Raiffeisen stambena štedionica d.d.

ANNUAL REPORT

for 2012

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REPORT OF THE PRESIDENT OF THE MANAGEMENT BOARD

It is my pleasure to present the 2012 Annual Report with audited financial statements. In 2012 the business operations of our Building Society continued to experience difficulties due to what is by now a long-term crisis.

But even under such adverse circumstances the Buliding Society kept up its role and enabled the clients to invest in a non-risk product and to finance housing needs at fixed interest rate whereas our clients have kept their confidence in the building society's savings system. Risks for housing savings proved smaller than housing financing through other bank loans, given that building society loans in the Building society have fixed repayment during the whole term of the loan. Building society loans in 2012 remained on the same level as in 2011.

A stable number of newly concluded savings contracts in the previous year remained constant in 2012 despite changes in regulations and government subsidies for housing savings reduced to 10% on annual deposits payments.

The total amount of savings deposits in 2012 remained at the previous-year level.

The low EURIBOR rates present in previous years were further reduced in 2012; the interest yield depending thereupon resulted in considerable reduction in overall interest income.

The coming 2013 will likewise present a challenge for the Buliding Society and housing savings system that will have to reconfirm its role. Building society will make efforts to keep our clients satisfied and I thank them for their confidence.

We would also like to express our gratitude to all our co-workers for their motivation and contribution to the success of the Bulding Society.

I would also like to thank the Supervisory Board for their support for housing savings system and for the operation of our Building Society

Hans Christian Valliant, MBA
President of the Management Board

INTRODUCTION

This Annual Report includes a summary of financial information, an overview of operations and risk management activities, the audited financial statements together with the independent auditor's report for the year ending 31 December 2012 and additional financial reports for the Croatian National Bank.

Legal status

The Annual Report includes the annual financial statements prepared in compliance with the legal framework for accounting in the banking sector of the Republic of Croatia and audited in accordance with International Standards on Auditing.

Acronyms and abbreviations

In this Annual Report, Raiffeisen stambena štedionica d.d. is referred to as "Building Society" or "RSS", the Croatian National Bank is referred to as "CNB", and Raiffeisen Bausparkasse GmbH is referred to as "RBSK".

Exchange rates

The following mean exchange rates, as quoted by the CNB, have been used for the purposes of converting any amounts expressed in foreign currencies into amounts in Croatian kuna (HRK):

31 December 2012	€1 = HRK 7.545624
31 December 2011	€1 = HRK 7.530420

BACKGROUND

Establishment

Raiffeisen stambena štedionica d.d. was established on 10 May 1999, in compliance with the Building Societies Act.
The Building Society's equity as at 31 December 2012 is HRK 180,000,000 and was fully paid-in by Raiffeisen Bausparkasse GmbH as its owner.
The Building Society's headquarters are located at Radnička cesta 47, Zagreb, and its offices are dispersed throughout the country.
The retail network is organised on a regional basis, as follows:

- Region I, with its head office in Zagreb, covers the area of central and eastern Croatia.
- Region II, with its head office in Čakovec, covers the area of northern Croatia.
- Region III, with its head office in Rijeka, covers the area of Istria, the Croatian Littoral and Lika.
- Region IV, with its head office in Split, covers the area of Dalmatia.

Description of business activities

The Building Society is a specialised financial institution founded in compliance with the Building Societies and Government-Subsidised Building Society Savings Act. Its core business is the conclusion of building society savings agreements and extension of building society loans on the basis of building society savings accounts. The Building Society concludes its agreements with Croatian citizens and use them as the basis for collecting savings deposits supported by governmental subsidies for building society savings and extending building society loans.
The Building Society offers several building society savings schemes, which are divided into the following building society savings tariffs:
"Relax" Tariff, with interest rates of 3% on savings and 5.99% on loans;
"Impuls" Tariff, with interest rates of 2.5% on savings and 5.5% on loans;
"Jazz" Tariff, with interest rates of 3% on savings and 6% on loans, and a euro-based currency clause;
"Funky" Tariff, with interest rates of 2.5% on savings and 5.5% on loans, and a euro-based currency clause.
The building society savings agreement is concluded for the agreed sum which constitutes the balance of funds paid into the savings account and the maximum amount that can be lent to the depositor. Depending on his/her choice of the tariff model, the savings depositor becomes eligible for the award and approval of a building society loan if he/she saves a specific percentage of the agreed amount, if the minimum savings period has elapsed and if he/she applies for the allocation of:
30% of the amount saved after a minimum period of 24 months under the "Funky" and "Impuls" Tariffs; or
40% of the amount saved after a minimum savings period of 60 months under the "Jazz" and "Relax" Tariffs.
The building society savings agreement can be awarded if the aforementioned criteria related to the amount saved and the lapse of time have been met and if the sufficient target number of points has been reached.

Building society savings agreements are concluded by the authorised officer of RSS, at the branch offices of Raiffeisenbank Austria or through authorised partners. Building society loan agreements are concluded through authorised licensed officers at the Building Society's head office. In addition to its regular loans, the Building Society also offers interim loans, which are granted before the expiry of the minimum savings period, but subject to special conditions.

In 2012, the rate of interest on interim loans depended on the ratio of the total amount of building society savings paid before the award of the loan to the agreed amount, as well as the purpose of the loan. Thus, interest rates for interim loans linked to foreign currency, EUR ranged from 5.50% to 7.49%. Interest rate for interim loans in kuna ranged from 6,49% to 8,49%

Audit

The audit of operations for the year 2012 was performed by the audit company Deloitte d.o.o., which issued an unqualified opinion.

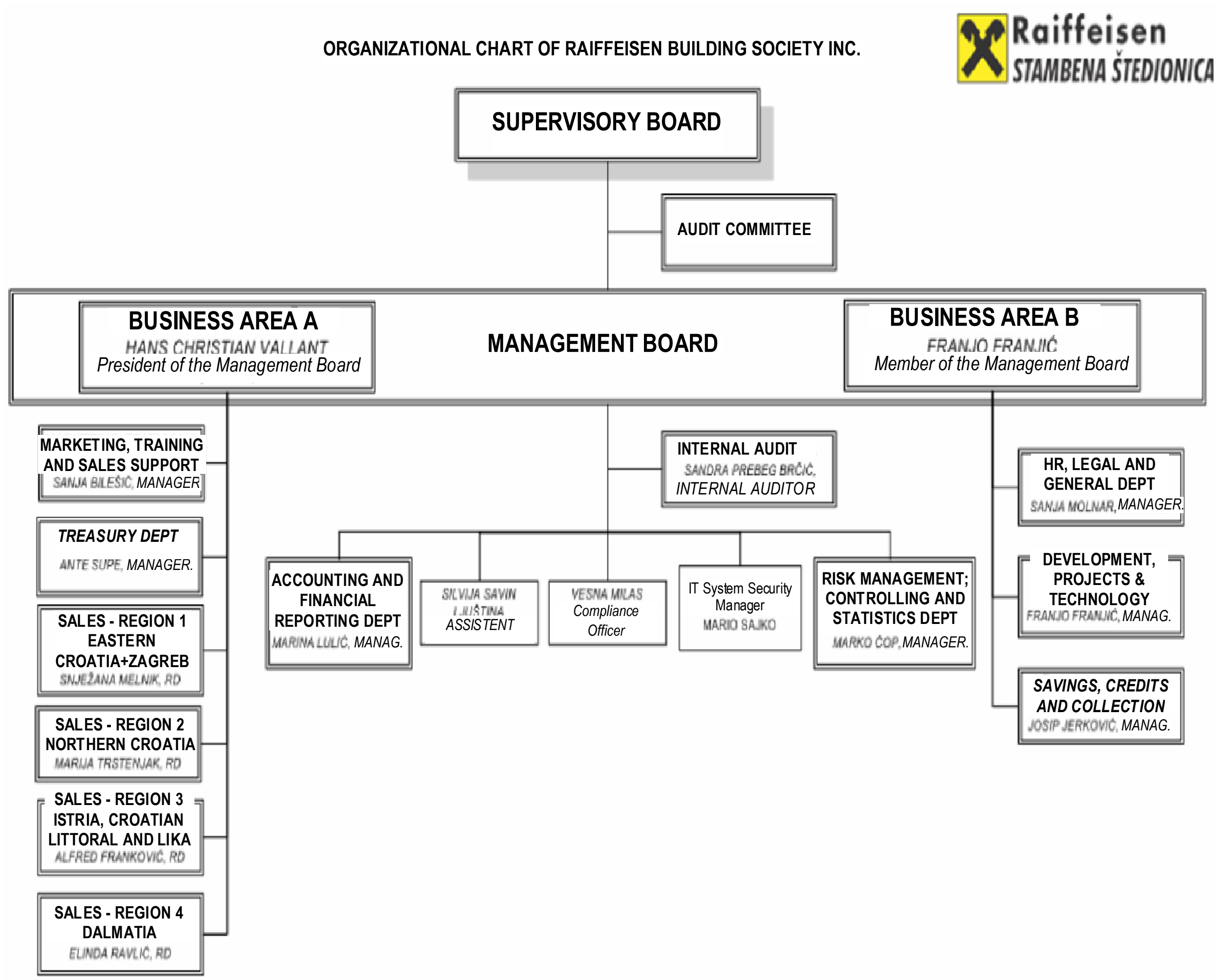
Number of employees

As at 31 December 2012, there were 160 employees.

Regional offices as at 31 December 2012

- BJELOVAR
- ČAKOVEC
- DARUVAR
- DUBROVNIK
- KARLOVAC
- KOPRIVNICA
- KRAPINA
- KRIŽEVCI
- LABIN
- METKOVIĆ
- OSIJEK
- PAZIN
- PULA
- RIJEKA
- SAMOBOR
- SLAVONSKI BROD
- SPLIT
- ŠIBENIK
- UMAG
- VARAŽDIN
- VINKOVCI
- ZADAR
- ZAGREB

ORGANIZATIONAL STRUCTURE



OVERVIEW OF OPERATIONS IN 2012

During the year under review, Building Society still held a significant share in the overall building society market in the Republic of Croatia. In terms of loans, its market share in the building society industry was 25.48%, while its market share in the area of deposits reached 22.48%.

A total of 29,504 savings contracts were concluded in 2012, of which 22,837 contracts were concluded under the "Jazz" Tariff.

RSS granted loans to a total value of HRK 167.9 million. Its lending activities increased over the past year, primarily owing to interim loans which were, to a large extent, also granted in the local currency.

In 2012, business activities were mainly focused on expanding the portfolio of building society loans through the offer of various models. Out of the total number of loans granted in 2012, over 72% were granted under interim loans.

During 2012 the sale of bonds HRRHMFO125A3 (maturity 23.05.2012) purchased the bonds HRRHHMFO203E0 and HRRHMFO227E9 that amount, mostly classified in the portfolio of financial assets held to maturity.

Furthermore, in addition to special offers involving the award of standard building society loans by allocating the agreed amount with a minimum deposit of 10% as well as those providing for the award of interim loans (Models M1, M2 and M3), RSS – in cooperation with the Government-Subsidised Housing Agency and the Varaždin Council Flats Public Institution – RSS implemented a special lending programme in the area of Koprivnica and Varaždin. Also, in collaboration with the Real Estate Transactions and Brokerage Agency (APN), the Building Society extends loans with subsidized interest.

Financial overview

Report on the financial position

As at 31 December 2012, total balance-sheet assets amounts to HRK 1,676.2 million.

Cash and deposits at other banks were HRK 47.1 million, accounting 2.8% of total assets.

As at 31 December 2012, net loans to clients were HRK 1,136.4 million, accounting for 67.8% of total assets.

Total commitments were HRK 1,596.3 million, making up 95.2% of total liabilities. They mostly pertain to deposits from clients (89,3%) of HRK 1,426.0 million (HRK 1,446.1 million in 2011).

Business performance

In the period under review, the Building Society incurred a income before tax of 1.016 thousand Kuna.

Net interest income reached HRK 33.4 million, and achieving the level of the previous year

Net income from fees and commissions was HRK 13.8 million, largely derived from fees for the conclusion of building society savings agreements.

Other costs were incurred in an amount of HRK 53.1 million.

Development plan

At its session of 25th January 2013 the Croatian Parliament promulgated the "Act on Amendments to the Act on Housing Savings and State Subsidies to Housing Savings" (Official Gazette 15/2013). These Amendments deal with the reduction of subsidies from 15 % to 10 % applicable to disbursement of government subsidies starting from the year 2013 onwards.

With this in mind, in the next year, the Building Society will undergo reorganization measures to rationalize its operational costs. Furthermore, in line with this reorganization, the distribution network will be adjusting its plans in regard to the number of concluded agreements for the year 2013. These activities aim at maintaining the present level of savers by offering regular loans and interim loans with increased average amount of granted loans.

Offering of interim loans will remain in the focus.

RISK MANAGEMENT

Risk management is a set of procedures and methods used in order to identify, measure, assess, manage and monitor risks, including reporting on risks to which the Building Society is or may be exposed in its operations.

The risk management system takes into account the regulatory requirements set under the Building Societies and Government-Subsidised Building Society Savings Act, the Credit Institutions Act and the accompanying regulations.
In the Building Society, risk management is applied across the board and implemented in all segments of its operations as a part of business processes organised within the Building Society's departments where risks arise.
Additionally, some risks are also managed through special bodies that make risk-laden decisions, such as the Credit Committee, the ALCO, the Liquidity Commission and the IT System Management Committee. For each of the material risks to which it is exposed, the Building Society has appointed an appropriate number of staff members to perform control function tasks relative to the size, type, scope and complexity of operations.
Internal limits are defined by commissions and committees formed for that purpose, subject to approval from the Management Board, or directly by the Management Board.

In its risk management process, the Building Society adheres to the clear division of responsibilities between those functions and organisational units which actively participate in taking risks and those which gauge, monitor and report on such risks.

The risk control function is organised within the Risk Management, Controlling and Statistics Department. This organisational unit is not authorised to make any risk-taking decisions, but is dedicated solely to the risk control, analysis, monitoring and reporting function.

In its operations, the Building Society is most exposed to credit, market, liquidity, interest rate and operational risks. In its everyday operations, the Building Society manages the aforementioned risks by way of its policies, procedures, limits, committees and controls.

Credit risk

The credit risk management system is an important component of the Building Society' business policy and an essential element of its business strategy.
Credit risk is the risk of a counterparty's inability to fully meet its obligations as they become due and payable. The Building Society is exposed to credit risk through its lending and investing activities. Credit risks arising under building society loans are managed by means of credit limits, the assessment of customer risk profiles based on customer analysis and security instruments, i.e. collateral. The type and amount of collateral depends on the assessed credit risk of each customer. Credit risk is hedged by security instruments (mainly mortgages on housing properties) of suitable value, with investments made mostly in loans and debt securities issued or guaranteed by the Republic of Croatia.
The Building Society ensures the adequate level of provisions by means of ongoing credit risk monitoring and reporting.
The Building Society applies a standardised approach to the calculation of capital requirements for credit risk in compliance with effective legislation.

Interest rate risk in the banking book (IRRBB)

The Building Society's operations are affected by the risk of changing interest rates inasmuch as its interest-bearing assets and liabilities fall due or their interest rates change at different times or in different amounts.

Pursuant to the Building Societies and Government-Subsidised Building Society Savings Act, most of the Building Society's interest-bearing assets and all of its interest-bearing liabilities are subject to fixed interest rates. The Credit Institutions Act and the Decision on the Management of Interest Rate Risk in the Banking Book provide that credit institutions, including building societies, must report to the Croatian National Bank in compliance with the required methodology, while the ratio of changes in the economic value of the banking book to liable capital must not exceed 20% in the event of a standard interest rate shock.

RSS includes the results derived from its internal Adjusted Model in the computation of changes in the economic value of the banking book. The Adjusted Model includes the basic assumptions of a building society savings system (long-term savings plans and renewal of savings accounts in five-year cycles). The Adjusted Model relies on the aforementioned system assumptions, while using historical data on the number of agreements and payments made by each year of saving, and including corrective factors that constitute the risk margin.

The reliability of the Adjusted Model is verified by back testing.

RSS runs stress tests on an ongoing basis (at least semi-annually and, preferably, quarterly) and notifies its Management Board of their results (by way of a separate report or within the ALCO). This testing also includes additional reduction by the risk margin (i.e. additional increase of corrective factors (standard deviations or %).

The risk control function is responsible for setting up and implementing the Building Society's IRRBB management system, for preparing and analysing reports on data derived from the application of the Adjusted Model, and for proposing appropriate measures that need to be taken with regard to exposure to IRRBB. This function is also in charge of performing the initial and ongoing evaluation of the Building Society's Adjusted Model.

Liquidity risk

The Building Society manages its liquidity risk through committees set up with the task of maintaining liquidity. The principal sources of funds include retail deposits and equity capital. The Building Society has a large number of small depositors with low individual deposits. The sources of funds are largely stable term deposits.

In order to manage its liquidity risk, the Building Society maintains the required level of liquidity reserves, continuously monitors its current liquidity and secures the funds required to duly meet its obligations and make disbursements under loans granted for specific purposes.

Pursuant to the effective legislation, the Building Society submits reports to the Croatian National Bank and maintains a minimum liquidity ratio defined above the level required by law.

Currency risk

Currency risk exposure is monitored on a regular basis, in keeping with the statutory limits set for all assets and liabilities denominated in foreign currencies or subject to currency clauses. The Building Society tries to minimise any mismatch between asset and liability items denominated in foreign currencies or subject to currency clauses.

Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, personnel and systems or arising from external events, including legal risk.

Operational risk differs from other risks (e.g. credit or market risk) in that it is not taken directly in return for an expected reward, but exists in the natural course of corporate activity and is inherent to all activities, processes, products and systems.

The Building Society has adopted internal by-laws defining and regulating the area of operational risk management in order to reduce its operational risk to an acceptable and controllable level that enables RSS to ensure safe and stable operation as well as the protection of its reputation.

RSS has defined operational risk events and events posing a significant operational risk to the Building Society, as well as the method of recording events into a database, together with the reporting process.

Each operational risk event has certain attributes that need to be recorded in the database.

The attributes that are recorded include:

- description of the event;
- date of occurrence;
- date of discovery;
- data on persons/departments that discovered the event;
- source of the event (cause);
- business process to which it pertains;
- amount of loss (potential or booked); and
- other attributes entered when recording an operational risk event in the database of operational risk events.

Reporting provides different management levels with the information required to review and monitor exposure, proactively manage operational risks and make business decisions to ensure secure and stable operation of the Building Society.

Reporting contains information on:

- types of losses or risks;
- causes and sources of events or risks;
- materiality of events or risks; and
- measures planned or undertaken to reduce and curb the consequences of events or overcome risks.

The risk register contains all potential operational risk events as well as those that have already occurred. Each of the listed events is described, including the assessment of its potential financial impact, the information on persons who took part in the assessment and, in some cases, the measures proposed to prevent the occurrence of the listed event. Also, the compliance officer makes an assessment of compliance, while the manager of the Marketing Department assesses the reputational risk of each event.

The Building Society attempts to minimise its operational risk by introducing controls into its operating procedures and the security of its IT system, and by ensuring the continuity of its operations. The efforts to reduce exposure to this risk are made through ongoing staff training and the prevention of frequent errors.

The Building Society applies a simple approach to the calculation of capital requirements for operational risk in compliance with the effective legislation.

Raiffeisen stambena štedionica d.d., Zagreb

Financial Statements

for the year ended

31 December 2012

together with Independent Auditor's Report

Contents

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (Official Gazette 109/07), the Management Board is responsible for ensuring that the financial statements are prepared for each financial year in accordance with statutory accounting requirements for banks which give a true and fair view of the state of affairs and results of Raiffeisen stambena štedionica d.d. ('Savings Bank') for that period.

The Management Board has a reasonable expectation that the Savings Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board of the Savings Bank 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;
- judgments 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 Savings Bank will continue in business.

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

Signed on behalf of the Management Board as at 23 April 2013:

Franjo Franjić	Hans Christian Vallant
Member of the Management board	**President of the Management Board**

Raiffeisen stambena štedionica d.d., Zagreb
Radnička cesta 47
10 000 Zagreb
Republic of Croatia

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Members of Raiffeisen stambena štedionica d.d.:

We have audited the financial statements of Raiffeisen stambena štedionica d.d. ('the Savings Bank'), set out on pages 4 to 57, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income statement of cash flows and statement of changes in shareholder's equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Savings Bank 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 Savings Bank 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08, hereinafter: 'the Decision'), the Savings Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 58 to 66, which comprise the balance sheet as of 31 December 2012, and the statements of income, changes in equity and cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Savings Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 4 to 57, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Savings Bank. Our opinion is not qualified in respect of this matter.

Deloitte d.o.o.
Branislav Vrtačnik, **Certified Auditor and Member of the Board**

Zagreb, Republic of Croatia
23 April 2013

Statement of comprehenisive income

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Note	2012	2011
Interest income	4	81,336	79,058
Interest expense	4	(47,940)	(45,497)
Net interest income		**33,396**	**33,561**
Fee and commission income	5	17,419	19,702
Fee and commission expense	5	(3,612)	(4,628)
Net fee and commission income		**13,807**	**15,074**
Net gains from financial assets	6	2,126	2,901
Net foreign exchange loss		(438)	(6,111)
Other income	7	7,899	556
Net gains/ (losses) and other income		**9,587**	**(2,654)**
Profit from operations		**56,790**	**45,981**
Staff costs	8	(20,516)	(24,056)
Depreciation and amortization	9	(7,043)	(6,843)
Other operating expenses	10	(25,521)	(23,313)
Other expenses		**(53,080)**	**(54,212)**
Provisions for identified losses	11	(3,252)	(181)
Provisions for contingent liabilities and commitments	12	558	357
Income/ (loss) for the year		**1,016**	**(8,055)**
Income tax	13	(5,432)	157
Net loss for the year		**(4,416)**	**(7,898)**
Other comprehensive income			
Gains on assets available for sale		454	-
Deferred taxes		(69)	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(4,031)**	**(7,898)**

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

Signed on behalf of the Management Board of Raiffeisen stambena štedionica d.d. on 23 April 2013:

Franjo Franjić
Member of the Management board

Hans Christian Vallant
President of the Management Board

Statement of financial position

As at 31 December 2012

(All amounts are expressed in thousands of kunas)

	Notes	2012	2011
ASSETS			
Cash and amounts due from banks	14	10,812	4,815
Placements and loans with banks	15	36,309	82,505
Financial assets at fair value through profit or loss	16	12,937	94,223
Financial assets held to maturity	17	329,249	262,067
Financial assets available for sale	18	24,352	-
Loans to customers	19	1,136,392	1,132,319
Intangible assets	20	7,025	11,238
Property, plant and equipment	21	1,842	2,295
Deferred tax assets	22	4,459	9,960
Other asset	23	112,804	119,788
TOTAL ASSETS		**1,676,181**	**1,719,210**
LIABILITIES AND EQUITY			
Deposits from customers	24	1,426,035	1,446,094
Hybrid instruments	25	51,354	51,324
Other liabilities	26	118,431	136,842
Provisions for contingent liabilities and commitments	12, 27	488	1,046
Total liabilities		**1,596,308**	**1,635,306**
Share capital	28	180,000	180,000
Legal reserves		261	261
Revaluation reserves from assets available for sale		385	-
Accumulated losses		(96,357)	(88,459)
Loss for the year		(4,416)	(7,898)
Total equity		**79,873**	**83,904**
TOTAL LIABILITIES AND EQUITY		**1,676,181**	**1,719,210**

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

Signed on behalf of the Management Board of Raiffeisen stambena štedionica d.d. on 23 April 2013:

Franjo Franjić

Member of the Management board

Hans Christian Vallant

President of the Management Board

Statement of changes in shareholders' equity

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Revaluation reserves from assets available for sale	Accumulated losses	Loss for the year	Total
Balance as of 1 January 2011	**180,000**	**261**	**-**	**(67,575)**	**(20,884)**	**91,802**
Transfer (from) / to	-	-	-	(20,884)	20,884	-
Loss for the year	-	-	-	-	(7,898)	(7,898)
Balance as of 31 December 2011	**180,000**	**261**	**-**	**(88,459)**	**(7,898)**	**83,904**
Transfer (from) / to	-	-	-	(7,898)	7,898	-
Loss for the year	-	-	-	-	(4,416)	(4,416)
Other comprehensive income, net of income tax	-	-	385	-	-	385
Total comprehensive income for the year	*-*	*-*	*385*	*-*	*(4,416)*	*(4,031)*
Balance as of 31 December 2012	**180,000**	**261**	**385**	**(96,357)**	**(4,416)**	**79,873**

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

Signed on behalf of the Management Board of Raiffeisen stambena štedionica d.d. on 23 April 2013:

Franjo Franjić
Member of the Management board

Hans Christian Vallant
President of the Management Board

Statement of cash flow

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Note	2012	2011
Net loss for the year		(4,416)	(7,898)
Adjustments for:			
Income tax		5,432	(157)
Depreciation and amortization		7,043	6,843
Net book value of disposed fixed assets		165	30
Net realized loss arising on financial assets classified as held to maturity		344	-
Net realized gain arising on financial assets classified as available for sale		(900)	-
Provisions for placements with, and loans to banks and other assets		3,252	181
Provisions for contingent liabilities and commitments		(558)	(357)
Net unrealised gains on financial assets classified as fair value through profit and loss		(1,570)	(2,907)
Net interest income		(33,396)	(33,561)
Net foreign exchange		438	6,111
Loss from operating activities before changes in operating assets and liabilities		*(24,166)*	*(31,715)*
Net increase of loans to customers		(2,024)	(11,201)
Net decrease of placements and loans to banks		46,322	71,304
Net decrease/ (increase) of other assets		6,934	(10,737)
Net decrease of deposits from customers		(59,268)	(73,005)
Net (decrease)/ increase of other liabilities		(18,408)	13,640
Interest received on loans to customers and placements with banks		52,888	54,931
Interest paid on saving deposits		(3,926)	(3,383)
Net cash flows (used in)/ generated from operating activities		**(1,648)**	**9,834**
Net increase of financial assets at fair value through profit and loss, assets held to maturity and assets held as available for sale		(7,977)	(25,977)
Purchase of property, plant and equipment and intangible assets		(2,542)	(3,065)
Interest received from investments in securities		21,204	21,976
Net cash generated from/ (used in) investing activities		**10,685**	**(7,066)**
Interest paid on hybrid instruments		(3,040)	(3,026)
Net cash used in financing activities		**(3,040)**	**(3,026)**

Statement of cash flows (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Note	2012	2011
Net increase/ (decrease) of cash		5,997	(258)
Cash at the beginning of year	13	4,815	5,073
Cash at the year end	13	**10,812**	**4,815**

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

Signed on behalf of the Management Board of Raiffeisen stambena štedionica d.d. on 23 April 2013:

Franjo Franjić
Member of the Management board

Hans Christian Vallant
President of the Management Board

1. GENERAL

History and incorporation

Raiffeisen stambena štedionica d.d. ('the Savings Bank') was established and entered into the court register of the Commercial Court in Zagreb 10 May 1999. The registered share capital amounted to HRK 10,000 thousand (HRK). The immediate founder and ultimate owner of the Savings Bank is Raiffeisenbank Austria d.d.
By Decision of General Assembly, held on 16 August 1999, the Savings Bank was transformed from a limited liability company into a public limited company and share capital of was increased to HRK 20,000 thousand.

By Decision of General Assembly, held on 26 November 1999, the share capital of Raiffeisen stambena štedionica d.d. was increased from HRK 20,000 thousand to HRK 50,000 thousand.

By Decision of General Assembly, brought on 15 May 2001 the share capital of Savings Bank was increased from HRK 50,000 thousand to HRK 70,000 thousand. Under the same Decision Raiffeisen Bausparkasse G.m.b.H became a shareholder of the Savings Bank.

By Decision of General Assembly, held on 21 December 2007, the share capital of Savings Bank was increased from HRK 70,000 thousand to HRK 106,500 thousand by converting a hybrid instrument into share capital.

By Decision of General Assembly, held on 2 July 2008, the share capital of Savings Bank was increased from HRK 106,500 thousand to HRK 143,000 thousand, effected and fully paid in by the shareholder Raiffeisen Bausparkasse GmbH.

Under an agreement on the transfer and sale of shares, dated 3 September 2008, Raiffeisen Bausparkasse G.m.b.H. acquired the equity share from Savings Bank. and became the sole owner of Raiffeisen stambena štedionica d.d.

By Decision of General Assembly, held on 28 May 2009, the share capital of Raiffeisen stambena štedionica d.d. was increased from HRK 143,000 thousand to HRK 180,000 thousand, effected and fully paid in by the shareholder Raiffeisen Bausparkasse GmbH.

1. GENERAL (CONTINUED)

Principal activity

The principal activities of the Savings Bank include:

- Accepting housing savings deposits in local currency, with the option to conclude a protective currency clause;
- Receiving government subsidies and allocating those subsidies on individual housing savings accounts in accordance with the Act on Housing Savings and Government Housing Savings Subsidies;
- Granting loans for the purposes set out in Article 8 of the Act on Housing Savings and Government Housing Savings Subsidies;
- Issuing securities, mainly bonds with maturities of up to six years, in accordance with the Securities Market Act;
- Exceptionally, the Savings Bank may acquire additional funds on the financial market solely for the purpose of fulfilling its obligations under housing loan agreements, and settlement of its liabilities based on signed agreements on housing savings deposits if the funds provided out of the sources specified above are not sufficient.

The Savings Bank may use the unused collected funds for the following purposes:

- Investments in the financial market, if the return on investment is secured by an unconditional bank guarantee or a first-call state guarantee;
- Purchases of first-class government securities, securities with an ensured state guarantee or a bank guarantee, and of securities of local and regional (self) government units;
- Placement of funds with safe credit institutions;
- Concluding repo deals in accordance with the regulations of the Croatian National Bank.

1. GENERAL (CONTINUED)

Governance and management

General Assembly

The General Assembly consists of a single member representing the parent company Raiffeisen Bausparkasse G.m.b.H.

Johann Ertl	President

Per Article 34 of the Savings Bank's Statute, the President of the Supervisory Board is at the same time the Chairman of General Assembly.

Supervisory Board

Johann Ertl	President
Christian Ratz	Vice president until 25 September 2012
David Marwan	Vice president from 25 September 2012
Neven Vranković	Member

Management Board

Hans Christian Vallant	President
Franjo Franjić	Member

2. BASIS OF PREPARATION

Statement of compliance

These financial statements are prepared in accordance with statutory accounting requirements for banks in Croatia. The Savings Bank's operations are subject to the Law on Housing Savings and Government Promotion of Housing Savings, and the Banking Act. In accordance with the latter, the Savings Bank's financial reporting is regulated by the Croatian National Bank ('the CNB') which is the central monitoring institution of the banking system in Croatia. These financial statements have been prepared in accordance with these regulations.

Basis of preparation

The accounting regulations of the CNB are based on International Financial Reporting Standards.
The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

The CNB requires banks and saving houses to recognise impairment losses, in the statement of comprehensive income, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value).

The Savings Bank has made portfolio based provisions of HRK 13,062 thousand (2011: HRK 12,736 thousand) carried in the statement of financial position in compliance with these regulations, and has recognised an expense of HRK 327 thousand in relation to these provisions within the charge for impairment losses for the year (2011: expense of HRK 64 thousand). The Savings Bank compiles the available historical data in respect of the unidentified losses existing in its various credit risk portfolios at the reporting date, by establishing the time span over which these losses come to light, and identifying, for each portfolio, the relevant current economic conditions to adjust the historical data as a basis for estimating the extent of unidentified losses existing at the reporting date in accordance with International Financial Reporting Standards. The Savings Bank's management expects that unidentified impairment losses estimated on this basis will not exceed those required to be calculated in accordance with the accounting regulations of the CNB.
Although, in accordance with International Financial Reporting Standards, the Savings Bank should determine impairment losses on its loan portfolio as the net present value of the expected future cash flows, discounted at the instrument's original effective interest rate, the CNB requires that the amortisation of the discount calculated to be presented in the statement of comprehensive income within the movement on impairment losses on loans and advances to customers and other assets rather than as interest income, as required by International Financial Reporting Standards.

2. BASIS OF PREPARATION (CONTINUED)

Basis of preparation (continued)

In addition, the CNB prescribes minimum levels of provisions against certain specifically identified impaired exposures which may be different from the impairment loss required to be recognised in accordance with International Financial Reporting Standards.

In accordance with CNB requirements, leasehold improvements are classified as intangible assets rather than tangible assets as prescribed by International Financial Reporting Standards.

The financial statements of the Savings Bank have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss, which are stated at revalued amounts, in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and Croatian law. The financial statements of the Savings Bank represent aggregate amounts of assets, liabilities, capital and reserves of the Savings Bank as of 31 December 2012, and the results of its operations for the year then ended.

The financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognized when they occur and reported in the financial statements of the period to which they relate, and on the going concern assumption.

2. BASIS OF PREPARATION (CONTINUED)

Adoption of new and revised International Financial Reporting Standards ("IFRS")

Standards and Interpretations effective in the current period

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (continued)

Standards and Interpretations in issue not yet adopted

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013),
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2013)
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after 1 January 2013),
- IAS 19 “Employee Benefits” (revised in 2011) - effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 “Financial Instruments: Disclosures”- Transfers of Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IFRS 12 “ Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 32 “Offsetting Financial Assets and Financial Liabilities” (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after 1 January 2013).

The Savings Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Savings Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Savings Bank in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting currency

The Savings Bank's financial statements are presented in Croatian kuna (HRK). The effective exchange rate as at 31 December 2012 for 1 Euro was 7.545624 HRK (at 31 December 2011: EUR 1 = HRK 7.530420).

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income as they occur for all interest bearing financial instruments using the effective interest rate method, except for financial instruments at fair value through profit or loss, where interest is accrued at the coupon rate. Such income and expense is presented as interest and similar income or interest expense and similar charges in the statement of comprehensive income. Interest income and expense also includes premium or discount amortisation, and other differences between the initial carrying amount of an interest bearing financial instrument and its value at maturity, recognised on an effective interest basis. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Savings Bank does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.
Impaired loans are written down to the recoverable amount, and interest income is subsequently recognised by reference to the discount rate used to determine the future cash flows in arriving at the recoverable amount.

Fee and commission income

Fee and commission income and expense comprise the fair value of the consideration received or paid or receivable or payable for the sale or purchase of services in the ordinary course of the Savings Bank's activities.

Fee and commission income comprises mainly fees charged by the Savings Bank for entering into or administering housing savings contracts. Fee and commission expense consists mainly of external agents' fees for the acquisition of savings contracts, as well as commissions payable on money transfer. Loan origination fees for loans that are probable of being drawn down are deferred and recognised in the statement of comprehensive income over the lending period. Housing savings loan fees are recognised in the statement of comprehensive income when collected.

Other fees are recognised when earned.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net gains / losses arising from dealing with financial instruments

Net gains/ losses from dealing with financial instruments include unrealised and realised gains and losses arising from financial instruments at fair value through profit and loss.

Foreign currencies

Income and expenditure arising from transactions denominated in foreign currencies are translated to Croatian kunas using the middle exchange rate of Croatian National Bank on the date of the transaction. Monetary assets and liabilities are translated at the official middle exchange rate valid at the reporting date. Any gain or loss resulting from translation of foreign currencies is included in the statement of comprehensive income for the period to which it relates.

Financial instruments

Financial assets and financial liabilities recorded on the statement of financial position include cash and cash equivalents, marketable securities, deposits at banks, accounts receivable and payable, loans to customers and deposits from customers. The accounting principles for these items are disclosed in the respective accounting policies.

The Savings Bank recognizes financial assets and liabilities when, and only when, it becomes a party to the contractual provisions of the financial instrument.

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

Financial assets held by the Savings Bank are categorized into portfolios in accordance with the management intent on the acquisition and pursuant to the Savings Bank investment strategy. Financial assets are classified as “At fair value through profit and loss”, "Held to maturity", or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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

This category comprises financial assets managed and assessed on the basis of fair value. Only assets with a quoted price on an active market and whose fair value can be measured reliably can be classified into this group of financial assets. The effects of changes in the fair value of financial instruments carried at fair value through profit or loss are included in income/expense for the period.

Assets held to maturity

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

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

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

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Government bonds held by the Saving Bank that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Available-for-sale financial assets (continued)

When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.
The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.
AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

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

This portfolio comprises loans provided to customers.

Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment.

Provisions for loan losses are established if there is objective evidence that the Savings Bank will not be able to collect all amounts due. Provisions for B and C rated loans (according to CNB classification) are determined based on quality of debt servicing by respective customers and type of collateral.
The loans are classified into "Small loans" and "Large loans" (large individual exposure).
The small-loan portfolio represents the overall exposure of the Savings Bank to an individual customer, or a group of related customers, of maximum HRK 500 thousand, provided that, according to the audited prior-year financial statements, the total assets of the Savings Bank are below HRK 5 billion.
The loans are classified into risk groupings according to the Decision on the Classification of Loans and Off-balance sheet Obligations of Credit Institutions, which requires the classification of loans into three main risk groupings: A, B and C.
Loans are primarily classified into the risk groupings according to the regularity of debt settlement and/or the quality of collateral by reference to the materiality threshold, which is set at HRK 1,750 according to the CNB Decision.

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Loans and receivables (continued)

Provisions for identified loan losses (impairment losses) are made for partly recoverable and fully irrecoverable loans (those classified into Risk Group B-1 and higher risk-level groups) identified as impaired.
The basis for determining the level of provisions for partly recoverable loans that are, partly or fully, covered by adequate collaterals (B classified loans) is the nominal carrying amount of the underlying loan, less net present value of future cash flows expected to be generated from the conversion of the collateral into cash, taking into account the time required to convert the collateral into cash.
Loans not secured by adequate collateral and past due beyond 90 but less than 365 days, provided that the materiality threshold is met (B1-B9 loans), are classified in accordance with the Procedure on the Classification of Loans and Advances and Provisions for Identified Losses of the Savings Bank, which is based on the CNB methodology.
Loans which are not secured by adequate collateral and where the borrower is late by more than 365 days regardless of the materiality threshold, are considered irrecoverable. Carrying amount of loans in risk group C is equal to zero, as loss on these receivables amounts to 100% of their nominal value.

Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents include the balance on the current account with Raiffeisenbank Austria d.d., Zagreb and cash in hand.

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost or deemed cost, less accumulated depreciation and, if any, impairment losses.

The initial cost of property and equipment comprises the purchase price, which includes customs duties and non-refundable taxes, as well as all costs directly attributable to bringing an asset to a working condition for its intended use. Expenditure incurred subsequent to putting an item of property and equipment into use, such as maintenance and repairs, is charged to the statement of comprehensive income in the period in which it is incurred.

Depreciation is provided on a straight-line basis over the estimated useful life of assets. Residual values are not taken into account. Land and assets under construction are not depreciated.

The estimated useful lives are as follows:

	2012	**2011**
Furniture	10 years	10 years
Equipment	4-20 years	4-20 years
Vehicles	4 years	4 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Expenditure on development activities are capitalised if all of the features required by IAS 38 "Intangible assets" are satisfied. Amortisation is provided on a straight-line basis over the estimated useful lives of intangible assets. Costs associated with developing or maintaining intangible assets are recognised as an expense as incurred.

Intangible assets are amortised on a straight line over their estimated useful economic lives as follows:

	2012	2011
Leasehold improvements	10 years	10 years
Software	5 years	5 years

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax, if any.

The tax expense is based on taxable income for the year. Taxable income differs from net income as reported in the statement of comprehensive income 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 Savings Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting 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 reporting 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 statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination. In case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

The Savings Bank is subject to various indirect taxes which are included in administrative expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Tax returns are subject to tax audits by the Tax Authorities. Because the implementation of tax laws and regulations to different transactions is subject to various interpretations, the amounts disclosed in these financial statements may change on a later date, depending on the final findings of the Tax Authorities.

Provisions for contingent liabilities and charges

The Savings Bank recognises a provision when it has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation.
Provision for liabilities and charges are maintained at a level which management believes is adequate to absorb probable outflows of economic benefit. The management 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.
Provisions are released only for such expenditure in respect of which provision are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

Impairment of non-financial assets

Non-current tangible and intangible assets are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recovered. When the carrying amount of an asset exceeds its recoverable amount, losses on impairment are recognised in the statement of comprehensive income for items of tangible and intangible assets carried at cost or, for assets carried at revalued amounts, they are treated as a revaluation decrease to the extent that the impairment loss does not exceed the revalued amount. Recoverable amount is the higher of the net selling price and value in use.

Impairment of financial assets

Impairment of assets identified as impaired

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. The Savings Bank estimates and performs impairment of all financial assets, except financial assets at fair value through profit or loss.

The recoverable amount of financial instruments measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Allowances for uncollectability are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts.

(All amounts are expressed in thousands of kunas)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Impairment of assets identified as impaired (continued)

The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the impairment losses account are recognised in the statement of comprehensive income. When a loan is known to be uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the statement of comprehensive income.

Impairment of assets not identified as impaired

In addition to the above described impairment losses on assets identified as impaired, the Savings Bank recognises impairment losses, in the statement of comprehensive income, on certain on-balance sheet and off-balance-sheet credit risk exposures not identified as impaired at rates from 0.85 - 1.20%, in accordance with the accounting regulations of the CNB. As at 31 December 2012 the Savings Bank applied rate 0.85% (2011: 0.85%) for calculation of assets not identified as impaired.

Retirement benefit costs

Under the effective legal regulations, the Savings Bank has the obligation to make contributions on behalf of its employees to mandatory state pension and health insurance plans, as well as the employment contribution. This obligation applies for permanent staff, and the employer has the obligation to pay the contributions at a certain percentage of the gross salary, which is as follows:

Health insurance	13%
Special health insurance contributions	0.5%
Employment	1.6%
Contribution for hiring disabled persons	0.1%

Savings Bank is also obliged to pay contributions from gross salaries of employees. Payroll contributions are recognized as expense for the period in which they are incurred.

(All amounts are expressed in thousands of kunas)

4. INTEREST INCOME AND EXPENSE

	2012	2011
Interest income		
Banks	1,983	3,218
Individuals	51,105	45,622
Companies	6,711	8,291
Securities	21,537	21,927
	81,336	**79,058**
Interest expense		
Individuals	(44,900)	(42,472)
Hybrid instruments	(3,040)	(3,025)
	(47,940)	**(45,497)**
NET INTEREST INCOME	**33,396**	**33,561**

5. NET FEE AND COMMISSION INCOME

	2012	2011
Fee and commission income		
Deposit related fees and commissions	9,386	11,668
Account management fee	6,626	6,630
Other fees and commissions	1,407	1,404
	17,419	**19,702**
Fee and commission expense		
Fees payable to agents for savings contracts	(2,326)	(3,299)
Domestic payment transaction related fees and commissions	(1,286)	(1,329)
	(3,612)	**(4,628)**
NET FEE AND COMMISSION INCOME	**13,807**	**15,074**

6. NET GAINS FROM FINANCIAL ASSETS

	2012	2011
Realised gains/(losses) on disposal of debt securities	556	(6)
Unrealised gains on debt securities	1,570	2,907
	2,126	**2,901**

(All amounts are expressed in thousands of kunas)

7. OTHER INCOME

	2012	2011
Income from sale of software	7,395	-
Other	504	556
	7,899	**556**

The Savings bank signed a contract for the delivery of developed software licence to company Combis which delivered the license to Raiffeisen Banca pentru Locuinte S.A. The Savings bank incurred income of HRK 7,395 thousand from this contract.

8. STAFF COST

	2012	2011
Contributions and taxes from salaries and net salaries	(16,917)	(19,990)
Contributions on salaries	(2,966)	(3,429)
Travel expenses and other reimbursements to employees	(633)	(637)
	(20,516)	**(24,056)**

At 31 December 2012 the Savings Bank had 160 employees (31 December 2011: 175).

9. DEPRECIATION AND AMORTISATION

	2012	2011
Depreciation	(901)	(1,225)
Amortisation	(6,142)	(5,618)
	(7,043)	**(6,843)**

10. OTHER OPERATING EXPENSES

	2012	2011
Costs of services and rental costs	(8,310)	(7,766)
Marketing and entertainment	(5,015)	(5,459)
Savings deposit insurance	(4,493)	(4,545)
Cost of material	(3,978)	(4,209)
Fuel and other car related costs	(463)	(430)
Business travel expenses	(284)	(193)
Extraordinary expenses	(812)	-
Accrued commissions	(801)	-
Other costs	(1,365)	(711)
	(25,521)	**(23,313)**

(All amounts are expressed in thousands of kunas)

11. PROVISIONS FOR IDENTIFIED LOSSES

	2012	2011
Provisions for identified losses on individual basis		
Loans to customers (Note 19)	(2,884)	(152)
	(2,884)	*(152)*
Provisions for identified losses on portfolio basis		
Placements and loans with banks (Note 15)	345	605
Loans to customers (Note 19)	(92)	(368)
Bonds (Note 17)	(571)	(260)
Other assets (Note 23)	(50)	(6)
	(368)	*(29)*
	(3,252)	**(181)**

12. PROVISIONS FOR CONTIGENT LIABILITIES AND COMMITMENTS

2012	Provisions for identified losses on portfolio basis for off balance sheet items	Provision for legal cases	Provision for unused employee vacations	Total
Balance at 1 January	112	792	142	1.046
Increase	116	-	417	533
Decrease	(157)	(792)	(142)	(1.091)
Balance at 31 December	**71**	**-**	**417**	**488**

2011	Provisions for identified losses on portfolio basis for off balance sheet items	Provision for legal cases	Provision for unused employee vacations	Total
Balance at 1 January	77	739	587	1,403
Increase	170	53	142	365
Decrease	(135)	-	(587)	(722)
Balance at 31 December	**112**	**792**	**142**	**1,046**

(All amounts are expressed in thousands of kunas)

13. INCOME TAX EXPENSE

Income tax is determined by applying the rate of 20% to taxable profits.

The adjustment of profit to arrive at the tax liability is set out below:

	2012	2011
Accounting profit/ (loss) before tax	**1,016**	**(8,055)**
Income tax at 20 % (2011: 20%)	(203)	1,611
Tax non-deductible expenses	(122)	(40)
Tax incentives and tax exempt income	7	6
Release of deferred tax asset	(5,114)	(1,420)
Income tax	**(5,432)**	**157**
Net loss for the year	**(4,416)**	**(7,898)**

At 31 December 2012, the amount of tax losses available to the Savings Bank over the next years to reduce the taxable profits for future periods amounted to HRK 107,438 thousand (2011: HRK 75,806 thousand).

The availability of tax losses carried forward to reduce the taxable profits in the future periods expires as follows:

	Gross tax losses 2012	Tax credit 2012	Gross tax losses 2011	Tax credit 2011
At 31 December 2012	27,567	5,513	27,567	5,514
At 31 December 2013	17,406	3,481	17,406	3,481
At 31 December 2014	2,324	465	2,324	465
At 31 December 2015	21,406	4,281	21,406	4,281
At 31 December 2016	7,103	1,420	7,103	1,420
At 31 December 2017	31,632	6,326	-	-
Total tax losses carried forward	**107,438**	**21,486**	**75,806**	**15,161**

Deferred tax assets and the related tax benefit arising from tax losses carried forward in the amount of HRK 21,486 thousand were not recognized in these financial statements since the Savings Bank does not expect to have sufficient future taxable profits against which it can be utilized.

(All amounts are expressed in thousands of kunas)

14. CASH AND AMOUNTS DUE FROM BANKS

	2012	2011
Cash in hand	4	1
Current account with Raiffeisenbank Austria d.d. Zagreb	10,806	4,812
Current account with Hypo Alpe Adria Bank d.d. Zagreb	1	1
Current account with Erste & Steiermarkische Bank d.d. Zagreb	1	1
	10,812	**4,815**

15. PLACEMENTS AND LOANS WITH BANKS

	2012	2011
Deposits	36,700	83,000
Accrued interest on deposits	13	254
Loans	-	-
Accrued interest on loans	-	-
	36,713	**83,254**
Provisions for identified losses on portfolio basis	(404)	(749)
	36,309	**82,505**

Deposits with banks at 31 December 2012 are summarized as follows:

Bank	Maturity date	Interest rate	Principal amount	Amount receivable at maturity
Raiffeisenbank Austria d.d.	28.03.2013	1.40%	6,000	6,021
Volksbank d.d..	27.02.2013	1.30%	4,800	4,811
Volksbank d.d..	08.01.2013	0.80%	4,400	4,403
Hypo Alpe Adria Bank d.d.	19.02.2013	1.25%	8,000	8,016
Hypo Alpe Adria Bank d.d.	28.01.2013	0.90%	5,500	5,505
Hypo Alpe Adria Bank d.d.	14.01.2013	0.65%	8,000	8,006
			36,700	**36,762**

(All amounts are expressed in thousands of kunas)

15. PLACEMENTS AND LOANS WITH BANKS (CONTINUED)

Deposits with banks at 31 December 2011 are summarized as follows:

Bank	Maturity date	Interest rate	Principal amount	Amount receivable at maturity
Raiffeisenbank Austria d.d.	21.03.2012	4.60%	4,000	4,047
Raiffeisenbank Austria d.d.	05.03.2012	5.20%	12,500	12,664
Centar banka d.d.	30.01.2012	5.00%	20,000	20,263
Volksbank d.d.	27.03.2012	4.50%	8,000	8,091
Partner banka d.d.	21.02.2012	5.00%	15,000	15,186
Hrvatska poštanska banka d.d.	02.01.2012	2.50%	3,800	3,805
Hypo Alpe Adria Bank d.d.	23.01.2012	3.75%	6,700	6,724
Hypo Alpe Adria Bank d.d	02.01.2012	3.75%	5,000	5,013
Erste&Steiermarkische Bank d.d.	30.04.2012	4.63%	8,000	8,122
			83,000	**83,915**

Movement in impairment losses on portfolio basis of placements and loans with banks:

	2012	2011
	Provisions for identified losses on portfolio basis	Provisions for identified losses on portfolio basis
At 1 January	749	1,354
Increase of impairment losses	206	198
Reversal of impairment losses	(551)	(803)
At 31 December	**404**	**749**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
Government bonds, listed	12,908	93,612
Accrued interest	29	611
	12,937	**94,223**

(All amounts are expressed in thousands of kunas)

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

At 31 December 2012 and 2011 financial assets at fair value through profit or loss consisting of bonds of the Croatian Ministry of Finance are presented as follows:

ISIN	Nominal value	Currency	Fair value at 31.12.2012. in original currency	Coupon interest rate
HRRHMFO15CA8	12,500	HRK	12,908	5.25%

ISIN	Nominal value	Currency	Fair value at 31.12.2011. in original currency	Coupon interest rate
HRRHMFO125A3	10,775	EUR	81,611	6.875%
HRRHMFO15CA8	12,500	HRK	12,001	5.25%

17. FINANCIAL ASSETS HELD TO MATURITY

	2012	2011
Debt securities: Government bonds, listed	325,255	260,641
Accrued interest	6,817	3,678
Provisions for identified losses on portfolio basis	(2,823)	(2,252)
	329,249	**262,067**

Financial assets held to maturity include the following bonds of the Croatian Ministry of Finance with a currency clause:

Description	Maturity	Coupon interest rate	Nominal amount	Carrying amount at 31.12.2012	Accrued interest not yet due
		%		HRK	HRK
HRRHMFO142A8	10.02.2014	5.5	17,150 EUR	129,473	2,766
HRRHMF017BA6	25.11.2017	6.25	26.000 HRK	25,924	162
HRRHMFO203E0	05.03.2020	6.5	15,000 EUR	115,025	2,378
HRRHMFO227E9	22.07.2022	6.5	7,000 EUR	54,833	1,511
				325,255	**6,817**

(All amounts are expressed in thousands of kunas)

17. FINANCIAL ASSETS HELD TO MATURITY (CONTINUED)

Description	Maturity	Coupon interest rate	Nominal amount	Carrying amount at 31.12.2011	Accrued interest not yet due
		%		HRK	HRK
HRRHMFO142A8	10.02.2014	5.5	17,150 EUR	129,280	2,760
HRRHMFO125A3	23.05.2012	6.875	14,000 EUR	105,452	757
HRRHMFO17BA6	25.11.2017	6.25	26,000HRK	25,909	161
				260,641	**3,678**

18. FINANCIAL ASSETS AVAILABLE FOR SALE

	2012	2011
Debt securities: bonds of the Croatian Ministry of Finance, quoted	23,814	-
Accrued interest	538	-
	24,352	**-**

Financial assets available for sale include the following bonds of the Croatian Ministry of Finance with a currency clause:

Description	Maturity	Coupon interest rate	Nominal amount	Carrying amount at 31.12.2012	Accrued interest not yet due
		%		HRK	HRK
HRRHMFO142A8	10.02.2014	5.5	2,000 EUR	15,437	322
HRRHMFO227E9	22.07.2022	6.5	1,000 EUR	8,377	216
				23,814	**538**

19. LOANS TO CUSTOMERS

	2012	2011
Loans to companies	273,956	313,934
Loans to customers	875,945	831,881
Accrued interest	1,500	1,304
Deferred loan origination fees	(3,207)	(2,801)
	1,148,194	**1,144,318**
Impairment losses	(11,802)	(11,999)
	1,136,392	**1,132,319**

(All amounts are expressed in thousands of kunas)

19. LOANS TO CUSTOMERS (CONTINUED)

Analysis of loans approved in 2012 by savings type:

Savings type	**Interest rate**	**Number of loans approved in 2012**	**Loan amount in EUR**	**Loan amount in HRK**
- Brza	6.00 %	6	77	583
- Jazz	5.50 %	18	160	1,205
- Spora	6.00 %	1	7	49
- Impuls	4.99-5.50 %	368	-	69,936
- Funky	4.99-5.50 %	548	12,738	96,116
		941	**12,982**	**167,889**

Movement in impairment losses:

	2012 Identified impairment losses on individual basis	**Impairment losses on portfolio basis**	**Total**	**2011 Identified impairment losses on individual basis**	**Impairment losses on portfolio basis**	**Total**
At 1 January	2,462	9,537	**11,999**	4,446	9,169	**13,615**
Increase in impairment losses	10,857	938	**11,795**	8,099	1,037	**9,136**
Amounts reversed during the year	(7,973)	(846)	**(8,819)**	(7,947)	(669)	**(8,616)**
Net (income) / expense in income statement	*2,884*	*92*	**2,976**	*152*	*368*	**520**
Foreign exchange differences	(7)	(1)	**(8)**	(75)	-	**(75)**
Write-off	(3,165)	-	**(3,165)**	(2,061)	-	**(2,061)**
At 31 December	**2,174**	**9,628**	**11,802**	**2,462**	**9,537**	**11,999**

(All amounts are expressed in thousands of kunas)

20. INTANGIBLE ASSETS

	Software	Leasehold improvements	Total
Cost			
At 1 January 2012	31,134	183	31,317
Additions	1,909	20	1,929
At 31 December 2012	**33,043**	**203**	**33,246**
Accumulated amortization			
At 1 January 2012	19,913	166	20,079
Charge for the year	6,132	10	6,142
At 31 December 2012	**26,045**	**176**	**26,221**
At 31 December 2012	**6,998**	**27**	**7,025**
At 31 December 2011	**11,221**	**17**	**11,238**

	Software	Leasehold improvements	Total
Cost			
At 1 January 2011	28,167	183	28,350
Additions	2,967	-	2,967
At 31 December 2011	**31,134**	**183**	**31,317**
Accumulated amortization			
At 1 January 2011	14,312	149	14,461
Charge for the year	5,601	17	5,618
At 31 December 2011	**19,913**	**166**	**20,079**
At 31 December 2011	**11,221**	**17**	**11,238**
At 31 December 2010	**13,855**	**34**	**13,889**

(All amounts are expressed in thousands of kunas)

21. PROPERTY, PLANT AND EQUIPMENT

	Equipment	Motor vehicles	Office furniture	Total
Cost				
At 1 January 2012	**8,127**	**1,792**	**1,955**	**11,874**
Additions	190	419	4	613
Disposals	(425)	(311)	(56)	(792)
At 31 December 2012	**7,892**	**1,900**	**1,903**	**11,695**
Accumulated depreciation				
At 1 January 2012	**7,127**	**1,052**	**1,400**	**9,579**
Charge for the year	453	336	112	901
Disposals	(424)	(153)	(50)	(627)
At 31 December 2012	**7,156**	**1,235**	**1,462**	**9,853**
At 31 December 2012	**736**	**665**	**441**	**1,842**
At 31 December 2011	**1,000**	**740**	**555**	**2,295**

	Equipment	Motor vehicles	Office furniture	Total
Cost				
At 1 January 2011	8,300	1,837	1,995	12,132
Additions	69	-	29	98
Disposals	(242)	(45)	(69)	(356)
At 31 December 2011	**8,127**	**1,792**	**1,955**	**11,874**
Accumulated depreciation				
At 1 January 2011	6,706	648	1,327	8,681
Charge for the year	662	425	138	1,225
Disposals	(241)	(21)	(65)	(327)
At 31 December 2011	**7,127**	**1,052**	**1,400**	**9,579**
At 31 December 2011	**1,000**	**740**	**555**	**2,295**
At 31 December 20010	**1,594**	**1,189**	**668**	**3,451**

(All amounts are expressed in thousands of kunas)

22. DEFFERED TAX ASSETS

Deferred tax assets	2012	Net credit/ (charge) to profit and loss	Net credit/ (charge) to other comprehensive income	2011
Deferred fee and commission income	641	80	-	561
Unrealised losses on financial instruments at fair value through profit or loss	3,887	(5,512)	-	9,399
Deferred tax liability				
Unrealized gains and losses for available for sale financial assets	(69)	-	(69)	-
Net deferred tax assets	**4,459**	**(5,432)**	**(69)**	**9,960**

Deferred tax assets	2011	Net credit/ (charge) to profit and loss	2010
Deferred fee and commission income	561	157	404
Unrealised losses on financial instruments at fair value through profit or loss	9,399	-	9,399
Net deferred tax assets	**9,960**	**157**	**9,803**

23. OTHER ASSETS

	2012	2011
Government housing savings subsidies receivable	96,374	109,411
Accrued fees and commission receivables	8,914	6,999
Other	7,652	3,464
	112,940	**119,874**
Provisions for identified losses on portfolio basis	(136)	(86)
	112,804	**119,788**

Government housing savings subsidies have been provided by the Housing Savings Act to stimulate additionally housing savings of individuals out of the state budget. The government subsidies are paid on the basis of housing savings deposits made, up to maximum HRK 750 per individual depositor. In 2012, the government subsidy represented 15% of the total available savings in a calendar year, with available savings being determined as payments made in the current year, less fees charged during the year, and the base amount in excess of the maximum base amount of HRK 5,000 in the preceding year.

(All amounts are expressed in thousands of kunas)

23. OTHER ASSETS (CONTINUED)

The Savings Bank submits the request for the disbursement of the housing subsidies to the Ministry of Finance by the end of the February in the current year for the previous year, specifying in the request the savings depositor personal data and the data relevant for submitting the request. After rendering the request eligible and legitimate, the Ministry of Finance disburses the government subsidies generally once a year. The government subsidies are paid onto the depositors' accounts (once the payment is received from the government), provided that the depositors have meet the minimum five-year term saving requirement, or intend to use the entire savings for eligible purposes. For savings periods shorter than 5 years and if no loans are raised, the government subsidies are refunded back to the state budget. In the period between application for subsidy and receipt of subsidy, the amount that will be allocated to each individual depositor is presented within other liabilities (see Note 26).

24. DEPOSITS FROM CUSTOMERS

	2012	**2011**
Terms deposits:		
- linked to foreign currency, EUR	1,346,605	1,397,536
- in Croatian Kuna	79,430	48,558
TOTAL	**1,426,035**	**1,446,094**

	2012	**2011**
Deposits in Croatian Kuna:		
- Impuls	10,417	4,082
- Relax	69,013	44,476
Deposits linked to foreign currency, EUR		
- Brza	14,948	19,145
- Normalna	1,692	1,784
- Spora	86,818	108,361
- Funky	41,038	54,793
- Jazz	1,202,109	1,213,453
TOTAL	**1,426,035**	**1,446,094**

(All amounts are expressed in thousands of kunas)

24. DEPOSITS FROM CUSTOMERS (CONTINUED)

Based on the General Terms and Conditions for individual types of savings were as follows:

Type of savings	**Impuls** no currency clause	**Relax** no currency clause	**Funky** currency clause	**Jazz** currency clause
Savings period	24 months	60 months	24 months	60 months
Minimum savings	30% CA	40% CA	30% CA	40% CA
Interest on savings	2.5%	3%	2.5%	3%
Housing loan	70% CA	60% CA	70% CA	60% CA
Repayment terms	From 0.70% to 2.00% of the credit amount	From 0.70% to 2.00% of the credit amount	From 0.70% to 2.00% of the credit amount	From 0.70% to 2.00% of the credit amount
Loan interest	5.50%	5.99%	5.50%	6.0%
CA=Contracted Amount				
Minimum CA	15,000 HRK	15,000 HRK	1,500 EUR	1,500 EUR
Maximum CA	1,500,000 HRK	1,500,000 HRK	200,000 EUR	200,000 EUR

For contracts concluded before current General Terms and Conditions, General Terms and Conditions from previous years are applied.

In 2012 29,504 housing savings contracts were concluded (2011: 29,230), as follows:

Type of savings	**2012** Total number of contracts	**2011** Total number of contracts
- Funky	256	314
- Impuls	539	456
- Jazz	22,837	25,193
- Relax	5,872	3,267
Total contracts concluded	**29,504**	**29,230**

(All amounts are expressed in thousands of kunas)

25. HYBRID INSTRUMENTS

	2012	2011
Liabilities in Croatian Kuna	36,250	36,250
Liabilities in foreign currency	15,104	15,074
	51,354	**51,324**

In 2006 the Savings Bank concluded with Raiffeisen Bausparkasse Holding GmbH a hybrid loan agreement for a loan in the amount of EUR 7,000 thousand for a period of 5 years, and a bullet repayment, at a fixed interest rate of 5.5% per annum. During December 2007 Raiffeisen Bausparkasse GmbH recapitalised the Savings Bank by converting HRK 36,500 thousand of hybrid instrument into share capital according to legal regulations. The remaining amount of the loan as at 31 December 2012 is HRK 15,104 thousand and is repayable in 2017. The maturity was prolonged from 2011 to 2017 with an Annex signed in 2010.

In 2008 another contract for hybrid instrument with owner Raiffeisen Bausparkasse Gessellschaft m.b.H, Austria was concluded in the amount of HRK 36,250 thousand for a period of 5 years, and a bullet repayment, at a fixed interest rate of 6% per annum. The maturity of the loan was prolonged to 2023 with an Annex to the contract signed in 2011.

26. OTHER LIABILITIES

	2012	2011
Government housing savings subsidies payable	96,374	109,411
Prepaid loans and advances collected from individuals	7,753	8,369
Accrued fees and commissions	1,502	1,923
Liabilities for salaries	1,428	2,183
Other	11,374	14,956
	118,431	**136,842**

(All amounts are expressed in thousands of kunas)

27. PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS

Future loan commitments

The Savings Bank accepts housing savings deposits from the individuals and at the same moment assumes commitments to issue loans to its customers after certain period of savings and after fulfilling certain predefined conditions. Future loan commitments at 31 December 2012 amounted to HRK 8,412 thousand (2011: HRK 13,145 thousand). The interest rates on such loans are fixed and contracted with the customers at the moment of origination of the housing savings deposits. As such the management of the Savings Bank believes that no external financing would be needed to fund the future loan commitments and as such no provisions for necessity of obtaining of external sources at potential higher interest rates than the ones contracted on loan commitments are necessary to be established in these financial statements.

28. SHARE CAPITAL

	Number of shares	**Amount**
At 31 December 2011	18,000	180,000
At 31 December 2012	18,000	180,000

(All amounts are expressed in thousands of kunas)

29. RELATED PARTY TRANSACTIONS

The Savings Bank is fully controlled by its parent Raiffeisen Bausparkasse GmbH, the sole shareholder of the Savings Bank.

The Savings Bank carries out a major part of transactions with related parties in the ordinary course of business. These include mainly deposits and securities transactions. Related parties, together with the year-end balances resulting from related party transactions and the related income and expenses were as follows:

	2012	2011
Interest income		
Management Board members	38	44
Total	**38**	**44**
Other income		
Raiffeisen Banca pentra Locuinta S.A.	7,395	-
Total	**7,395**	**-**
Interest, fee and commission expense		
Raiffeisen Bausparkasse GmbH	3,040	(3,025)
Total	**3,040**	**(3,025)**
Other expenses		
Raiffeisen Bausparkasse Holding GmbH	1,399	(905)
Total	**1,399**	**(905)**

	2012	2011
Key management personnel		
Management Board short-term benefits (bonuses, salaries and fees)	1,510	1,613
Supervisory Board short-term benefits (bonuses and fees)	130	130
	1,640	**1,743**

	2012	2011
Assets		
Loans to customers		
Management Board members	1,960	2,130
Total	**1,960**	**2,130**
Liabilities		
Accruals and other liabilities		
Raiffeisen Bausparkasse GmbH	51,354	51,324
Total	**51,354**	**51,324**

30. RISK MANAGEMENT

This section provides details of the Savings Bank's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Savings Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and price risk.

Furthermore, for purposes of more effective risk managing, following committees for managing risks are established:

Assets and liabilities committee (ALCO) – managing market risks (liquidity risk, interest rate risk, currency risk) in a frame of defined policy and regulation for managing assets and liabilities;

Liquidity committee – manages daily and short-term liquidity and operates according to Liquidity committee regulations.

Credit risk

Credit risk is the risk of loss that may arise from a debtor's default in meeting the obligations thereof in accordance with the agreed terms.

The Savings Bank is subject to credit risk through its lending, economic hedging and investing activities and in cases where it acts as an intermediary on behalf of customers. The risk that the counterparty to a derivative or another instrument might default is monitored on an ongoing basis. To manage the level of credit risk, the Savings Bank deals with counterparties of good credit standing, and where appropriate, obtains collateral.

The Savings Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Savings Bank is exposed to off-balance-sheet credit risk through commitments to extend loans.

Exposure to credit risk is managed in accordance with the Savings Bank's policies. Credit exposures to portfolios and individual risk groups are reviewed on a regular basis. Any substantial increases in credit exposure are authorised by the Credit Committee. The Committee monitors changes in the creditworthiness of borrowers and considers the need for additional collaterals. Credit risk assessment is an ongoing process designed to facilitate the early identification of impairment of loan exposures. The Savings Bank applies a prudent approach to credit risk assessment.

The Savings Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Collateral for loans is usually in the form of cash, real estate or other assets.

In order to manage credit risk, the Savings Bank classifies placements i.e. loans into individual risk groups according to exposures to the Savings Bank in respect of non-payment or potential placement loss, which is in accordance with the Savings Bank's policies.

The existing loans relate to loans arising from savings contracts with the minimum required savings period expired and a certain percentage of own savings (depending on type and general conditions per which savings contracts were concluded) and of bridging loans.

(All amounts are expressed in thousands of kunas)

30. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Currently, all new approved loans are classified in Risk Group A, which is considered fully recoverable. Overview of outstanding receivables for loans to individuals which are classified in Risk Group A at 31 December 2012 and 31 December 2011 were as follows:

	2012	2011
Past due but not impaired		
Past due up to 15 days	4,752	3,180
Past due from 16 to 30 days	968	752
Past due from 31 to 60 days	323	261
Past due from 61 to 90 days	121	91
Total exposure	**6,164**	**4,284**

Total loans to individual customers at 31 December 2012 that are past due but not impaired was HRK 864,199 thousand and was insured with total estimated value of collateral in amount of HRK 1,891,782 thousand.

The Savings Bank continuously monitors the market value of collaterals and seeks additional collateral as and when required if so provided in the underlying contract.

In the Overview of Collaterals for past due receivables per loans to individuals on 31 December 2012 and 31 December 2011, the total exposure is shown as the sum of exposures secured by mortgage held by the debtors and exposures secured with other collaterals. Other collaterals refer to deposits and other security instruments.

Overview of collaterals for overdue non collected claims per loans to individuals on 31 December 2012 and 31 December 2011 were as follows:

	31 December 2012	31 December 2011
Exposure amount secured by mortgage in debtors ownership	4,915	2,548
Exposure amount secured by other collaterals	1,968	1,822
Amount of total secured exposure	**6,883**	**4,370**
Value of the mortgage	**766,951**	**704,079**

Total value of collaterals as at 31 December 2012 was HRK 1,919,766 thousand which represents value of collaterals for total amount of Savings Bank receivables.

30. RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

The objective of liquidity risk management is ensuring meeting of liabilities, avoiding foreseeable asset sale (possibility of price determining) and ensuring quality deposits inflow through reputation risk maintaining.

The Savings Bank has access to a limited funding base. Funds are raised through deposits from individuals and share capital. The housing savings system is based on collecting deposits for a term of five years and investing those deposit funds in long-term loans to customers that qualify for the housing loan, so that the maturity gap is common. Upon the expiry of the savings agreements, new follow-up agreements are concluded to transfer a part of, or the entire savings to those agreements, which is also one of the measures employed to minimize an outflow of deposit funds, by concluding new savings agreements that would additionally increase the inflow of funds. The Savings Bank continually assesses liquidity risk by identifying and monitoring changes in the level of funding required to meet business goals and strategic targets. In addition, the Savings Bank holds a portfolio of liquid assets as part of its liquidity risk management.

Pursuant to the current regulations, the Savings Bank has the obligation to monitor the maturity gap based on the estimated remaining period to maturity of its assets and liabilities within a time horizon of up to one week i.e. up to one month. The regulatory prescribed minimum liquidity ratio (MLR) on each day of the reporting month is defined as or higher than 1. The Savings Bank maintains its MLR in excess of the regulatory minimum.

The liquidity reserve is calculated regularly and monitored on a weekly basis. The minimum liquidity reserve represents the bottom limit of liquid assets available over a short-term and under stress conditions to avoid illiquidity, whereas the regular liquidity reserve represents the liquidity level ensuring optimum liquidity of the Savings Bank over a longer term.

Stress testing is performed on a monthly basis to allow the analysis of the liquidity position of the Savings Bank in case of disturbances in regular and expected cash flows. Stress tests over a longer time horizon (over one year) are performed using gap analysis.

The Savings Bank maintains a portion of its assets in readily marketable assets, which are those assets that are quickly (within four working days) and easily (without significant losses) convertible into cash.

(All amounts are expressed in thousands of kunas)

30. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

At 31 December 2012	Up to 1 month	1- 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Undefined	Total
ASSETS							
Cash and amounts due from the banks	10,812	-	-	-	-	-	10,812
Placements and loans with banks	17,458	18,851	-	-	-	-	36,309
Financial assets at fair value through profit or loss	-	-	29	12,908	-	-	12,937
Financial assets held to maturity	-	5,087	1,672	128,372	194,118	-	329,249
Assets available for sale	-	322	216	15,437	8,377	-	24,352
Loans to customers	21,313	33,352	100,040	549,278	432,409	-	1,136,392
Intangible assets	-	-	-	-	-	7,025	7,025
Property, plant and equipment	-	-	-	-	-	1,842	1,842
Deferred tax assets	-	-	-	-	-	4,459	4,459
Other assets	-	-	-	-	-	112,804	112,804
Total assets	**49,583**	**57,612**	**101,957**	**705,995**	**634,904**	**126,130**	**1,676,181**
LIABILITIES AND EQUITY							
Deposits from customers	320,982	46,837	238,821	819,395	-	-	1,426,035
Hybrid instruments	-	-	-	-	51,354	-	51,354
Other liabilities	118,431	-	-	-	-	-	118,431
Provisions for liabilities and charges	488	-	-	-	-	-	488
Total liabilities	**439,901**	**46,837**	**238,821**	**819,395**	**51,354**	**-**	**1,596,308**
Total equity	-	-	-	-	-	79,873	79,873
Total liabilities and equity	**439,901**	**46,837**	**238,821**	**819,395**	**51,354**	**79,873**	**1,676,181**
Liquidity gap	**(390,318)**	**10,775**	**(136,864)**	**(113,400)**	**583,550**	**46,257**	**-**

(All amounts are expressed in thousands of kunas)

30. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

At 31 December 2011	Up to 1 month	1- 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Undefined	Total
ASSETS							
Cash and amounts due from the banks	4,815	-	-	-	-	-	4,815
Placements and loans with banks	35,621	38,882	8,002	-	-	-	82,505
Financial assets at fair value through profit or loss	-	-	82,222	12,001	-	-	94,223
Financial assets held to maturity	-	2,737	105,460	128,181	25,689	-	262,067
Loans to customers	19,191	33,576	99,583	534,837	445,132	-	1,132,319
Intangible assets	-	-	-	-	-	11,238	11,238
Property, plant and equipment	-	-	-	-	-	2,295	2,295
Deferred tax assets	-	-	-	-	-	9,960	9,960
Other assets	-	49,367	-	60,044	-	10,377	119,788
Total assets	**59,627**	**124,562**	**295,267**	**735,063**	**470,821**	**33,870**	**1,719,210**
LIABILITIES AND EQUITY							
Deposits from customers	58,284	98,411	494,531	794,868	-	-	1,446,094
Hybrid instruments	-	-	-	-	51,324	-	51,324
Other liabilities	27,431	49,367	-	60,044	-	-	136,842
Provisions for liabilities and charges	1,046	-	-	-	-	-	1,046
Total liabilities	**86,761**	**147,778**	**494,531**	854,912	**51,324**	**-**	**1,635,306**
Total equity	-	-	-	-	-	83,904	83,904
Total liabilities and equity	**86,761**	**147,778**	**494,531**	854,912	**51,324**	**83,904**	**1,719,210**
Liquidity gap	**(27,134)**	**(23,216)**	**(199,264)**	**(119,849)**	**419,497**	**(50,034)**	**-**

30. RISK MANAGEMENT (CONTINUED)

Market risk

Market risk represents the potential impact of external factors on the value of assets, liabilities and off-balance sheet items resulting from adverse movements in market interest rates, exchange rates or asset prices.

Instruments at fair value through profit and loss are subject to market risk, that is, the risk that future changes in market conditions may render an instrument impaired or more onerous. Changes in the fair value are directly recognised in profit and loss within non realised profit/loss that is within realised gains/losses once they are sold.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

A portion of financial instruments are classified into financial assets at fair value through profit or loss. They are sensitive to fluctuations in market rates, with any change affecting directly the gains or losses on instruments recognised in profit or loss.
Should the market prices of the bonds held by the Savings Bank decrease 1 percentage point, the value of the bond portfolio would decrease by 0.035 % i.e. HRK 125 thousand.

Currency risk

The Savings Bank is exposed to currency risk through transactions in foreign currencies.
Foreign currency exposure arises from lending, deposit-taking, trading and investment activities. It is monitored daily in accordance with legislation and internally set limits for each currency and for the total balance sheet denominated in, or linked to, a foreign currency.
Currency risk is the risk arising from changes in foreign exchange rates and/or gold prices.
Currency risk management is defined and limited by legislation, which require from the Savings Bank to adjust the value of its assets and liabilities tied to a foreign currency so as to maintain an open foreign-currency position below 30 % of its regulatory capital.
The Savings Bank manages its currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against those limits. The Savings Bank seeks to manage its business activities by minimising the gap between assets and liabilities denominated in, or linked to, a foreign currency, and maintaining the day-to-day activities within the daily allowed limits per currency according to regulatory requirements.
The Savings Bank is primarily exposed to the risk of currency fluctuation relating to Euro. At 31 December 2012 HRK 1,360,148 thousand (2011: HRK 1,411,826 thousand) of the total assets were denominated in Euro or in a currency linked to Euro, while HRK 1,375,667 thousands (2011: HRK 1,427,836 thousand) of the total liabilities were denominated in Euro or in a currency linked to Euro. Therefore, a decrease of currency HRK/EUR by 1.00% (appreciation of kuna) would affect the net foreign exchange position by 1 or HRK 155 thousand.

(All amounts are expressed in thousands of kunas)

30. RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

At 31 December 2012	EUR	Currencies linked to EUR	Total EUR currencies	HRK	Total
ASSETS					
Cash and amounts due from the banks	-	-	-	10,812	10,812
Placements and loans with banks	-	-	-	36,309	36,309
Financial assets at fair value through profit or loss	-	-	-	12,937	12,937
Assets held to maturity	-	303,386	303,386	25,863	329,249
Assets available for sale	-	24,352	24,352	-	24,352
Loans to customers	-	1,023,820	1,023,820	112,572	1,136,392
Intangible assets	-	-	-	7,025	7,025
Property, plant and equipment	-	-	-	1,842	1,842
Deferred tax assets	-	-	-	4,459	4,459
Other assets	-	8,589	8,589	104,215	112,804
Total assets	**-**	**1,360,148**	**1,360,148**	**316,033**	**1,676,181**
LIABILITIES AND EQUITY					
Deposits from customers	-	1,346,605	1,346,605	79,430	1,426,035
Hybrid instruments	15,104	-	15,104	36,250	51,354
Other liabilities	-	13,958	13,958	104,473	118,431
Provisions for liabilities and charges	-	-	-	488	488
Total liabilities	**15,104**	**1,360,563**	**1,375,667**	**220,641**	**1,596,308**
Total equity	-	-	-	79,873	79,873
Total liabilities and equity	**15,104**	**1,360,563**	**1,375,667**	**300,514**	**1,676,181**
Foreign currency sensitivity gap	**(15,104)**	**(415)**	**(15,519)**	**15,519**	**-**

(All amounts are expressed in thousands of kunas)

30. RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

At 31 December 2011	EUR	Currencies linked to EUR	Total EUR currencies	HRK	Total
ASSETS					
Cash and amounts due from the banks	-	-	-	4,815	4,815
Placements and loans with banks	-	-	-	82,505	82,505
Financial assets at fair value through profit or loss	-	82,193	82,193	12,030	94,223
Assets held to maturity	-	236,219	236,219	25,848	262,067
Loans to customers	-	1,086,637	1,086,637	45,682	1,132,319
Intangible assets	-	-	-	11,238	11,238
Property, plant and equipment	-	-	-	2,295	2,295
Deferred tax assets	-	-	-	9,960	9,960
Other assets	-	6,777	6,777	113,011	119,788
Total assets	**-**	**1,411,826**	**1,411,826**	**307,384**	**1,719,210**
LIABILITIES AND EQUITY					
Deposits from customers	-	1,397,536	1,397,536	48,558	1,446,094
Hybrid instruments	15,074	-	15,074	36,250	51,324
Other liabilities	-	15,227	15,227	121,615	136,842
Provisions for liabilities and charges	-	-	-	1,046	1,046
Total liabilities	**15,074**	**1,412,763**	**1,427,837**	**207,469**	**1,635,306**
Total equity	-	-	-	83,904	83,904
Total liabilities and equity	**15,074**	**1,412,763**	**1,427,837**	**291,373**	**1,719,210**
Foreign currency sensitivity gap	**(15,074)**	**(937)**	**(16,011)**	**16,011**	**-**

30. RISK MANAGEMENT (CONTINUED)

Operational risk

Operational risk is the risk of loss resulting from:

- inadequate or failed internal processes;
- people and systems;
- external events.

Operational risk includes legal risk, compliance risk and reputation risk, but excludes strategic risk.

Operational risk differs from other risks (credit risk market risk) in that that it is not accepted directly, in exchange for expected profits, but rather arises from the normal course of operations.

The Savings Bank is subject to operational risk in all its business activities. The Savings Bank seeks to manage its operational risk in accordance with defined principles and policies, with the final purpose being to mitigate or avoid operational risk.

The Savings Bank manages its operational risk through its Internal Operational Risk Policy and Procedures as well as internal regulations contained in its other by-laws.

The Internal Operational Risk Policy represents an internal document by which the Savings Bank establishes and manages its operational risk management rules to minimize it to a manageable level to ensure the Savings Bank to manage its operations in a safe and stable manner as well as safeguard its reputation..

The Policy is complemented by the Operational Risk Procedures that specify in detail the components of the operational risk management system.

The Operational Risk Management Policy and Procedures of the Savings Banks are intended for identifying, assessing, monitoring, managing and controlling its exposure to operational risk proactively, along with the involvement and accountability of the Savings Bank’s Management Board in implementing the operational risk management policy and raising risk awareness and building risk culture of all of its staff throughout the Savings Bank’s organization.

The Policy defines the key operational risk management concepts and systems. As the complexity of the operations containing operational risk components increases, new techniques and instruments for managing operational risk exposure will be implemented, whilst ensuring compliance with regulatory requirements and guidelines.

A part of the operational risk relating to the employees has been delimited and regulated by means of the employment contract, Internal Labour Regulations, Employee Code of Conduct, and other internal by-laws.

30. RISK MANAGEMENT (CONTINUED)

Interest rate risk

The banking book interest rate risk is the risk that changes in interest rates could have an adverse impact on profitability and/or capital. The Savings Bank is exposed to changes in interest rates whenever unpredicted changes in interest rates on the loans and receivables originated by the Savings Bank or on the Savings Bank's liabilities may adversely affect its net interest income i.e. profitability.
There are no trading financial instruments or goods in the portfolio of the Savings Bank.

Effect of interest rate risk on Savings Bank depends on:

1. value of balance and off balance positions that are sensitive on interest rate risk, namely balance sheet structure
2. interest rate volatility
3. time frame during which interest rate risk exposure exists.

Ad 1. Majority of Savings Bank's interest assets and liabilities have fixed interest rate. The Savings Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts.

Ad 2. Pursuant to the Act on Housing Savings and Government Housing Savings Subsidies, the difference between the interest rate on housing savings deposits and the interest rate on the related housing loans may not exceed three percentage points. There is no volatility of interest rates on approved housing loans and agreed savings deposits i.e. there is no risk of unpredictable movements in interest rates in a future period, as the interest rates on those instruments are fixed.

The Savings Bank's interest rate risk exposure arises from variable-rate loans to companies in total amount of HRK 273,956 thousand as at 31 December 2012 (2011: HRK 313,934 thousand).

If interest rates had been 1 per cent higher/lower and all other variables were held constant, the Savings Bank's loss for the year ended 31 December 2012 would decrease/ increase by HRK 2,861 thousand (2011: profit would decrease/ increase by HRK 3,139 thousand).

Ad 3. The risk management activities are implemented in the context of the Savings Bank's sensitivity to fluctuations in interest rates. The exposure to fluctuations in interest rates is monitored using the asset and liability gap analysis.

Interest rate risk is managed to protect the capital of the Savings Bank. Effective management means identifying yield and interest rate trends, performing gap analyses, stress tests, scenario simulations, defining internal limits and understanding client behaviour.

30. RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

The Savings Bank includes the results obtained using the Modified model in the calculation of the changes in the economic value of the non-trading book. The Modified model includes key assumptions of the housing savings system the long-term nature of the savings and the renewals of the savings deposits in five-year cycles. The Modified model is based on those assumptions using historical data about the number of contracts and payments by individual years of depositing savings and using the so-called haircut to reflect the risk margin. The reliability of the Modified Model is checked using back-testing.

Stress tests are developed, which include increased haircut numbers.

Based on the current regulations, the Savings Bank applies a simplified method of determining changes in the economic value of the Savings Bank, (%. including results obtained through Modified model) by applying the standard interest-rate shock to all major currencies individually and for all other currencies on an aggregate basis. In accordance with Croatian National Bank regulations, the ratio of changes in the economic value to the banking book may not exceed 20 percent. The Savings Bank reports its banking-book interest rate risk exposure to the Croatian National Bank in accordance with applicable regulations. At 31 December 2012 the economic value of the Savings Bank was 2.94%. including results obtained through Modified model.

(All amounts are expressed in thousands of kunas)

30. RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

The following table illustrates Savings Bank's sensitivity to interest rate risk at 31 December 2012 based on known dates of re-pricing of assets and liabilities that are under fixed and floating interest rates and presumed dates of repricing of other positions.

At 31 December 2012	Non-interest bearing	Less than 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Total	Fixed interest rates
ASSETS								
Cash and amounts due from banks	5	10,807	-	-	-	-	10,812	10,807
Placements and loans with banks	12	17,446	18,851	-	-	-	36,309	36,297
Financial assets at fair value through profit and loss	29	-	-	-	-	12,908	12,937	12,908
Assets held to maturity	6,759	-	-	-	128,372	194,118	329,249	322,490
Assets available for sale	538	-	-	-	15,437	8,377	24,352	23,814
Loans to customers	1,421	19,892	33,352	100,040	286,255	695,432	1,136,392	866,492
Intangible assets	7,025	-	-	-	-	-	7,025	-
Property, plant and equipment	1,842	-	-	-	-	-	1,842	-
Deferred tax assets	4,459	-	-	-	-	-	4,459	-
Other assets	112,804	-	-	-	-	-	112,804	-
Total assets	**134,894**	**48,145**	**52,203**	**100,040**	**430,064**	**910,835**	**1,676,181**	**1,272,808**

(All amounts are expressed in thousands of kunas)

30. RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

	Non-interest bearing	Less than 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Total	Fixed interest rates
LIABILITIES AND EQUITY								
Deposits from individuals	-	320,982	46,837	238,821	479,770	339,625	1,426,035	1,426,035
Hybrid instruments	-	-	-	-	-	51,354	51,354	51,354
Other liabilities	118,431	-	-	-	-	-	118,431	-
Provisions for liabilities and charges	488	-	-	-	-	-	488	-
Total liabilities	**118,988**	**320,982**	**46,837**	**238,821**	**479,770**	**390,979**	**1,596,308**	**1,477,389**
Total equity	79,873	-	-	-	-	-	79,873	-
Total liabilities and equity	**198,861**	**320,982**	**46,837**	**238,821**	**479,770**	**390,979**	**1,676,181**	**1,477,389**
Interest sensitivity gap	**(63,898)**	**(272,837)**	**5,366**	**(138,781)**	**(49,706)**	**519,856**	**-**	**(204,581)**

(All amounts are expressed in thousands of kunas)

30. RISK MANGEMENT (CONTINUED)

Interest rate risk (continued)

At 31 December 2011	Non-interest bearing	Less than 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Total	Fixed interest rates
ASSETS								
Cash and amounts due from banks	1	4,814	-	-	-	-	4,815	4,815
Placements and loans with banks	251	35,500	38,754	8,000	-	-	82,505	82,254
Financial assets at fair value through profit and loss	611	-	-	81,611	-	12,001	94,223	93,612
Assets held to maturity	3,641	-	-	104,556	128,181	25,689	262,067	258,426
Loans to customers	1,215	17,976	33,576	99,583	274,814	705,156	1,132,319	822,564
Intangible assets	11,238	-	-	-	-	-	11,238	-
Property, plant and equipment	2,295	-	-	-	-	-	2,295	-
Deferred tax assets	9,960	-	-	-	-	-	9,960	-
Other assets	119,788	-	-	-	-	-	119,788	-
Total assets	**149,000**	**58,290**	**72,329**	**293,750**	**402,995**	**742,846**	**1,719,210**	**1,253,669**

(All amounts are expressed in thousands of kunas)

30. RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

	Non-interest bearing	Less than 1 month	1-3 months	3-12 months	1-3 years	Over 3 years	Total	Fixed interest rates
LIABILITIES AND EQUITY								
Deposits from individuals	-	58,284	98,411	494,531	469,136	325,732	1,446,094	1,446,094
Liabilities for subordinated loan	-	-	-	-	-	51,324	51,324	51,324
Other liabilities	136,842	-	-	-	-	-	136,842	-
Provisions for liabilities and charges	1,046	-	-	-	-	-	1,046	-
Total liabilities	**137,888**	**58,284**	**98,411**	**494,531**	**469,136**	**377,056**	**1,635,306**	**1,497,418**
Total equity	83,904	-	-	-	-	-	83,904	-
Total liabilities and equity	**221,792**	**58,284**	**98,411**	**494,531**	**469,136**	**377,056**	**1,719,210**	**1,497,418**
Interest sensitivity gap	**(72,792)**	**6**	**(26,082)**	**(200,782)**	**(66,141)**	**365,790**	**-**	**(243,749)**

(All amounts are expressed in thousands of kunas)

30. RISK MANAGEMENT (CONTINUED)

Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Assets and liabilities for which verifiable market prices are available are valued by reference to the last known prices. Fair values of assets and liabilities for which verifiable market prices are not available are based on management assumptions according to the profile of the asset and liability base. In the opinion of the management, the fair values are not significantly different from book values for all other asset and liability categories. The fair value of shares is based on the most recent stock exchange reports.

	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Assets held to maturity	329,249	264,758	262,067	241,113
Deposits	1,426,035	1,374,754	1,446,094	1,382,511
Loans to customers	1,136,392	970,071	1,132,319	937,886

Capital management

The main goal of capital management is maintenance of future business development and maintaining minimum capital required for regulatory purposes.

The Savings Bank's regulatory capital is classified into two tiers:

Tier I capital, which includes ordinary shares, retained earnings and reserves net of deductions in respect of prior- and current year losses and a portion of receivables and contingent liabilities (under preferential terms and conditions) to persons in a specific relationship with the credit institution.

Supplementary capital, which includes hybrid instruments, reduced by supplementary capital deductions in respect of receivables and contingent liabilities (under preferential terms and conditions) to persons in a specific relationship with the credit institution.

(All amounts are expressed in thousands of kunas)

30. RISK MANAGEMENT (CONTINUED)

Capital management (continued)

The Savings Bank's calculation of guarantee capital and capital adequacy ratio according to regulatory requirements effective at 31 December 2012 and 2011 are presented in the table below:

	2012	2011
GUARANTEE CAPITAL		
Tier I capital	79,461	83,904
Supplementary capital	51,354	51,324
Deductions from guarantee capital	(1,960)	(2,130)
Total guarantee capital	**128,855**	**133,098**
Total capital requirements for credit risk, counterparty risk, dilution risk and risk of free deliveries	75,972	72,304
Total capital requirements for credit risk, currency and commodity risk	883	1,188
Total capital requirements for operational risk	10,896	11,731
Total capital requirements	**87,751**	**85,223**
Capital adequacy ratio	17.62%	18.74%

31. EVENTS AFTER THE REPORTING DATE

In January 2013 amendments were made to the Internal Regulation on the Organisation and Structure of Raiffeisen stambena štedionca d.d., as of 10 February 2012 as a result of the need to reorganise the operations and reduce operating costs in line with the prevailing economic conditions.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Management Board and authorized for issue on 23 April 2013. Signed on behalf of the Savings Bank on 23 April 2013:

Franjo Franjić	Hans Christian Vallant
Member of the Management board	**President of the Management Board**

(All amounts are expressed in thousands of kunas)

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:

Income Statement

	2012 HRK '000 (Unaudited)	2011 HRK '000 (Unaudited)
1. Interest income	83,873	81,727
2. (Interest expenses)	(52,492)	(50,495)
3. Net interest income	**31,381**	**31,232**
4. Commission and fee income	17,419	19,703
5. (Commission and fee expenses)	(3,834)	(3,682)
6. Net commission and fee income	**13,585**	**16,021**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. (Loss)/gain from trading activities	(6)	(6)
9. Gain/(loss) from embedded derivatives	-	-
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	563	(3,216)
11. Gain/(loss) from financial assets available for sale	907	-
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	-	-
16. Gain/(loss) from foreign exchange differences	302	226
17. Other income	7,899	555
18. Other expenses	(6,394)	(3,964)
19. General and administrative expenses, depreciation and amortization	(44,002)	(48,610)
20. Net income before value adjustments and provisions for losses	**4,235**	**(7,762)**
21. Expenses from value adjustments and provisions for losses	3,219	293
22. Profit/(loss) before tax	**1,016**	**(8,055)**
23. Income tax	(5,432)	157
24. Current year profit/(loss)	**(4,416)**	**(7,898)**
25. Earnings per share	-	-

Appendix to the Income Statement

	2012 HRK '000 (Unaudited)	2011 HRK '000 (Unaudited)
Current year profit/(loss)	(4,416)	(7,898)
Distributable to the parent company shareholders	-	-
Minority participation	-	-

(All amounts are expressed in thousands of kunas)

Balance Sheet

	2012 HRK '000 (Unaudited)	2011 HRK '000 (Unaudited)
Assets		
1. Cash and deposits with CNB		
1.1. Cash	5	1
1.2. Deposits with CNB	-	-
2. Deposits with banking institutions	47,103	87,067
3. Treasury bills of Ministry of Finance and treasury bills of CNB	-	-
4. Securities and other financial instruments held for trading	-	-
5. Securities and other financial instruments available for sale	23,814	-
6. Securities and other financial instruments held to maturity	322,490	258,426
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	12,909	93,612
8. Derivative financial assets	-	-
9. Loans to financial institutions	-	-
10. Loans to other clients	1,131,273	1,124,944
11. Investments in subsidiaries, affiliated companies and joint ventures	-	-
12. Repossessed assets	-	-
13. Tangible and intangible assets (minus depreciation and amortization)	2,241	2,444
14. Interests, fees and other assets	139,622	155,518
A. Total assets	**1,679,457**	**1,722,012**
Liabilities and equity		
1. Borrowings from financial institutions		
1.1. Short-term borrowings	-	-
1.2. Long-term borrowings	-	-
2. Deposits	-	
2.1. Deposits on giro-accounts and current accounts	-	-
2.2. Savings deposits	-	-
2.3. Term deposits	1,426,035	1,446,094
3. Other borrowings		
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	-	-
4. Derivative financial liabilities and other trading financial liabilities	-	-
5. Issued debt securities		
5.1. Issued short-term debt securities	-	-
5.2. Issued long-term debt securities	-	-
6. Issued subordinated instruments	-	-
7. Issued subordinated debt	51,354	51,324
8. Interests, fees and other liabilities	122,195	140,690
B. Total liabilities	**1,599,584**	**1,638,108**
Equity		
1. Share capital	180,000	180,000
2. Current year gain/loss	(4,416)	(7,898)
3. Retained earnings/(loss)	(96,357)	(88,459)
4. Legal reserves	261	261
5. Statutory and other capital reserves	-	-
6. Unrealised gain/(loss) from available for sale fair value adjustment	385	-
C. Total equity	**79,873**	**83,904**
D. Total liabilities and equity	**1,679,457**	**1,722,012**

Appendix to the Balance Sheet

	2012 HRK '000 (Unaudited)	2011 HRK '000 (Unaudited)
Total equity	79,873	83,904
Equity distributable to parent company shareholders	-	-
Minority participation	-	-

Appendix to Financial Statements

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

Cash Flow Statement

	2012 HRK '000 (Unaudited)	2011 HRK '000 (Unaudited)
Operating activities		
1.1. Gain/(loss) before tax	1,016	(8,055)
1.2. Value adjustments and provisions for losses	2,694	(176)
1.3. Depreciation and amortization	7,043	6,843
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	(907)	3,216
1.5. Gain/(loss) from tangible assets sale	165	35
1.6. Other (gains)/losses	5,432	158
1. Operating cash flow before operating assets movements	**15,443**	**2,021**
2.1. Deposits with CNB	-	-
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	-	-
2.3. Deposits with banking institutions and loans to financial institutions	40,309	70,937
2.4. Loans to other clients	(9,305)	(36,554)
2.5. Securities and other financial instruments held for trading	-	-
2.6. Securities and other financial instruments available for sale	(22,907)	-
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	81,266	(1,599)
2.8. Other operating assets	6,506	(9,123)
2. Net (increase)/decrease in operating assets	**95,869**	**23,662**
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	-	-
3.2. Savings and term deposits	(20,060)	(8,974)
3.3. Derivative financial liabilities and other trading liabilities	-	-
3.4. Other liabilities	(18,494)	15,878
3. Net increase/(decrease) in operating liabilities	**(38,554)**	**6,904**
4. Net cash flow from operating activities before profit tax paying	**72,758**	**32,587**
5. Paid profit tax	-	-
6. Net inflows/(outflows) of cash from operating activities	**72,758**	**32,587**
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(2,541)	(3,065)
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	(64,635)	(30,071)
7.4. Received dividends	-	-
7.5. Other receipts/(payments) form investment activities	-	-
7. Net cash flow from investing activities	**(67,176)**	**(33,136)**
Financial activities		
8.1. Net increase/(decrease) in borrowings	-	-
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated and subordinated debt	30	291
8.4. Receipts from issued share capital	-	-
8.5. (Dividends paid)	-	-
8.6. Other receipts/(payments) from financial activities	385	-
8. Net cash flow from financial activities	**415**	**291**
9. Net increase/(decrease) in cash and cash equivalents	**5,997**	**(258)**
10. Effects from foreign exchange rates changes on cash and cash equivalents	**-**	**-**
11. Net increase/(decrease) in cash and cash equivalents	**5,997**	**(258)**
12. Cash and cash equivalents at the beginning of the year	**4,815**	**5,073**
13. Cash and cash equivalents at the end of the year	**10,812**	**4,815**

Appendix to Financial Statements

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

Statement of Changes in Equity

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ loss	Unrealised gain/losses from available for sale financial assets fair value adjustment	Minority partici-pation	Total capital and reserves
	HRK'000	HRK'000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
1. Balance at 1 January 2012 (Unaudited)	**180,000**	**-**	**261**	**(96,357)**	**-**	**-**	**-**	**83,904**
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-	-	**-**
3. Restated current year balance	**180,000**	**-**	**261**	**(96,357)**	**-**	**-**	**-**	**83,904**
4. Sale of financial assets available for sale	-	-	-	-	-	-	-	**-**
5. Fair value changes of financial assets available for sale	-	-	-	-	-	385	-	**385**
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	-	-	**-**
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-	-	**-**
8. Net gains/losses directly recognised in capital and reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9. Current year gain/(loss)	-	-	-	-	(4,416)	-	-	**(4,416)**
10. Total income and expenses recognised for the current year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
11. Increase/ (decrease) in share capital	-	-	-	-	-	-	-	**-**
12. Buying/(sale) of treasury shares	-	-	-	-	-	-	-	**-**
13. Other changes	-	-	-	-	-	-	-	**-**
14. Transfer to reserves	-	-	-	-	-	-	-	**-**
15. Dividends paid	-	-	-	-	-	-	-	**-**
16. Distribution of profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
17. Balance at 31 December 2012 (Unaudited)	**180,000**	**-**	**261**	**(96,357)**	**(4,416)**	**385**	**-**	**79,873**

(All amounts are expressed in thousands of kunas)

	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
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
1. Balance at 1 January 2011 (Unaudited)	**180,000**	**-**	**261**	**(88,459)**	**-**	**-**	**-**	**91,802**
2. Changes of Accounting policies and error corrections	-	-	-	-	-	-	-	**-**
3. Restated current year balance	**180,000**	**-**	**261**	**(88,459)**	**-**	**-**	**-**	**91,802**
4. Sale of financial assets available for sale	-	-	-	-	-	-	-	**-**
5. Fair value changes of financial assets available for sale	-	-	-	-	-	-	-	**-**
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	-		**-**
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-	-	**-**
8. Net gains/losses directly recognised in capital and reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9. Current year gain/(loss)	-	-	-	-	(7,898)	-	-	**(7,898)**
10. Total income and expenses recognised for the current year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
11. Increase/ (decrease) in share capital	-	-	-	-	-	-	-	**-**
12. Buying/(sale) of treasury shares	-	-	-	-	-	-	-	**-**
13. Other changes	-	-	-	-	-	-	-	**-**
14. Transfer to reserves	-	-	-	-	-	-	-	**-**
15. Dividends paid	-	-	-	-	-	-	-	**-**
16. Distribution of profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
17. Balance at 31 December 2011 (Unaudited)	**180,000**	**-**	**261**	**(88,459)**	**(7,898)**	**-**	**-**	**83,904**

(All amounts are expressed in thousands of kunas)

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

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

	2012 Croatian National Bank Decision HRK '000 (Unaudited)	2012 Accounting Requirements for banks in Croatia HRK '000	2012 Difference HRK '000	2011 Croatian National Bank Decision HRK '000 (Unaudited)	2011 Accounting Requirements for banks in Croatia HRK '000	2011 Difference HRK '000
Interest and interest similar income	83,873	81,336	2,537	81,727	79,058	2,669
Interest and interest similar expenses	(52,492)	(47,940)	(4,552)	(50,495)	(45,497)	(4,998)
Net interest income	**31,381**	**33,396**	**(2,015)**	**31,232**	**33,561**	**(2,329)**
Commission and fee income	17,419	17,419	-	19,703	19,702	1
Commission and fee expenses	(3,834)	(3,612)	(222)	(3,682)	(4,628)	(946)
Net commission and fee income	**13,585**	**13,807**	**222**	**16,021**	**15,074**	**947**
Net trading gain	557	2,126	1,569	(3,222)	2,901	6,123
Gain/(loss) from financial assets available for sale	907	-	907	-	-	-
Income from other equity investments	-	-	-	-	-	-
Net foreign exchange differences	302	(438)	740	226	(6,111)	5,885
Other operating income	7,899	7,899	-	555	555	-
Total other income	**9,665**	**9,587**	**78**	**(2,441)**	**(2,655)**	**214**
General and administrative expenses, depreciation and amortization	(44,002)	(27,193)	16,809	(48,610)	(30,899)	17,711
Expenses from value adjustments and provisions for losses	(3,219)	(2,694)	525	(293)	176	(469)
Other operating expenses	(6,394)	(25,887)	(19,493)	(3,964)	(23,313)	(19,349)
Total other expenses	**(53,615)**	**(55,774)**	**(2,159)**	**(52,867)**	**(54,036)**	**(1,169)**
Loss before tax	**1,016**	**1,016**	**-**	**(8,055)**	**(8,055)**	**-**
Income tax	(5,432)	(5,432)	-	157	157	-
Net loss for the year	**(4,416)**	**(4,416)**	**-**	**(7,898)**	**(7,898)**	**-**
Earnings per share (in HRK)	-	-	-	-	-	-

The difference for the year ended 31 December 2012 in position ‘’Interest and interest similar income’’ of HRK 2,537 thousand (2011: HRK 2,669 thousand) arises from foreign exchange differences presented in "Net foreign exchange differences" in the income statement in accordance with statutory accounting requirements for banks in Croatia and fee expenses for HAC credit presented in “Commission and fee expenses”.

The difference for the year ended 31 December 2012 in position ‘’Interest and interest similar expenses’’ of HRK 4,552 thousand (2011: HRK 4,998 thousand) arises from foreign exchange differences presented in "Net foreign exchange differences" in the income statement in accordance with statutory accounting requirements for banks in Croatia and saving deposits insurance presented in “Other operating expenses” in the income statement in accordance with statutory accounting requirements for banks in Croatia.

Differences in positions included in "Total other income" result from exchange differences from interest income and expenses presented in “Net foreign exchange statement in accordance with statutory accounting requirements for banks in Croatia

The difference in "Other operating expenses" arises from saving deposits insurance presented in “Interest and similar expenses” in accordance with CNB decision and fees payable to agents for saving contracts presented in “Commission and fee expenses” in the income statement in accordance with statutory accounting requirements for banks in Croatia.

Appendix to Financial Statements

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

Comparatives for the balance sheet at 31 December 2011 and 31 December 2010:

	2012 Croatian National Bank Decision HRK '000 (Unaudited)	2012 Accounting Requirements for banks in Croatia HRK '000	2012 Difference HRK '000 (Unaudited)	2011 Croatian National Bank Decision HRK '000 (Unaudited)	2011 Accounting Requirements for banks in Croatia HRK '000	2011 Difference HRK '000
Assets						
Cash and deposits with CNB	5	5	-	1	1	-
Treasury bills of Ministry of Finance and treasury bills of CNB	-	-	-	-	-	-
Financial assets at fair value through profit and loss	12,909	12,937	(28)	93,612	94,223	(611)
Placements with and loans to other banks	47,103	47,116	(13)	87,067	87,318	(251)
Loans and receivables	1,131,273	1,136,392	(5,119)	1,124,944	1,132,319	(7,375)
Financial assets held to maturity	322,490	329,249	(6,759)	258,426	262,067	(3,641)
Financial assets available for sale	23,814	24,352	(538)	-	-	-
Repossessed assets	-	-	-	-	-	-
Property, plant and equipment and intangible assets	2,241	8,867	(6,626)	2,444	13,533	(11,091)
Derivative financial assets	-	-	-	-	-	-
Deferred tax assets	-	4,528	(4,528)	-	9,960	(9,960)
Other assets	139,622	112,804	26,818	155,518	119,788	35,730
Total assets	**1,679,457**	**1,676,250**	**3,207**	**1,722,012**	**1,719,210**	**2,802**
Liabilities						
Due to other banks and deposits from customers	1,426,035	1,426,035	-	1,446,094	1,446,094	-
Long-term issued debt securities	-	-	-	-	-	-
Provisions for liabilities and charges	-	488	(488)	-	1,046	(1,046)
Derivative financial liabilities and other trading financial liabilities	-	-	-	-	-	-
Other liabilities	122,195	118,500	3,695	140,690	136,842	3,849
Total liabilities	**1,548,230**	**1,545,023**	**3,207**	**1,586,784**	**1,583,981**	**2,802**
Subordinated debt	51,354	51,354	-	51,324	51,324	-
Equity						
Share capital	180,000	180,000	-	180,000	180,000	-
Share premium	-	-	-	-	-	-
Net profit for the year	(4,416)	(4,416)		(7,898)	(7,898)	-
Retained earnings/(loss carried forward)	(96,357)	(96,357)	-	(88,459)	(88,459)	-
Hedging reserve	-	-	-			
Unrealised gain /(loss) from available for sale fair value adjustment	385	385	-	-	-	-
Reserves	261	261	-	261	261	-
Total equity	**79,873**	**79,873**		**83,904**	**83,904**	**-**
Total liabilities and equity	**1,679,457**	**1,676,250**	**3,207**	**1,722,012**	**1,719,210**	**2,802**

The difference in total assets and total liabilities of HRK 3,207 thousand as of 31 December 2012 (2011: HRK 2,802 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 deferred recognition of interest income – fees for loans. In balance sheet according to CNB decision deferred origination fees are included in the position " Interests, fees and other assets" in "Total liabilities" whereas in balance sheet 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".

Differences in other positions arise from different classification of interest receivables and interest payables. In balance sheet according to CNB decision interest receivables and interest payables are recognised in "Other assets" and "Other liabilities" respectively, whereas in the balance sheet according to the statutory accounting requirements for banks in Croatia they are recognised in assets or liabilities positions they are related to.