006 to become Deputy Managing Director for South-Transdanubian Region, and in 2007 becomes Director in charge for this region.

Branko Mikša
Independent member of the Supervisory Board

Branko Mikša was born in 1947 in Đurmanec, Croatia. He graduated in 1970 and attained masters degree in 1973 from the Faculty of Economics, University of Zagreb. From 1970 until 1991 he worked in Pliva on various positions from associate to head of supply chain, export director and marketing director. In 1991 and 1992 he was director of Pliva Handels GmbH in Germany, while in 1992 and 1993 he held the position of Minister of Trade and Tourism in the Croatian Government. From 1993 until 1996 he was Mayor of Zagreb, while from 1996 until 1999 he returned to Pliva Handels GmbH in Germany. Since 1999 he has been Deputy President of Supervisory Board of Agrokor d.d. and advisor to the President of the Agrokor Group. He has been an independent member of Supervisory Board since 29 September 2011.

László Kecskés
Member of the Supervisory Board

László Kecskés graduated on Financial Accounting College and began his career as the Manager of Kecskés and Co accountant and tax-consultant company. After two years he transfered to the position of Chief Manager at Intertia Accountant Trustee, where he remained until 1994 when he became an auditor in OTP Bank. In 1996 he became Deputy Head of the Banking Operation Audit Department and obtained the position of the General Director in 2001. Since April 2007 he is the Managing Director of the OTP Bank Internal Audit Directorate.



Veronika Szabó
Member of the Supervisory Board

Veronika Szabó was born in 1979 in Debrecen. She graduated in 2003 from the Corvinus University of Budapest with the major of accounting; she also holds a CEMS Master in International Management Degree. After working as a consultant for Deloitte in the Financial Advisory Services Department, she joined OTP Hungary's controlling team in 2005. She was appointed head of the Operational Costs and Capital Expenditures Controlling Department in 2008, and has been the head of the Subsidiary Planning, Controlling and Analysis Department since July 2012.

Zsolt Szabó
Member of the Supervisory Board

Zsolt Szabó graduated from the Debrecen Agricultural University in 1987 and earned a degree from Budapest Economic College, Faculty of Accountancy in 2000. Between 1995 and 2002 he worked for OTP Bank Plc. in various managerial positions in the North-Alföldi Region, his last position there being Deputy Managing Director of Region. From 2002 he is the Director of the Corporate Market and Product Management Head Department at OTP Bank Plc. He is also member of the Supervisory Board of OTP Bank Romania and the Supervisory Board of OTP Flat Lease Ltd. Hungary.

Antal György Kovács

Antal György Kovács was President of the Supervisory Board until 12 April 2012.

Gábor Czikora

Gábor Czikora was member of the Supervisory Board until 12 April 2012.

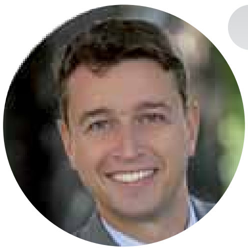
Gábor Kovács

Gábor Kovács was member of the Supervisory Board until 12 April 2012.

Anita Szórád

Anita Szórád was member of the Supervisory Board until 6 September 2012.

Management Board



Balázs Békeffy
President of the Management Board of OTP banka Hrvatska d.d.

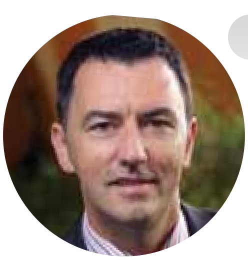
Balázs Békeffy, president of the Management Board of OTP banka d.d., was born in 1977 in Budapest. He graduated from the Budapest University of Economics, and gained specialised education at professional schools in Moscow and Sweden. He started his career in a subsidiary of the Swiss-based pharmaceutical and research company Novartis Seeds, and afterwards worked with the audit company PricewaterhouseCoopers as a consultant at Corporate Finance Services. He joined OTP Bank in March 2003, as a senior project manager in charge of bank acquisitions. In March 2006, he was appointed head of the Operations Division within OTP banka Hrvatska, and in September 2006 he was appointed Management Board member. He was appointed Management Board president in September 2011, and is in charge of Operations, IT, Human Resources, Legal Affairs and Audit.

Zorislav Vidović
Member of the Management Board of OTP banka Hrvatska d.d.

Zorislav Vidović, member of the Management Board of OTP banka d.d., was born in 1964 in Šibenik. He graduated from the Faculty of Economics at the University of Zagreb in 1988. In the period from 1988 to 1990 he held a job in the Finance Section of the company Kepol Zadar. At the end of 1990 he joined Dalmatinska banka where he was assigned to the Assets and Lending Division and in 1992 he earned his broker's license. From 1997 to 2002 he held the position of the director of the Treasury Department. He has been a member of the Management Board since 1 April 2002. He is in charge of the Treasury, Finance, Corporate Banking and Group management system. He has been a long-standing member of the supervisory boards of the Bank's subsidiaries.

Helena Banjad
Member of the Management Board of OTP banka Hrvatska d.d.

Helena Banjad, member of the Management Board of OTP banka d.d., was born in 1955 in Zadar. She graduated from the Faculty of Economics at the University of Zagreb in 1978. She started her career in the development department of Pliva pharmaceutical company in Zagreb, and in 1981 took a job in Zadar, working in the foreign trade unit of a chemical company. She joined Dalmatinska banka in 1990, and left the Bank for a company offering financial services, where she worked from 1993 to 1995. Her jobs with the Bank included running the international market and managing f/x liquidity (1990 to 1993), correspondent banking and procurement of funds from international markets (1995 to 1998), and since 1998 she has been heading the Risk Management Division. In the period from 2002 to 2004 she held the position of the Management Board member in charge of risks. She was appointed Management Board member in August 2011, and the supervision over credit, market and operational risks remains within her competence.



Slaven Celić
Member of the Management Board of OTP banka Hrvatska d.d.

Slaven Celić, member of the Management Board of OTP banka d.d., was born in Šibenik in 1967. He graduated from the Faculty of Economics at the University of Split in 1992. Before joining the Bank at the end of 1997 he taught the economics courses in a secondary school in Šibenik. His first job in Dalmatinska banka was that of a senior loan and deposit administration officer, followed by the position of a relationship manager in the Corporate Banking Division, which he held from 2001 to 2004. He was promoted to the position of the manager of the Business Unit Šibenik in March 2004, only to be fast tracked to the position of the head of the Retail Banking Division in May the same year. He was appointed Management Board member in September 2012, and is in charge of the Retail Banking, and the Marketing and Corporate Communications.

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