HYPO ALPE ADRIA
S VAMA. UZ VAS. ZA VAS.

Annual report 2012

Hypo Alpe-Adria-Bank d.d.

Croatia

Key figures for the year 2012 Hypo Alpe-Adria-Bank d.d. and subsidiaries

Hypo Alpe-Adria-Bank d,d, Zagreb and the daughter companies — EUR '000

	2010	2011	2012
Total assets	5,297,392	5,539,404	4,694,335
Lending	3,927,936	3,952,108	3,229,041
Own funds	864,222	722,593	753,157
Thereof TIER 1	806,999	691,696	690,302
Primary funds	2,134,902	2,211,804	2,418,631
Net interest income	139,255	119,555	87,710
Operating income	198,982	180,714	155,208
Operating expenses	99,989	110,974	112,102
Operating profit	32,431	7,588	45,101
Profit from ordinary activities (POA)	25,183	5,932	36,034
CIR*	**50.25%**	**61.41%**	**72.23%**
ROE**	**3.74%**	**0.96%**	**6.11%**
ROA***	**0.61%**	**0.14%**	**0.88%**
Staff	1,762	1,817	1,702

Remark:
*Cost/Income Ratio = Operating expenses/Operating income
**ROE = Operating profit/Average capital
***ROA= Profit from ordinary activities/Average total assets

Contents

Board Members

Markus Ferstl
President of the Management Board

Responsible for:
Board Assistance and Strategic Development
Internal Audit
Legal
Compliance and Security
Human Resources
Marketing
Corporate Communications
Economic Research

Brane Golubić
Member of the Management Board

Responsible for:
Risk Control
Credit Management
Retail Risk Management
Credit Processing
Credit Rehabilitation

Ivo Bilić
Member of the Management Board

Responsible for:
Distribution Channels
Retail Product Marketing
Affluent Banking
Individual Clients and Retail Products
SME
Sales Management Retail
Card Processing Centre

Tea Martinčić
Member of the Management Board

Responsible for:
Corporate Banking
Public Finance
Investment Banking
Sales Planning and Controlling
Hypo Alpe-Adria-Leasing

Joško Mihić
Member of the Management Board

Responsible for:
Financial Controlling
Accounting and Reporting
Balance Sheet Management and Treasury
Business Continuity Management

Slawomir Konias
Member of the Management Board

Responsible for:
Business Technology
Procurement
Collection
Real Estate Management
Business Continuity Management
Business Process Management
Project Management
Operations

Management Board Report for the year 2012

Macroeconomic environment
Croatian GDP dropped by 2% in 2012 due to weaker household spending amid soaring unemployment, disposable income deflation and administrated price hikes, notably energy prices. Economic contraction also owed by investment decline given deteriorated medium-term growth prospects and payment arrears. On the other hand, sharper GDP contraction was prevented by positive net trade contribution thanks to higher tourism revenues and lower merchandise trade deficit. Last year's private sector lending activity dropped by 6.3%, whereas the decline was somewhat smaller at 1.9% if adjusted for banks' balance sheet cleansing, the MinFin's take-over of shipyards local debt and FX changes. At the same time, deposits increased by 3.2% as part of banks' efforts to become self-funded. Consequently, in the environment of weak credit demand by private sector as well as foreign banks' de-leveraging initiatives, banks' net foreign assets improved by HRK 15.8bn in 2012 (31.1% yoy) as banks used local deposit collection and excess liquidity to replace their foreign liabilities.

Total assets of domestic banks (Croatian National Bank, audited data as at December 31st 2012) totalled HRK 399.9 billion, i.e. 121 percent of the GDP. Since the CNB's withdrawal of HRK 2.5bn liquidity out of the system via two FX interventions did not manage to completely stabilise the EUR/HRK, the CNB drained additional HRK 3.1bn from the system via 1pp mandatory reserve rate hike from 14% to 15%. After additional HRK 993m was drained via February's FX intervention, the EUR/HRK was further stabilised as the CNB intervened in the structure of banks' foreign assets/foreign liabilities ratio by accepting EUR764 FX T-bills. Having seen that the mentioned measures are stabilizing the financial system, the CNB cut banks' mandatory reserve requirement rate from 15% to 13.5% in April and thus freed-up HRK 4.9bn banks' reserve liquidity, aiming to promote export-oriented credit activity. In order to curb renewed depreciation pressures on the kuna, the CNB sterilized HRK 2bn via FX intervention in May. Finally, due to an unusual kuna strength in September, the CNB bought EUR 58m from banks, thereby injecting HRK 430m liquidity in the system.

Overview of business operations
Pursuant to its business strategy, Hypo Alpe-Adria-Bank d.d. continued developing its business operations in Croatia during 2012 and has, despite the challenging market conditions, increased its market presence, achieved good business results and confirmed itself as one of the largest and most stable banks on the Croatian market. With its total assets of HRK 34.49 billion Hypo Alpe-Adria-Bank d.d. has further strengthened its position among one of five leading banks in Croatia.

The total net loan portfolio amounted to HRK 24.26 billion, overall HRK 4.6 billion worth of new credit placements were realized in the year 2012, and total deposits amounted to HRK 22.44 billion, with yet another year of strong retail deposits growth.

Despite the fact that last year was marked by continuous unfavourable economic developments, which caused further increase of credit risks and provisions for losses in the whole industry, Hypo Bank was successfully developing its business operations and has achieved profit before taxes worth HRK 326.5 million, which represents a considerable increase as compared to the previous year. The result was also positively impacted by the implementation of a Group wide project of transferring a part of the NPL portfolio to a wind-down entity, which resulted in reduced expenses for provisions for losses.

Hypo Alpe-Adria-Bank ended the year 2012 with a market share of 8.52 percent, and with over 30 percent it has the highest capital adequacy rate among all the big banks in Croatia and one of the highest in the whole region.
The Retail Sector placed EUR 133 million worth of new loans in 2012, and achieved the growth of the market share in car loans, cards and mortgage loans segments. Retail deposits grew strongly again and as at December 31st 2012 they totalled HRK 13.09 billion, which makes a growth of 6.55 percent as compared to the end of 2011, thus making Hypo Bank's retail deposits grow twice as fast as the industry average. The bank increased its availability by opening four new branch offices, which, along with introducing new and up-to-date products and services, resulted in an increased number of clients totalling 412,000. During the year 2012 the business focus was on developing modern credit and savings products and services, as well as distribution channels, so that the Bank was the first within the Group to introduce the comprehensive service of mobile banking, and it had also established and developed cooperation with several insurance companies.

The Department for Small and Medium-sized Businesses continued developing its business operations and acquisition of new clients in 2012, and achieved a solid level of loans and deposits. As Bank's target guideline of being a partner institution for entrepreneurs, the availability to clients has been increased so that SME services are now available in 39 entrepreneurship centres and new packages of transaction services for small and medium-sized businesses were introduced. A major step forward was made through active support to small businesses in all programs related to EU funds, especially to measures IPARD 101, 103 and 302, as well as through the co-operation with HAMAG Invest, with which the Bank started cooperating by mid 2012.

Hypo Alpe-Adria-Bank d.d. has always paid special attention to the **Corporate Sector**, and has, despite the unfavourable economic circumstances, which hit the corporate sector the most, continued with its active business approach. During the year 2012 the Sector was still focussed on strategic acquisition of clients who were the least severely hit by harsh market developments, and considerable activities were targeted at collecting the primary sources, restructuring of the existing portfolio and on intensifying the cooperation with existing clients by providing comprehensive and quality service aimed at maximizing income potentials. In this manner the Bank approved HRK 4.7 billion worth of placements to legal entities. As far as deposits are concerned, the Bank had HRK 2.1 billion worth of corporate deposits by the end of 2012, which represents a growth of 17.43 percent as compared to the previous year, and which lead to the growth of the market share in corporate deposits from 5.87 percent to 6.36 percent within a period of one year.

The total number of corporate clients also increased, and at the end of 2012 it amounted to almost 5.000. During the year 2012 Hypo Bank intensified its engagement in projects aimed at improving the economic environment, and in cooperation with the Croatian Bank for Reconstruction and Development participated in the realization of HBOR's credit programs (altogether 25 programs), and signed a cooperation agreement for four new programs. Hypo Alpe-Adria-Bank participated in five out of six auctions, within the Financing Program for the Economic Recovery and Development and approved a total of HRK 120 million for 24 clients. During the year the cooperation on implementing the IPARD programs was also intensified and a total of HRK 69 million to 16 clients for Measures 301 and 302 were approved.

The strategic orientation in the future will be further diversification of the existing portfolio through new acquisitions, collection of primary sources and quality increase of the existing portfolio.

The public sector is one of Bank's strategic priorities, so that the **Public Finance Sector** continued the long-going trend of achieving good business results in 2012, as well, which is especially visible in acquisition of a considerable number of strategic clients and in the increase of primary financing sources. The Bank has also continued being the most active participant of the banking market's public auctions for capital projects, current liquidity, IPARD programs – Development of Infrastructure and IPA throughout the year, which enabled it to participate in a series of important development and investment projects.

Pursuant to the dynamics of the business environment, the Bank constantly adjusted its products and services to clients' needs, placing special emphasis on providing a comprehensive financial and advisory support to clients in the public sector. In line with this, and in light of Croatia's near admission to the European Union, the Hypo EU Desk Department operates as a part of the Public Finance Sector, which through its cycles of lectures, workshops and publications educates a considerable number of current and future clients on financing possibilities through pre-accession European Union funds.

Despite the expected unfavourable business environment in the year 2013, as well, the Bank will still be an important participant in new investment cycles of the public sector, so that continued positive trends in collecting primary sources and placements to the public sector are expected.

In the **Investment banking** sector Hypo Alpe-Adria-Bank d.d. marked increased number of signed broker contracts in 2012 (+2,2% YoY) as well as of clients using the HYPOeTrade application for electronic trading with financial instruments (+30,45% YoY), while the mobile banking with new functionalities stands for improved service quality and additional value for clients.

Beside the trading with structured financial instruments, especially created for the needs of corporate and institutional clients, in the year 2012 Hypo Alpe-Adria-Bank d.d. assumed the role of broker and custody bank for the Alps-Adriatic region on the Group level, thus providing its clients with direct access to markets in Serbia, Bosnia and Herzegovina, Slovenia and Montenegro.

As for the depository business and custody over financial instruments, the Bank kept its position of one of the leading institutions in Croatia, and with assets under custody exceeding HRK 28 billion at the end of 2012 it reached a growth of assets under custody of considerable 24 percent in the period of one year.

During the year 2012 the funds under management of **Hypo Alpe-Adria-Invest d.d.** achieved attractive yields, and the HI-balanced fund stands out for having established itself among the 25 percent of the best funds on the domestic market.

The Asset Management and Treasury Sector fulfilled all the strategic and financial goals in 2012, and successfully re-structured the Bank's balance structure. The sector continued with providing internal trainings, contributing significantly to the quality of service to clients. In cooperation with the Economic Research Department and Hypo Alpe-Adria-Invest, the Sector continued with its macro-economic presentations and client education on possibilities of the credit risk management and benefits of the Hypo ProTrader trading platform. After the successful optimization of ATMs, regional treasuries and cash management in the network, the Sector started introducing the software for cash optimization, so that by the end of 2012 around 90 percent of all the ATMs and one third of branch offices were included in the system.

Even in the year marked by continued difficult market conditions Hypo Alpe-Adria-Bank d.d. continued expanding its **business network** by opening new branches and installing new ATMs, demonstrating its commitment to its business development in Croatia. During the year 2012 the Bank opened four new branch offices and installed 15 new ATMs. The strategic decision for the year 2013 is to continue the expansion of the business network.

Prospects

Looking ahead, in 2013 we see a 2%-alike GDP slump due to private sector de-leveraging combined with confidence sapping unemployment and subdued external prospects. In addition, corporate pre-bankruptcy settlements, funding cost spikes after rating downgrades, and the planned tightening of banks' NPL cover requirements could only aggravate bank credit contraction. The need to reform too generous entitlements, labour/product markets and the bloated public sector, alongside disposable income deflation amid soaring unemployment, will additionally dent confidence and households' consumption. In the meantime, expecting to see a notable impact from capital-intensive government's off-balance-sheet capex before 2H13 or 2014 is perhaps too much to hope for. Notwithstanding another promising tourist season, we expect the weaker EU demand, let alone negative growth surprises in Croatia's main external partners (notably Italy and Slovenia), and greater competitive pressures upon the EU entry will see net trade deteriorate. Against such a gloomy growth backdrop, good news could come only from steady policy responses and striking a sound balance between financial stability, credit support measures and more particularly credit access for SMEs.

Private sector remains in de-leveraging mode, both banking and corporate sector. Namely, further asset quality deterioration upon deteriorated economic prospects, stricter capital requirements and other banks' profitability pressures could reduce attractiveness of domestic bank sector in wider regional context, thereby reducing banks' need for external leverage. At the same time, corporate de-leveraging continues due to restructuring and balance sheet cleansing, while pre-bankruptcy settlements remain the key source of uncertainty. The sole driver of external borrowing is (quasi) sovereign sector given increased fiscal deficit. The scope of (quasi)sovereign borrowing depends on the global market conditions and fiscal credibility.

Monetary policy remains committed to financial system stability thereby supporting economic growth. Alongside prolonged recession and private sector's de-leveraging, monetary easing is preconditioned by reduced fiscal risks via credible policy anchor of the EU's EDP mechanism, lower global risk premia and FX and external stability.

In 2012 Hypo Alpe-Adria-Bank d.d. continued with its strategy of expanding its business network and range of products and services, which resulted in the increased number of clients and the above-average retail deposits growth on the market.

Hypo Alpe-Adria-Bank is committed to continue with its strategy of developing the key business segments, which is based on the strong support to the retail, SME and public sectors, as well as to the whole economy. That said, its goal in 2013 is to additionally improve the quality of business operations and services, as well as to continue developing the Bank by introducing new products, acquiring new clients and placing new loans in the amount of HRK 3.7bn.

Management Board
Hypo Alpe-Adria-Bank d.d.

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law (Official Gazette 109/07) and the Croatian Credit Institutions Act (Official Gazette 117/08), 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 Hypo Alpe-Adria-Bank d.d. Zagreb (“the Bank”) and Group HYPO ALPE-ADRIA-BANK d.d. Zagreb (“the Group”) and of the results of their operations, changes in equity and cash flows for that period.

After making enquiries, the Management Board has a reasonable expectation that the Bank and the Group have 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 and the Group 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 the Group and must also ensure that the financial statements comply with the Croatian Accounting Law (Official Gazette 109/07) and the Croatian Credit Institutions Act (Official Gazette 117/08). The Management Board is also responsible for safeguarding the assets of the Bank and the Group 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 19 March 2013 and were signed on its behalf as follows:

Signed on behalf of HYPO ALPE-ADRIA-BANK d.d. Zagreb on 19 March 2013:

Joško Mihić	**Brane Golubić**	**Markus Ferstl**
Member of the Management Board	Member of the Management Board	President of the Management Board

Independent Auditor’s Report

To the Shareholders of HYPO ALPE-ADRIA-BANK d.d. Zagreb:

Report on the financial statements:

We have audited the accompanying unconsolidated and consolidated financial statements (“the financial statements”) of HYPO ALPE-ADRIA-BANK d.d. Zagreb (“the Bank”) and its subsidiaries (together “the Group”), which comprise the unconsolidated and consolidated statements of financial position as at 31 December 2012, the unconsolidated and consolidated income statements, unconsolidated and consolidated statements of comprehensive income, the unconsolidated and consolidated statements of changes in equity and the unconsolidated and consolidated cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory information (as set out on pages 6 to 119).

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting requirements for banks in Republic of 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on other legal and regulatory requirements

In accordance with the By-law on the structure and content of the annual financial statements (National Gazette no 62/08) (hereinafter„the By-Law"), the Bank's management has prepared forms which are presented on pages 120 to 130, and which contain a balance sheet as at 31 December 2012, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with notes on the reconciliation of the forms with the primary financial statements of the Group. This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting requirements for banks in Republic of Croatia, not a required part of the financial statements, but is required by the Bylaw.

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion, based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements of the Group which were prepared in accordance with statutory accounting requirements for banks in Republic of Croatia as presented on pages 6 to 119 and are based on the underlying accounting records of the Group.

Ernst & Young d.o.o.
Zagreb, 19 March 2013

HYPO ALPE-ADRIA-BANK d.d. Zagreb and subsidiaries
Consolidated Income Statement for the year ended 31 December 2012

	Note	Unaudited* 2012 EUR '000	Unaudited* 2011 EUR '000	2012 HRK '000	2011 HRK '000
Interest and similar income	3	245,028	271,043	1,848,890	2,041,069
Interest expense and similar charges	4	(157,318)	(151,488)	(1,187,060)	(1,140,771)
Net interest income		**87,710**	**119,555**	**661,830**	**900,298**
Fee and commission income	5	39,262	41,305	296,256	311,046
Fee and commission expense	6	(9,950)	(9,603)	(75,078)	(72,314)
Net fee and commission income		**29,312**	**31,702**	**221,178**	**238,732**
Net trading gain	7	16,741	7,933	126,322	59,738
Net foreign exchange differences	8	(6,041)	1,864	(45,584)	14,034
Other operating income	9	27,486	19,660	207,400	137,373
Total income		**155,208**	**180,714**	**1,171,146**	**1,350,175**
Personnel expenses	10	(39,303)	(43,866)	(296,568)	(322,864)
Depreciation	22	(14,721)	(13,656)	(111,078)	(102,837)
Amortization	23	(2,538)	(3,749)	(19,155)	(28,226)
Impairment losses	11	1,995	(62,152)	15,057	(468,028)
Other operating expenses	12	(55,540)	(49,703)	(419,082)	(371,075)
Total expenses		**(110,107)**	**(173,126)**	**(830,826)**	**(1,293,030)**
Profit before tax		**45,101**	**7,588**	**340,320**	**57,145**
Income tax	13	(9,067)	(1,656)	(68,415)	(12,469)
Net profit for the year		**36,034**	**5,932**	**271,905**	**44,676**
Attributable to:					
Owners of the Group		36,034	5,932	271,905	44,676

*Income Statement items reported in the audited financial statements, are translated into EUR using the middle exchange rate of the Croatian National Bank as at 31 December of the respective year and are presented only for information and do not represent a part of the audited financial statements (see Note 2 for the information on exchange rates used).

Notes on pages 18 to 119 form an integral part of these financial statements.

HYPO ALPE-ADRIA-BANK d.d. Zagreb and subsidiaries
Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

	Note	Unaudited* 2012 EUR '000	Unaudited* 2011 EUR '000	2012 HRK '000	2011 HRK '000
Net profit for the year		**36,034**	**5,932**	**271,905**	**44,676**
Other comprehensive income					
Net gain on available for sale financial assets		438	223	3,302	1,679
Comprehensive income before tax		**438**	**223**	**3,302**	**1,679**
Income tax relating to components of other comprehensive income		(84)	(54)	(637)	(404)
Total comprehensive income for the year		**36,388**	**6,101**	**274,570**	**45,951**
Total comprehensive income attributable to:					
Owners of the Group		36,388	6,101	274,570	45,951

*Statement of Comprehensive Income items reported in the audited financial statements, are translated into EUR using the middle exchange rate of the Croatian National Bank as at 31 December of the respective year and are presented only for information and do not represent a part of the audited financial statements (see Note 2 for the information on exchange rates used).

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Signed on behalf of HYPO ALPE-ADRIA-BANK d.d. Zagreb on 19 March 2013:

Joško Mihić	**Brane Golubić**	**Markus Ferstl**
Member of the Management Board	Member of the Management Board	President of the Management Board

HYPO ALPE-ADRIA-BANK d.d. Zagreb and subsidiaries
Consolidated Statement of Financial Position as at 31 December 2012

	Note	Unaudited* 2012 EUR '000	Unaudited* 2011 EUR '000	2012 HRK '000	2011 HRK '000
Assets					
Cash and balances with Croatian National Bank	14	606,083	691,808	4,573,277	5,209,605
Financial assets at fair value through profit or loss	15	1,272	11,473	9,596	86,396
Derivative financial assets	34	623	242	4,702	1,822
Placements with and loans to other banks	16	87,898	62,770	663,247	472,683
Loans and receivables	17	3,229,041	3,952,108	24,365,129	29,761,034
Available for sale financial assets	18	528,843	567,609	3,990,451	4,274,337
Assets acquired in lieu of uncollected receivables	20	18,071	14,972	136,359	112,748
Property, plant and equipment	22	183,485	182,764	1,384,509	1,376,286
Intangible assets	23	7,367	8,078	55,588	60,839
Deferred tax assets	13	6,450	11,117	48,669	83,717
Current tax assets		-	9,166	-	69,024
Other assets	21	25,202	27,297	190,166	205,550
Total assets		**4,694,335**	**5,539,404**	**35,421,693**	**41,714,041**

Notes on pages 18 to 119 form an integral part of these financial statements.

HYPO ALPE-ADRIA-BANK d.d. Zagreb and subsidiaries

Consolidated Statement of Financial Position as at 31 December 2012

	Note	Unaudited* 2012 EUR '000	Unaudited* 2011 EUR '000	2012 HRK '000	2011 HRK '000
Liabilities					
Due to other banks	24	1,149,768	2,119,026	8,675,716	15,957,156
Due to customers	25	2,418,631	2,211,804	18,250,077	16,655,810
Finance lease liabilities	26	116	171	875	1,285
Derivative financial liabilities	34	7,809	13,167	58,925	99,153
Provisions for liabilities and charges	27	7,467	11,950	56,340	89,990
Current tax liabilities		3,753	923	28,315	6,954
Other liabilities	28	30,175	137,031	227,699	1,031,900
Subordinated debt	29	323,459	322,739	2,440,703	2,430,365
Total liabilities		**3,941,178**	**4,816,811**	**29,738,650**	**36,272,613**
Equity					
Share capital	30	690,302	691,696	5,208,760	5,208,760
Share premium		7,921	7,937	59,767	59,767
Unallocated profits		36,034	6,066	271,905	45,682
Profit/(loss) carried forward/retained earnings		647	(1,990)	4,884	(14,984)
Reserves	31	18,253	18,884	137,727	142,203
Total equity		**753,157**	**722,593**	**5,683,043**	**5,441,428**
Total liabilities and equity		**4,694,335**	**5,539,404**	**35,421,693**	**41,714,041**
Commitments and contingent liabilities	32	439,185	567,696	3,313,926	4,274,991

*Statement of Financial Position items reported in the audited financial statements, are translated into EUR using the middle exchange rate of the Croatian National Bank as at 31 December of the respective year and are presented only for information and do not represent a part of the audited financial statements (see Note 2 for the information on exchange rates used).

Notes on pages 18 to 119 form an integral part of these financial statements.

Signed on behalf of HYPO ALPE-ADRIA-BANK d.d. Zagreb on 19 March 2013:

Joško Mihić
Member of the Management Board

Brane Golubić
Member of the Management Board

Markus Ferstl
President of the Management Board

HYPO ALPE-ADRIA-BANK d.d. Zagreb and subsidiaries

Consolidated Statement of Changes in Equity For the year ended 31 December 2012

	Share capital HRK '000	Share premium HRK '000	Reserves HRK '000	Revaluation reserve HRK '000	Fair value reserve HRK '000	Retained earnings/ loss carried forward HRK '000	Unallocated profits HRK '000	Total HRK '000
Balance at 1 January 2011	**5,959,830**	**59,767**	**100,527**	**43,387**	**(9,376)**	**42,318**	**185,982**	**6,382,435**
Total comprehensive income	-	-	-	-	1,275	-	44,676	45,951
Acquired entity transferred balances	-	-	-	-	-	(16,957)	1,006	(15,951)
Allocation of profit from 2010								-
Legal reserves	-	-	11,357	-	-	-	(11,357)	-
Dividends	-	-	-	-	-	(41,155)	(174,625)	(215,780)
Share capital decrease	(751,070)	-	-	-	-	-	-	(751,070)
Other changes	-	-	-	(4,967)	-	810	-	(4,157)
Balance at 31 December 2011	**5,208,760**	**59,767**	**111,884**	**38,420**	**(8,101)**	**(14,984)**	**45,682**	**5,441,428**
Total comprehensive income	-	-	-	-	2,665	-	271,905	274,570
Allocation of profit from 2011								
Legal reserves	-	-	2,118	-	-	-	(2,118)	-
Dividends	-	-	-	-	-	(1,647)	(40,243)	(41,890)
Retained earnings	-	-	-	-	-	3,321	(3,321)	-
Other changes	-	-	-	(9,259)	-	18,194	-	8,935
Balance at 31 December 2012	**5,208,760**	**59,767**	**114,002**	**29,161**	**(5,436)**	**4,884**	**271,905**	**5,683,043**

Notes on pages 18 to 119 form an integral part of these financial statements.

HYPO ALPE-ADRIA-BANK d.d. Zagreb and subsidiaries

Consolidated Statement of Cash Flows for the year ended 31 December 2012

HRK '000

	Note	2012	2011
Cash flow from operating activities:			
Net profit for the year		271,905	44,676
Adjustments for:			
Income tax recognized in profit or loss		68,415	12,469
Interest expense recognized in income statement		1,187,060	1,140,771
Interest income recognized in income statement		(1,782,879)	(1,966,561)
Depreciation and amortization		130,233	131,063
Gain on disposal of property, plant and equipment		(54,629)	(23,158)
Fair value adjustment of financial assets at fair value through profit or loss		(263)	4,280
Fair value adjustment of derivative financial instruments		4,739	56,080
Dividends received		-	(21)
Impairment of assets		(15,057)	468,028
Operating cash flow before working capital movements		(190,476)	(132,373)
Decrease/(increase) in balances with Croatian National Bank		327,196	(508,988)
(Increase)/decrease in placements with other banks		(353,152)	8,415
Decrease/(increase) in loans and receivables		5,134,670	(1,783,136)
Decrease/(increase) in other assets		70,394	(45,540)
(Decrease)/increase in due to other banks		(6,806,608)	1,647,015
Increase in term deposits		1,447,261	693,422
Increase in demand deposits		68,588	188,449
Decrease in provisions for liabilities and charges		(33,650)	(5,709)
Decrease in other liabilities		(84,985)	(142,866)
Interest paid		(1,118,339)	(1,127,007)
Interest received		2,058,028	1,922,277
Income taxes paid		(13,947)	(111,495)
Net cash from operating activities		**504,980**	**602,464**
Cash flows from investing activities:			
Decrease in financial assets at fair value through profit or loss		75,842	42,700
Decrease in available for sale financial assets		185,241	350,696
Dividends received		-	21
Liquidation of subsidiary		-	20
Increase of property, plant and equipment and intangible assets		(87,983)	(87,548)
Net cash from investing activities		**173,100**	**305,889**
Cash flows from financing activities:			
Increase in subordinated debt		10,669	41,065
Decrease in borrowings		(466,045)	(111,310)
Decrease in share capital		(751,070)	-
Dividends paid		(41,890)	(215,781)
Net cash from financing activities		**(1,248,336)**	**(286,026)**
(Decrease)/increase in cash and cash equivalents		**(570,256)**	**622,327**
Cash in acquired company		-	10,769
Cash and cash equivalents at the beginning of the year		3,176,786	2,543,690
Cash and cash equivalents at the end of the year	**37**	**2,606,530**	**3,176,786**

Notes on pages 18 to 119 form an integral part of these financial statements.

HYPO ALPE-ADRIA-BANK d.d. Zagreb

Unconsolidated Income Statement for the year ended 31 December 2012

	Note	Unaudited* 2012 EUR '000	Unaudited* 2011 EUR '000	2012 HRK '000	2011 HRK '000
Interest and similar income	3	244,397	270,875	1,844,129	2,039,802
Interest expense and similar charges	4	(154,808)	(149,599)	(1,168,123)	(1,126,546)
Net interest income		**89,589**	**121,276**	**676,006**	**913,256**
Fee and commission income	5	38,797	40,810	292,744	307,319
Fee and commission expense	6	(9,895)	(9,521)	(74,661)	(71,696)
Net fee and commission income		**28,902**	**31,289**	**218,083**	**235,623**
Net trading gain	7	16,824	7,912	126,951	59,578
Net foreign exchange differences	8	(5,352)	3,658	(40,384)	27,548
Other operating income	9	6,034	4,280	45,529	32,229
Total income		**135,997**	**168,415**	**1,026,185**	**1,268,234**
Personnel expenses	10	(37,230)	(40,862)	(280,925)	(307,705)
Depreciation	22	(5,544)	(7,374)	(41,837)	(55,528)
Amortization	23	(2,468)	(3,694)	(18,621)	(27,825)
Impairment losses	11	908	(63,101)	6,855	(475,178)
Other operating expenses	12	(48,394)	(46,091)	(365,165)	(347,087)
Total expenses		**(92,728)**	**(161,122)**	**(699,693)**	**(1,213,323)**
Profit before tax		**43,269**	**7,293**	**326,492**	**54,911**
Income tax	13	(9,213)	(1,667)	(69,517)	(12,550)
Net profit for the year		**34,056**	**5,626**	**256,975**	**42,361**

*Income Statement items reported in the audited financial statements, are translated into EUR using the middle exchange rate of the Croatian National Bank as at 31 December of the respective year and are presented only for information and do not represent a part of the audited financial statements (see Note 2 for the information on exchange rates used).

Notes on pages 18 to 119 form an integral part of these financial statements.

HYPO ALPE-ADRIA-BANK d.d. Zagreb
Unconsolidated Statement of Comprehensive Income for the year ended 31 December 2012

	Unaudited* 2012 EUR '000	Unaudited* 2011 EUR '000	2012 HRK '000	2011 HRK '000
Net profit for the year	**34,056**	**5,626**	**256,975**	**42,361**
Other comprehensive income				
Net value gain on available for sale financial assets	422	268	3,184	2,019
Comprehensive income before tax	**422**	**268**	**3,184**	**2,019**
Income tax relating to components of other comprehensive income	(84)	(54)	(637)	(404)
Total comprehensive income for the year	**34,394**	**5,840**	**259,522**	**43,976**

*Statement of Comprehensive Income items reported in the audited financial statements, are translated into EUR using the middle exchange rate of the Croatian National Bank as at 31 December of the respective year and are presented only for information and do not represent a part of the audited financial statements (see Note 2 for the information on exchange rates used).

Notes on pages 18 to 119 form an integral part of these financial statements.

Signed on behalf of HYPO ALPE-ADRIA-BANK d.d. Zagreb on 19 March 2013:

Joško Mihić	**Brane Golubić**	**Markus Ferstl**
Member of the Management Board	Member of the Management Board	President of the Management Board

HYPO ALPE-ADRIA-BANK d.d. Zagreb
Unconsolidated Statement of Financial Position as at 31 December 2012

	Note	Unaudited* 2012 EUR '000	Unaudited* 2011 EUR '000	2012 HRK '000	2011 HRK '000
Assets					
Cash and balances with Croatian National Bank	14	606,083	691,807	4,573,273	5,209,600
Financial assets at fair value through profit or loss	15	1,272	11,473	9,596	86,396
Derivative financial assets	34	623	242	4,702	1,822
Placements with and loans to other banks	16	87,897	62,769	663,237	472,674
Loans and receivables	17	3,215,527	3,948,538	24,263,156	29,734,152
Available for sale financial assets	18	527,482	565,886	3,980,182	4,261,356
Investments in subsidiaries	19	32,368	32,433	244,234	244,234
Assets acquired in lieu of uncollected receivables	20	18,071	14,972	136,359	112,748
Property, plant and equipment	22	49,269	47,173	371,763	355,230
Intangible assets	23	7,220	7,869	54,485	59,259
Deferred tax assets	13	5,560	10,385	41,951	78,203
Current tax assets		-	8,697	-	65,492
Other assets	21	19,296	21,154	145,600	159,296
Total assets		**4,570,668**	**5,423,398**	**34,488,538**	**40,840,462**

Notes on pages 18 to 119 form an integral part of these financial statements.

HYPO ALPE-ADRIA-BANK d.d. Zagreb

Unconsolidated Statement of Financial Position as at 31 December 2012

	Note	Unaudited* 2012 EUR '000	Unaudited* 2011 EUR '000	2012 HRK '000	2011 HRK '000
Liabilities					
Due to other banks	24	1,028,497	2,003,458	7,760,648	15,086,882
Due to customers	25	2,424,472	2,220,958	18,294,152	16,724,745
Finance lease liabilities	26	116	171	875	1,285
Derivative financial liabilities	34	7,809	13,167	58,925	99,153
Provisions for liabilities and charges	27	7,408	11,876	55,895	89,434
Current tax liabilities		4,162	923	31,403	6,954
Other liabilities	28	21,597	125,523	162,965	945,239
Subordinated debt	29	323,459	322,740	2,440,703	2,430,365
Total liabilities		**3,817,520**	**4,698,816**	**28,805,566**	**35,384,057**
Equity					
Share capital	30	690,302	691,696	5,208,760	5,208,760
Share premium		7,921	7,937	59,767	59,767
Unallocated profits		34,056	5,625	256,975	42,361
Retained earnings		2,411	219	18,194	1,647
Reserves	31	18,458	19,105	139,276	143,870
Total equity		**753,148**	**724,582**	**5,682,972**	**5,456,405**
Total liabilities and equity		**4,570,668**	**5,423,398**	**34,488,538**	**40,840,462**
Commitments and contingent liabilities	32	441,364	568,682	3,330,366	4,282,417

*Statement of Financial Position items reported in the audited financial statements, are translated into EUR using the middle exchange rate of the Croatian National Bank as at 31 December of the respective year and are presented only for infrormation and do not represent a part of the audited financial statements (see Note 2 for the information on exchange rates used).

Notes on pages 18 to 119 form an integral part of these financial statements.

Signed on behalf of HYPO ALPE-ADRIA-BANK d.d. Zagreb on 19 March 2013:

Joško Mihić	**Brane Golubić**	**Markus Ferstl**
Member of the Management Board	Member of the Management Board	President of the Management Board

HYPO ALPE-ADRIA-BANK d.d. Zagreb

Unconsolidated Statement of Changes in Equity for the year ended 31 December 2012

HRK '000

	Share capital	Share premium	Reserves	Revalu-ation reserve	Fair value reserve	Retained earnings	Unallocated profits	Total
Balance at 1 January 2011	**5,959,830**	**59,767**	**99,477**	**43,387**	**(6,999)**	**855**	**227,137**	**6,383,454**
Total comprehensive income	–	–	–	–	1,615	–	42,361	43,976
Allocation of profit from 2010								
Legal reserves	–	–	11,357	–	–	–	(11,357)	–
Dividends	–	–	–	–	–	–	(215,780)	(215,780)
Share capital decrease	(751,070)	–	–	–	–	–	–	(751,070)
Other changes	–	–	–	(4,967)	–	792	–	(4,175)
Balance at 31 December 2011	**5,208,760**	**59,767**	**110,834**	**38,420**	**(5,384)**	**1,647**	**42,361**	**5,456,405**
Total comprehensive income	–	–	–	–	2,547	–	256,975	259,522
Allocation of profit from 2011								
Legal reserves	–	–	2,118	–	–	–	(2,118)	–
Dividends	–	–	–	–	–	(1,647)	(40,243)	(41,890)
Other changes	–	–	–	(9,259)	–	18,194	–	8,935
Balance at 31 December 2012	**5,208,760**	**59,767**	**112,952**	**29,161**	**(2,837)**	**18,194**	**256,975**	**5,682,972**

Bilješke na stranicama 18 do 119 čine sastavni dio ovih financijskih izvještaja.

HYPO ALPE-ADRIA-BANK d.d. Zagreb

Unconsolidated Statement of Cash Flows for the year ended 31 December 2012

HRK '000

	Note	2012	2011
Cash flow from operating activities:			
Net profit for the year		256,975	42,361
Adjustments for:			
Income tax recognized in income statement		69,517	12,550
Interest expense recognized in income statement		1,168,123	1,126,546
Interest income recognized in income statement		(1,778,117)	(1,965,293)
Depreciation and amortization		60,458	83,353
Gain on disposal of property, plant and equipment		(10,145)	(4,886)
Fair value adjustment of financial assets at fair value through profit or loss		(263)	4,280
Fair value adjustment of derivative financial instruments		4,739	56,080
Dividends received		-	(21)
Impairment of assets		(6,855)	475,178
Operating cash flow before working capital movements		(235,568)	(169,852)
Decrease/(increase) in balances with Croatian National Bank		327,196	(508,988)
(Increase) /decrease in placements with other banks		(353,142)	4,570
Decrease/(increase) in loans and receivables		5,210,582	(1,741,950)
Decrease/(increase) in other assets		61,266	(48,149)
(Decrease)/increase in due to other banks		(6,806,608)	1,647,015
Increase in term deposits		1,448,009	701,672
Increase in demand deposits		42,827	218,975
Decrease in provisions for liabilities and charges		(33,538)	(6,142)
Decrease in other liabilities		(61,113)	(135,571)
Interest paid		(1,096,923)	(1,114,951)
Interest received		2,051,714	1,923,532
Income taxes paid		(13,909)	(110,239)
Net cash from operating activities		**540,793**	**659,922**
Cash flows from investing activities:			
Decrease in financial assets at fair value through profit or loss		75,842	42,700
Decrease in available for sale financial assets		182,411	356,065
Increase in investments in subsidiaries		-	(25,000)
Dividends received		-	21
Increase of property, plant and equipment and intangible assets		(73,838)	(98,391)
Net cash from investing activities		**184,415**	**275,395**
Cash flows from financing activities:			
Increase in subordinated debt		10,669	41,065
Decrease in borrowings		(513,163)	(127,511)
Decrease in share capital		(751,070)	-
Dividends paid		(41,890)	(215,781)
Net cash from financing activities		**(1,295,454)**	**(302,227)**
(Decrease)/increase in cash and cash equivalents		**(570,246)**	**633,090**
Cash and cash equivalents at the beginning of the year		3,176,772	2,543,682
Cash and cash equivalents at the end of the year	37	2,606,526	3,176,772

Notes on pages 18 to 119 form an integral part of these financial statements.

Notes to the Financial Statements
For the year ended 31 December 2012

1. GENERAL INFORMATION ABOUT THE BANK AND THE GROUP

a) History and Incorporation

HYPO ALPE-ADRIA-BANK d.d. Zagreb (hereinafter: the Bank), is a joint stock company registered in Croatia. The registered office of the Bank is located in Slavonska avenija 6.

The Bank is a fully owned subsidiary of HYPO ALPE-ADRIA-BANK INTERNATIONAL AG Klagenfurt.

The Bank is a member of the Hypo Alpe Adria, with HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt as the parent company. The shareholder of HYPO ALPE-ADRIA-BANK INTERNATIONAL AG is the Republic of Austria, and consequently the ultimate parent company of HYPO ALPE-ADRIA-BANK d.d. Zagreb.

During 2012 the operations were conducted through the Bank's head office located in Zagreb and through branches organized into regional centres Zagreb, Central Croatia, Dalmatia, Istria and Kvarner and Slavonia.

The companies, which are consolidated with the Bank (hereinafter: the Group), are presented below together with the percentage of ownership:

	Nature of business	2012 % ownership	2011 % ownership
HYPO ALPE-ADRIA-INVEST d.d., Zagreb	Investment funds management	100%	100%
HYPO ALPE-ADRIA-NEKRETNINE d.o.o., Zagreb	Real estate	100%	100%
HYPO ALPE-ADRIA-LEASING d.o.o., Zagreb	Leasing	100%	100%

Consolidated companies' contribution within the Group net profit after intercompany eliminations for the year:

	2012 HRK '000	2011 HRK '000
HYPO ALPE-ADRIA-BANK d.d. Zagreb	279,489	60,340
HYPO ALPE-ADRIA-INVEST d.d., Zagreb	428	556
HYPO ALPE-ADRIA-NEKRETNINE d.o.o., Zagreb	(18,489)	(22,771)
HYPO ALPE-ADRIA-LEASING d.o.o., Zagreb	10,477	6,551
Total	**271,905**	**44,676**

Consolidated companies' contribution within the Group reserves:

	2012 HRK '000	2011 HRK '000
HYPO ALPE-ADRIA-BANK d.d. Zagreb	217,238	205,283
HYPO ALPE-ADRIA-INVEST d.d., Zagreb	4,766	4,307
HYPO ALPE-ADRIA-NEKRETNINE d.o.o., Zagreb	(8,445)	(5,647)
HYPO ALPE-ADRIA-LEASING d.o.o., Zagreb	(11,181)	(16,957)
Total	**202,378**	**186,986**

b) Activity
The Bank was granted a full banking license by the Croatian National Bank ("CNB") in 1996 and started its banking activities in September 1997. This license includes, but is not limited to the following activities:

- taking deposits in local and foreign currencies,
- approving loans in local and foreign currencies,
- buying and selling of local and foreign currencies,
- opening nostro accounts abroad,
- transactions with securities, precious metals and bills of exchange, in Croatia and abroad,
- performing local and international payments, and
- issuing guarantees and letters of credit to customers.

The management considers that the Group operates in the segment of banking and related services in the Republic of Croatia.

c) Members of the Supervisory Board
The members of the Supervisory Board of the Bank during 2012 were as follows:

Gottwald Kranebitter	President	Appointed as at 27 April 2010
Wolfgang Edelmuller	Deputy President	Appointed as at 27 April 2010
Sebastian Firlinger	Member	Appointed as at 27 April 2010
Goran Radman	Member	Appointed as at 08 July 2009
Neven Raić	Member	Appointed as at 15 February 2012
Blaž Brodnjak	Member	Revoked as at 15 February 2012

d) Members of the Management Board
The members of the Management Board of the Bank during 2012 were as follows:

Markus Ferstl	President	Appointed as at 14 December 2007
Ivo Bilić	Member	Appointed as at 18 December 2009
Brane Golubić	Member	Appointed as at 10 March 2010
Tea Martinčić	Member	Appointed as at 20 October 2010
Joško Mihić	Member	Appointed as at 01 August 2012
Slawomir Roman Konias	Member	Appointed as at 01 August 2012
Tadija Vrdoljak	Member	Revoked as at 03 March 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance
The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. Banking operations in Croatia are subject to the Croatian Credit Institutions Act, in accordance with which financial reporting is regulated by the Accounting Act and the Croatian National Bank ("the CNB"). These financial statements have been prepared in accordance with the regulatory accounting requirements as defined by the CNB.

The statutory accounting regulations for Banks in Croatia are based on International Financial Reporting Standards ("IFRS") as adopted in Croatia and published in the National Gazette adjusted by any specific accounting related regulations brought by the CNB. The main difference between the accounting regulations of the CNB and International Financial Reporting Standards is in the assessment of collective impairment losses for balance sheet and off-balance sheet items not identified as impaired on an individual basis. The regulations require that provision is assessed on performing loans and certain other financial assets on a portfolio basis, and is to be in a range from 0.85% to 1.20% of items qualifying for such impairment losses. As at 31 December 2012, the Bank recognized a portfolio based allowance for impairment losses in accordance with the CNB requirements of HRK 279,302 thousand which is 0.9% of items qualifying for such impairment losses (2011: HRK 311,719 thousand; 0.9%) and a related release of provision for collective impairment in the income statement for 2012 of HRK 32,417 thousand (2011: charge HRK 8,431 thousand).

IAS 39 requires that future cash flows of a group of financial assets that are collectively evaluated for impairment should be estimated on the basis of historical loss experience for such assets with credit risk characteristics similar to those in the group and these losses cannot be limited by any means. The Bank is in the process of collecting available historical data about unidentified existing losses in various portfolios, taking into account relevant economic conditions for which these historic data should be adjusted, as a basis for estimating the unidentified losses existing at the balance sheet date in accordance with 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. The Bank calculates impairment losses on individually significant items by estimating the future cash flows and discounting these estimated amounts at the instrument's original effective interest rate. The Bank generally recognises the amortisation of such discounts as a release of impairment allowance rather than as interest income. In certain cases, however, collections are recognised as interest income once impairment losses are fully reversed.

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.

b) Adoption of new and revised International Financial Reporting Standards
The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012:

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

The adoption of the standards or interpretations is described below:
IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and there has been no effect on the Group's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact on Group.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. There has been no significant effect on the presentation of financial statements of the Group.

Standards issued but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

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

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

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013. The Group does not expect that the amendment will have an impact on its financial position or results.

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

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

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and they will become effective for annual periods beginning on or after 1 January 2013.

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

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analysis performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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

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

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

Annual Improvements May 2012
These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

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

Hypo Alpe-Adria-Bank d.d.
Notes to the Financial Statements

c) Basis of Preparation
The financial statements are presented in the Croatian currency, Kuna (HRK), rounded to the nearest thousand, unless stated otherwise. The financial statements for the year ended 31 December 2012 have been prepared under the historical cost convention except for financial assets and liabilities at fair value in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” and revalued non-current assets. The accounting policies have been consistently applied, except where disclosed otherwise.

The financial statements have been prepared under the assumption that the Group will continue to operate as a going concern.

In preparing the financial statements, the Group's management has made judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of commitments and contingent liabilities at the balance sheet date, as well as amounts of income and expenses for the period.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, as well as information available at the date of the preparation of the financial statements, forms the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Quality of the credit portfolio and appropriateness of related bad debt provisions are notably influenced by macroeconomic developments. Unexpected development of economic conditions, especially related to real estate market, cannot be excluded and could have significant impact on the required allowance for impairment of the loan portfolio. Furthermore, there are uncertainties in relation to future outcomes and timings of legal actions initiated by the Bank and the Group in order to realise collections per non performing loans and receivables.

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

The accounting policies have been consistently applied by Group entities and are consistent with those applied in previous years.

d) Going Concern Assumption
The financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The ability of the Group to continue as a going concern is dependent upon the continued funding and support from its shareholder Hypo Alpe-Adria-Bank International AG, Klagenfurt, Austria (the Parent) under the currently agreed financial terms. To this extent, the Parent has provided funding to the Group to support its operations. This support includes agreeing not to seek repayment, other than originally contracted, of intercompany loans to the Group for a period of at least 12 months from the date of these financial statements.

Following the acquisition of 100% of the shares in the Hypo Alpe-Adria-Bank International AG by the Republic of Austria completed on 30 December 2009, Hypo Alpe-Adria-Bank International AG and its subsidiaries (together Hypo Alpe Adria or HAA) is currently in the process of restructuring.

The previous owner of HAA made contributions towards the restructuring as part of its disinvestment. Furthermore, the Republic of Austria announced another injection of capital. This took place through the subscription of the issue of EUR 450 m of share certificates late in June 2010.

Furthermore, in 2012 Hypo Alpe-Adria-Bank International AG concluded with its owner an agreement on the recapitalisation in the amount of EUR 1.5 bn. This transaction was approved by the European Commission and the funds in the amount of EUR 500 m were provided by the Republic of Austria while EUR 1.0 bn was raised by issuing a subordinated bond. In this way the measure requested by the Austrian Financial Market Authority (FMA), pursuant to the investigation of the economic capital of HAA that took place in the year 2011, that HAA increase its total equity ratio to 12.04% as of 31 December 2012 as well as to cover the difference between the expected bad debt losses and the total risk provisions, was removed. Based on the figures as at April 2012 the FMA detected an additional shortfall in the amount of EUR 621.9 m necessary to reach a minimum equity ratio of 12.4% until 31 December 2013.

According to the supervision instructions, HAA is planning to reach a certain amount of capital using its own measures. In the case that the planned risk reduction and further improvement of risk profile is not sufficient for the full realization of the anticipated amount of capital, there could be a risk for business continuation.

The European Commission provisionally approved the measures put forward by the Republic of Austria on 23 December 2009 for a period of up to six months and instructed the Republic of Austria to present an in-depth restructuring plan for HAA in the first half of 2010. HAA fulfilled this requirement in April 2010.

With its decision dated 4 August 2010, the EU approved the acquisition of Hypo Alpe Adria by the Republic of Austria in respect of merger control laws. The approval was granted subject to the Commission agreeing to the bank's restructuring plan based on the state aid provided through the emergency nationalisation in 2009.

The approval of the Commission in connection with an updated Hypo Alpe-Adria-Bank International AG restructuring plan is also a prerequisite for the Guarantee agreement concluded 28 December 2010 between the Republic of Austria and Hypo Alpe-Adria-Bank International AG with an expiration date of 30 June 2013.

Additions / changes in the Guarantee Agreement with the Republic of Austria are currently being discussed and legally they are not yet agreed upon.

In November 2012 a meeting took place in Brussels at which occasion updating of the restructuring plan was discussed. As agreed, the updated restructuring plan was sent to the owner at the beginning of 2013 in order to be forwarded to the European Commission.

The midterm goal is reprivatisation of Hypo Alpe-Adria-Bank International AG through the sale of its operative units in the South-East European network.

Already in 2011 in the countries Slovenia, Bosnia and Hercegovina and Montenegro portfolios of non-performing loans were transferred to the special purpose entities with the aim of cleaning the portfolio of bad loans and to achieve a better market position of operative units for reprivatisation. The realization of this goal has continued in 2012 by transfers in Croatia, Austria and Italy.

Hypo Alpe-Adria-Bank International AG, taking into account the sovereign debt crisis in the Eurozone and its impact on the European financial sector, as well as gloomy economic prospects in Europe and especially in the South-East Europe as core Hypo region, responded by sharpening its strategy. Planning was adapted to the deteriorated prospectives for the national economy and among others it was decided that as of 2012 subsidiaries should switch to self-financing arrangements by using local deposits. Moreover, in December 2012 a subordinated bond guaranteed by the Federal Government was issued in the amount of EUR 1.0 bn as a measure of providing additional capital and the capital increase in the amount of EUR 500.0 m took place.

After prior consultation with the Commission and as further measures for the year 2012, HAA repurchased various hybrid and supplementary capital instruments of Hypo Alpe-Adria-Bank International AG and the Austrian subsidiary Hypo Bank Austria considerably under their nominal value i.e. it terminated them without payment thus taking further significant steps to strengthening of its capital resources and sharing the burden with the providers of hybrid and supplementary capital.

Subsequent to the above listed capital measures, the European Commission imposed conditions by means of a provisional approval on 5 December 2012 referred to as "Behavioural Measures" which came into effect on 1 January 2013. They primarily refer to the management of new business operations representing a catalogue of criteria which should ensure the value of the newly granted loans. Among others, these conditions stipulate the specific credit standing, collateralisation ratios and maturities, they regulate granting of FX-loans and increase the level of self-financing by the improvement of the Loan-to-Deposit Ratio within a respective time period.

The negotiations with the European Commission on the state aid proceedings are presently in their closing stage. The European Commission foresees the completion of the state aid procedure already in 2013. Generally speaking, the Brussels authorities are satisfied with the strategic alignment of the HAA after the restructuring process.

The current focus is directed to a possible adaptation of feasible dates and reprivatisation proceeds from the three tendered bank segments in Austria, Italy and the SEE-network. Possible scenarios and their impacts have been submitted to the European Commission in form of a concept and they are being discussed in the close cooperation with the representatives of the owner. All parties expressed their intention to decide on and implement the state aid procedure in 2013.

However, from today's perspective it cannot be estimated with any degree of certainty when the EU state-aid proceedings will be concluded and whether the European Commission will accept the restructuring plan for HAA.

As subject of the inspection process, Hypo Alpe-Adria-Bank International AG has declared its willingness to cooperate fully with the Commission.

The Bank's management is confident that the restructuring activities of the parent bank and its owner will not have negative impact on the Bank's operations in the Republic of Croatia.

e) Basis of Consolidation

The financial statements are presented for the Bank and the Group. The Group's financial statements comprise the consolidated financial statements of the Bank and its subsidiary entities.

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

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Acquisitions and mergers with companies under the group Hypo Alpe Adria common control are not treated as acquisitions in accordance with IFRS 3: Business Combinations.

f) Interest Income and Expense

Interest income and expense is recognized on the accrual basis, taking into account the effective yield of the asset and liability or an applicable floating rate. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing financial instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loan origination fees, generated after the approval of the loans are deferred together with the related direct costs, and recognized as an adjustment to the effective yield of the loan over its life in "Interest and similar income" in income statement.

g) Fee and Commission Income and Expense

Fee and commission income arises on financial services provided by the Group and mainly comprises fees receivable from domestic and foreign payment transactions, fees receivable from customers for guarantees, letters of credit, foreign currency transactions and other services provided by the Group.

Fee and commission income is credited to the income, when the corresponding service is provided.

h) Retirement Benefit Costs

The Group does not have pension arrangements separate from the state pension system of the Republic of Croatia. This system requires that current contributions by the employer be calculated as a percentage of current gross salary payments; these expenses are charged to the income statement in the period the related compensation is earned by the employee.

No liabilities arise to the Group from the payment of pensions to employees in the future.

i) Foreign Currency Transactions

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into the reporting currency at the foreign exchange rates ruling at the dates that the values were determined.

The principal rates of exchange set forth by the Croatian National Bank and used in the preparation of the balance sheet of the Bank and the Group at the reporting dates were as follows:

31 December 2012	1 EUR = HRK 7.545624
31 December 2012	1 CHF = HRK 6.245343
31 December 2011	1 EUR = HRK 7.530420
31 December 2011	1 CHF = HRK 6.194817

j) Financial Instruments

Financial assets held by the Group are categorized into portfolios in accordance with the Group's intent on the acquisition and pursuant to the Group's investment strategy. Financial assets are classified as "At fair value through profit and loss", "Loans and receivables", "Held to maturity" or as "Assets available for sale". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements.

Financial Assets at Fair Value through Profit or Loss

Financial instruments included in this portfolio are held for trading financial instruments, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exists.

These instruments are initially recognized at cost and subsequently stated at fair value which approximates the price quoted on recognized stock exchanges.

All related realized and unrealised gains and losses are included in "Net trading gain". Interest earned whilst holding these instruments is reported as "Interest and similar income".

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and receivables are recognized when cash is advanced to customers. Loan and receivables are measured after initial recognition at amortized cost using the effective interest method, less any allowance for impairment.

Third party expenses, such as legal fees, incurred in securing a loan and other fees, such as loan origination fees are treated as part of the cost of the transaction. Loan origination fees are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan.

Loans and Receivables (Continued)

Loans and receivables are stated net of allowances for impairment losses. Allowances for impairment losses are established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowance for impairment losses is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition.

Specific allowances for impairment losses are assessed with reference to the credit worthiness and performance of the borrower and are taking into account the value of any collateral or third party guarantees.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off. If in a subsequent period, the amount of allowance decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the income statement.

In addition to the above described impairment losses on assets identified as impaired, the Group recognizes impairment losses, in the income statement, on on- and off-balance-sheet credit risk exposures not identified as impaired at predefined rates, which range from 0.85 to 1.20%, in accordance with the accounting regulations of the Croatian National Bank ("CNB").

Available for Sale Financial Assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss or loans and receivables.

Financial instruments included in available for sale financial assets are initially recognized at cost and subsequently stated at fair value based on the quoted prices, or amounts derived from cash flow models. If estimated fair value is not reliable or its value significantly fluctuates, assets are recognized at cost.

Available for Sale Financial Assets (Continued)

For available for sale financial assets, gains and losses arising from changes in fair value are recognized in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is included in the income statement for the period.

Impairment losses recognized in the income statement for equity investments classified as available for sale are not subsequently reversed through the income statement. Impairment losses recognized in the income statement for debt instruments classified as available for sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Interest earned whilst holding available for sale securities is accrued on a daily basis and reported as "Interest and similar income" in the income statement.

Foreign exchange differences related to available for sale equity instruments held in foreign currency are reported together with fair value gains and losses in other comprehensive income until the financial asset is sold. Foreign exchange differences related to available for sale debt instruments held in foreign currency are reported in income statements.

Dividends on available for sale financial assets are recorded as declared and included as a receivable in the balance sheet line "Other assets" and in "Other operating income" in the income statement. Upon payment of the dividend, the receivable is offset against the collected cash.

k) Recognition and Derecognition of Financial Assets
Purchases and sales of financial assets at fair value through profit or loss and financial assets available for sale are recognised on the settlement date, which is the date when the financial instrument is delivered to or transferred from the Group.

Loans and receivables and financial liabilities at amortised cost are recognised when funds are advanced or received.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

l) Derivative Financial Instruments
In the normal course of business, the Group uses derivative financial instruments to manage its risks. The use of financial derivatives is governed by the Group's policies approved by the Supervisory Board, which provide written principles on the use of financial derivatives.

Derivative financial instruments are initially recognised at acquiring cost and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. Fair value adjustments of derivative financial instruments are recognised in the income statement.

All derivatives are carried as assets, when the fair value is positive and as liabilities when the fair value is negative.

m) Property, Plant and Equipment
Property, plant and equipment, except land and buildings are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Depreciation commences when the assets are ready for their intended use. Depreciation is calculated on all assets, except land and assets in construction, on a straight-line basis over the estimated useful life of the applicable assets.

The annual rates of depreciation are as follows:

	2012	2011
Buildings	2% - 5%	2% - 5%
Equipment and computers	10% -20%	25%
Equipment bought after leasing contract maturity	20% - 100%	50% - 100%
Other	10% - 20%	10% - 25%

Land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. The amount of the surplus transferred directly to "Retained earnings" is the difference between depreciation based on the revalued carrying amount of the building and depreciation based on the building's original cost. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss in the year of disposal.

n) Intangible Assets
Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized on a straight line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed at each reporting period.

Intangible assets are amortized over a period of 4 to 10 years (2011: 4 years).

o) Impairment of Non-Financial Assets
Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in the circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income statement for property, plant and equipment and intangible assets carried at cost and treated as a revaluation decrease for assets that are carried at their revalued amount, to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset. The recoverable amount is the higher of an asset's net selling price and its value in use.

p) Leases
Leases of assets in terms of which the Group retains all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are initially recognised as assets of the Group 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.Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating lease arrangements. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

Assets leased under operating lease arrangements where the Group is the lessor are included in tangible assets in the statement of financial position. They are depreciated over their expected useful lives which are based on the duration of the lease contracts. Initial direct costs incurred specifically to earn revenues from an operating lease are recognised as an expense in the income statement in the period in which they are incurred.

q) Sale and Repurchase Agreements
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 derecognised, because the Group retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ("repos") are recorded as assets in the balance sheet lines of assets in the original classification or the Group reclassifies the asset on its balance sheet. The counterparty liability is included in "Due to other banks" or "Due to customers", as appropriate.

Securities purchased under agreements to purchase and resell ("reverse repos") are not recognised in the balance sheet. The purchase consideration is recorded as increase of "Placements with and loans to other banks" or "Loans and receivables" as appropriate, with the corresponding decrease in cash. 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.

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

Provisions for liabilities and charges are maintained at the level that the Group's management considers sufficient for absorption of incurred losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for expenditures in respect of which provisions are recognised at inception, and reversed if outflow of economic benefits to settle the obligation is no longer probable.

s) Off Balance Sheet Financial Commitments

In the ordinary course of business, the Group 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 Group's balance sheet if and when they become payable.

The provision for possible commitments and contingent liabilities losses is maintained at a level the Group management believes is adequate to absorb probable future losses. The Group 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.

t) Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.
The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement and statement of the comprehensive income respectively.

The Group's tax returns are subject to examination by the tax authorities. Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, the amount reported in the annual financial statements could be changed at a later date upon final determination by the tax authorities.

u) Cash and Cash Equivalents for the Purpose of Cash Flow Statement
For the purpose of reporting cash flows, cash and cash equivalents are defined as cash and cash equivalents with maturity up to 90 days, which comprise of cash and current accounts and placements with and loans to other banks, balances with Croatian National Bank (excluding the obligatory minimum reserve with the Croatian National Bank), and treasury bills.

Cash and cash equivalents exclude the obligatory minimum reserve with the Croatian National Bank as these funds are not available for the Group's day to day operations.

v) Classification changes in financial statements
Certain items with balances relating to prior period were reclassified in 2012 financial statements in order to align with current year presentation. This reclassification was performed in accordance to IAS 1 in order to ensure comparison of positions in financial statements between periods. Nature of reclassification is only presentational and did not affect profit for the year or vale of net assets. Change is related to change of balance sheet sub-position Leasehold improvements from position Intangible asset to balance sheet position Property, plant and equipment. This reclassification is done in order to align with IAS 16 and IAS 38 requirements.

Group and Bank:

Position in financial statements ending 31.12.2011	Reclassified to position in financial statements ending 31.12.2011	Values in financial statements ending 31.12.2011 HRK '000
Intangible assets	Property, plant and equipment	Acquisition cost 96,252
		Accumulated depreciation 72,680

3. INTEREST AND SIMILAR INCOME

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Interest charged to companies	687,835	769,542	685,062	769,081
Interest charged to financial institutions	15,894	17,163	15,850	17,146
Interest charged to public sector	236,262	205,541	236,249	205,536
Interest charged to non-profit institutions	2,870	2,562	2,822	2,531
Interest charged to individuals	810,202	899,318	808,319	898,565
Interest charged to non-residents	95,827	146,943	95,827	146,943
Total	**1,848,890**	**2,041,069**	**1,844,129**	**2,039,802**

Interest income includes the amount of HRK 110,632 thousand (2011: HRK 106,196 thousand) of collected interest on impaired financial assets.

4. INTEREST EXPENSE AND SIMILAR CHARGES

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Interest charged by companies	74,106	63,314	75,119	63,988
Interest charged by financial institutions	100,352	110,947	101,181	111,858
Interest charged by public sector	13,715	9,897	13,715	9,897
Interest charged by non-profit institutions	1,691	1,626	1,691	1,626
Interest charged by individuals	431,656	395,401	431,656	395,401
Interest charged by non-residents	565,540	559,586	544,761	543,776
Total	**1,187,060**	**1,140,771**	**1,168,123**	**1,126,546**

5. FEE AND COMMISSION INCOME

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Fees from services to companies	139,807	166,972	136,080	163,108
Fees from financial institutions	29,555	26,769	29,770	26,906
Fees from public sector	4,908	3,656	4,908	3,656
Fees from non-profit institutions	2,098	2,014	2,098	2,014
Fees from services to individuals	109,251	102,421	109,251	102,421
Fees from services to non-residents	10,637	9,214	10,637	9,214
Total	**296,256**	**311,046**	**292,744**	**307,319**

Fees from services include fees for payment services, fees for approval of overdrafts, guarantees and letters of credit, fees for card business services and other fees.

6. FEE AND COMMISSION EXPENSE

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Commissions for services of other companies	1,540	1,585	1,166	1,254
Commissions for services of financial institutions	10,865	12,572	10,822	12,288
Commissions for services of FINA (clearing house)	25,394	28,218	25,393	28,215
Commissions for services of non-residents	37,279	29,939	37,280	29,939
Total	**75,078**	**72,314**	**74,661**	**71,696**

7.NET TRADING GAIN/(LOSS)

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Net gain/(loss) on foreign exchange transactions	49,598	(85,237)	49,598	(85,237)
Fair value adjustment of financial assets held for trading	263	(4,280)	263	(4,280)
Realized gains/(losses) from financial assets held for trading	1,819	(1,068)	2,674	(1,049)
Realized gains from available for sale financial assets	2,032	5,330	1,807	5,151
Gains from trading in derivatives	72,610	144,993	72,609	144,993
Total	**126,322**	**59,738**	**126,951**	**59,578**

8. NET FOREIGN EXCHANGE DIFFERENCES

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Net "foreign currency clause" adjustments	49,494	441,994	51,722	443,726
Translation losses	(95,078)	(427,960)	(92,106)	(416,178)
Total	**(45,584)**	**14,034**	**(40,384)**	**27,548**

Common Croatian banking practice involves the pegging of HRK loans to a stable foreign currency, usually EUR or CHF. Any gain or loss as a result of the above noted pegging is shown as profit or loss, and is included in the net "foreign currency clause" adjustments caption.

9. OTHER OPERATING INCOME

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Dividends	-	21	-	21
Consultancy services income	2,637	1,691	2,193	885
Income from real estate estimation	3,311	4,244	3,324	1,844
Income from services to Group members	6,467	6,593	10,505	7,931
Income from cards business	9,840	7,326	9,840	7,326
Rental income	106,725	80,207	6,259	4,727
Income from sales of property	54,629	23,158	10,145	4,886
Other income	23,791	14,133	3,263	4,609
Total	**207,400**	**137,373**	**45,529**	**32,229**

The majority of the Group's rental income is from Hypo Alpe-Adria-Nekretnine d.o.o. earned by renting business premises and Hypo Alpe-Adria-Leasing d.o.o. from operating lease.
Other income consists mostly of expenses refund, business premises cleaning services, real estate management and similar services.

10. PERSONNEL EXPENSES

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Net salaries	166,415	178,367	158,590	170,890
Pension insurance expenses	50,343	54,152	47,758	51,718
Tax and surtax expenses	38,960	42,736	36,203	40,290
Contributions on salaries	40,347	46,984	38,275	44,852
Other personnel expenses	10,352	8,090	9,837	7,770
Release of provisions for employee benefits	(9,849)	(7,465)	(9,738)	(7,815)
Total	**296,568**	**322,864**	**280,925**	**307,705**

As at 31 December 2012 and 2011, the Group had 1,702 and 1,817 employees, respectively.
As at 31 December 2012 and 2011, the Bank had 1,647 and 1,739 employees, respectively.

11. IMPAIRMENT LOSSES

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Cash and balances with Croatian National Bank	(5,839)	8,088	(5,839)	8,088
Placements with and loans to other banks	1,731	(2,906)	1,730	(2,906)
Loans and receivables	(6,384)	440,802	(5,653)	445,730
Available for sale financial assets	1,489	-	1,489	-
Assets acquired in lieu of uncollected receivables	17,590	-	17,590	-
Property and land	3,219	-	3,219	-
Other equipment	(2,360)	(4,878)	-	-
Other assets	2,574	22,567	7,686	19,911
Guarantees and other contingent liabilities	(27,077)	4,355	(27,077)	4,355
Total	**(15,057)**	**468,028**	**(6,855)**	**475,178**

12. OTHER OPERATING EXPENSES

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Other taxes and contributions	4,241	4,937	3,451	4,305
Saving deposits insurance premium	27,930	24,085	27,930	24,085
Rental and lease charges	53,733	48,587	86,534	78,851
Material expenses and services	210,944	197,974	185,311	177,651
Marketing expenses	33,398	44,368	31,947	42,650
Sold and written-off assets expenses	56,218	24,871	-	480
Write-offs of receivables	5,423	2,777	5,413	2,777
Provisions for pending legal actions	3,276	(2,599)	3,276	(2,683)
Other expenses	23,919	26,075	21,303	18,971
Total	**419,082**	**371,075**	**365,165**	**347,087**

13. INCOME TAX

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Current income tax expense	38,755	116	38,653	-
Deferred income tax	29,660	12,353	30,864	12,550
Income tax expense	**68,415**	**12,469**	**69,517**	**12,550**

The reconciliation between tax expense and accounting profit is as follows:

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Net profit before tax	**340,320**	**57,145**	**326,492**	**54,911**
Tax at the statutory rate of 20%	68,064	11,429	65,298	10,982
Tax effect of non-taxable income	(3,565)	(4,648)	(697)	(676)
Tax effect of non-deductible costs	5,704	5,105	4,916	2,244
Tax effect of losses of consolidated companies	(1,788)	583	-	-
Income tax reported in the income statement	**68,415**	**12,469**	**69,517**	**12,550**
Effective tax rate	20%	22%	21%	23%

As at 31 December 2012 Hypo Alpe-Adria-Nekretnine d.o.o. had tax losses carried forward amounting to HRK 53,923 thousand (2011: HRK 52,245 thousand). Such tax losses may only be used by the company that incurred the loss to reduce taxable profits of the following five years. Deferred tax asset related to unused tax losses at subsidiaries has not been recognized as it is not probable that tax losses carried forward will be utilised during the period of the next 5 years.

Movements in the Group deferred tax assets are as follows:

HRK '000

	Net deferred tax assets 2012	Comprehensive income 2012	Net deferred tax assets 2011	Comprehensive income 2011
Source:				
Deferred loan origination fees	30,388	2,815	37,575	(1,613)
Unrealized losses on financial assets at fair value through profit or loss	-	908	908	(588)
Unrealized losses on derivative financial instruments	10,220	9,994	20,214	30,352
Assets impairment	1,207	1,887	3,094	1,220
Depreciation cost exceeding prescribed rates	1,930	(383)	1,547	(796)
Employees provisions	-	1,300	1,300	1,618
Pending court actions provisions	1,261	(402)	859	(859)
Tax loss carried forward	2,954	13,541	16,874	(16,981)
Fair value of available for sale financial assets	709	637	1,346	404
Total deferred tax	**48,669**	**30,297**	**83,717**	**12,757**

Movements in the Bank deferred tax assets are as follows:

HRK '000

	Net deferred tax assets 2012	Comprehensive income 2012	Net deferred tax assets 2011	Comprehensive income 2011
Source:				
Deferred loan origination fees	29,761	3,029	37,162	(1,559)
Unrealized losses on financial assets at fair value through profit or loss	-	908	908	(588)
Unrealized losses on derivative financial instruments	10,220	9,994	20,214	30,352
Employees provisions	-	1,300	1,300	1,618
Pending court actions provisions	1,261	(402)	859	(859)
Tax loss carried forward	-	16,035	16,414	(16,414)
Fair value of available for sale financial assets	709	637	1,346	404
Total deferred tax	**41,951**	**31,501**	**78,203**	**12,954**

14. CASH AND BALANCES WITH CROATIAN NATIONAL BANK

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Cash in hand and on CNB accounts	1,145,017	1,718,302	1,145,013	1,718,297
Nostro accounts and balances with other banks	533,225	274,911	533,225	274,911
Total cash and accounts with banks	1,678,242	1,993,213	1,678,238	1,993,208
Obligatory reserve in domestic currency	2,337,141	2,603,897	2,337,141	2,603,897
Obligatory reserve in foreign currency	595,842	656,282	595,842	656,282
Total balances with Croatian National Bank	2,932,983	3,260,179	2,932,983	3,260,179
Impairment losses	(37,948)	(43,787)	(37,948)	(43,787)
Total	**4,573,277**	**5,209,605**	**4,573,273**	**5,209,600**

The Bank calculates obligatory reserves of the Croatian National Bank (the "CNB") in the amount of 13.5% (2011: 14%) of deposits. At least 70% (2011: 70%) of HRK obligatory reserves and 60% (2011: 60%) of foreign currency obligatory reserves have to be held with the CNB. The remaining amount can be held on accounts with the investment rated OECD banks and countries or as a balance in the settlement account and account for covering the negative balance in the clearing account with the National Clearing System.
According to the CNB decision obligatory reserve is not bearing remuneration.

Movement in impairment losses of cash and balances with the CNB:

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Impairment losses at the beginning of the year	**43,787**	**35,699**	**43,787**	**35,699**
Net (releases)/ allowances charged during the year	(5,839)	8,088	(5,839)	8,088
Impairment losses at the end of the year	**37,948**	**43,787**	**37,948**	**43,787**

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Financial assets held for trading:				
Bonds issued by Republic of Croatia	9,596	86,357	9,596	86,357
Equity securities	-	39	-	39
Total	**9,596**	**86,396**	**9,596**	**86,396**

The bonds issued by Republic of Republic of Croatia are financial instruments issued in HRK and EUR with interest rates ranging from 4.25% to 5.75% and with maturities between 2015 and 2016.

16. PLACEMENTS WITH AND LOANS TO OTHER BANKS

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Loans	634,155	314,632	634,155	314,632
Deposits	35,115	162,344	35,105	162,335
Impairment losses	(6,023)	(4,293)	(6,023)	(4,293)
Total	**663,247**	**472,683**	**663,237**	**472,674**

Loans as presented in the table above include loans to domestic banks, as well as following repurchase agreements:

- As at 31 December 2012 the Bank had repurchase agreement with one Croatian bank. This agreement is collateralized with treasury bills issued by Ministry of Finance in the total amount of HRK 14,613 thousand.
- As at 31 December 2011 the Bank had repurchase agreement with three Croatian banks. This agreement is collateralized with bonds issued by Republic of Croatia in the total amount of HRK 33,276 thousand.

Position “Deposits” is related to the deposits with domestic banks and foreign banks all in countries that are members of OECD.

Movement in impairment losses of placements with other banks for the Bank and the Group:

HRK '000

	2012 Unidentified	2011 Unidentified
Impairment losses at the beginning of the year	**4,293**	**7,198**
Net allowances/(releases) charged during the year	1,730	(2,905)
Impairment losses at the end of the year	**6,023**	**4,293**

17. LOANS AND RECEIVABLES

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Individuals	11,596,198	12,252,079	11,586,638	12,243,789
Private companies and sole traders	10,363,015	17,002,615	10,258,520	16,971,060
Non-profit institutions	62,957	48,405	62,178	47,771
Public sector	3,513,791	3,282,473	3,513,468	3,282,154
Early repayments	(57,578)	(60,390)	(57,578)	(60,390)
Impairment losses	(1,113,254)	(2,764,148)	(1,100,070)	(2,750,232)
Total	**24,365,129**	**29,761,034**	**24,263,156**	**29,734,152**

a) By type of customer

Loans as presented in the table above include as follows:

- As at 31 December 2012 the Bank had outstanding repurchase agreements with various corporate clients. These agreements were collateralized with bonds issued by Republic of Croatia and treasury bills issued by Ministry of Finance in the total amount of HRK 23,736 thousand.
- As at 31 December 2011 the Bank had outstanding repurchase agreements with various corporate clients. These agreements were collateralized with bonds issued by Republic of Croatia, treasury bills issued by Ministry of Finance and domestic corporate bonds in the total amount of HRK 145,515 thousand.

Position “Early repayments” comprises of amounts paid by loan users, based on not-due receivables, that are used for closing receivables when due.

At the end of the year 2012 the Bank entered into the Sale agreement with sub-participation of all the risks and benefits under the loan contracts with the company H-Abduco d.o.o. Zagreb under which the net amount of HRK 3,952,457 thousand of non-performing loans was sold and fully derecognised.

b) Loans to individuals by purpose

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Housing loans	8,488,073	8,848,763	8,488,073	8,848,763
Mortgage loans	188,096	184,070	188,096	184,070
Car loans	458,605	620,011	458,605	620,011
Loans based on credit cards	127,346	128,234	127,346	128,234
Overdrafts	634,231	629,505	634,231	629,505
Other loans	1,699,847	1,841,496	1,690,287	1,833,206
Total	**11,596,198**	**12,252,079**	**11,586,638**	**12,243,789**

c) By industrial sector

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Individuals	11,596,198	12,252,079	11,586,638	12,243,789
Wholesale and retail trade	2,957,479	3,780,871	2,920,696	3,750,110
Construction	2,107,234	2,701,387	2,080,410	2,677,768
Public administration and defence	2,542,199	2,760,600	2,541,876	2,760,281
Other personal service activities	1,017,282	1,494,888	927,084	1,429,538
Hotels and restaurants	696,283	1,539,752	685,581	1,530,269
Agriculture, hunting, forestry and fishing	1,039,018	1,896,563	1,025,318	1,890,939
Other manufacturing	692,409	1,249,500	674,538	1,239,229
Manufacturing of other transport equipment	57,638	808,921	54,532	808,921
Manufacturing of food products and beverages	637,516	774,062	626,197	774,062
Real estate business	280,283	484,551	456,684	664,303
Transport, storage and equipment	292,654	405,924	258,511	356,644
Manufacturing of chemicals	172,837	354,530	168,712	354,530
Manufacturing of other non-metallic mineral products	92,377	237,457	91,401	237,457
Education	295,565	273,449	293,830	272,341
Manufacturing of fabricated metal products	205,053	311,217	197,093	311,217
Health and social work	136,840	180,412	123,259	166,289
Manufacturing of wearing apparel, dressing and dying of fur	65,786	161,921	65,663	161,921
Financial intermediation	86,953	177,087	86,648	176,621
Electricity, gas and water supply	212,730	312,298	204,958	309,760
Other	351,627	428,103	351,175	428,785
Subtotal	**25,535,961**	**32,585,572**	**25,420,804**	**32,544,774**
Early repayments	(57,578)	(60,390)	(57,578)	(60,390)
Impairment losses	(1,113,254)	(2,764,148)	(1,100,070)	(2,750,232)
Total	**24,365,129**	**29,761,034**	**24,263,156**	**29,734,152**

Movement in impairment losses of loans and receivables:

HRK '000

	Group 2012 Specific	Group 2012 Unidentified	Group2012 Total	Bank 2011 Specific	Bank 2011 Unidentified	Bank 2011 Total
Impairment losses at the beginning of the year	**2,537,170**	**226,978**	**2,764,148**	**2,098,736**	**221,883**	**2,320,619**
Acquired company's transferred balances	-	-	-	28,294	560	28,854
Net allowances/(releases) charged during the year						
Foreign exchange differences	14,681	(21,066)	(6,385)	436,267	4,535	440,802
Sales and write off	2,462	-	2,462	23,971	-	23,971
Impairment losses at the end of the year	(1,646,971)	-	(1,646,971)	(50,098)	-	(50,098)
Impairment losses at the end of the year	**907,342**	**205,912**	**1,113,254**	**2,537,170**	**226,978**	**2,764,148**

HRK '000

	Group 2012 Specific	Group 2012 Unidentified	Group2012 Total	Bank 2011 Specific	Bank 2011 Unidentified	Bank 2011 Total
Impairment losses at the beginning of the year	**2,524,238**	**225,994**	**2,750,232**	**2,098,288**	**221,883**	**2,320,171**
Net allowances/(releases) charged during the year						
Foreign exchange differences	15,456	(21,109)	(5,653)	441,619	4,111	445,730
Sales and write off	2,462	-	2,462	23,971	-	23,971
Impairment losses at the end of the year	(1,646,971)	-	(1,646,971)	(39,640)	-	(39,640)
Impairment losses at the end of the year	**895,185**	**204,885**	**1,100,070**	**2,524,238**	**225,994**	**2,750,232**

18. AVAILABLE FOR SALE FINANCIAL ASSETS

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Treasury bills of Ministry of Finance	661,073	932,461	661,073	932,461
Treasury bills of foreign governments	1,931,145	1,844,219	1,931,145	1,844,219
Commercial bills issued by companies	-	6,498	-	6,498
Bonds issued by the government	25,224	27,641	25,224	27,641
Bonds issued by foreign governments	377,262	463,237	377,262	463,237
Bonds issued by foreign banks	976,828	977,442	976,828	977,442
Participations in investment funds	15,438	17,236	5,323	5,147
Equity securities	6,742	7,375	6,588	6,483
Impairment losses	(3,261)	(1,772)	(3,261)	(1,772)
Total	**3,990,451**	**4,274,337**	**3,980,182**	**4,261,356**

The treasury bills issued by the Ministry of Finance are financial instruments with maturity up to one year and interest rates in the range of 1.5% to 3.45% (2011: from 4.4% to 5.75%).

The foreign governments treasury bills are financial instruments issued by German Republic and French Republic with maturity up to one year and interest rates in the range of 0.027% to 0.125% (2011: 0% to 0.235%).

The bonds issued by the Government of Republic of Croatia are financial instruments issued in HRK with interest rates from 5.75% to 6.25% and maturity from 2016 to 2017 (2011: 4.5% to 6.75%).

The bonds issued by foreign governments are financial instruments issued in EUR by the German Republic with interest rate 0% and maturity in 2014 (2011: 0.5% to 1%).

The bonds issued by foreign banks are financial instruments issued in EUR by German banks with interest rates from 0.873% to 4.985% and maturity from 2013 to 2015 (2011: 0.873% to 4.985%).

Participations in investment funds are related to investments in Allianz Cash and HI-Cash open investment funds.
Equity securities are related to investments in domestic companies such as Prvi maj d.d., Hoteli Brela d.d., Zagrebačka burza d.d. and similar.

The treasury bills issued by the Ministry of Finance and foreign governments, bonds issued by foreign governments and foreign banks in the total amount of HRK 1,848,268 thousand (2011: HRK 2,606,413 thousand) are given as the collateral for the payables under repurchase agreements (see Note 24).
Movements in unrealised (losses)/gains from financial assets available for sale value adjustment:

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Balance as at 1st January	**(8,101)**	**(9,376)**	**(5,384)**	**(6,999)**
Net unrealized gain/(loss) of the year	3,302	1,679	3,184	2,019
Net deferred tax	(637)	(404)	(637)	(404)
Balance as at 31st December	**(5,436)**	**(8,101)**	**(2,837)**	**(5,384)**

Movement in impairment losses of financial assets available for sale for the Bank and the Group:

HRK '000

	2012 Specific	Banka 2011 Specific
Impairment losses at the beginning of the year	**1,772**	**1,772**
Allowances during the year	1,489	-
Impairment losses at the end of the year	**3,261**	**1,772**

19. INVESTMENTS IN SUBSIDIARIES

	Nature of business	Country of incorporation	Bank 2012 HRK '000	Bank 2011 HRK '000
Hypo Alpe-Adria-Nekretnine d.o.o.	Real estate business	Croatia	214,575	214,575
Hypo Alpe-Adria-Invest d.d.	Establishing and managing investment funds	Croatia	4,659	4,659
Hypo Alpe-Adria-Leasing d.o.o.	Leasing	Croatia	25,000	25,000
Total			**244,234**	**244,234**

At 31 December 2012 and 31 December 2011 the Bank was the sole owner of subsidiaries.

20. ASSETS ACQUIRED IN LIEU OF UNCOLLECTED RECEIVABLES

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Land and buildings	168,445	129,409	168,445	129,409
Equipment	5,834	3,670	5,834	3,670
Impairment losses	(37,920)	(20,331)	(37,920)	(20,331)
Total	**136,359**	**112,748**	**136,359**	**112,748**

Movement in impairment losses of assets acquired in lieu of uncollected receivables:

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Impairment losses at the beginning of the year	**20,331**	**22,165**	**20,331**	**22,165**
Additions during the year	17,590	-	17,590	-
Disposals	(1)	(1,834)	(1)	(1,834)
Impairment losses at the end of the year	**37,920**	**20,331**	**37,920**	**20,331**

21. OTHER ASSETS

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Fees and commissions receivables	35,824	70,919	35,525	70,586
Receivables based on card business	72,629	69,697	72,652	69,704
Receivables from clients based on court expenses paid	8,553	12,741	8,553	12,741
Receivables from customers	50,884	39,753	21,028	10,542
Insurance receivables	1,930	1,851	1,848	1,649
Receivables for sold securities	964	1,287	964	1,287
Receivables for sold domestic currency	-	10,148	-	10,148
Receivables for sold foreign currency	8,742	4,789	8,742	4,789
Other advances	10,306	3,271	8,200	2,944
Deferred expenses	12,650	10,851	8,622	9,485
Inventories	25,022	39,292	4,396	3,574
Other assets	26,485	29,095	19,015	24,319
Impairment losses	(63,823)	(88,144)	(43,945)	(62,472)
Total	**190,166**	**205,550**	**145,600**	**159,296**

Hypo Alpe-Adria-Bank d.d.
Notes to the Financial Statements

Movement in impairment losses of other assets:

EUR '000

	Group 2012 Specific	Group 2012 Unidentified	Group 2012 Total	Group 2011 Specific	Group 2011 Unidentified	Group 2011 Total
Impairment losses at the beginning of the year	**86,379**	**1,765**	**88,144**	**46,871**	**759**	**47,630**
Transferred balances of acquired company	-	-	-	19,664	370	20,034
Net allowances/(releases) charged during the year						
Foreign exchange differences	3,078	(504)	2,574	21,931	636	22,567
Sales and write off	5	-	5	80	-	80
Impairment losses at the end of the year	(26,900)	-	(26,900)	(2,167)	-	(2,167)
Impairment losses at the end of the year	**62,562**	**1,261**	**63,823**	**86,379**	**1,765**	**88,144**

HRK '000

	Bank 2012 Specific	Bank 2012 Unidentified	Bank 2012 Total	Bank 2011 Specific	Bank 2011 Unidentified	Bank 2011 Total
Impairment losses at the beginning of the year	**60,900**	**1,572**	**62,472**	**43,682**	**759**	**44,441**
Net allowances/(releases) charged during the year						
Foreign exchange differences	8,347	(661)	7,686	19,098	813	19,911
Sales and write off	5	-	5	60	-	60
Impairment losses at the end of the year	(26,218)	-	(26,218)	(1,940)	-	(1,940)
Impairment losses at the end of the year	**43,034**	**911**	**43,945**	**60,900**	**1,572**	**62,472**

22. PROPERTY, PLANT AND EQUIPMENT

HRK '000

Group	Land and buildings	Computers and other equipment	Assets in construction	Total
Acquisition cost/revalued amount				
At 1 January 2012	**1,276,504**	**717,498**	**38,461**	**2,032,463**
Additions	31,060	158,730	29,440	219,230
Transfer from assets in construction	14,453	17,314	(31,767)	-
Disposals	(51,020)	(157,292)	-	(208,312)
At 31December 2012	**1,270,997**	**736,250**	**36,134**	**2,043,381**
Accumulated depreciation				
At 1 January 2012	**220,618**	**400,895**	**-**	**621,513**
Depreciation for the year 2012	29,323	81,755	-	111,078
Disposals	(29,514)	(79,728)	-	(109,242)
At 31December 2012	**220,427**	**402,922**	**-**	**623,349**
Impairment				
At 1 January 2012	**30,397**	**4,267**	**-**	**34,664**
Impairment for the year 2012	3,219	(2,360)	-	859
At 31December 2012	**33,616**	**1,907**	**-**	**35,523**
Book value				
1 January 2012	1,025,489	312,336	38,461	1,376,286
31 December 2012	**1,016,954**	**331,421**	**36,134**	**1,384,509**

HRK '000

Group	Land and buildings	Computers and other equipment	Assets in construction	Total
Acquisition cost/revalued amount				
At 1 January 2011	**1,248,112**	**309,262**	**30,508**	**1,587,882**
Transferred balances of acquired company	-	429,267	9	429,276
Additions	17,155	74,691	36,251	128,097
Transfer from assets in construction	12,674	15,633	(28,307)	-
Disposals	(1,437)	(111,355)	-	(112,792)
At 31December 2011	**1,276,504**	**717,498**	**38,461**	**2,032,463**
Accumulated depreciation				
At 1 January 2011	**188,658**	**222,352**	**-**	**411,010**
Transferred balances of acquired company	-	169,533	-	169,533
Depreciation for the year 2011	31,969	70,869	-	102,838
Disposals	(9)	(61,859)	-	(61,868)
At 31December 2011	**220,618**	**400,895**	**-**	**621,513**
Impairment				
At 1 January 2011	**26,222**	**-**	**-**	**26,222**
Transferred balances of acquired company	-	9,821	-	9,821
Impairment for the year 2011	4,175	(4,878)	-	(703)
Disposals	-	(676)	-	(676)
At 31December 2011	**30,397**	**4,267**	**-**	**34,664**
Book value				
1 January 2011	1,033,232	86,910	30,508	1,150,650
31 December 2011	**1,025,489**	**312,336**	**38,461**	**1,376,286**

HRK '000

Group	Land and buildings	Computers and other equipment	Assets in construction	Total
Acquisition cost/revalued amount				
At 1 January 2012	**399,735**	**326,627**	**36,862**	**763,224**
Additions	30,263	23,696	29,206	83,165
Transfer from assets in construction	14,453	15,781	(30,234)	-
Disposals	(51,020)	(13,032)	-	(64,052)
At 31December 2012	**393,431**	**353,072**	**35,834**	**782,337**
Accumulated depreciation				
At 1 January 2012	**136,821**	**247,809**	**-**	**384,630**
Depreciation for the year 2012	12,042	29,795	-	41,837
Disposals	(29,514)	(12,962)	-	(42,476)
At 31December 2012	**119,349**	**264,642**	**-**	**383,991**
Impairment				
At 1 January 2012	**23,364**	**-**	**-**	**23,364**
Impairment for the year 2012	3,219	-	-	3,219
At 31December 2012	**26,583**	**-**	**-**	**26,583**
Book value				
1 January 2012	239,550	78,818	36,862	355,230
31 December 2012	**247,499**	**88,430**	**35,834**	**371,763**

HRK '000

Group	Land and buildings	Computers and other equipment	Assets in construction	Total
Acquisition cost/revalued amount				
At 1 January 2011	**371,741**	**295,703**	**30,094**	**697,538**
Additions	16,889	21,747	34,721	73,357
Transfer from assets in construction	12,542	15,411	(27,953)	-
Disposals	(1,437)	(6,234)	-	(7,671)
At 31December 2011	**399,735**	**326,627**	**36,862**	**763,224**
Accumulated depreciation				
At 1 January 2011	**122,126**	**212,882**	**-**	**335,008**
Depreciation for the year 2011	14,704	40,824	-	55,528
Disposals	(9)	(5,897)	-	(5,906)
At 31December 2011	**136,821**	**247,809**	**-**	**384,630**
Impairment				
At 1 January 2011	**19,189**	**-**	**-**	**19,189**
Impairment for the year 2011	4,175	-	-	4,175
At 31December 2011	**23,364**	**-**	**-**	**23,364**
Book value				
1 January 2011	230,426	82,821	30,094	343,341
31 December 2011	**239,550**	**78,818**	**36,862**	**355,230**

The amount of fully depreciated Bank property, plant and equipment at 31 December 2012 amounts to HRK 201,258 thousand (2011: HRK 197,506 thousand).
The last revaluation of land and buildings was performed on 31 December 2011.
If the land and buildings were measured by acquisition cost, the book value would be as follows:

HRK '000

	2012	2011
Acquisition cost	361,114	354,971
Accumulated depreciation	(116,194)	(130,477)
Impairment	(26,583)	(23,364)
Net book value	**218,337**	**201,130**

23. INTANGIBLE ASSETS

HRK '000

Group	Software	Other intangible assets	Assets in construction	Total
Acquisition cost				
At 1 January 2012	**202,674**	**1,098**	**29,037**	**232,809**
Additions	5,617	39	8,288	13,944
Transfer from assets in construction	15,784	48	(15,832)	-
Disposals	-	(48)	-	(48)
At 31 December 2012	**224,075**	**1,137**	**21,493**	**246,705**
Accumulated amortization				
At 1 January 2012	**170,916**	**1,054**	**-**	**171,970**
Amortization for the year 2012	19,099	56	-	19,155
Disposals	-	(8)	-	(8)
At 31 December 2012	**190,015**	**1,102**	**-**	**191,117**
Book value				
1 January 2012	31,758	44	29,037	60,839
31 December 2012	**34,060**	**35**	**21,493**	**55,588**

HRK '000

Group	Software	Other intangible assets	Assets in construction	Total
Acquisition cost				
At 1 January 2011	**179,504**	**1,098**	**19,204**	**199,806**
Transferred balances of acquired company	-	-	187	187
Additions	4,602	-	28,356	32,958
Transfer from assets in construction	18,710	-	(18,710)	-
Disposals	(142)	-	-	(142)
At 31 December 2011	**202,674**	**1,098**	**29,037**	**232,809**
Accumulated amortization				
At 1 January 2011	**142,782**	**1,002**	**-**	**143,784**
Amortization for the year 2011	28,174	52	-	28,226
Disposals	(40)	-	-	(40)
At 31 December 2011	**170,916**	**1,054**	**-**	**171,970**
Book value				
1 January 2011	36,722	96	19,204	56,022
31 December 2011	**31,758**	**44**	**29,037**	**60,839**

HRK '000

Bank	Software	Other intangible assets	Assets in construction	Total
Acquisition cost				
At 1 January 2012	**199,301**	**1,098**	**28,961**	**229,360**
Additions	5,559	-	8,288	13,847
Transfer from assets in construction	15,784	-	(15,784)	-
At 31 December 2012	**220,644**	**1,098**	**21,465**	**243,207**
Accumulated amortization				
At 1 January 2012	**169,047**	**1,054**	**-**	**170,101**
Amortization for the year 2012	18,577	44	-	18,621
At 31 December 2012	**187,624**	**1,098**	**-**	**188,722**
Book value				
1 January 2012	**30,254**	**44**	**28,961**	**59,259**
31 December 2012	**33,020**	**-**	**21,465**	**54,485**

HRK '000

Bank	Software	Other intangible assets	Assets in construction	Total
Acquisition cost				
At 1 January 2011	**177,374**	**1,098**	**19,203**	**197,675**
Additions	3,407	-	28,278	31,685
Transfer from assets in construction	18,520	-	(18,520)	-
At 31 December 2011	**199,301**	**1,098**	**28,961**	**229,360**
Accumulated amortization				
At 1 January 2011	**141,274**	**1,002**	**-**	**142,276**
Amortization for the year 2011	27,773	52	-	27,825
At 31 December 2011	**169,047**	**1,054**	**-**	**170,101**
Book value				
1 January 2011	36,100	96	19,203	55,399
31 December 2011	**30,254**	**44**	**28,961**	**59,259**

The amount of fully amortised Bank intangible assets at 31 December 2012 amounts to HRK 88,964 thousand (2011: HRK 63,356 thousand).

24. DUE TO OTHER BANKS

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Deposits	4,147,504	10,958,202	4,147,504	10,958,202
Borrowings	4,528,212	4,998,954	3,613,144	4,128,680
Total	**8,675,716**	**15,957,156**	**7,760,648**	**15,086,882**

In the total amount of "Due to other banks" of the Group the amount of HRK 5,006,754 thousand (2011: HRK 11,734,719 thousand) relates to loans and deposits from HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt.
Borrowings in foreign currencies include payables under a repurchase agreement to foreign banks in the total amount of HRK 2,273,028 thousand (2011: HRK 2,527,966 thousand) which are collateralised with treasury bills of foreign governments and foreign governments and foreign bank bonds in the amount of HRK 1,848,268 thousand (2011: HRK 2,606,413 thousand) as well as with loan to Ministry of Finance in the amount of HRK 644,500 thousand.

25. DUE TO CUSTOMERS

Demand deposits and term deposits from other customers as at 31 December are presented as follows:

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Deposits from individuals	12,711,050	11,809,094	12,711,050	11,809,094
Deposits from corporate clients	5,222,868	4,471,209	5,266,943	4,540,144
Deposits from non-profit institutions	100,139	102,441	100,139	102,441
Deposits from public sector	216,020	273,066	216,020	273,066
Total	**18,250,077**	**16,655,810**	**18,294,152**	**16,724,745**

26. FINANCE LEASE LIABILITIES

Maturity of liabilities based on finance lease agreements is as follows:

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Not later than 1 year	337	362	337	362
Later than 1 year but not later than 5 years	538	923	538	923
Total	**875**	**1,285**	**875**	**1,285**

27. PROVISIONS FOR LIABILITIES AND CHARGES

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Provisions for commitments and contingent liabilities	32,771	59,848	32,771	59,848
Provisions for pending legal actions	17,220	13,944	17,013	13,737
Employee retirement provisions	1,335	7,788	1,322	7,777
Provisions for employee vacations	5,014	8,410	4,789	8,072
Total	**56,340**	**89,990**	**55,895**	**89,434**

The Management considered all litigations in which the Group is involved as defendant. The Management does not expect additional losses for the Group.
The Group accrues for legally required minimum retirement severance payments and for unused vacation days.

Movement in provisions for liabilities and charges:

Group 2012 HRK '000

	Contingent liabilities	Legal cases	Retirement	Unused vacations	Total
Provisions at the beginning of the year	**59,848**	**13,944**	**7,788**	**8,410**	**89,990**
Net (releases)/charges in income statement	(27,077)	3,276	(6,453)	(3,396)	(33,650)
Provisions at the end of the year	**32,771**	**17,220**	**1,335**	**5,014**	**56,340**

Group 2011 HRK '000

	Contingent liabilities	Legal cases	Retirement	Unused vacations	Total
Provisions at the beginning of the year	**55,493**	**16,542**	**15,687**	**7,976**	**95,698**
Net charges/(releases) in income statement	4,355	(2,598)	(7,899)	434	(5,708)
Provisions at the end of the year	**59,848**	**13,944**	**7,788**	**8,410**	**89,990**

Bank 2012 HRK '000

	Contingent liabilities	Legal cases	Retirement	Unused vacations	Total
Provisions at the beginning of the year	**59,848**	**13,737**	**7,777**	**8,072**	**89,434**
Net (releases)/charges in income statement	(27,077)	3,276	(6,455)	(3,283)	(33,539)
Provisions at the end of the year	**32,771**	**17,013**	**1,322**	**4,789**	**55,895**

Bank 2011 HRK '000

	Contingent liabilities	Legal cases	Retirement	Unused vacations	Total
Provisions at the beginning of the year	**55,493**	**16,420**	**15,687**	**7,976**	**95,576**
Net charges/(releases) in income statement	4,355	(2,683)	(7,910)	96	(6,142)
Provisions at the end of the year	**59,848**	**13,737**	**7,777**	**8,072**	**89,434**

28. OTHER LIABILITIES

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Liabilities to suppliers	70,567	65,663	67,508	61,112
Due to employees	23,684	24,326	22,482	23,030
Unallocated foreign currency receipts	5,007	16,265	5,007	16,265
Payables based on card business	32,741	34,587	32,743	34,587
Payables based on securities trading	12,028	12,797	12,028	12,797
Temporary deposits made as investments in domestic companies	5,999	30,049	5,999	30,049
Guarantee funds received	45,191	61,353	-	-
Liabilities to shareholders based on decrease of share capital	-	751,070	-	751,070
Other	32,482	35,790	17,198	16,329
Total	**227,699**	**1,031,900**	**162,965**	**945,239**

29. SUBORDINATED DEBT

Group 2012

Currency	Interest rate	Amount in Currency HRK'000	Amount in HRK '000	Amount in Currency HRK '000	Amount in HRK '000
EUR	3-month EURIBOR+1.33%	33,000	249,006	33,000	249,006
EUR	3-month EURIBOR+2.00%	37,000	279,188	37,000	279,188
EUR	3-month 7% fixed	100,000	754,563	100,000	754,563
EUR	3-month EURIBOR+2.00%	28,000	211,277	28,000	211,277
CHF	6-month LIBOR+7.00%	151,580	946,669	151,580	946,669
Total			**2,440,703**		**2,440,703**

Group 2011

Currency	Interest rate	Amount in Currency HRK'000	Amount in HRK '000	Amount in Currency HRK '000	Amount in HRK '000
EUR	3-month EURIBOR+1.33%	33,020	248,524	33,020	248,524
EUR	3-month EURIBOR+2.00%	37,027	278,653	37,027	278,653
EUR	3-month EURIBOR+2.00%	100,074	753,116	100,074	753,116
EUR	3-month EURIBOR+2.00%	28,021	210,873	28,021	210,873
CHF	6-month LIBOR+7.00%	151,769	939,199	151,769	939,199
Total			**2,430,365**		**2,430,365**

Subordinated debt is from HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt with maturity of up to 6 years. Repayment of these instruments is not possible before the redemption date. Repayment of these funds in case of liquidation is subordinated to all other deposits and liabilities.

Subordinated debt with remaining maturity over one year can be used, with Croatian National Bank permission, as supplementary capital for the purpose of calculation of regulatory capital and capital adequacy.

30. SHARE CAPITAL

The immediate parent bank of the Group is HYPO ALPE-ADRIA-BANK INTERNATIONAL AG Klagenfurt, Austria. Shareholders of the Group as at 31 December are as follows:

	2012 HRK '000	2012 %	2011 HRK '000	2011 %
Hypo Alpe-Adria-Bank International AG Klagenfurt	5,208,760	100.00	5,208,760	100.00
Total	**5,208,760**	**100.00**	**5,208,760**	**100.00**

The movement in the number of shares was as follows:

	2012 Shares	2012 HRK '000	2011 Shares	2011 HRK '000
Balance as at 01 January	1,302,190	5,208,760	1,514,865	5,959,830
Decrease of share capital by shares withdrawal	-	-	(212,675)	(751,070)
Balance as at 31 December	**1,302,190**	**5,208,760**	**1,302,190**	**5,208,760**

At the end of 2012 Hypo Alpe-Adria-Bank d.d. had 1,101,441 issued ordinary shares of nominal value HRK 4,000 and 200,749 issued preference shares of nominal value HRK 4,000.

Based on the Bank General Assembly decision from 12 December 2011 decrease of share capital amounting to HRK 751,070 thousands was conducted by withdrawing 185,000 ordinary shares of nominal value HRK 4,000 and 27,675 ordinary shares of nominal value HRK 400. Payment of share capital decrease was performed in 2012.

Preference shares are not redeemable, are entitled to receive a discretionary 6% non cumulative preference dividend before any dividends are declared to the ordinary shareholders and carry no voting rights.

The dividends are declared by the General Assembly. For the year 2011 Bank has paid the dividend in the amount of HRK 208.67 per preference share (2010: HRK 127.54 per ordinary share and HRK 240.00 per preference share).

31. RESERVES

Movement in Group reserves was as follows:

HRK '000

	Legal reserve	Revaluation reserve	Fair value reserve	Other reserves	Total
At 1 January 2011	**99,527**	**43,387**	**(9,376)**	**1,000**	**134,538**
Net unrealised losses on available for sale financial assets	-	-	7,009	-	7,009
Net realised gains on available for sale financial asset	-	-	(5,330)	-	(5,330)
Income tax relating to components of other comprehensive income	-	-	(404)	-	(404)
Revaluation of buildings and land	-	(4,175)	-	-	(4,175)
Transfer to retained earnings	-	(792)	-	-	(792)
Allocation of profit for 2010	11,357	-	-	-	11,357
At 31 December 2011	**110,884**	**38,420**	**(8,101)**	**1,000**	**142,203**
Net unrealised losses on available for sale financial assets	-	-	5,334	-	5,334
Net realised gains on available for sale financial asset	-	-	(2,032)	-	(2,032)
Income tax relating to components of other comprehensive income	-	-	(637)	-	(637)
Revaluation of buildings and land	-	(8,549)	-	-	(8,549)
Transfer to retained earnings	-	(710)	-	-	(710)
Allocation of profit for 2011	2,118	-	-	-	2,118
At 31 December 2012	**113,002**	**29,161**	**(5,436)**	**1,000**	**137,727**

Movement in Bank reserves was as follows:

HRK '000

	Legal reserve	Revaluation reserve	Fair value reserve	Total
At 1 January 2011	**99,477**	**43,387**	**(6,999)**	**135,865**
Net unrealised losses on available for sale financial assets	-	-	7,170	7,170
Net realised gains on available for sale financial asset	-	-	(5,151)	(5,151)
Income tax relating to components of other comprehensive income	-	-	(404)	(404)
Revaluation of buildings and land	-	(4,175)	-	(4,175)
Transfer to retained earnings	-	(792)	-	(792)
Distribution of profit for 2010	11,357	-	-	11,357
At 31 December 2011	**110,834**	**38,420**	**(5,384)**	**143,870**
Net unrealised losses on available for sale financial assets	-	-	4,991	4,991
Net realised gains on available for sale financial asset	-	-	(1,807)	(1,807)
Income tax relating to components of other comprehensive income	-	-	(637)	(637)
Revaluation of buildings and land	-	(8,549)	-	(8,549)
Transfer to retained earnings	-	(710)	-	(710)
Distribution of profit for 2011	2,118	-	-	2,118
At 31 December 2012	**112,952**	**29,161**	**(2,837)**	**139,276**

The legal reserve has been created in accordance with the Croatian Company Act, which requires 5% of the net profit for the year of the Group to be transferred to this reserve, until it reaches 5% of issued share capital of the Group. Legal reserve can be used for covering prior period losses if the losses are not covered by current year profits or if other reserves are not available. The legal reserve is not distributable to the shareholders.

The properties revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to retained earnings.

The fair value reserve includes unrealised gains or losses on changes in the fair value of financial assets available for sale, net of income tax.

Other reserves are designed in accordance to the General assembly decision and can be used for purposes defined by the law or the General assembly decision.

The Bank's equity reserves, including retained earnings and profit for the year, distributable to the shareholders at 31 December 2012 amounted to HRK 262,321 thousand (2011: HRK 41,890 thousand).

32. COMMITMENTS AND CONTINGENT LIABILITIES

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Commitments and contingent liabilities				
Guarantees and letters of credit	1,451,007	2,004,377	1,451,391	2,004,377
Unutilised credit lines	1,862,919	2,270,614	1,878,975	2,278,040
Total	**3,313,926**	**4,274,991**	**3,330,366**	**4,282,417**

Provisions for liabilities and charges are presented in the Note 27.

33. LEASES

Minimum future lease payments based on lease arrangements where the Group is a lessee were as follows:

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Not later than 1 year	32,710	31,689	71,028	68,236
Later than 1 year but not later than 5 years	121,065	108,225	274,951	254,412
Later than 5 years	95,379	66,945	518,614	505,505
Total	**249,154**	**206,859**	**864,593**	**828,153**

Minimum future lease receipts based on lease arrangements where the Group is a lessor were as follows:

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Not later than 1 year	83,073	38,894	3,572	2,787
Later than 1 year but not later than 5 years	136,994	73,150	5,367	2,103
Later than 5 years	62,484	65,903	-	-
Total	**282,551**	**177,947**	**8,939**	**4,890**

34. DERIVATIVE FINANCIAL INSTRUMENTS

HRK '000

	Group 2012	Group 2012	Group 2012	Bank 2012	Bank 2012	Bank 2012
	Notional amount	**Fair value Assets**	**Fair value Liabilities**	**Notional amount**	**Fair value Assets**	**Fair value Liabilities**
Derivative financial instruments held for trading						
Foreign exchange swaps	5,055,218	264	1,908	5,055,218	264	1,908
Cross currency swaps	3,411,478	4,438	57,017	3,411,478	4,438	57,017
Total	8,466,696	4,702	58,925	8,466,696	4,702	58,925

HRK '000

	Group 2011	Group 2011	Group 2011	Bank 2011	Bank 2011	Bank 2011
	Notional amount	**Fair value Assets**	**Fair value Liabilities**	**Notional amount**	**Fair value Assets**	**Fair value Liabilities**
Derivative financial instruments held for trading						
Foreign exchange forward contracts	1,784	7	-	1,784	7	-
Foreign exchange swaps	558,477	1,226	-	558,477	1,226	-
Cross currency swaps	5,316,913	589	99,153	5,316,913	589	99,153
Total	**5,877,174**	**1,822**	**99,153**	**5,877,174**	**1,822**	**99,153**

35. RELATED PARTY TRANSACTIONS

HYPO ALPE-ADRIA-BANK d.d., Zagreb and its subsidiaries are ultimately owned by HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt, to whom and to whose affiliates, the Group provides banking services.

Balances with related parties at 31 December were as follows:

Group 2012 HRK '000

	Assets	Liabilities	Contingent liabilities	Collaterals received
Parent company	11,635	6,593,577	10,200	10,000
Parent group	11,582	1,035,058	24,015	-
Key management	23,203	20,474	1,371	16,255
Other	2,032	52,751	-	-
Total	**48,452**	**7,701,860**	**35,586**	**26,255**

Group 2011 HRK '000

	Assets	Liabilities	Contingent liabilities	Collaterals received
Parent company	35,044	14,676,309	10,900	10,900
Parent group	27,762	1,159,883	42,226	22,839
Key management	28,977	19,032	1,695	17,881
Other	81	46,668	-	-
Total	**91,864**	**15,901,892**	**54,821**	**51,620**

Bank 2012 HRK '000

	Assets	Liabilities	Contingent liabilities	Collaterals received
Parent company	11,635	6,593,577	10,200	10,000
Parent group	11,310	117,266	24,015	-
Subsidiaries	422,120	44,864	16,566	-
Key management	23,203	20,474	1,371	16,255
Other	2,032	52,751	-	-
Total	**470,300**	**6,828,932**	**52,152**	**26,255**

Bank 2011 HRK '000

	Assets	Liabilities	Contingent liabilities	Collaterals received
Parent company	35,044	14,676,309	10,900	10,900
Parent group	27,508	289,376	42,226	22,839
Subsidiaries	424,894	69,369	7,443	-
Key management	23,628	18,869	1,448	16,044
Other	81	46,668	-	-
Total	**511,155**	**15,100,591**	**62,017**	**49,783**

Transactions with related parties were as follows:

HRK '000

	Group 2012	Group 2012	Group 2012	Group 2012	Group 2012
	Interest income	**Other income**	**Interest expenses**	**Rental expenses**	**Other expenses**
Parent company	74,888	73,923	474,780	1,631	96,251
Parent group	172	25,475	21,407	23,740	4,934
Key management	713	132	888	-	195
Other	20	720	754	-	-
Total	**75,793**	**100,250**	**497,829**	**25,371**	**101,380**

HRK '000

	Group 2011	Group 2011	Group 2011	Group 2011	Group 2011
	Interest income	**Other income**	**Interest expenses**	**Rental expenses**	**Other expenses**
Parent company	107,298	220,667	493,123	-	320,746
Parent group	1,230	27,380	20,953	23,770	2,966
Key management	889	80	795	-	195
Other	-	966	121	-	-
Total	**109,417**	**249,093**	**514,992**	**23,770**	**323,907**

HRK '000

	Bank 2012	Bank 2012	Bank 2012	Bank 2012	Bank 2012
	Interest income	**Other income**	**Interest expenses**	**Rental expenses**	**Other expenses**
Parent company	74,888	73,923	474,780	1,631	96,251
Parent group	172	19,427	1,087	23,699	4,033
Subsidiaries	10,268	4,849	1,844	41,839	5,677
Key management	713	132	888	-	195
Other	20	720	754	-	-
Total	**86,061**	**99,051**	**479,353**	**67,169**	**106,156**

HRK '000

	Bank 2011.	Bank 2011.	Bank 2011.	Bank 2011.	Bank 2011.
	Interest income	**Other income**	**Interest expenses**	**Rental expenses**	**Other expenses**
Parent company	107,298	220,667	493,123	-	320,746
Parent group	1,230	18,454	2,094	23,705	1,953
Subsidiaries	9,765	2,810	1,702	38,811	2,824
Key management	705	62	789	-	195
Other	-	966	121	-	-
Total	**118,998**	**242,959**	**497,829**	**62,516**	**325,718**

Key management compensation

The Group considers that the key management personnel include Management Board and Supervisory Board members, as well as executive directors directly responsible to the Management Board.

The following table summarizes remuneration paid to the key management personnel:

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Salaries and other short-term benefits				
Net salaries	16,436	14,116	13,266	12,755
Pension insurance expenses	5,615	4,664	4,448	4,174
Tax and surtax expenses	9,618	8,628	7,994	7,859
Contributions on salaries	4,986	4,714	4,050	4,264
	36,655	32,122	29,758	29,052
Termination benefits				
Net salaries	505	360	505	172
Pension insurance expenses	148	147	148	79
Tax and surtax expenses	274	273	274	145
Contributions on salaries	118	126	118	68
	1,045	906	1,045	464
Total	**37,700**	**33,028**	**30,803**	**29,516**

Compensation to the Supervisory Board members for the year 2012 amounted to HRK 194 thousand (2011: HRK 194 thousand).

36. BUSINESS COMBINATIONS

The last business combination occurred in previous year, when on 27 May 2011 the Bank acquired 100% ownership of Hypo Alpe-Adria-Leasing d.o.o. Zagreb by purchasing participation from the previous owner for HRK 1.

As the company was under the common control before acquisition, IFRS3 Business Combinations has not been applied. The acquired company was consolidated using book values as of acquisition date. Assets have been consolidated on a gross basis along with applicable depreciation or impairment in accordance with the Croatian legal requirements. Income statement items related to acquired entity were included from the acquisition date with no restatement of financial information related to prior periods.

The activity of the acquired company is financing all types of assets through financial and operative lease. The main reason for acquisition is joint management of banking and financial operations under a single management structure of the Bank. Economic reasons and justification of the acquisition are expected increase of revenue through cross-selling of banking and leasing products through Bank's sales channels while increasing the number of clients and access to the Group's products in one place. A further objective is to achieve a unified control and optimise business risk through a common risk management.

Net cash inflow on acquisition of subsidiary

	Hypo Alpe-Adria-Leasing d.o.o. HRK '000
Consideration paid in cash	-
Cash and cash equivalent balances acquired	10,769
Total	**10,769**

The following table presents Income Statement of Hypo Alpe-Adria-Leasing d.o.o. from 1 January to 31 May 2011:

	1 January to 31 May 2011 HRK '000
Interest and similar income	6,076
Interest expense and similar charges	(3,055)
Net interest income	**3,021**
Fee and commission income	36
Fee and commission expense	(26)
Net fee and commission income	**10**
Net foreign exchange differences	(4,519)
Other operating income	43,459
Total income	**41,971**
Personnel expenses	(2,831)
Depreciation	(21,423)
Impairment losses	816
Other operating expenses	(17,419)
Total expenses	**(40,857)**
Profit before tax	**1,114**
Income tax	(108)
Net profit for the period	**1,006**

The following table presents Statement of Financial Position of Hypo Alpe-Adria-Leasing d.o.o. as at 31 May 2011:

	31 May 2011 HRK '000
Assets	
Cash	10,769
Deposits with banks	3,839
Loans and receivables	162,102
Property, plant and equipment	249,921
Intangible assets	187
Deferred tax assets	5,424
Current tax assets	2,994
Other assets	43,489
Total assets	**478,725**
Liabilities	
Due to banks	406,390
Current tax liabilities	108
Other liabilities	88,178
Total liabilities	**494,676**
Equity	
Share capital	31,000
Net profit for the period	1,006
Loss carried forward	(47,957)
Total equity	**(15,951)**
Total liabilities and equity	**478,725**

The fair value of the loans and receivables amounts to HRK 162,102 thousand. The gross amount of loans and receivables is HRK 191,650 thousand. kuna.

37. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statements, cash and cash equivalents comprise of the following balances with remaining maturity up to 90 days at most:

HRK '000

	Group 2012	Group 2011	Bank 2012	Bank 2011
Cash in hand, nostros and funds on CNB accounts	1,678,242	1,993,213	1,678,238	1,993,208
Treasury bills due in 3 months	836,283	931,105	836,283	931,105
Placements with and loans to other banks due in 3 months	92,005	252,468	92,005	252,459
Total	**2,606,530**	**3,176,786**	**2,606,526**	**3,176,772**

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged or a liability settled in an arm's length transaction.

The carrying values of cash and balances with the central bank are generally deemed to approximate their fair value.

Financial instruments at fair value through profit or loss and financial instruments available for sale are measured at fair value. Loans and receivables are measured at amortized cost less impairment.

As market prices are not available for a significant proportion of the Group's financial assets and liabilities, fair values for these items have been based on the management assumptions. In the opinion of the management, fair values are not significantly different from book values for all asset and liability categories.

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments:

The fair value of securities (financial assets at fair value through profit or loss and available for sale financial assets) is based on market prices, or amortized cost which approximates fair value, with the exception of unquoted equity investments the fair value of which is based on the latest available financial statements of the issuer.

The fair value of loans and receivables is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates. Expected future cash flows are estimated considering risk and any indication of impairment. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral, where available.

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

Group's long-term debt has no quoted market prices and the fair value is estimated as the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Group for new debt of similar type and remaining maturity. Again, as the Group's long-term debt is with variable interest, there is no significant difference between its carrying and fair value.

The following table presents the comparison of the consolidated carrying amounts and fair values as at 31 December 2012 and 31 December 2011:

HRK '000

	2012 Carrying amount	2012 Fair value	2011 Carrying amount	2011 Fair value
Loans and receivables	24.365.129	24.353.056	29.761.034	29.481.069
Due to customers	18.250.077	18.308.837	16.655.810	16.181.680

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).

The following tables present Fair value measurements recognised in the statement of financial position as at 31 December 2012 and 31 December 2011:

HRK '000

	2012 Level 1	2012 Level 2	2012 Level 3	2012 Total
Financial assets at fair value through profit or loss				
Financial assets held for trading	9,596	-	-	9,596
Derivative financial assets	-	4,702	-	4,702
Available for sale financial assets				
Securities available for sale	3,310,459	676,824	3,168	3,990,451
Total financial assets	**3,320,055**	**681,526**	**3,168**	**4,004,749**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(58,925)	-	(58,925)
Total financial liabilities	**-**	**(58,925)**	**-**	**(58,925)**

HRK '000

	2011 Level 1	2011 Level 2	2011 Level 3	2011 Total
Financial assets at fair value through profit or loss				
Financial assets held for trading	86,396	-	-	86,396
Derivative financial assets	-	1,822	-	1,822
Available for sale financial assets				
Securities available for sale	3,312,593	950,589	11,155	4,274,337
Total financial assets	**3,398,989**	**952,411**	**11,155**	**4,362,555**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(99,153)	-	(99,153)
Total financial liabilities	**-**	**(99,153)**	**-**	**(99,153)**

The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

HRK '000

	At 1 January 2012	Total gains/ (losses) recorded in profit or loss	Sales	Impairment	At 31 December 2012
Available for sale financial assets:					
Commercial bills issued by companies	6,498	159	(6,657)	-	-
Equity securities	4,657	-	-	(1,489)	3,168
Total level 3 financial assets	**11,155**	**159**	**(6,657)**	**(1,489)**	**3,168**

HRK '000

	At 1 January 2011	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	Purchases	Sales	Transfers between categories	At 31 December 2011
Financial assets held for trading:							
Commercial bills issued by companies	957	(20)	-	921	(941)	(917)	-
Available for sale financial assets:							
Commercial bills issued by companies	5,498	616	18	5,431	(5,982)	917	6,498
Equity securities	7,124	4,356	(2,467)	-	(4,356)	-	4,657
Total level 3 financial assets	**13,579**	**4,952**	**(2,449)**	**6,352**	**(11,279)**	**-**	**11,155**

39. RISK MANAGEMENT

This note provides details of the Bank risk exposure and describes methods used by management to identify, measure and manage risk in order to preserve Bank's and Group's capital. The main goal of the Bank is to adequately and efficiently manage all major risks, which essentially involves systematic and deliberate planning and management, as well as maintaining an acceptable level of risk and profitability.

Due to this reasons, the Bank has established a strategic risk management function, conducted by the Risk Control division. In this way, risk identification, assessment and measurement and management processes are established for major risks and unexpected events, all in order to achieve a stable and profitable business performance with the Bank's improved performance indicators and the quality of the portfolio in terms of risk and profitability.

One of the basic processes that the Bank is implementing as part of a strategic risk management is Internal capital adequacy assessment process (ICAAP). The main purpose of internal capital adequacy assessment process is to determine a positive level of capital high enough to cover risks the Bank is exposed to and which are assessed as material. The ICAAP serves as an assessment of internal capital adequacy in relation to the Bank's risk profile and as an implementation of the Bank's strategy appropriate for maintaining an adequate internal capital level.

Also, by monitoring process of utilization of defined risk profile on a daily, monthly and quarterly basis, the Bank conducts limits steering process. The implementation and monitoring of various levels of limits from the product and client level to the level of different sub-portfolios such as market segments, regions, rating classes, levels of approved volumes, exposure levels etc., enables informative and proactive approach to risk management and strategic decision making which is based on a group of factors and also on interaction with other influential factors.

Achieving Bank's strategic targets and ways of managing risk are proscribed with a number of policies, regulations and directives in which the basic guidelines according to law regulations and Group requests are defined.

Main risks that the Bank is exposed to emerge from the Bank's business activity and economic movements, and the Bank affronts them in the form of credit, market, liquidity and currency risks.

Hereafter, basic risks monitored and continuously managed in the Bank are presented. Also, in all upcoming risk analysis, analytical data based on internal assumptions of risk management have been used, and because of that it can differ from the data presented in the Financial Statements.

39.1. Credit Risk

Credit risk is defined as a possible loss that could occur due to non-fulfillment of a client's contractual obligations towards credit institution. Credit risk in the Bank is further divided into:

1) Counterparty risk
2) Portfolio concentration risk
3) Currency induced credit risk (further in document: CICR)

Concentration risk and CICR represent forms of credit risk, and due to their great importance for the Bank portfolio, they are monitored separately.

The process of identification, assessment, measurement and management of credit risk is being conducted on continuous basis and it comprises the entire Bank portfolio.

Exposure to credit risk is being managed through regular analysis of existing and potential borrower's capability to pay obligations, and by changing loan limits when needed according to internal procedures and regulations proscribed by Croatian National Bank. Furthermore, credit risk is additionally being managed by obtaining insurance instruments which reduce Bank's exposure to credit risk. The process of credit risk reporting is conducted on monthly and quarterly basis, through reports which present current status and movement trends in the Bank portfolio, utilization of limits and portfolio quality indicators overview. These reports enable effective risk management and efficient decision making.

Hence, the automated production of strategically important reports such as NPL report, Credit risk report, ICAAP report, Provisioning report etc., until 10th working day at latest, has enabled more efficient and more detailed analysis of portfolio structure changes and defining of measures for mitigation of risk level.

For the purposes of internal capital adequacy of credit risk calculation, at the moment the Bank uses standardized approach meaning that the risk level is calculated as the 12% of the risk weighted assets according to Decision on capital adequacy of credit institutions.

In this way credit risk is directly involved in the ICAAP process. Even though the mentioned regulatory method is simple, the Bank finds it adequate and conservative in this moment.

Within the standardized approach and for the purposes of internal credit risk management, the Bank uses next mitigation techniques:

- Material credit protection (financial collateral only)
- Immaterial credit protection

39.1.1. Counterparty risk

Counterparty risk is the risk of loss that is a result of failure of debtor to fulfill his/her obligations. Additionally, the definition has been internally expanded in a way that it is a risk which results out of client's credit transaction and country risk. Credit risk and country risk measure risk on the same portfolio, but from two different perspectives. The sum of those two risks represents the total counterparty risk.

Counterparty risk is monitored within credit risk.

39.1.2. Concentration risk

Concentration risk arises from each individual, direct or indirect, exposure to one client, or to group of related parties, or to group of exposures connected by common risk factors such as the same industry, the same geographical area, similar businesses or goods, or application of similar credit risk mitigation techniques, which could represent a threat to a survival of a credit institution.

Concentration risk arises from unequal allocation of exposure, which can arise in all risk types. One type of concentration risk is also credit risk arising from FX.

The Bank measures and manages concentration risk from following points of view:

- Name/GoB concentration
- Sector concentration
- Collateral type and collateral provider concentration
- Foreign currency concentration

Concentration risk is measured within the risk management process and through ICAAP process. The main goals of concentration risk measurement are determination of certain changes in the structure of capital allocation for credit risk, improvement of strategy of loan approval connected to credit risk and setting/analyzing limits for credit risk.

39.1.3. Currency induced credit risk (CICR)

Currency induced credit risk is the risk of loss for the credit institution which approves loans in foreign currency or with FX clause is exposed to and which arises from debtor's exposure to FX risk. We define Currency induced credit risk as a negative influence of currency value change to Bank's credit portfolio.

Currency induced credit risk is measured through risk management process as well as within ICAAP process. As there is no minimum regulatory capital request for Currency induced credit risk, the Bank has implemented internal method of quantification of Currency induced credit risk which has been specified in detail in the 'Currency Induced Credit Risk Policy'.

39.1.4. Object risk

Object risk is defined as a risk of loss due to change in market value of assets from Bank's portfolio.
As the Bank uses standardized approach for internal capital request for credit risk, object risk is measured within credit risk, meaning that the internal capital request for object risk is a part of internal capital request for credit risk.

39.1.5. Residual risk

Residual risk comes out of risk mitigation techniques, and represents possible loss due to inability of collateral realization in total or in a given time and/or amount.

Bank's exposure to credit risk comes out of loan activity and investments and in cases where it acts on behalf of clients or third persons. The risk that counterparty will not fulfill his/her obligations from financial instruments is continuously monitored on monthly basis.

The Bank exposure to credit risk arises from loans and advances to customers and banks. The amount of credit exposure in this regard, is the book value of these assets entered in the balance sheet. Furthermore, the Bank is exposed to credit risk for off-balance sheet items, through commitments from unused credit frames and issued guarantees.

Collateral types and collateral amounts depend on the client credit risk assessment, and their acceptability and evaluation are regulated by internal acts "Procedure for collateral monitoring".

The Bank is monitoring market values of accepted collaterals on an ongoing basis and requests additional collaterals if necessary and stipulated by the contract.

In the case when the counterparty is not able to pay the outstanding amounts due, the Bank can sell received collaterals (and does not use them for conducting its regular business) in order to close its receivables.

Analysis of type of collaterals and credit risk exposures secured with those collaterals are presented in the following tables. Amounts of collaterals are presented at the value more conservative than the estimated value, i.e. estimated value was decreased by certain percentage, depending on the type of collateral.

Presented guarantees in the following table include government guarantees, provinces and local authority's guarantees and banking guarantees.

Exposures and collaterals at 31 December 2012 and 31 December 2011 were as follows:

HRK '000

Type of exposure	2012 Exposure amount	2012 Collateral amount	2011 Exposure amount	2011 Collateral amount
Loans to corporate clients				
Investment loans	3,093,544	1,717,134	4,400,817	2,931,118
Working capital loans	3,523,742	1,004,281	4,958,284	1,823,100
Project finance loans	459,187	328,387	834,903	662,372
Lombard loans	35,633	33,404	32,497	28,047
Restructuring loans	1,712,525	1,136,018	2,882,281	1,737,058
Subsidized loans	383,785	302,100	592,082	471,470
Tourism financing loans	33,155	32,231	71,209	59,599
Agriculture financing loans	126,015	94,757	192,120	133,375
Loans from CBRD funds	922,094	590,728	1,432,410	1,032,744
Utilized credit lines	58,216	19,235	209,047	97,903
Other loans	10,097,793	2,018,591	10,892,833	1,363,153
Purchased receivables	31,484	945	75,474	956
Subtotal	**20,477,172**	**7,277,810**	**26,573,956**	**10,340,896**
Loans to retail clients				
Housing loans	8,598,582	6,653,737	8,956,419	6,645,968
Loans for cars purchasing	464,347	396,318	629,730	522,898
Non-purpose loans	1,609,868	442,447	1,736,895	432,130
Other loans	1,164,384	178,876	1,203,998	195,009
Subtotal	**11,837,180**	**7,671,378**	**12,527,043**	**7,796,005**
Card products	533,023	2,167	524,318	2,043
Guarantees	1,638,931	631,415	3,237,861	1,588,379
Letters of credit	36,779	13,586	68,080	22,213
Unutilised credit lines	484,753	53,238	753,883	166,144
Total	**35,007,838**	**15,649,594**	**43,685,141**	**19,915,680**

Types of collaterals at 31 December 2012 and 31 December 2011 considered in the analysis above were as follows:

	2012 HRK '000	2011 HRK '000
Real estate and land mortgages	12,745,371	16,765,269
Liens over movables	299,039	311,018
Cash deposits	429,803	492,587
Guarantees [1]	1,603,043	1,705,257
Insurance policies	357,517	457,516
Other collaterals	214,823	184,032
Total	**15,649,594**	**19,915,680**

[1] Government and municipal guarantees, bank guarantees

Credit quality at 31 December 2012 was as follows:

HRK '000

Type of exposure	Neither past due nor impaired	Exposure in delay	Exposure in delay les than 30 days	Exposure in delay 31 to 60 days	Exposure in delay 61 to 90 days	Exposure in delay more than 91 days	Indivi-dually impaired	Total exposure
Loans to corporate clients								
Investment loans	2,406,381	376,584	85,268	123,085	21,257	146,975	310,578	3,093,544
Working capital loans	2,935,348	324,322	147,524	63,712	3,510	109,576	264,072	3,523,742
Project finance loans	294,291	80,896	46,013	18,094	-	16,790	84,000	459,187
Lombard loans	34,209	1,235	1,235	-	-	-	189	35,633
Restructuring loans	837,306	328,092	98,166	67,465	38,774	123,688	547,127	1,712,525
Subsidized loans	289,145	56,751	19,324	2,452	3,885	31,090	37,889	383,785
Tourism financing loans	25,780	2,352	194	-	-	2,158	5,024	33,155
Agriculture financing loans	84,679	21,302	6,986	3,342	96	10,878	20,034	126,015
Loans from CBRD funds	813,363	67,705	2,970	25,220	8,135	31,380	41,025	922,094
Utilized credit lines	13	12,632	1,564	2,452	455	8,159	45,571	58,216
Other loans	9,975,735	28,268	7,083	2,702	1,079	17,404	93,790	10,097,793
Purchased receivables	23,433	3,237	1,298	-	-	1,939	4,814	31,484
Subtotal	**17,719,682**	**1,303,377**	**417,625**	**308,524**	**77,192**	**500,036**	**1,454,113**	**20,477,172**
Loans to retail clients								
Housing loans	7,310,805	583,349	58,293	221,595	98,726	204,735	704,429	8,598,582
Loans for cars purchasing	420,001	25,478	933	11,299	5,207	8,039	18,868	464,347
Non-purpose loans	1,269,540	103,666	14,642	36,533	12,193	40,299	236,661	1,609,868
Other loans	849,860	61,926	21,803	16,399	5,938	17,786	252,598	1,164,384
Subtotal	**9,850,205**	**774,419**	**95,671**	**285,826**	**122,064**	**270,858**	**1,212,557**	**11,837,180**
Card products	490,378	20,518	14,745	1,507	607	3,659	22,127	533,023
Guarantees	1,191,383	231,247	23,923	164,667	21,316	21,341	216,300	1,638,931
Letters of credit	27,386	8,270	3,879	2,936	-	1,454	1,123	36,779
Unutilised credit lines	435,484	43,245	27,444	3,453	-	12,348	6,023	484,753
Total	**29,714,519**	**2,381,076**	**583,287**	**766,913**	**221,179**	**809,697**	**2,912,243**	**35,007,838**

Credit quality at 31 December 2011 was as follows:

HRK '000

Type of exposure	Neither past due nor impaired	Exposure in delay	Exposure in delay les than 30 days	Exposure in delay 31 to 60 days	Exposure in delay 61 to 90 days	Exposure in delay more than 91 days	Indivi-dually impaired	Total exposure
Loans to corporate clients								
Investment loans	2,708,389	422,905	77,277	124,505	1,022	220,100	1,269,523	4,400,817
Working capital loans	3,543,604	315,326	80,466	53,238	1,585	180,037	1,099,353	4,958,284
Project finance loans	275,815	61,116	23,084	-	-	38,032	497,972	834,903
Lombard loans	32,372	125	-	105	-	20	-	32,497
Restructuring loans	1,160,780	291,949	37,375	96,807	7,932	149,835	1,429,552	2,882,281
Subsidized loans	394,828	68,349	12,613	10,939	790	44,006	128,905	592,082
Tourism financing loans	29,746	30,939	-	24,083	-	6,856	10,524	71,209
Agriculture financing loans	120,919	19,515	2,084	7,300	1,037	9,094	51,686	192,120
Loans from CBRD funds	741,531	239,872	6,842	28,527	11,650	192,853	451,006	1,432,410
Utilized credit lines	2	15,437	853	2,303	494	11,786	193,609	209,047
Other loans	10,600,459	20,068	1,612	9,909	793	7,755	272,307	10,892,833
Purchased receivables	53,522	2,552	347	471	-	1,734	19,400	75,474
Subtotal	**19,661,966**	**1,488,152**	**242,554**	**358,188**	**25,303**	**862,107**	**5,423,838**	**26,573,956**
Loans to retail clients								
Housing loans	7,831,855	469,028	49,778	187,199	85,114	146,937	655,536	8,956,419
Loans for cars purchasing	582,475	31,849	1,356	14,581	7,410	8,501	15,407	629,730
Non-purpose loans	1,449,246	95,041	12,945	42,420	9,842	29,834	192,609	1,736,895
Other loans	936,812	59,275	18,139	18,738	5,692	16,706	207,910	1,203,998
Subtotal	**10,800,388**	**655,193**	**82,218**	**262,937**	**108,059**	**201,979**	**1,071,462**	**12,527,043**
Card products	487,613	15,849	11,093	1,956	884	1,917	20,855	524,318
Guarantees	1,766,458	127,929	15,165	40,326	5,780	66,657	1,343,475	3,237,861
Letters of credit	47,733	9,711	3,563	4,879	558	711	10,636	68,080
Unutilised credit lines	613,010	45,444	23,338	4,720	3	17,382	95,429	753,883
Total	**33,377,169**	**2,342,277**	**377,931**	**673,006**	**140,587**	**1,150,753**	**7,965,695**	**43,685,141**

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

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

As mentioned under point 39.1.2, concentration risk arises from each individual, direct or indirect, exposure towards one client, or group of related parties, or group of exposures connected by common risk factors. The maximum exposure to individual client at 31 December 2012 excluding Republic of Croatia amounts to HRK 501,892 thousand (2011: HRK 747,147 thousand), without taking account of the amounts decreasing the total Bank's exposure or estimated values of collaterals obtained.

The exposure to any one borrower (including banks) is further restricted by sublimit covering on- and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

Majority of Bank's operations are performed in the Republic of Croatia, thus majority of credit risk is limited to the Republic of Croatia.

Credit risk by the type of financial assets

Credit risk by the type of financial assets for loans and similar receivables is monitored using internal classification of credit risk, required by the CNB Decision on the classification of placements and off-balance sheet liabilities of credit institutions.

Category A includes all receivables for which the Bank expects to collect full contracted amounts, including principle and interest. The Bank classifies all placements by their first approval in the risk category A. Category B includes receivables for which the Bank expects partly recoverable receivables, according to the amount of identified loss: risk category B-1 (placements for which the identified loss does not exceed 30% of the carrying amount of an individual placement), risk category B-2 (placements for which the identified loss is between more than 30% and 70% of the carrying amount of an individual placement) and B-3 (placements for which the identified loss is between more than 70% and less than 100% of the carrying amount of an individual placement). Category C includes receivables for which the Bank does not expect collections.

At 31 December 2012 in the total amount of placements classified into risk categories of HRK 38,185,055 thousand (2011: HRK 47,195,488 thousand) the amount of HRK 31,033,911 thousand (2011: HRK 34,610,946 thousand) relates to placements of category A.

39.2. Market Risk

Market risk arises from open positions in market instruments that are linked to interest rates, different underlying currencies, and equities, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions, and through establishing and maintaining appropriate limits.

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income. The Bank manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed by buying or selling instruments in accordance with risk limits approved by the Management Board.

39.2.1. Value at Risk (VaR) Analysis

The VaR risk measure estimates the potential loss over the given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss should not exceed the reported VaR.

VaR methodology employed to calculate daily risk numbers is a Monte Carlo simulation used in order to determine potential future exposure to risk. The Bank uses VaR to capture: exposure to Bank Book (99% confidence; 1 day holding horizon), exposure to Trade Book (99% confidence; 1 day horizon) portfolios and exposure to daily open FX position of the Bank. Methodology used is a structured Monte Carlo simulation with 10,000 runs and 99% confidence interval based on exponentially weighted volatilities and correlations of the Bank´s own time series (250 day's).

For the calculation of VaR for interest rate risk measurement in Bank book the variance-covariance method is used, based on the JPMorgan Risk Metrics approach. The approach is based on the assumption of a normal distribution of logarithmic interest rate returns. The volatility of the risk factors defines the VaR and in the next calculation step in combination with the correlation matrix the correlated VaR results.

As euro is a base currency for all calculations, VaR calculation is modeled and reported via Hypo Alpe Adria internal application "Portfolio Management System" ("PMS") that covers group exposure and monitors risk from a Group perspective.

The following table presents VaR trends of specific risk factors during the year 2012:

Value at Risk	HRK '000	HRK '000	HRK '000	HRK '000
Risk category	**Minimum**	**Maximum**	**Average**	**End of year**
Interest rate risk – trading book	-	511	145	15
Interest rate risk – banking book	1,824	6,032	3,940	2,946
Credit spread risk	931	3,055	2,223	931
Equity risk	1	4	2	3
Currency risk	237	2,301	868	1,140
Total*	**2,994**	**11,904**	**7,178**	**5,035**

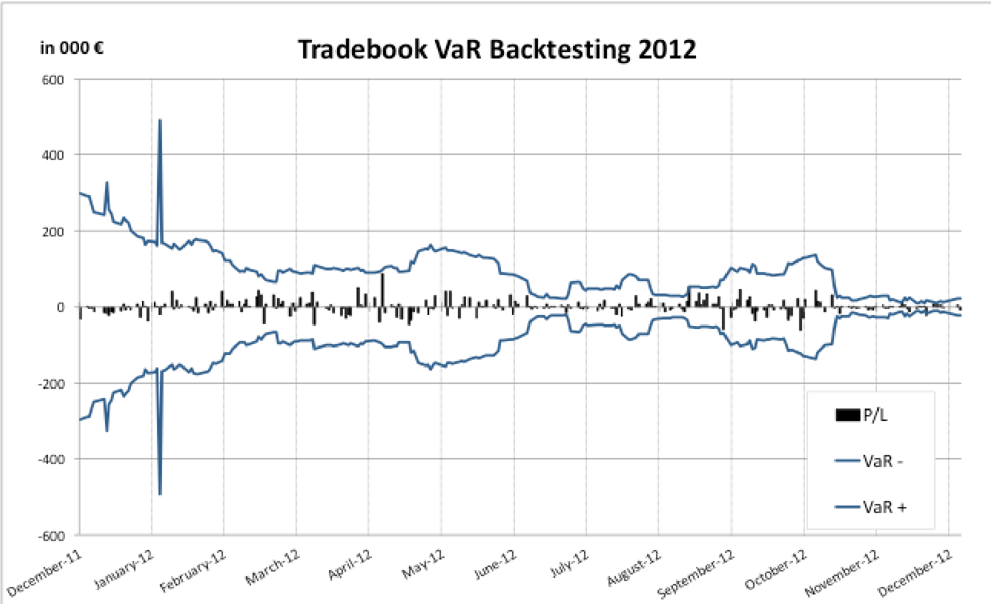
The following table presents VaR trends of specific risk factors during the year 2011:

Value at Risk	HRK '000	HRK '000	HRK '000	HRK '000
Risk category	**Minimum**	**Maximum**	**Average**	**End of year**
Interest rate risk – trading book	208	2,997	744	1,090
Interest rate risk – banking book	1,897	8,951	4,327	3,580
Equity risk	2	5	3	2
Currency risk	87	1,464	727	682
Total*	**2,194**	**13,417**	**5,801**	**5,354**

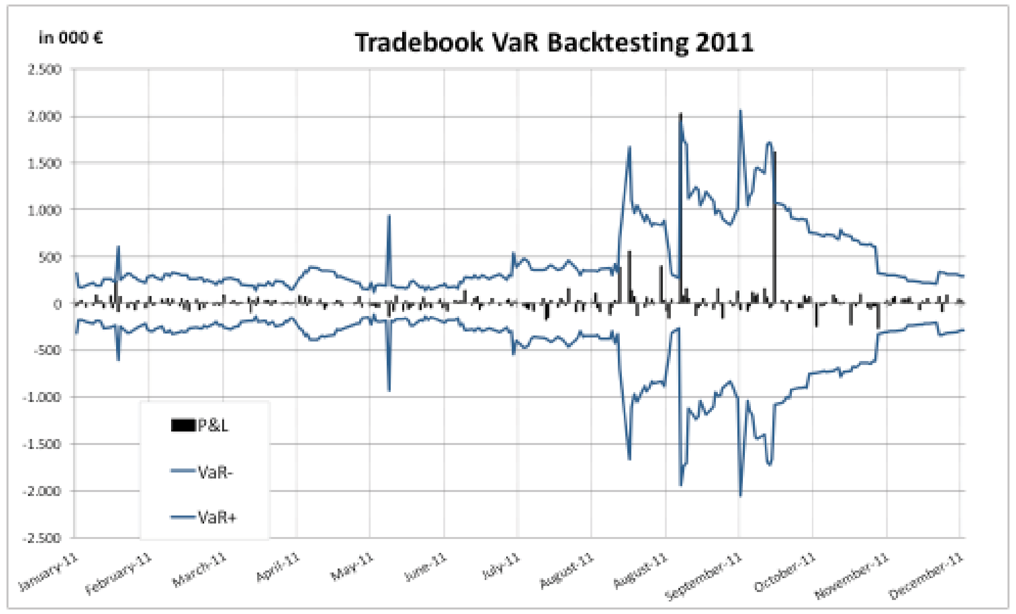
* correlation effects are not considered in the above analysis.

39.2.2. Back testing
Back testing is an evaluation process of VaR model by its application on a historical dataset. By performance of back testing, bank determines how much figures given by model itself differs from actual, i.e. from daily change in P/L. Testing is based on trading book dataset in order to determine predictive power of VaR model. Back testing is performed on yearly frequency, retrospectively for previous year.

Following graph shows back testing of VaR model in relation to daily changes of P/L in trading book for 2012:



Following graph shows back testing of VaR model in relation to daily changes of P/L in trading book for 2011:

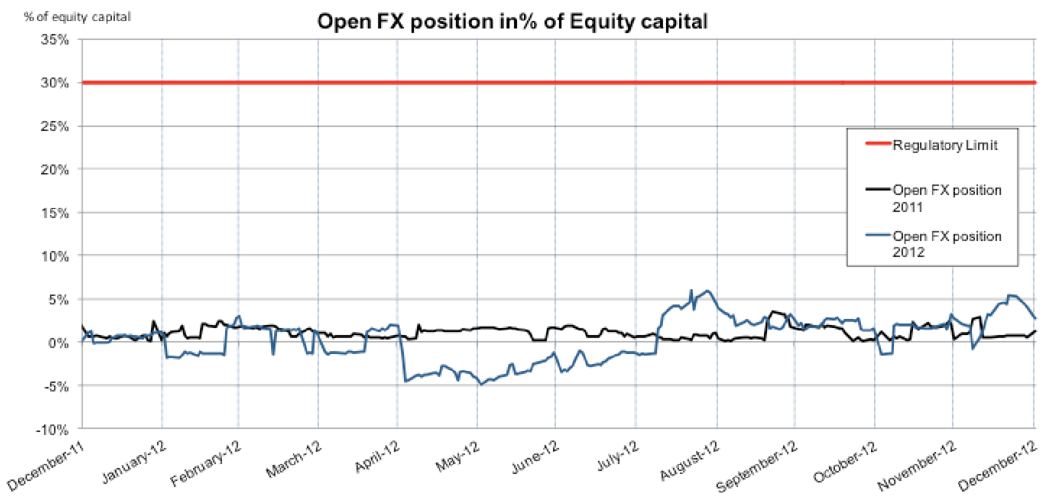


Back testing results of VaR model show us that two outliers were shown during the 2012. Since the actual data were underestimated in only two instances in 365 days period, the amount of dissipation from model predictions is acceptable.

39.2.3. Foreign currency risk
Bank is exposed to changes of existing foreign currency rates which have influenced to its financial situation and to its cash flows. Foreign currency risk exposures emerge out of credit, deposit and investment activities as well as out of trading activities. Foreign currency risk is controlled daily by regulatory requirement and by internally established limits toward particular currencies for assets and liabilities and off balance positions denominated in foreign currencies or in value clause.

Management Board establishes limits on exposure level per particular currency. Such determined internal limits are in line with minimal regulatory requirements of CNB regarding exposure to foreign currency risk (maximum exposure of 30% of liable capital).

Following graph shows comparison in movements of open foreign currency position related to regulatory capital for year 2012:



The Group is mainly exposed to the Euro (EUR) and the Swiss Frank (CHF).The following table details the Bank sensitivity to a 10% increase and decrease in the HRK against the relevant foreign currencies.

The following table presents the net FX position with the net P/L effect as at 31 December 2012:

HRK '000

	EUR	CHF	USD	GBP	Other
Open FX position	202,872	(13,167)	2,681	1,129	2,742
Net P/L effect	(20,287)	1,317	(268)	(113)	19

The following table presents the net FX position with the net P/L effect as at 31 December 2011:

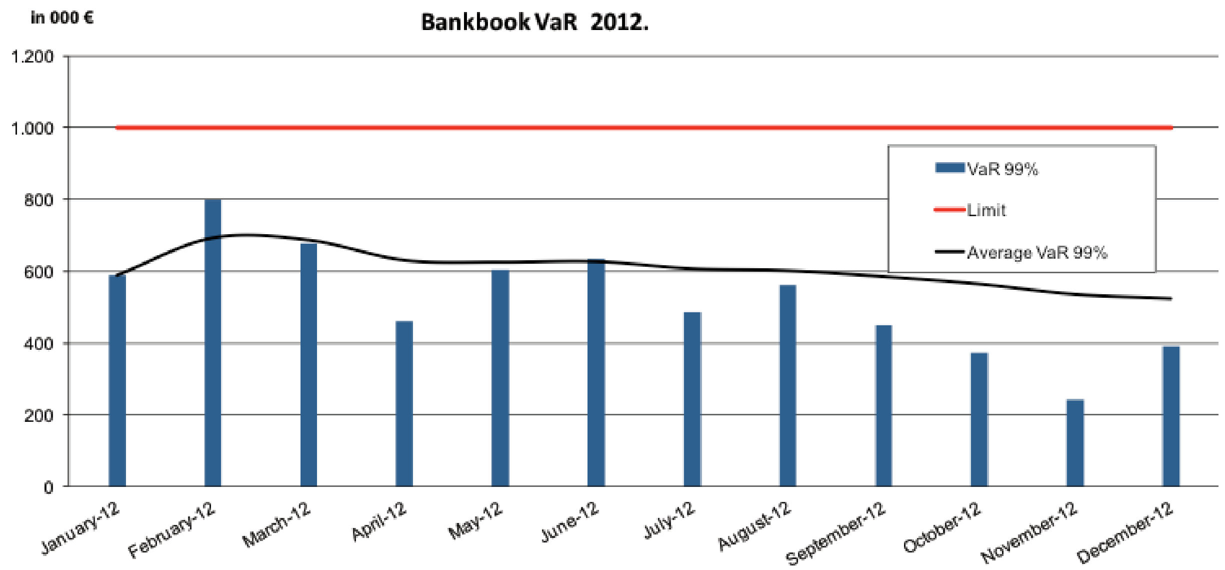
HRK '000

	EUR	CHF	USD	GBP	Other
Open FX position	65,749	(71,369)	2,414	(420)	2,419
Net P/L effect	(6,575)	7,137	(241)	42	(242)

The sensitivity analysis includes all foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit where the HRK strengthens 10% against the relevant currency. For a 10% weakening of the HRK against the relevant currency, there would be an equal and opposite impact on the profit, and the balances above would be negative.

39.2.4. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. VaR limit monitoring and average usage of given limits for interest rate risk for 2012 is given in graph below:



Management of interest rate risk is performed through Interest GAP report, where internally acceptable limits for each time band are set and approved by the Management Board, and based on this report interest rate position steering within limits is performed through local and group Asset Liability Committees. Due receivables are taken into account in following manner; receivables that are due and not impaired are distributed in 1 month time period and impaired receivables that are due are included in 2 year period under assumption that payment out of collaterals will on average occur in that time.

Interest GAP Balance as at 31 December 2012 is as follows:

HRK Mio

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Assets	1,693	5,698	17,335	7,543	960	159	683	615	34,686
Liabilities	(20)	(4,836)	(13,031)	(6,562)	(1,289)	(295)	(3,439)	(5,214)	(34,686)
Interest GAP	**1,674**	**861**	**4,304**	**981**	**(329)**	**(136)**	**(2,756)**	**(4,599)**	**-**
Interest GAP (%)	**4.83%**	**2.48%**	**12.41%**	**2.83%**	**(0.95%)**	**(0.39%)**	**(7.94%)**	**(13.26%)**	**0.00%**

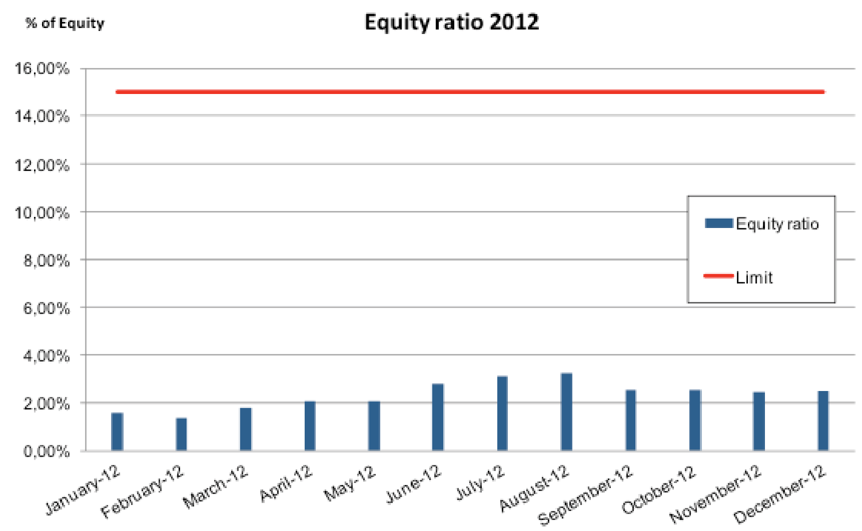
Interest GAP Balance as at 31 December 2011 is as follows:

HRK Mio

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Assets	2,170	7,429	19,480	7,576	3,098	197	424	689	41,063
Liabilities	(47)	(7,704)	(12,830)	(8,097)	(847)	(1,467)	(3,991)	(6,080)	(41,063)
Interest GAP	**2,123**	**(275)**	**6,650**	**(521)**	**2,251**	**(1,270)**	**(3,567)**	**(5,391)**	**-**
Interest GAP (%)	**5.17%**	**(0.67%)**	**16.19%**	**(1.27%)**	**5.48%**	**(3.09%)**	**(8.69%)**	**(13.13%)**	**0.00%**

*No Effect" position represents Share capital on Liability side and Tangible asset on Asset side.

Monitoring of Equity ratio which represents interest rate risk calculated as 200BP interest rate shock in relation with regulatory capital as well as monitoring of internally given limit of 15% of regulatory capital for 2012 is given in graph as follows:



The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability presented at the balance sheet date was constant for the entire year.

A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents Management Board's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the impact on Bank's income statement would be as presented in the following tables.

Interest GAP sensitivity as at 31 December 2012:

HRK Mio

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Interest GAP	1,674	861	4,304	981	(329)	(136)	(2,756)	(4,599)	-
50 BP parallel shift	0.00%	0.02%	0.08%	0.31%	0.69%	1.13%	3.58%	0.00%	0.00%
P/L effect	**-**	**0,17**	**3,44**	**3,04**	**(2,27)**	**(1,53)**	**(98,66)**	**-**	**(95,80)**

Interest GAP sensitivity as at 31 December 2011:

HRK Mio

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	No Effect*	Total
Interest GAP	2,123	(275)	6,650	(521)	2,251	(1,270)	(3,567)	(5,391)	-
50 BP parallel shift	0.00%	0.02%	0.08%	0.31%	0.69%	1.13%	3.58%	0.00%	0.00%
P/L effect	**0,00**	**(0,06)**	**5,32**	**(1,62)**	**15,53**	**(14,35)**	**(127,70)**	**0,00**	**(122,87)**

Sensitivity analysis is based on principle described in Basel Committee on Banking Supervision **"Principles for the Management and Supervision of Interest Rate Risk"**, July 2004, Annex 3 - The standardized interest rate shock.

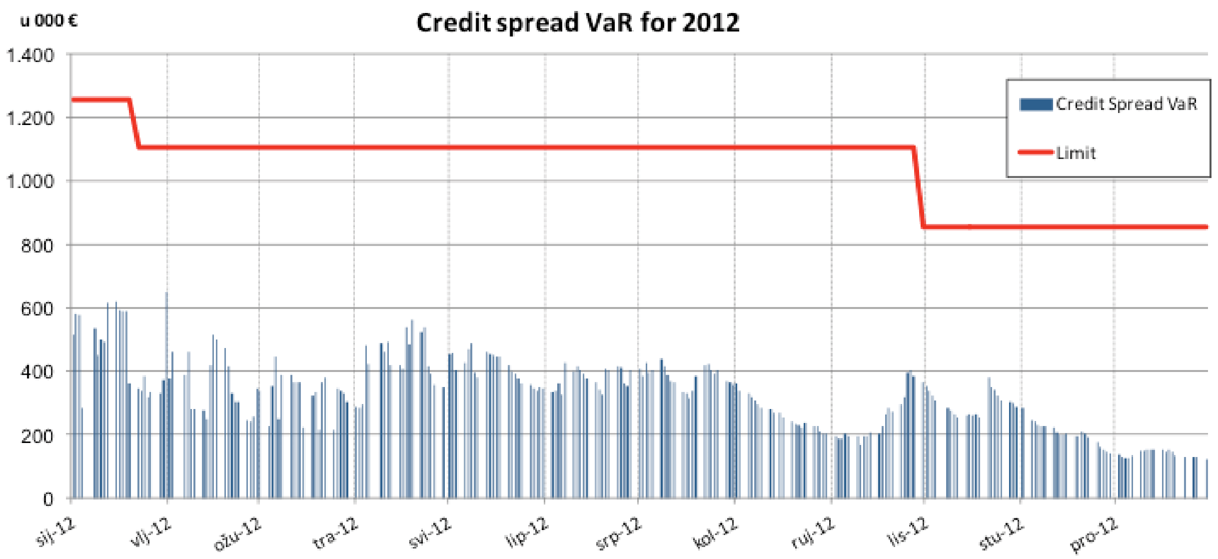
Several key events which occurred in 2012, like maturity and decrease of refinancing lines and selling of a part of loan portfolio influenced the change of the Bank's sensitivity to interest rates. Mentioned events, in general, have shortened interest rate reset on liability side more than on asset side and therefore they contributed to Bank's decreased sensitivity to changes in interest rates.

39.2.5. Credit spread risk

Credit spread risk represents the risk of debt instrument price change that comes out from a shift in expected client creditworthiness which is usually reported through CDS curve. Along with the interest rate risk, credit spread risk represents the major risk factor within the market risks. Credit spread margin is an integral constitutional part of each market price of debt security and it is determined on daily basis.

VaR (Value at Risk) is used as a measure of credit spread risk. VaR is actually a measure of exposure to market risk. The measure is an indicator that measures the maximum potential loss of the portfolio over a given period (usually 1 day) due to simulated changes in the prices of its constituent parts, i.e. debt financial instruments.

Historical trend of Bank exposure toward credit spread risk, together with given VaR limit for credit spread risk for 2012 is given in graph below:



Credit spread risk management is carried out through daily VaR reports, within which monitoring of internally accepted limits is conducted. On the basis of that report, Management and the relevant sectors have information on the amount of risk taken and whether bank is or it is not positioned within the defined/acceptable limits.

39.2.6. Liquidity risk

Liquidity risk is a measure of the extent up to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. Bank is obliged to continuously insure sufficient amount of liquid assets in order to cover all demands that arises from maturity of their obligations.

Bank has a clearly defined tolerance towards liquidity risk exposure which is determined in accordance with adopted strategy and business plans.

In order to meet all regulatory requirements, to achieve and respect security principles and to maintain stability and achievement of planned profitability, systematic measurement, limitation and reporting of liquidity risk is applied within the institution. Bank maintains its liquidity compliant to regulations given by CNB. Bank has applied measurement and reporting of minimum liquidity ratio in accordance with regulatory decision on liquidity risk management.

The following table represents minimum liquidity ratios up to one week and one month period in domestic and convertible (foreign) currencies for the year 2012:

	Kuna	Kuna	Convertible currencies	Convertible currencies	Total HRK & KVL	Total HRK & KVL
	1 week	**1 month**	**1 week**	**1 month**	**1 week**	**1 month**
Year End	4.12	2.29	1.75	1.42	2.29	1.67
Maximum	5.88	3.71	12.20	2.57	6.78	2.53
Minimum	1.92	1.43	1.63	1.18	1.83	1.43
Average	3.62	2.37	3.68	1.71	3.48	1.91

CNB Regulation prescribes that expected cash inflows up to one week and expected cash inflows up to one month must be higher than expected outflows up to one week and up to one month. Minimum liquidity coefficients are additionally reported in summed amount (HRK&KVL) in accordance with the amendment of the regulations on 01 May 2012.

The following table represents minimum liquidity ratios up to one week and one month period in domestic and convertible (foreign) currencies for the year 2011:

	Kuna	Kuna	Convertible currencies	Convertible currencies
	1 week	**1 month**	**1 week**	**1 month**
Year End	3.01	2.14	4.10	1.77
Maximum	5.39	3.30	7.00	2.44
Minimum	1.69	1.61	1.42	1.17
Average	3.60	2.48	2.91	1.61

During 2012 Bank has successfully maintained obligatory amount of foreign currency claims in relation to foreign currencies obligations (so called A/L ratio) according to related Decision given by regulator, which minimum required amount was 17%.

The following table shows the level of A/L ratio in 2012 and 2011:

	2012 %	2011 %
Year End	21.64	17.81
Maximum	24.38	22.95
Minimum	17.30	17.50
Average	18.26	18.90

Amount of minimum required A/L ratio has been increased significantly prior to end of the year 2012 due to selling of part of credit portfolio. Due to a same reason increase in comparison with the year 2011 could be noticed.
Furthermore, the Bank has set internal limitations and limits which represent constitutional part of Liquidity Risk Policy. Ratios which the Bank uses in liquidity risk management and which represents tolerance toward liquidity risk are:

- Current liquidity ratio
- Loans to Deposits ratio
- Short term assets to short term Liabilities ratio (up to 1 Year)

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The following table shows the level of Liquidity ratios in 2012 and 2011:

	2012 %	2011 %
Current liquidity ratio:		
Year End	11.77	10.72
Maximum	13.13	12.60
Minimum	9.50	9.04
Average	11.34	11.45
Loans to Deposits ratio:		
Year End	111.57	141.20
Maximum	143.09	146.40
Minimum	111.57	137.50
Average	132.70	143.00
Short term assets to short term Liabilities ratio:		
Year End	71.60	77.43
Maximum	76.19	86.44
Minimum	71.60	77.43
Average	73.94	82.05

The Bank has also developed a system of liquidity risk management which ensures continuous maintenance of sufficient liquidity assets (reserve) in form of additional, high quality, unpledged liquid instruments as insurance in case of unexpected events. A system based measurement of liquidity risk and monitoring on weekly level is being performed by the following measure used: the ratio of sufficient liquidity reserves versus projected outflows, also known as „Time to wall "ratio. This ratio is defined for variety of scenarios. By monitoring of this ratio, liquidity risk measurement for several different predefined liquidity crises is being performed, starting from moderate to severe.

Aside from above, the Bank has established a liquidity contingency plan which comprises a variety of measures and regulates procedures in case of particular crisis. Liquidity crisis declaration criteria are consisted of several quantitative and qualitative ratios which are monitored and reported weekly and monthly. In case that crisis declaration criteria is fulfilled Risk Controlling department is obliged to inform Management Board, ALCO and LICO which is than in charge for further actions.

The Bank places special focus on term structure of assets and liabilities in scope of its liquidity risk management.

The following table details the remaining contractual maturity for Bank financial assets and liabilities as of 31 December 2012.

HRK Mio

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Assets								
Cash	1,035	111	-	-	-	-	-	1,145
Balances with Croatian National Bank	-	596	-	2,337	-	-	-	2,933
Financial assets at fair value through P/L and available for sale	3	101	772	2,019	518	686	27	4,125
Placements with and loans to other banks	524	124	-	216	-	-	360	1,224
Loans and receivables	15	744	1,198	4,978	4,153	2,881	17,396	31,364
Other assets	-	256	-	-	-	-	-	256
Investments in subsidiaries	-	-	-	-	-	-	244	244
Property, plant and equipment and intangible assets	-	14	-	-	-	-	548	563
Total assets	**1,577**	**1,945**	**1,970**	**9,550**	**4,671**	**3,567**	**18,576**	**41,854**
Liabilities								
Due to other banks	(38)	(2,253)	(1,197)	(2,072)	(1,199)	(171)	(6,761)	(13,691)
Deposits from customers	(162)	(1,701)	(2,707)	(8,349)	(1,273)	(682)	(1,338)	(16,212)
Deferred items	-	(14)	(25)	(110)	-	-	-	(149)
Provisions for liabilities and charges	-	(18)	(2)	(7)	-	-	-	(26)
Other liabilities	(16)	(514)	(6)	(25)	(1)	-	-	(562)
Capital	-	(42)	(47)	(213)	(1)	(1)	(5,418)	(5,722)
Total liabilities and equity	**(217)**	**(4,542)**	**(3,984)**	**(10,776)**	**(2,474)**	**(853)**	**(13,517)**	**(36,362)**
Gap per time band	1,360	(2,597)	(2,014)	(1,226)	2,197	2,714	5,058	-
Gap in %	**3.92%**	**(7.49%)**	**(5.81%)**	**(3.54%)**	**6.33%**	**7.82%**	**14.58%**	

The table has been drawn up based on the undiscounted cash flows of financial instruments. Financial instruments without contractual maturity like gyro and current accounts and savings deposits are deployed within maturities up to next 5 years, which is in accordance to historic movements of such instruments.

Retail clients have the possibility to withdraw their term deposits prior to their contractual maturity date. However, historical experience shows that this is not very likely. As of 31December 2012 the balance of term deposits from customers was HRK 10.874 million and as of 31 December 2011 HRK 9.951 million.

The following table details the remaining contractual maturity for Bank's financial assets and liabilities as at 31 December 2011.

HRK Mio

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Assets								
Cash	1,616	102	-	-	-	-	-	1,718
Balances with Croatian National Bank	-	656	-	2,604	-	-	-	3,260
Financial assets at fair value through P/L and available for sale	76	68	1,389	2,148	212	118	549	4,560
Placements with and loans to other banks	251	399	-	-	225	-	-	875
Loans and receivables	17	1,085	1,362	4,891	7,100	3,596	19,922	37,974
Other assets	-	880	-	-	-	-	-	880
Investments in subsidiaries	-	-	-	-	-	-	244	244
Property, plant and equipment and intangible assets	-	-	-	-	-	-	517	517
Total assets	**1,961**	**3,190**	**2,751**	**9,643**	**7,537**	**3,714**	**21,232**	**50,028**
Liabilities								
Due to other banks	(18)	(2,460)	(3,671)	(1,767)	(2,361)	(1,892)	(8,650)	(20,818)
Deposits from customers	(272)	(1,774)	(2,328)	(7,360)	(1,404)	(1,091)	(1,326)	(15,556)
Deferred items	-	(20)	(30)	(136)	-	-	-	(186)
Provisions for liabilities and charges	-	(17)	(7)	(30)	-	-	-	(54)
Other liabilities	(17)	(1,497)	(63)	(110)	-	(73)	-	(1,760)
Capital	-	(7)	(12)	(55)	-	-	(5,418)	(5,492)
Total liabilities and equity	**(307)**	**(5,776)**	**(6,111)**	**(9,458)**	**(3,765)**	**(3,056)**	**(15,393)**	**(43,866)**
Gap per time band	1,654	(2,586)	(3,361)	186	3,772	658	5,839	-
Gap in %	**3.98%**	**(6.22%)**	**(8.08%)**	**0.45%**	**9.07%**	**1.58%**	**14.04%**	

The following table details the remaining maturity for Bank's off balance positions as at 31 December 2012.

HRK Mio

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Off Balance								
Non used overdrafts, frames and credit lines	1,182	22	9	238	145	171	87	1,855
Guarantees & Letters of credit	60	77	189	383	187	75	428	1,400
Derivatives nominal -long	-	653	1,086	1,129	221	-	491	3,580
Derivatives nominal -short	-	(654)	(1,123)	(1,123)	(226)	-	(500)	(3,626)

The following table details the remaining maturity for Bank's off balance positions as at 31 December 2011.

HRK Mio

	Up to 1 day	1 day to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Off Balance								
Non used overdrafts, frames and credit lines	1,575	16	60	197	183	169	13	2,213
Guarantees & Letters of credit	56	114	165	655	308	113	592	2,004
Derivatives nominal -long	-	-	1,008	729	337	221	491	2,787
Derivatives nominal -short	-	-	(1,032)	(753)	(372)	(226)	(496)	(2,878)

39.3. Operational Risk

Operational Risk is the risk of a loss resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk.

Regulatory requirements with respect to the operational risk management process are related to continuous determination of risk to which the Bank is exposed or could be exposed in their operations and analysis of the risk exposure causes. Standards for operational risk management process are aligned with the legislation of Croatian National Bank.

Operational risk management process includes comprehensiveness of the organizational structure, policies, processes, procedures, systems and resources for identifying, measuring and assessing, controlling, monitoring and reporting of operational risk exposures and risk management in general, and includes the establishment of appropriate corporate governance and risk culture.

The organizational structure of the operational risk management reflects the fact that operational risk is inherent in the overall operations of the Bank including a Risk Control function as a central component that coordinates, analyzes and monitors operational risk, and a decentralized component in all organizational units of the Bank responsible for everyday practical use and implementation of operational risk management process.

Within the operational risk management roles and responsibilities are strictly defined and documented in internal documents which allow communication and collaboration at all levels, and an adequate flow and circulation of information relevant for operational risk management. Non blaming culture prevents any conflict of interest in the data collection process. Raising awareness on operational risk management is carried out by continuously maintaining of the internal trainings in the Bank.

Operational risk management process is based on a proactive approach to the early detection and prevention of operational risk events that could cause a loss. In the document "Operational Risk Management Policy" the Bank has summarized rules for the identification, assessment, management and control of the operational risk. Series of internal acts were created which strategically and operationally define operational risk management process and clearly define the roles and responsibilities of all the Bank's employees involved in it.

Methods of measuring the operational risk include both quantitative and qualitative methods which represents the tool for observation of changes in the Bank's risk profile.

Quantitative method of measuring the operational risk includes the data collection about the events that resulted in losses or could result in losses due to the operational risk. Qualitative method of measurement of the operational risk includes an analysis of scenarios for the events of low frequency and significant consequences on an annual basis, a risk assessment during the implementation of new products, entering new markets, outsourced activities, project management and implementation of the internal control system which includes an assessment of the risk in business processes and test effectiveness of the controls.

39.4. Derivative Financial Instruments

Credit exposure or replacement cost of financial derivative instruments represents the Group's credit exposure from contracts with a positive fair value, that is, it indicates the estimated maximum potential losses of the Group in the event that counterparties fail to perform their obligations. This is usually a small fraction of the notional amounts of the contracts. The credit exposure of each contract is indicated by the credit equivalent calculated pursuant to generally applicable methodology using the current exposure method and involves the fair market value of the contract (only if positive, otherwise a zero value is taken into account) and a portion of nominal value, which indicates the potential change in fair market value over the term of the contract. The credit equivalent is established depending on the type of contract and its maturity. The Group periodically assesses credit risks of all financial instruments.

Derivative financial instruments used by the Group include interest, cross-currency and currency swaps and forwards whose value changes in response to changes in interest rates and foreign exchange rates. Derivatives are either standardized contracts transacted through regulated exchanges or individually negotiated contracts. Swap arrangements are used for hedging of exposure resulting from adverse movements in interest and exchange rates, as well as for transformation of currency liquidity.

40. CAPITAL MANAGEMENT

The Bank maintains an actively managed capital level to cover risks inherent in the business. The capital adequacy is monitored using, among other measures, the rules and ratios established by the Croatian National Bank. During the year 2012 the Bank has complied in full with all imposed capital requirements.
The capital adequacy ratio is calculated as the ratio between regulatory capital and credit risk-weighted assets increased by the overall foreign exchange position exposure to currency risk, exposure to position risks, exposure to operational risk, exposure to settlement and counterparty risk and increased by exceeding the permissible exposure limits.

The following table presents regulatory capital and capital adequacy ratio as at 31 December 2012 and 31 December 2011:

HRK '000

	Bank 2012	Bank 2011
Regulatory capital:		
Core capital	5,330,909	5,366,756
Supplementary capital	2,191,697	2,430,034
Deduction items	(29,659)	(29,659)
Total regulatory capital	**7,492,947**	**7,767,131**
Credit risk-weighted assets and other risk exposures	**24,815,478**	**29,747,597**
Core capital adequacy ratio	21.48%	18.04%
Total regulatory capital adequacy ratio	30.19%	26.11%
Required regulatory capital adequacy ratio	12.00%	12.00%

Pursuant to the Croatian Accounting Law (Official Gazette 109/07) Croatian National Bank issued the Decision on structure and contents of annual financial statement of the banks (Official Gazette 62/08). The following tables present financial statements in accordance to the above mentioned decision:

Consolidated Income Statement

HRK '000

	2012	2011
1. Interest income	1,849,442	2,049,997
2. (Interest expenses)	(1,215,063)	(1,167,805)
3. Net interest income	**634,379**	**882,192**
4. Commission and fee income	296,255	311,077
5. (Commission and fee expenses)	(75,026)	(72,335)
6. Net commission and fee income	**221,229**	**238,742**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	124,289	54,407
9. Gain/(loss) from embedded derivatives	-	-
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit or loss	-	-
11. Gain/(loss) from financial assets available for sale	2,032	5,330
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	71	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	-	21
16. Gain/(loss) from foreign exchange differences	(43,649)	30,589
17. Other income	207,326	179,940
18. Other expenses	99,282	89,075
19. General and administrative expenses, depreciation and amortization	730,045	759,673
20. Net income before value adjustments and provisions for losses	**316,350**	**542,473**
21. Expenses from value adjustments and provisions for losses	(23,970)	484,215
22. Profit/(loss) before tax	**340,320**	**58,258**
23. Income tax	68,415	12,576
24. Current year profit/(loss)	**271,905**	**45,682**
25. Earnings per share	203	4

Appendix to the Income Statement

HRK '000

	2012	2011
Current year profit/(loss)	271,905	45,682
Distributable to the parent company shareholders	271,905	45,682
Minority participation	**-**	**-**

Signed on behalf of HYPO ALPE-ADRIA-BANK d.d. Zagreb on 19 March 2013:

Joško Mihić	**Brane Golubić**	**Markus Ferstl**
Member of the Management Board	Member of the Management Board	President of the Management Board

Consolidated Balance Sheet

HRK '000

	2012	2011
Assets		
1. Cash and deposits with CNB	4,044,803	4,937,168
1.1. Cash	389,515	388,150
1.2. Deposits with CNB	3,655,288	4,549,018
2. Deposits with banking institutions	563,272	433,314
3. Treasury bills of Ministry of Finance and treasury bills of CNB	625,725	932,461
4. Securities and other financial instruments held for trading	9,374	84,953
5. Securities and other financial instruments available for sale	3,364,087	3,335,601
6. Securities and other financial instruments held to maturity	-	-
7. Securities and other financial instruments that are not traded on active markets at fair value through profit or loss	-	-
8. Derivative financial assets	4,702	1,822
9. Loans to financial institutions	708,756	485,874
10. Loans to other clients	24,299,314	29,593,188
11. Investments in subsidiaries, affiliated companies and joint ventures	-	-
12. Repossessed assets	136,359	112,748
13. Tangible and intangible assets (minus depreciation and amortization)	1,380,952	1,386,751
14. Interests, fees and other assets	493,671	656,355
A. Total assets	**35,631,015**	**41,960,235**

HRK '000

	2012	2011
Liabilities and equity		
1. Borrowings from financial institutions	1,336,859	1,735,717
1.1. Short-term borrowings	70,115	473,984
1.2. Long-term borrowings	1,266,744	1,261,733
2. Deposits	22,065,513	27,331,695
2.1. Deposits on giro-accounts and current accounts	2,294,038	2,184,127
2.2. Savings deposits	1,378,556	1,400,661
2.3. Term deposits	18,392,919	23,746,907
3. Other borrowings	3,185,629	3,252,815
3.1. Short-term borrowings	2,031,238	2,666,845
3.2. Long-term borrowings	1,154,391	585,970
4. Derivative financial liabilities and other trading financial liabilities	58,925	99,153
5. Issued debt securities	-	-
5.1. Issued short-term debt securities	-	-
5.2. Issued long-term debt securities	-	-
6. Issued subordinated instruments	-	-
7. Issued subordinated debt	2,440,703	2,430,034
8. Interests, fees and other liabilities	860,343	1,669,393
B. Total liabilities	**29,947,972**	**36,518,807**
Equity		
1. Share capital	5,252,167	5,252,167
2. Current year gain/loss	271,905	45,682
3. Retained earnings/(loss)	4,883	(14,985)
4. Legal reserves	113,002	110,884
5. Statutory and other capital reserves	47,230	57,126
6. Unrealised gain /(loss) from available for sale fair value adjustment	(6,144)	(9,446)
C. Total equity	**5,683,043**	**5,441,428**
D. Total liabilities and equity	**35,631,015**	**41,960,235**

Appendix to the Balance Sheet

HRK '000

	2012	2011
TOTAL EQUITY	5,683,043	5,441,428
Equity distributable to parent company shareholders	5,683,043	5,441,428
Minority participation	-	-

Signed on behalf of HYPO ALPE-ADRIA-BANK d.d. Zagreb on 19 March 2013:

Joško Mihić	**Brane Golubić**	**Markus Ferstl**
Member of the Management Board	Member of the Management Board	President of the Management Board

Consolidated Cash Flow Statement

HRK '000

	2012	2011
Operating activities		
1.1. Gain/(loss) before tax	340,320	58,258
1.2. Value adjustments and provisions for losses	(15,057)	467,212
1.3. Depreciation and amortization	130,233	152,487
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit or loss	(5,002)	60,359
1.5. Gain/(loss) from tangible assets sale	54,629	30,396
1.6. Other (gains)/losses	-	(21)
1. Operating cash flow before operating assets movements	**395,865**	**707,899**
2.1. Deposits with CNB	322,062	(455,768)
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	240,642	(110,904)
2.3. Deposits with banking institutions and loans to financial institutions	(407,073)	9,514
2.4. Loans to other clients	5,484,163	(1,162,417)
2.5. Securities and other financial instruments held for trading	77,263	45,017
2.6. Securities and other financial instruments available for sale	(39,544)	528,491
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit or loss	-	-
2.8. Other operating assets	69,914	(32,419)
2. Net (increase)/decrease in operating assets	**5,747,427**	**(1,178,486)**
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	84,534	162,808
3.2. Savings and term deposits	(5,361,860)	1,809,832
3.3. Derivative financial liabilities and other trading liabilities	(38,465)	(225,490)
3.4. Other liabilities	(80,381)	76,658
3. Net increase/(decrease) in operating liabilities	(5,396,172)	1,823,808
4. Net cash flow from operating activities before profit tax paying	747,120	1,353,221
5. Paid profit tax	(13,947)	(111,495)
6. Net inflows/(outflows) of cash from operating activities	**733,173**	**1,241,726**

HRK '000

	2012	2011
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(87,983)	(111,690)
7.2. Receipts from sale /(payments for buying) investments in subsidiaries, affiliated companies and joint ventures	-	-
7.3. Receipts from collection/(payments for buying) securities and other financial instruments held to maturity	-	-
7.4. Received dividends	-	21
7.5. Other receipts/(payments) form investment activities	-	20
7. Net cash flow from investing activities	**(87,983)**	**(111,649)**
Financial activities		
8.1. Net increase/(decrease) in borrowings	(477,097)	(176,613)
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated and subordinated debt	(131)	(29,214)
8.4. Receipts from issued share capital	(751,070)	-
8.5. (Dividends paid)	(41,890)	(215,781)
8.6. Other receipts/(payments) from financial activities	-	9,763
8. Net cash flow from financial activities	**(1,270,188)**	**(411,845)**
9. Net increase/(decrease) in cash and cash equivalents	**(624,998)**	**718,232**
10. Effects from foreign exchange rates changes on cash and cash equivalents	**54,742**	**(85,136)**
11. Net increase/(decrease) in cash and cash equivalents	**(570,256)**	**633,096**
12. Cash and cash equivalents at the beginning of the year	**3,176,786**	**2,543,690**
13. Cash and cash equivalents at the end of the year	**2,606,530**	**3,176,786**

Consolidated Statement of Changes in Equity

HRK '000

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority Partici-pation	Total capital and reserves
1. Balance at 1 January 2012	**5,252,167**	**-**	**168,010**	**(14,985)**	**45,682**	**(9,446)**	**-**	**5,441,428**
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-	-	-
3. Restated current year balance	**5,252,167**	**-**	**168,010**	**(14,985)**	**45,682**	**(9,446)**	**-**	**5,441,428**
4. Sale of financial assets available for sale	-	-	-	-	-	(2,032)	-	(2,032)
5. Fair value changes of financial assets available for sale	-	-	-	-	-	5,334	-	5,334
6. Tax on items directly recognised or transferred from capital and reserves	-	-	(637)	-	-	-	-	(637)
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves	**-**	**-**	**(637)**	**-**	**-**	**3,302**	**-**	**2,665**
9. Current year gain/(loss)	-	-	-		271,905	-	-	271,905
10. Total income and expenses recognised for the current year	**-**	**-**	**(637)**	**-**	**271,905**	**3,302**	**-**	**274,570**
11. Increase/ (decrease) in share capital	-	-	-	-	-	-	-	-
12. Buying/(sale) of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	(9,259)	18,194	-	-	-	8,935
14. Transfer to reserves	-	-	2,118	3,321	(5,439)	-	-	-
15. Dividends paid	-	-	-	(1,647)	(40,243)	-	-	(41,890)
16. Distribution of profit	**-**	**-**	**2,118**	**1,674**	**(45,682)**	**-**	**-**	**(41,890)**
17. Balance at 31 December 2012	**5,252,167**	**-**	**160,232**	**4,883**	**271,905**	**(6,144)**	**-**	**5,683,043**

HRK '000

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority Partici-pation	Total capital and reserves
1. Balance at 1 January 2012	**6,003,237**	**-**	**162,024**	**42,317**	**185,982**	**(11,126)**	**-**	**6,382,434**
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-	-	-
3. Restated current year balance	**6,003,237**	**-**	**162,024**	**42,317**	**185,982**	**(11,126)**	**-**	**6,382,434**
4. Sale of financial assets available for sale	-	-	-	-	-	(5,330)	-	(5,330)
5. Fair value changes of financial assets available for sale	-	-	-	-	-	7,010	-	7,010
6. Tax on items directly recognised or transferred from capital and reserves	-	-	(404)	-	-	-	-	(404)
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves	**-**	**-**	**(404)**	**-**	**-**	**1,680**	**-**	**1,276**
9. Current year gain/(loss)					45,682			45,682
10. Total income and expenses recognised for the current year	**-**	**-**	**(404)**	**-**	**45,682**	**1,680**	**-**	**46,958**
11. Increase/ (decrease) in share capital	(751,070)	-	-	-	-	-	-	(751,070)
12. Buying/(sale) of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	(4,967)	(16,147)	-	-	-	(21,114)
14. Transfer to reserves	-	-	11,357	-	(11,357)	-	-	-
15. Dividends paid	-	-	-	(41,155)	(174,625)	-	-	(215,780)
16. Distribution of profit	**-**	**-**	**11,357**	**(41,155)**	**(185,982)**	**-**	**-**	**(215,780)**
17. Balance at 31 December 2012	**5,252,167**	**-**	**168,010**	**(14,985)**	**45,682**	**(9,446)**	**-**	**5,441,428**

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

Comparatives for the income statement ended 31 December 2012 and 31 December 2011:

HRK '000

	2012 Croatian National Bank's Decision	2012 Accounting Requirements for banks in Croatia	2012 Difference	2011 Croatian National Bank' Decision	2011 Accounting Requirements for banks in Croatia	2011 Difference
Earnings per share (HRK)	1,849,442	1,848,890	552	2,049,997	2,041,069	8,928
Interest and interest similar expenses	(1,215,063)	(1,187,060)	(28,003)	(1,167,805)	(1,140,771)	(27,034)
Net interest income	**634,379**	**661,830**	**(27,451)**	**882,192**	**900,298**	**(18,106)**
Commission and fee income	296,255	296,256	(1)	311,077	311,046	31
Commission and fee expenses	(75,026)	(75,078)	52	(72,335)	(72,314)	(21)
Net commission and fee income	**221,229**	**221,178**	**51**	**238,742**	**238,732**	**10**
Net trading gain	124,289	126,322	(2,033)	54,407	59,738	(5,331)
Gain from financial assets available for sale	2,032	-	2,032	5,330	-	5,330
Income from other equity investments	-	-	-	21	-	21
Net foreign exchange differences	(43,649)	(45,584)	1,935	30,589	14,034	16,555
Other operating income	207,397	207,400	(3)	179,940	148,050	31,890
Total other income	**290,069**	**288,138**	**1,931**	**270,287**	**221,822**	**48,465**
General and administrative expenses, depreciation and amortization	(730,045)	(130,233)	(599,812)	(759,673)	(131,063)	(628,610)
Personnel expenses	-	(296,568)	296,568	-	(330,329)	330,329
Expenses from value adjustments and provisions for losses	23,970	15,057	8,913	(484,215)	(468,028)	(16,187)
Other operating expenses	(99,282)	(419,082)	319,800	(89,075)	(374,287)	285,212
Total other expenses	**(805,357)**	**(830,826)**	**25,469**	**(1,332,963)**	**(1,303,707)**	**(29,256)**
Profit before tax	**340,320**	**340,320**	**-**	**58,258**	**57,145**	**1,113**
Income tax	(68,415)	(68,415)	-	(12,576)	(12,469)	(107)
Net profit for the year	**271,905**	**271,905**	**-**	**45,682**	**44,676**	**1,006**
Earnings per share (HRK)	**203**	**203**	**-**	**4**	**4**	**-**

The difference in position "Interest and interest similar income" of HRK 552 thousand relates to foreign exchange differences presented in "Net foreign exchange differences" in the income statement in accordance with statutory accounting requirements for banks in Croatia.

The difference in position "Interest and interest similar expenses" of HRK 27,930 thousand relates to savings deposits insurance premium expenses presented in "Other operating expenses" in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 72 thousand relates to foreign exchange differences presented in "Net foreign exchange differences" in the income statement in accordance with statutory accounting requirements for banks in Croatia.

The difference in position "Commission and fee income" of HRK 1 thousand relates to foreign exchange differences on non-interest receivables presented in "Net foreign exchange differences" in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position "Commission and fee expenses" of HRK 52 thousand relates to foreign exchange differences on non-interest payables presented in "Net foreign exchange differences" in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position "Gain from financial assets available for sale" of HRK 2,033 thousand relates to income from trading in assets available for sale presented in "Net trading gain" in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position "Net foreign exchange differences" of HRK 2,466 thousand relates to foreign exchange differences on impairment items presented in "Expenses from value adjustments and provisions for losses" in accordance with CNB decision. The difference of HRK 532 relates to above listed foreign exchange differences on interest and non-interest receivables and payables.

The difference in position "Other operating income" of HRK 4 thousand relates to income from collected written-off receivables presented in "Expenses from value adjustments and provisions for losses" in accordance with CNB decision.

The difference in position "General and administrative expenses, depreciation and amortization" of HRK 11,375 thousand relates to property impairment losses, presented in "Expenses from value adjustments and provisions for losses" in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 296,568 thousand relates to personnel expenses presented in "Personnel expenses" in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 282,020 thousand relates to material and services expenses and other expenses presented in "Other operating expenses" in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 9,849 thousand relates to provisions for employee benefits presented in "Personnel expenses" in financial statements in accordance with statutory accounting requirements for banks in Croatia

The difference in position "Expenses from value adjustments and provisions for losses" of HRK 11,375 thousand relates to property impairment losses presented in "General and administrative expenses, depreciation and amortization" in accordance with CNB decision. The difference of HRK 2,466 thousand relates to foreign exchange differences on impairment items presented in "Net foreign exchange differences" in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 4 thousand relates to income from collected written-off receivables presented in "Other operating income" in financial statements in accordance with statutory accounting requirements for banks in Croatia.

The difference in position "Other operating expenses" of HRK 27,930 thousand relates to savings deposits insurance premium expenses presented in "Interest and interest similar expenses" in accordance with CNB decision. The difference of HRK 9,849 thousand relates to income from reversal of personnel provisions presented in "Personnel expenses" in financial statements in accordance with statutory accounting requirements for banks in Croatia. The difference of HRK 282,020 relates to material and services expenses and other expenses presented in "General and administrative expenses, depreciation and amortization" in accordance with CNB decision.

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

HRK '000

	2012 Croatian National Bank's Decision	2012 Accounting Requirements for banks in Croatia	2012 Difference	2011 Croatian National Bank's Decision	2011 Accounting Requirements for banks in Croatia	2011 Difference
Assets						
Cash and deposits with CNB	4,044,803	4,573,277	(528,474)	4,937,168	5,209,605	(272,437)
Treasury bills of Ministry of Finance and treasury bills of CNB	625,725	-	625,725	932,461	-	932,461
Financial assets at fair value through profit or loss	9,374	9,596	(222)	84,953	86,396	(1,443)
Placements with and loans to other banks	1,272,028	663,247	608,781	919,188	472,683	446,505
Loans and receivables	24,299,314	24,365,129	(65,815)	29,593,188	29,761,034	(167,846)
Available for sale financial assets	3,364,087	3,990,451	(626,364)	3,335,601	4,274,337	(938,736)
Repossessed assets	136,359	136,359	-	112,748	112,748	-
Property, plant and equipment and intangible assets	1,380,952	1,440,097	(59,145)	1,386,751	1,437,125	(50,374)
Derivative financial assets	4,702	4,702	-	1,822	1,822	-
Other assets	493,671	238,835	254,836	656,355	358,291	298,064
Total assets	**35,631,015**	**35,421,693**	**209,322**	**41,960,235**	**41,714,041**	**246,194**
Liabilities						
Due to other banks and due to customers	26,588,001	26,925,793	(337,792)	32,320,227	32,612,966	(292,739)
Finance lease liabilities	-	875	(875)	-	1,285	(1,285)
Provisions for liabilities and charges	-	56,340	(56,340)	-	89,990	(89,990)
Derivative financial liabilities and other trading financial liabilities	58,925	58,925	-	99,153	99,153	-
Other liabilities	860,343	256,014	604,329	1,669,393	1,038,854	630,539
Total liabilities	**27,507,269**	**27,297,947**	**209,322**	**34,088,773**	**33,842,248**	**246,525**
Subordinated debt	2,440,703	2,440,703	-	2,430,034	2,430,365	(331)
Equity						
Share capital	5,252,167	5,208,760	43,407	5,252,167	5,208,760	43,407
Share premium	-	59,767	(59,767)	-	59,767	(59,767)
Net profit for the year	271,905	271,905	-	45,682	44,676	1,006
Retained earnings/(loss carried forward)	4,883	4,884	(1)	(14,985)	(13,978)	(1,007)
Unrealised gain /(loss) from available for sale fair value adjustment	(6,144)	-	(6,144)	(9,446)	-	(9,446)
Reserves	160,232	137,727	22,505	168,010	142,203	25,807
Total equity	**5,683,043**	**5,683,043**	**-**	**5,441,428**	**5,441,428**	**-**
Total liabilities and equity	**35,631,015**	**35,421,693**	**209,322**	**41,960,235**	**41,714,041**	**246,194**

The difference in total assets and total liabilities of HRK 209,322 thousand between the balance sheet presented according to the CNB decision and the balance sheet presented in accordance with statutory accounting requirements for banks in Croatia arises from different classification of deferred loan origination fees, liabilities for early repayment of loans and deferred prepaid interest on term deposits as well as netting of current tax assets and current tax liabilities. In statements according to CNB decision deferred origination fees, as well as liabilities based on the early repayment of loans, are included in the position "Interests, fees and other liabilities" in "Total liabilities", while in the financial statements according to the statutory accounting requirements for banks in Croatia they are recognized as an adjustment in the position "Loans and receivables" in "Total assets".

Deferred prepaid interest on term deposits is recognised in position "Other assets" in "Total assets" in statements according to CNB decision whereas in the financial statements according to the statutory accounting requirements for banks in Croatia it is recognized as an adjustment in position "Due to customers" in "Total liabilities".

Current tax assets are recognised in position "Other assets" in "Total assets" in statements according to CNB decision whereas in the financial statements according to the statutory accounting requirements for banks in Croatia it is netted with current tax liabilities in the position “Current tax liabilities” in "Total liabilities".

Differences in other positions arise from different classification of interest receivables and interest payables. In statements according to CNB decision interest receivables and interest payables are presented in "Other assets" and "Other liabilities" respectively, while in the financial statements according to the statutory accounting requirements for banks in Croatia they are presented in assets or liabilities positions on which they are related to, as an adjustment to their amortized cost.

Cash and Deposits with the Croatian National Bank are disclosed as separate positions according to CNB decision, while in the financial statements according to the statutory accounting requirements for banks in Croatia they are included in "Cash and current accounts with other banks" and "Balances with the Croatian National Bank".

Ministry of Finance treasury bills are separately disclosed according to the CNB decision whereas in the financial statements according to the statutory accounting requirements for banks in Croatia these securities are part of "Financial assets available for sale".

COMPANY ORGANS

1 January 2012 to 31 December 2012

Supervisory Board:

Dr. Gottwald Kranebitter, president
Hypo Alpe Adria, Klagenfurt

Mag. Wolfgang Edelmüller, vice president
Hypo Alpe Adria, Klagenfrut

Dr. Sebastian Firlinger, member
Hypo Alpe Adria, Klagenfrut
(from 27th April 2011)

Goran Radman, member
Veleučilište Vern, Zagreb

Neven Raić, member
Hypo Alpe Adria, Klagenfurt
(from 15th February 2012)

Blaž Brodnjak, member
Hypo Alpe Adria, Klagenfrut
(until 15th February 2012)

Management Board:

Mag. Markus Ferstl,
President

Ivo Bilić, B.Sc..
Member

Brane Golubić, B.Sc.
Member

Tea Martinčić, B.Sc.
Member

Joško Mihić, MBA
Member (from 1st August 2012)

Mag. Slawomir Roman Konias
Member (from 1st August 2012)

Tadija Vrdoljak, Ph.D.
Member (until 3rd March 2012)

BRANCH OFFICES IN CROATIA

Hypo Alpe-Adria-Bank d.d.

Headquarters Zagreb
Slavonska avenija 6, HR - 10000 Zagreb
Tel.: (01) 603 0000, fax: (01) 6035 130
e-mail: bank.croatia@hypo-alpe-adria.hr
www.hypo-alpe-adria.hr

Zagreb – Koturaška
Koturaška 47, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 6169 810

Zagreb – Trg
Trg bana J. Jelačića 3, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 4891 740

Zagreb – Črnomerec
Ilica 251, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 3907 170

Zagreb – Dubrava
Avenija Dubrava 43, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 2958 980

Zagreb – Heinzelova
Heinzelova 9, HR – 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 2311 100

Zagreb – Jankomir
Škorpikova 11, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 3794 888

Zagreb – Maksimir
Maksimirska 123, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 2444 170

Zagreb – Ozaljska
Ozaljska 85, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 3833 636

Zagreb – Prečko
Petrovaradinska 7, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 3877 800

Zagreb – Trakošćanska
Trakošćanska 6, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 3680 333

Zagreb – Travno
Sarajevska 6, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 6606 333

Zagreb – Velesajam
Avenija Dubrovnik 15, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 6593 095

Zagreb – Vukovarska
Vukovarska 269D, HR - 10000 Zagreb
Tel.: (062) 101 102, fax: (01) 6192 220

Beli Manastir
Kralja Zvonimira 1, HR - 31300 Beli Manastir
Tel.: (062) 101 102, fax: (031) 710 287

Čačinci
Trg dr. Franje Tuđmana 1, HR - 33514 Čačinci
Tel.: (062) 101 102, fax: (033) 684 727

Čakovec
Matice Hrvatske 6, HR - 40000 Čakovec
Tel.: (062) 101 102, fax: (040) 379 200

Čepin
Kralja Zvonimira 5, HR - 31431 Čepin
Tel.: (062) 101 102, fax: (031) 382 622

Donji Miholjac
Trg A. Starčevića 8, HR - 31540 Donji Miholjac
Tel.: (062) 101 102, fax: (031) 632 225

Dubrovnik I
Vukovarska 15, HR - 20000 Dubrovnik
Tel.: (062) 101 102, fax: (020) 322 400

Dubrovnik II
Obala Stjepana Radića 26 a, HR - 20000 Dubrovnik
Tel.: (062) 101 102, fax: (020) 325 490

Đakovo
Ante Starčevića 5, HR - 31400 Đakovo
Tel.: (062) 101 102, fax: (031) 813 645

Đurđenovac
Trg bana Jelačića 6, HR - 31511 Đurđenovac
Tel.: (062) 101 102, fax: (031) 602 646

Karlovac
Vladka Mačeka 12, HR - 47000 Karlovac
Tel.: (062) 101 102, fax: (047) 609 860

Koprivnica
Zrinski trg 7, HR - 48000 Koprivnica
Tel.: (062) 101 102, fax: (048) 250 450

Krk
Vela placa 1, HR - 51500 Krk
Tel.: (062) 101 102, fax: (051) 667 120

Makarska
Marineta 2, HR - 21300 Makarska
Tel.: (062) 101 102, fax: (021) 695 310

Mali Lošinj
Braće Vidulić 2-6, HR - 51550 Mali Lošinj
Tel.: (062) 101 102, fax: (051) 750 440

Metković
Ivana Gundulića 20/2, HR - 20350 Metković
Tel.: (062) 101 102, fax: (020) 690 500

Našice
Pejačevićev trg 12, HR - 31500 Našice
Tel.: (062) 101 102, fax: (031) 614 435

Nova Gradiška
Trg kralja Tomislava 3, HR - 35400 Nova Gradiška
Tel.: (062) 101 102, fax: (035) 330 191

Novalja
Trg Brišćića 1, HR - 53291 Novalja
Tel.: (062) 101 102, fax: (053) 746 590

Opatija
Maršala Tita 108, HR - 51410 Opatija
Tel.: (062) 101 102, fax: (051) 603 359

Orahovica
Kralja Zvonimira 5, HR - 33515 Orahovica
Tel.: (062) 101 102, fax: (033) 673 738

Osijek
Regional centre for Slavonia and Baranja
Branch Osijek
Kapucinska 29, HR - 31000 Osijek
Tel.: (062) 101 102, fax: (031) 231 039

Osijek – Trg slobode
Trg slobode 5, HR - 31000 Osijek
Tel.: (062) 101 102, fax: (031) 231 303

Osijek – Donji grad
Trg bana Jelačića 25, HR - 31000 Osijek
Tel.: (062) 101 102, fax: (031) 562 380

Osijek – Jug 2
Opatijska 26F, HR - 31000 Osijek
Tel.: (062) 101 102, fax: (031) 565 130

Osijek - Sjenjak
Sjenjak 133, HR - 31000 Osijek
Tel.: (062) 101 102, fax: (031) 575 634

Osijek - Retfala
J. J. Strossmayera 203, HR - 31000 Osijek
Tel.: (062) 101 102, fax: (031) 310 080

Otok
V. Nazora 1, HR - 32252 Otok
Tel.: (062) 101 102, fax: (032) 395 489

Pleternica
Ivana Šveara 1, HR - 34310 Pleternica
Tel.: (062) 101 102, fax: (034) 251 551

Poreč
Vukovarska 19, HR - 52440 Poreč
Tel.: (062) 101 102, fax: (052) 408 616

Požega
Sv. Florijana 10, HR - 34000 Požega
Tel.: (062) 101 102, fax: (034) 254 902

Pula I
Flanatička 25, HR - 52100 Pula
Tel.: (062) 101 102, fax: (052) 390 925

Pula II
Giardini 2, HR - 52100 Pula
Tel.: (062) 101 102, fax: (052) 535 990

Rijeka – Zagrad
Regional centre for Istria and Kvarner
Branch Rijeka
Prolaz Marije Krucifiksa Kozulić 1, HR - 51000 Rijeka
Tel.: (062) 101 102, fax: (051) 501 207

Rijeka
Jadranski trg 3, HR - 51000 Rijeka
Tel.: (062) 101 102, fax: (051) 355 440

Rijeka - Srdoči
Bartola Kašića 8a, HR - 51000 Rijeka
Tel.: (062) 101 102, fax: (051) 829 550

Rovinj
Nello Quarantotto bb, HR - 52210 Rovinj
Tel.: (062) 101 102, fax: (052) 845 180

Samobor
Livadićeva 20, HR - 10430 Samobor
Tel.: (062) 101 102, fax: (01) 3331 123

Sesvete
Zagrebačka 16, HR - 10360 Sesvete
Tel.: (062) 101 102, fax: (01) 2030 900

Sisak
S.S.Kranjčevića 11, HR - 44000 Sisak
Tel.: (062) 101 102, fax: (044) 551 400

Sinj
Splitska 37, HR – 21230 Sinj
Tel.: (062) 101 102, fax: (021) 824 955

Slatina
Trg sv. Josipa 2, HR - 33520 Slatina
Tel.: (062) 101 102, fax: (033) 401 222

Slavonski Brod
Kralja P. Krešimira IV. 3, HR - 35000 Slavonski Brod
Tel.: (062) 101 102, fax: (035) 405 688

Solin
Kralja Zvonimira 87b, HR – 21210 Solin
Tel.: (062) 101 102, fax: (021) 211 200

Split – Brodarica
Regional centre Dalmatia
Branch Split
Domovinskog rata 49, HR - 21000 Split
Tel.: (062) 101 102, fax: (021) 308 666

Split – Firule
Spinčićeva 2b, HR – 21000 Split
Tel.: (062) 101 102, fax: (021) 388 775

Split – Poljička
Poljička cesta 39, HR - 21000 Split
Tel.: (062) 101 102, fax: (021) 466 100

Split - Riva
Obala Hrvatskog narodnog preporoda 6, HR - 21000 Split
Tel.: (062) 101 102, fax: (021) 329 270

Šibenik
Stjepana Radića 77a, HR - 22000 Šibenik
Tel.: (062) 101 102, fax: (022) 311 970

Umag
Trgovačka 1b, HR - 52470 Umag
Tel.: (062) 101 102, Fax: (052) 725 840

Valpovo
Trg kralja Tomislava 11a, HR – 31550 Valpovo
Tel.: (062) 101 102, Fax: (031) 654 145

Varaždin I
Zagrebačka 61, HR - 42000 Varaždin
Tel.: (062) 101 102, fax: (042) 406 100

Varaždin II
Gundulićeva 6, HR - 42000 Varaždin
Tel.: (062) 101 102, fax: (042) 320 799

Velika Gorica
Trg kralja Petra Krešimira IV br. 3, HR - 10410 Velika Gorica
Tel.: (062) 101 102, fax:. (01) 6379 616

Vinkovci
Duga 40, HR - 32100 Vinkovci
Tel.: (062) 101 102, fax: (032) 331 411

Virovitica
Ferde Rusana 1, HR - 33000 Virovitica
Tel.: (062) 101 102, fax: (033) 803 122

Viškovo
Vozišće 5, HR - 51216 Viškovo
Tel.: (062) 101 102, fax: (051) 650 900

Višnjevac
Josipa Kozarca 105, HR - 31220 Višnjevac
Tel.: (062) 101 102, fax: (031) 352 681

Vukovar
Franje Tuđmana 4, HR - 32000 Vukovar
Tel.: (062) 101 102, fax: (032) 450 127

Zadar I
Zrinsko Frankopanska 40, HR - 23000 Zadar
Tel.: (062) 101 102, fax: (023) 396 980

Zadar II
Jurja Barakovića 4, HR - 23000 Zadar
Tel.: (062) 101 102, fax: (023) 363 930

Zaprešić
Mihovila Krušlina 22, HR - 10290 Zaprešić
Tel.: (062) 101 102, fax: (01) 3398 629

Županja
Veliki kraj 64, HR - 32270 Županja
Tel.: (062) 101 102, fax: (032) 827 901

Hypo Alpe-Adria-Leasing d.o.o.
Slavonska avenija 6a, HR - 10000 Zagreb
Tel.: (01) 6036 000, fax: (01) 6036 001, 002
e-mail: leasing.croatia@hypo-alpe-adria.hr
www.hypo-leasing.hr

Hypo Alpe-Adria-Invest d.d.
Slavonska avenija 6, HR - 10000 Zagreb
Tel.: 00385/1/6032 160, fax: 00385/1/6036 850
e-mail: invest.croatia@hypo-alpe-adria.hr
www.hypo-alpe-adria.hr

Hypo Alpe-Adria-Nekretnine d.o.o.
Slavonska avenija 6, HR - 10000 Zagreb
Tel.: 00385/1/603 1413, fax: 00385/1/603 6750
e-mail: nekretnine.croatia@hypo-alpe-adria.hr
www.hypo-alpe-adria.hr

Hypo-Leasing Kroatien d.o.o.
Slavonska avenija 6a, HR - 10000 Zagreb
Tel.: (01) 6036 000, fax: (01) 6036 001, 002
e-mail: leasing.croatia@hypo-alpe-adria.hr
www.hypo-leasing.hr

Responsible for contents:

Hypo Alpe-Adria-Bank d.d.
Slavonska avenija 6, HR-10000 Zagreb
tel. +385/1/603 000
fax +385/1/600 7000
Customers Service: 0800 HYPO HR (0800 14 14)
e-mail: bank.croatia@hypo-alpe-adria.hr
www.hypo-alpe-adria.hr

Important notice:
This annual report has been prepared with great care and the information it contains has been checked. The possible occurrence of rounding errors, typesetting and printing errors, and errors in expression can however not be precluded. The English language report is a translation; the Croatian is the authentic language version.