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BANKS BULLETIN

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Summary

A years-long economic downturn and poor prospects for a significant recovery slowed down banks' business activities in 2012, and halted the slight profitability growth observed during the previous two years. Indeed, profitability indicators sank to their record lows since 1999, mainly due to credit portfolio losses. Lower risk appetite, reflected in preferences for less risky forms of investment, led to a decline in capital requirements, so that the already high capital adequacy ratio increased further. However, due to accumulated losses, some small banks had to strengthen their capital bases. Over one third of banks operated with losses in 2012, and, with the exception of a medium-sized bank, all belonged to the group of small banks. As a result, the banking system in 2011 was again highly differentiated, with the leading role played by a small number of satisfactorily profitable and strongly capitalised large banks.

The generally observed risk aversion, in an environment of strong liquidity in the system, triggered the process of external deleveraging of banks and led to a fall in their assets, which declined by 1.7% in 2012 (1.9% excluding the exchange rate effects). Higher risk premiums in the first half of 2012 contributed additionally to a decline in external liabilities, especially the liabilities to foreign majority owners, and this process accelerated gradually over the year. Loans and deposits received from foreign majority owners thus decreased by almost one fourth in 2012. Concurrently, domestic sources of finance, primarily household savings, rose markedly, though at a slightly slower pace than in the previous year. Furthermore, deposits from financial institutions, particularly investment and pension funds, surged due to higher insecurity and adverse investment climate. As a result, liquidity reserves remained high, as did the surplus liquidity declared by banks in the calculation of the liquidity coefficient under stress scenarios.

A high level of caution, observed in both banks and their clients, manifested itself in credit activity weakening despite a number of incentives. A portion of funds released as a result of changes in the foreign exchange liquidity and reserve requirement rules was invested by banks in less risky investment instruments, such as domestic central government securities, and in loan incentive programmes, such as the Programme for the Development of the Economy or subsidized housing loans. However, the two key sectors – households and corporates[1] reduced their total debt to banks. The trend of household deleveraging was observed for the fourth consecutive year and, as in the previous years, it was mostly due to a fall in car purchase loans. The structure of household debt has changed

1 Corporate loans decreased by HRK 13.7bn (11.3%) in 2012. The bulk of this decrease, almost HRK 12bn, was the result of the transfer of credit liabilities of shipyards to the public debt of the Republic of Croatia and the sale of a loan in one large bank.

gradually in favour of general-purpose loans or loans used for servicing various other liabilities to creditors. Thus, in 2012, a noticeable increase was recorded only in overdraft facilities and other general-purpose loans. In the composition of bank assets, the share of loans granted decreased, while an increase in the share was only seen in investments in securities and in less significant items, such as foreclosed and repossessed assets and derivative financial assets. The growth in derivative financial assets resulted from an increase in the volume of business, notably with government units and large companies. Assets taken in exchange for unsettled claims grew considerably, due to difficulties in loan repayment, but the level of these assets was still much below the legally prescribed limit.

Credit portfolio ageing, accompanied by difficulties in liability settlement led to an increase in the level of partly recoverable and irrecoverable loans (B and C risk category loans). The ratio of these loans rose from 12.4% at the end of 2011 to 13.9% at the end of 2012. This share would have exceeded 15% had it not been for the sale of a considerable amount of B and C category loans in one large bank at the end of December 2012. Thanks to the sale, the growth of B and C category loans was slower than in the previous year, and, due to the worsening of the position of debtors and migration of non-performing claims into worse risk categories, the coverage of these loans by value adjustments increased (to 42.6%). The already unfavourable corporate loan quality indicator worsened considerably, so that every fourth loan granted to that sector was partly or fully irrecoverable. As in the previous years, a deterioration in the quality of loans to the construction and real estate activities sectors contributed the most to the growth in B and C category corporate loans. Growth in B and C category household housing loans was the main generator of total growth in loans in these risk categories, with the largest contribution made by the worsening of the quality of housing loans in Swiss francs. The accelerated ageing of the portfolio of household loans in Swiss francs spurred deterioration in loan quality indicators, with similar developments being present in other types of loans to that sector, irrespective of the currency.

Banks' profits declined by more than a fourth, and profitability indicators deteriorated markedly, with ROAA and ROAE standing at 0.8% and 4.8%, respectively. Thirteen banks (four more than in 2011) operated with losses. The profitability decrease was due to a contraction in all margins, mostly the net interest margin, and to growth in provisions for credit portfolio losses. Net interest income fell sharply, as did its share in the total net income of banks, but continued to be the main component of total net income (with a share slightly exceeding 70%). Movements in net interest income were influenced by both the growth of interest expenses and a fall in interest income. The pressure of interest expenses eased during the year, as a result of a decrease in the foreign sources of finance and the movements of risk premiums and benchmark interest rates. However, prolonged recession led to a fall in all types of income, especially interest income from loans to corporates and households. The decline in interest income was primarily the consequence of growth in non-performing loans (B and C risk category loans) and a low risk appetite which led to a slowdown in bank lending and an increase in low-risk and less generous loans, such as loans to the public sector and loans based on various kinds of incentives. The fall in interest income was further influenced by benchmark interest rate movements, especially in the corporate sector, where more than two thirds of total loans were negotiated at variable interest rates, as well as the tightening of legal restrictions on the level of contractual interest rates, which reduced income from general-purpose household loans. Banks tried to relieve the pressures on interest rate spread by tightening the control of expenses, which was particularly evident in the group of large banks. Despite this, net operating income decreased markedly, and expenses on loss provisions, which rose significantly due to the downgrading of receivables into riskier categories, took more than a half of it. So, despite the slowdown in B and C loans, expenses on loss provisions continued to impose a heavy burden on net operating income, and were the main cause of markedly lower profitability than in the pre-crisis period.

The capital adequacy ratio of banks continued to grow for the fourth consecutive year. The ratio stood at 20.89% at the end of 2012, the increase being primarily the consequence of a cut in the capital requirement for credit risk, due to a decline in the riskiness of placements. The average credit risk weight declined to 56.3%, the level being mainly determined by a relatively large share of the low-risk category of central governments and central banks (almost 30%), which mostly related to exposures to the domestic central government (including exposures covered by the domestic government's guarantees). The growth of the capital adequacy ratio was also due to an increase in regulatory capital, primarily as a result of the inclusion of one-half of the profits generated in 2012 in the regulatory capital calculation. This was an additional improvement in the quality of the capital and preparedness of domestic banks for the emerging new regulatory rules (Basel III). Two small banks had capital adequacy ratios below the prescribed minimum of 12%, while some small banks maintained their ratios by converting hybrid instruments into share capital or through cash recapitalisation.

The low share of housing savings banks' assets in the total assets of all credit institutions decreased further (to 1.8%). This was due to a 5% fall in housing savings banks' assets, largely caused by changes in two housing savings banks which started to apply the adjusted input data models for the calculation of an economic value change. As a result of applying the aforementioned model, these housing savings banks made a full repayment of the deposits and loans received from their parent banks, which had been used for improving the maturity match between interest-sensitive assets and liabilities. Housing loans increased only slightly, their quality remaining very high (the share of B and C risk category loans was as low as 0.9%). The profits of housing savings banks increased severalfold in 2012, as did the profitability indicators. ROAA rose to 1.1%, ROAE to 12.8%. The main cause of the profit growth was the better performance of securities trading as a result of favourable changes in the fair value of domestic government securities and their purchase/sale. Due to the sharp changes, the significance of the results in trading activities increased, while the share of the largest and most stable source of revenue, i.e. net interest income, decreased markedly (to 62.1%). But it also went up considerably, while savings were made on the cost side. Thanks to the good business performance and retained profit, regulatory capital increased sharply, which led to a rise in the capital adequacy ratio (to 21.30%).

1.1 Introduction

At end-2012, there were 36 credit institutions operating in the Republic of Croatia: 30 banks, one savings bank and five housing savings banks.[2] At the end of 2012, their assets stood at HRK 407.4bn, with banks (including the savings bank) accounting for the dominant share or 98.2% of total assets. The housing savings banks accounted for the remaining 1.8% of total assets. For the purposes of this analysis, banks have been divided into three peer groups (large, medium-sized and small banks)[3] while housing savings banks constitute a group of their own, due to their specific nature.

2 There have been no foreign bank branches operating in the Republic of Croatia since 2002.
3 For the criteria and composition of individual banking groups, see Attachment I, List of credit institutions by peer groups.

1.2 Banks

1.2.1 Structural features

Number of banks and peer groups

The slight decline in the number of credit institution continued during 2012, as a result of a further decrease in the number of small banks, recorded since 2010. At the end of 2012, Međimurska banka d.d. merged with its parent bank Privredna banka Zagreb d.d., so that the number of small banks fell to 22 (Table 1.1).

TABLE 1.1 Bank peer groups and their share in total bank assets, end of period

	Dec. 2009		Dec. 2010		Dec. 2011		Dec. 2012	
	Number of banks	Share	Number of banks	Share	Number of banks	Share	Number of banks	Share
Large banks	6	82.7	6	82.1	6	82.6	6	82.2
Medium-sized banks	3	9.1	3	9.0	3	9.0	3	9.7
Small banks	25	8.2	24	8.9	23	8.4	22	8.2
Total	34	100.0	33	100.0	32	100.0	31	100.0

Međimurska banka d.d was the twelfth largest bank in terms of assets in the banking system and the third largest bank in terms of assets in the group of small banks. Since it had 8.4% of the total assets of small banks, the merger with Privredna banka d.d. determined the course of change in the total assets of small banks. Consequently, small banks' assets decreased by 4.4% from the end of 2011, which led to a 0.2 percentage points decline in the share of the small banks' assets in total assets of all banks. The share of large banks' assets in the total assets of all banks also declined (by 0.4 percentage points) from the end of 2011. This was the due to a 2.2% decrease in the assets of this group of banks, caused by a fall in the assets of three out of six banks in the group. Relative to the end of 2011, only the market share of the medium-sized bank group went up (by 0.7 percentage points). The medium-sized banks increased their assets by 5.1% during 2012, due to growth in all three banks in the group.

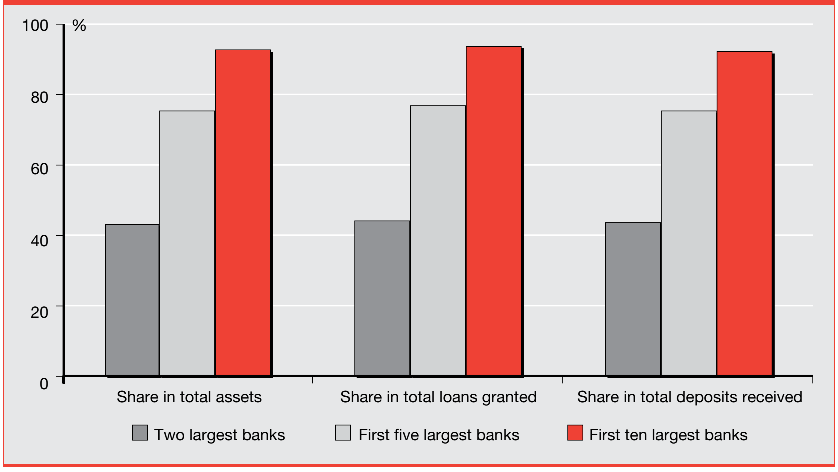
The number of the groups of credit institutions subject to the Croatian National Bank supervision, in accordance with the provisions of the Decision on the supervision of a group of credit institutions on a consolidated basis[4], remained unchanged (7)[5]. These bank groups were obligated to report to the Croatian National Bank on their business operations on a consolidated basis through their superordinate institutions.

Concentrations

Developments in concentration indicators at the end of 2012 were very slow compared to those at end-2011. System concentration remained high (Figure 1.1), with the largest increase in concentration observed in the growth of market shares of the two largest banks due to the previously mentioned merger.

4 OG No 1/2009, 75/2009 and 2/2010.
5 For the criteria and composition of individual banking groups, see Attachment II, *Groups of credit institutions subject to reporting to the CNB on a consolidated basis.*

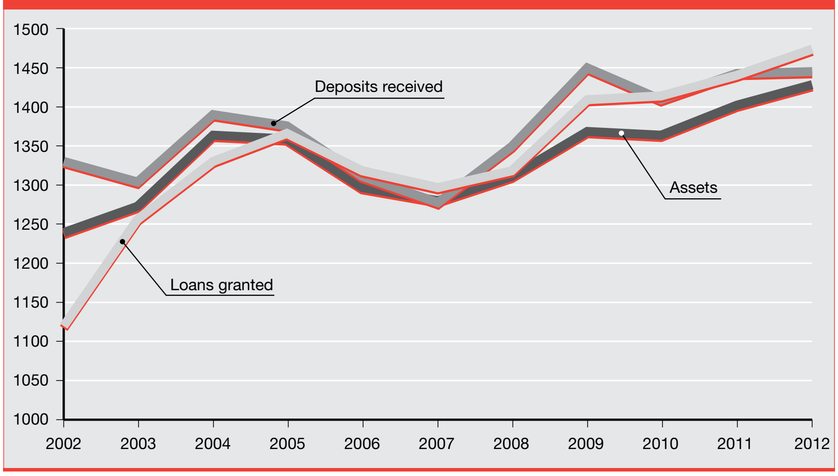
FIGURE 1.1 Shares of assets, loans and deposits of the largest banks in total assets, loans and deposits, as at 31 December 2012



Owing to the growth in the assets of the first two banks, the share of their assets in the total assets of all banks rose to 43.3%, up one percentage point on end-2011. In contrast to the movements in assets, total deposits and net loans of these banks declined, but at a lower rate than the rate of decline in all banks, so that the share of the first two banks in total net loans and deposits of all banks increased to 42.9% (for net loans) and 43.2% (for deposits). The shares of the first five banks decreased slightly from end-2011, as a result of reductions in these items in the fourth and fifth largest banks in the system in terms of assets. At end-2012, the share of assets of the first five banks in the total assets of all banks stood at 76.0% (the share in total net loans was 77.5% and the share in total deposits 76.5%). The growth of medium-sized banks was reflected in the concentration indicators for the first ten banks. Consequently, the already high level of these indicators increased further, to 92.3% for assets and 93.3% and 91.8% for net loans and deposits respectively.

The stated increase in concentration indicators for the first two banks and the first ten banks in the system influenced the movement of the Herfindahl-Hirschman index (HHI) for the entire system. Concentration measured by that index continued to be moderate at end-2012, while all HHI values

FIGURE 1.2 Herfindahl-Hirschman Index (HHI), all banks



increased from the end of 2011. The largest increase was observed in the HHI for net loans (by 33 units, i.e. to 1472). HHI for assets went up slightly slower, standing at 1427, and HHI for deposits rose the least (it stood at 1443).

Ownership structure

At the end of 2012, a total of 16 banks were in the majority ownership of foreign shareholders and 15 banks were in the majority ownership of domestic shareholders (Table 1.2). The only change in the ownership structure in 2012 was a decrease in the number of banks in foreign ownership by one, due to the aforementioned merger of a bank in indirect foreign ownership with the parent bank owned by foreign shareholders. This change did not affect the ownership structure of bank assets, so that banks in foreign ownership continued to dominate the banking system at the end of 2012, the share of their assets in the total assets of banks standing at 90.1%. The changes in the share of assets of banks by ownership structure in the total assets of all banks amounted to half a percentage point and were due to a decline in the assets of banks in majority ownership of foreign shareholders by 2.3%, accompanied by a rise in the assets of banks owned by domestic private shareholders by 4.6% and in the assets of domestic state-owned banks by 3.8%.

TABLE 1.2 Ownership structure of banks and their share in total bank assets, end of period

	Dec. 2009		Dec. 2010		Dec. 2011		Dec. 2012	
	Number of banks	Share	Number of banks	Share	Number of banks	Share	Number of banks	Share
Domestic ownership	19	9.1	18	9.7	15	9.4	15	9.9
Domestic private ownership	17	4.9	16	5.4	13	4.8	13	5.2
Domestic state ownership	2	4.2	2	4.3	2	4.5	2	4.8
Foreign ownership	15	90.9	15	90.3	17	90.6	16	90.1
Total	34	100.0	33	100.0	32	100.0	31	100.0

The largest number of banks (6) belonged to Austrian shareholders, and the assets of these banks accounted for a significant 60.7% of the total assets of all banks. The next five banks were in Italian ownership and their market share was 19.0%. The remaining share of the assets of foreign-owned banks related to one bank in majority ownership of shareholders from each of the following countries: France, Hungary, San Marino, Turkey, Switzerland and Serbia.

Business network

Against the background of continued unfavourable economic movements, banks further downsized their general operating expenses including staff expenses and distribution channel costs. This was aimed at relieving the negative pressure on bank profitability, which was especially reflected in reduced net interest income and higher loss provisions identified in 2012. The number of bank employees fell in 2012, by 1.0% or 226 (Table 1.3). Changes in the number of employees by bank groups ensued from the merger between one small bank and its parent bank from the group of large banks. The effect of this change excluded, the fall in the number of employees was due to developments in

TABLE 1.3 Number of employees, operating units and ATMs, end of period

	Dec. 2009		Dec. 2010			Dec. 2011			Dec. 2012		
	Number	Share	Number	Share	Change	Number	Share	Change	Number	Share	Change
Employees											
Large banks	15,803	72.7	15,813	72.6	0.1	15,931	72.9	0.7	15,899	73.5	–0.2
Medium-sized banks	2,391	11.0	2,449	11.3	2.4	2,541	11.6	3.8	2,614	12.1	2.9
Small banks	3,536	16.3	3,508	16.1	–0.8	3,393	15.5	–3.3	3,126	14.4	–7.9
Total	21,730	100.0	21,770	100.0	0.2	21,865	100.0	0.4	21,639	100.0	–1.0
Operating units											
Large banks	768	59.2	760	59.7	–1.0	759	60.0	–0.1	759	60.5	0.0
Medium-sized banks	170	13.1	172	13.5	1.2	177	14.0	2.9	179	14.3	1.1
Small banks	359	27.7	342	26.8	–4.7	330	26.1	–3.5	316	25.2	–4.2
Total	1,297	100.0	1,274	100.0	–1.8	1,266	100.0	–0.6	1,254	100.0	–0.9
ATMs											
Large banks	2,760	76.6	2,872	75.7	4.1	3,014	75.8	4.9	3,144	77.0	4.3
Medium-sized banks	446	12.4	506	13.3	13.2	555	14.0	9.7	570	14.0	2.7
Small banks	395	11.0	416	11.0	5.3	406	10.2	–2.4	369	9.0	–9.1
Total	3,601	100.0	3,794	100.0	5.3	3,975	100.0	4.8	4,083	100.0	2.7

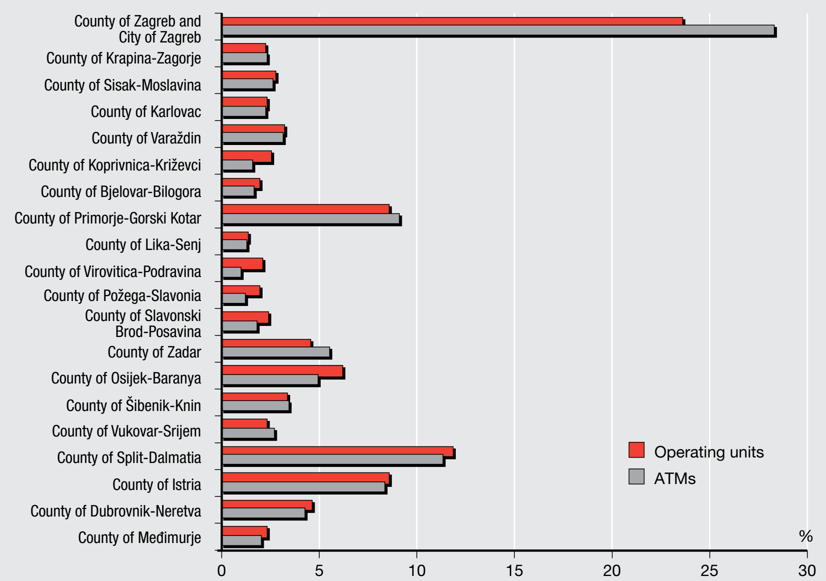
large banks in which the number of employees declined by 260 or 1.6% (only 32 or 0.2% in nominal terms). The number of employees in small banks fell by 39 or 1.2% (267 or 7.9% in nominal terms). In contrast, employment in medium-sized banks increased, by 73 or 2.9%.

The number of operating units of banks decreased for the third consecutive year, to a total of 1254 at the end of 2012. Relative to end-2011, the number of operating units of banks decreased by 12 (1.0%). Changes in bank groups were influenced by the aforementioned merger, so, this influence excluded, the fall in the number of operating units was exclusively attributable to large banks where the number of units decreased by 16 or 2.1% (in nominal terms, there were no changes in the number

TABLE 1.4 Territorial distribution of operating units and ATMs by counties, end of period

	Dec. 2009		Dec. 2010		Dec. 2011		Dec. 2012	
	Operating units	ATMs	Operating units	ATMs	Operating units	ATMs	Operating units	ATMs
County of Zagreb and City of Zagreb	288	1,017	296	1,071	301	1,136	297	1,158
County of Krapina-Zagorje	30	83	30	85	30	93	29	97
County of Sisak-Moslavina	37	103	37	105	37	111	35	109
County of Karlovac	30	84	29	92	29	89	30	93
County of Varaždin	45	123	44	127	44	133	41	132
County of Koprivnica-Križevci	35	66	33	64	33	69	33	68
County of Bjelovar-Bilogora	28	67	27	74	27	72	25	70
County of Primorje-Gorski Kotar	114	327	112	336	110	364	108	374
County of Lika-Senj	19	50	19	56	18	56	18	56
County of Virovitica-Podravina	29	38	27	42	27	41	27	44
County of Požega-Slavonia	27	43	25	45	25	50	25	51
County of Slavonski Brod-Posavina	33	70	30	70	30	71	31	76
County of Zadar	61	196	59	214	58	218	58	227
County of Osijek-Baranya	87	169	85	185	85	200	78	202
County of Šibenik-Knin	42	132	42	134	42	140	43	144
County of Vukovar-Srijem	30	94	31	101	30	107	30	112
County of Split-Dalmatia	153	386	146	420	143	450	149	466
County of Istria	114	307	111	314	110	324	108	343
County of Dubrovnik-Neretva	64	162	62	175	60	169	59	175
County of Međimurje	31	84	29	84	27	82	30	86
Total	1,297	3,601	1,274	3,794	1,266	3,975	1,254	4,083

FIGURE 1.3 Concentration of bank operating units and ATMs by counties, as at 31 December 2012



of operating units in large banks). Medium-sized and small banks increased the number of their operating units by 2 (nominally, the number of operating units of small banks declined by 14 or 2.0%).

The number of bank operating units decreased in nine counties and increased in five. The sharpest decline (by seven operating units) was seen in the Osijek-Baranja County. As a result, the concentration of operating units in this county slightly decreased, to 6.2% (Figure 1.3). The second sharpest decline (by 4 operating units) was recorded in the Zagreb County and the City of Zagreb, which continued to have the largest share in the total number of operating units (23.7%). The sharpest increase in the number of operating units was seen in Split-Dalmatia County (by 6), due to increases in three banks. The concentration of operating units in this county reached almost 12%. In addition to the said counties, there were only two more counties with significant shares in the number of operating units: Primorje-Gorski Kotar County and Istria County (8.6% each).

The number of small banks operating in the territory of a single county fell from four to three, while there were still just four banks, all large, operating in all the counties. Average data on the number of operating units increased minimally from end-2011, due to a decline in the number of banks. Each bank thus had an average of 40 operating units at the end of 2012, and operated in slightly more than nine counties on average. The number of persons to one operating unit in the Republic of Croatia averaged 3422[6], although the coastal region counties and two counties in central and eastern Croatia boasted a better average.

In contrast with the fall in the number of operating units, there was a continued rise in the number of bank ATMs[7], which totalled 4083 at the end of 2012. From the end of 2011, the number of ATMs increased by 108 (2.7%). The number of ATMs rose in most counties, and the most in Zagreb County

6 The source of data on the population of the Republic of Croatia is the CBS.
7 Including ATMs provided by other companies, available for use by certain banks' clients.

and the City of Zagreb (22), followed by Istria County (19) and Split-Dalmatia County (16). Almost one third of all ATMs were located in Zagreb County and the City of Zagreb (28.4%), again followed by Split-Dalmatia County (11.4%), Primorje-Gorski Kotar County (9.2%) and Istria County (8.4%). ATMs of large banks accounted for 77.0% of total ATMs, and their number (excluding the merger effect) increased by 86 (130 in nominal terms) relative to end-2011. The number of ATMs of medium-sized banks increased by 16, while their share in the total number of ATMs remained unchanged (14.0%). Small banks accounted for the remaining 9.0% of total ATMs; their number increased by 6 (but decreased by 38, in nominal terms). Four small banks still had no ATMs.

1.2.2 Bank balance sheet and off-balance sheet items

Assets

Four consecutive years of economic downturn or stagnation affected the business activities of banks, reducing bank assets by HRK 7.0bn (1.7%) in 2012. Excluding the exchange rate effect, the decline in bank assets only slightly exceeded the nominal rate (1.9%), thanks to relatively modest changes in the exchange rate of the kuna against the most represented currencies. A strong impact on the amount of bank assets was made by a large bank's sale of claims worth HRK 3.7bn (in net terms) to a connected company.

Bank assets declined for the first time since 1999, thus reversing the trend of their slight recovery from the previous two years (Table 1.5). The fall in assets was observed for most of the year, and was

TABLE 1.5 Structure of bank assets, end of period, in million HRK and %

	Dec. 2009		Dec. 2010			Dec. 2011			Dec. 2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Money assets and deposits with the CNB	47,673.1	12.6	47,373.5	12.1	–0.6	53,058.7	13.0	12.0	51,175.5	12.8	–3.5
Money assets	5,430.9	1.4	5,675.4	1.5	4.5	6,198.2	1.5	9.2	6,445.1	1.6	4.0
Deposits with the CNB	42,242.2	11.2	41,698.2	10.7	–1.3	46,860.5	11.5	12.4	44,730.5	11.2	–4.5
Deposits with banking institutions	32,741.9	8.7	30,160.0	7.7	–7.9	26,957.3	6.6	–10.6	23,847.2	6.0	–11.5
MoF treasury bills and CNB bills	9,366.8	2.5	10,030.3	2.6	7.1	11,580.0	2.8	15.5	10,773.0	2.7	–7.0
Securities and other financial instruments held for trading	5,522.4	1.5	5,501.3	1.4	–0.4	2,511.5	0.6	–54.3	2,352.5	0.6	–6.3
Securities and other financial instruments available for sale	14,000.5	3.7	14,872.5	3.8	6.2	14,281.2	3.5	–4.0	19,076.4	4.8	33.6
Securities and other financial instruments held to maturity	4,012.2	1.1	3,692.3	0.9	–8.0	3,664.5	0.9	–0.8	4,454.0	1.1	21.5
Securities and other financial instruments not traded in active markets but carried at fair value	1,644.9	0.4	1,090.0	0.3	–33.7	1,829.5	0.4	67.8	3,098.5	0.8	69.4
Derivative financial assets	212.4	0.1	154.6	0.0	–27.2	673.9	0.2	335.9	910.6	0.2	35.1
Loans to financial institutions	6,065.1	1.6	6,389.5	1.6	5.3	6,162.3	1.5	–3.6	9,096.0	2.3	47.6
Loans to other clients	246,363.2	65.1	260,690.5	66.7	5.8	273,122.5	67.1	4.8	261,913.8	65.5	–4.1
Investments in subsidiaries and associates	1,980.9	0.5	2,195.6	0.6	10.8	3,288.7	0.8	49.8	3,120.0	0.8	–5.1
Foreclosed and repossessed assets	604.9	0.2	757.5	0.2	25.2	868.4	0.2	14.6	1,296.8	0.3	49.3
Tangible assets (net of depreciation)	4,372.3	1.2	4,319.6	1.1	–1.2	4,417.7	1.1	2.3	4,325.2	1.1	–2.1
Interest, fees and other assets	6,889.5	1.8	6,853.3	1.8	–0.5	7,592.0	1.9	10.8	7,364.9	1.8	–3.0
Net of: Collectively assessed impairment provisions	3,079.5	0.8	3,009.3	0.8	–2.3	3,070.6	0.8	2.0	2,888.9	0.7	–5.9
TOTAL ASSETS	378,370.6	100.0	391,071.2	100.0	3.4	406,937.6	100.0	4.1	399,915.7	100.0	–1.7

only temporarily halted in the third quarter, thanks to the expected seasonal inflows from tourism. Due to the absence of stronger credit activity, despite the CNB incentives, and solid growth in domestic sources, banks' deleveraging abroad intensified. The reduction of liabilities primarily related to sources received from foreign majority owners, and this trend further accelerated towards the end of the year.

Nearly one fourth of total sources received from foreign owners (as much as HRK 16.0bn) were repaid during 2012, with almost the entire amount relating to large banks. Consequently, the decrease in these banks' assets (by HRK 7.4bn or 2.2%) largely set the course for asset movements in all banks. Two changes in the last quarter of 2012 additionally affected the assets of large banks. A favourable impact on large banks' assets was made by a decision on a merger between one large bank and its subordinate small bank, the assets of which totalled HRK 2.9bn at the time of merger. In contrast to this, the assets of large banks were reduced by the sale of loans and receivables of a large bank to a company indirectly owned by a foreign parent bank. The parent bank financed this purchase by withdrawing a deposit worth almost HRK 4.0bn from the bank and extending a loan to the company. These effects excluded, only one bank from that group saw a real increase in assets. The aforementioned merger mostly affected the group of small banks, leading to a fall in group assets by HRK 1.5bn (4.4%), while other banks from the group recorded an annual increase in assets by HRK 1.4bn (4.3%). All medium-sized banks reported solid annual rates of asset growth, so that the growth for the entire group stood at 5.1% (HRK 1.9bn).

During 2012, the CNB implemented a number of incentives aimed at facilitating the availability of loans to the private sector. Nevertheless, 2012 was marked by reduced demand for loans and continued risk aversion of banks. Therefore, the contraction of bank assets was mainly due to a fall in (net) loans granted, which stood at HRK 8.3bn or 3.0% annually (3.2%, the exchange rate effects excluded). In addition to the above-mentioned sale of claims, the fall in net loans was also the result of deleveraging of all domestic sectors, and of a further deterioration in their quality, caused by portfolio ageing and collection difficulties.

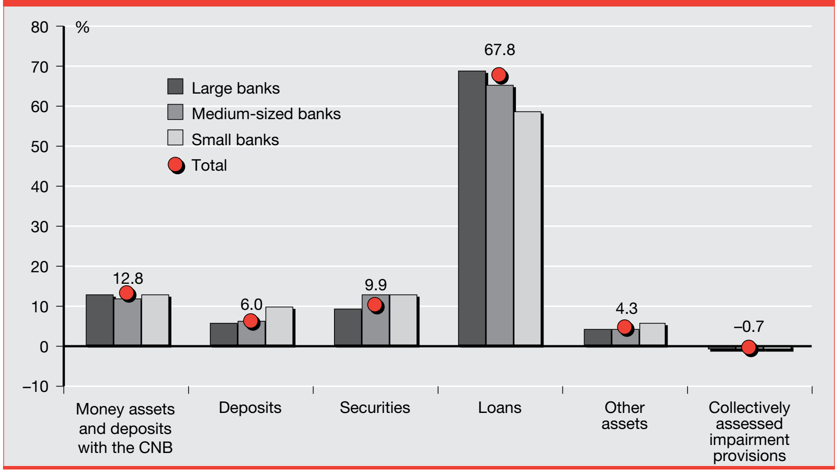
The incentive measures, which included changes in the rules on foreign exchange liquidity and the reserve requirement, heavily influenced the movements in individual bank asset items. Investment in securities increased, while deposits with banks and the CNB decreased. Changes in the minimum foreign exchange liquidity rules[8] facilitated the subscription of slightly over HRK 5bn worth euro-denominated MoF T-bills in February 2012. The subscription was financed by withdrawing deposits held with foreign banks. After that, in May 2012, by cutting the reserve requirement ratio from 15% to 13.5%[9] the possibility of lending within the Programme for the Development of the Economy was opened up. That is, banks used the released reserve requirement funds for granting a syndicated loan to the CBRD in the amount of HRK 3.4bn. These funds, together with an equal amount of funds from banks' other sources, were earmarked for granting favourable loans to domestic entrepreneurs. Loans from this Programme were granted quite slowly, partially because of the complexity of the procedure. To boost the Programme's realisation, another change was introduced in the rule on the minimum required amount of foreign currency claims[10]. This change enabled the inclusion of loans granted within the Programme (the part of loans financed from banks' other sources) in foreign currency claims, irrespective of the currency.

8 Decision on amendments to the Decison on the minimum required amount of foreign currency claims (OG 18/2012).
9 Decision on amendments to the Decision on reserve requirements (OG 43/2012).
10 Decision on amendments to the Decison on the minimum required amount of foreign currency claims (OG 67/2012).

Bank investments in securities increased by HRK 5.9bn or 17.4% in 2012, mostly due to the issue of the MoF euro T-bills in February 2012. This increase, together with reductions in other asset items, led to an increase in the share of securities in total assets to 9.9% (Figure 1.4). Domestic government's investments in debt securities exceeded one half of total investments in securities (55%). Apart from this, a perceptible increase was noticed only in the bonds of foreign financial institutions, by HRK 2.9bn (174%), mainly due to more substantial investments in bonds issued by parent banks or banks connected with the parent bank. Concurrently, investments in foreign central government bonds declined, so that the share of securities issued by foreign issuers in total securities remained almost unchanged (31.0%) at the end of 2012. As a result of all this, the already dominant share of bonds in total investments in securities further increased (to 52.3%). The bulk of these bonds were bonds of the domestic central government and of various foreign central governments. The downward trend in bank investments in equity securities, observed ever since 2007, continued in 2012, when these investments fell by 17.7%. The share of investments in equity securities dropped to a low of 0.9% of total investments in securities. Investments in equity securities increased in all bank groups, especially the group of medium-sized banks (27.8%).

The bulk of T-bills subscribed at the February 2012 auction had a maturity of 546 days, and they were reported by banks under bonds. Banks distributed the better part of this issue into the portfolios of financial assets available-for-sale and financial assets measured at fair value, and kept them in their balance sheets till year-end. These changes determined the overall schedule of investments by portfolio, so that, relative to end-2011, the sharpest increase was seen in the amount of securities in the portfolio of financial assets available for sale. Banks distributed the lion's share of total securities investments into that portfolio, and its significance remained at almost two thirds of total investments in securities. Favourable movements in the prices of securities in the available-for-sale portfolio markedly reduced unrealised losses on value adjustment of these assets, which had a positive effect on total bank capital. The highest annual growth rate was recorded in the securities portfolio that is not actively traded and is carried at fair value through the profit and loss account. The bulk of this nominal increase of HRK 1.4bn arose from the subscription of the aforementioned MoF euro T-bills. The decline in the amount (and significance) of securities in the held-for-trading portfolio continued, but at a markedly slower rate than in the previous year.

FIGURE 1.4 Structure of bank peer group assets, as at 31 December 2012



The considerable reduction in deposits with banking institutions (by 11.5%) and with the CNB (by 4.5%) was due to the aforementioned regulatory changes, i.e. incentive measures from the first half of the year. The subscription of T-bills was financed by withdrawals of deposits from foreign banks, especially those held with foreign majority owners. Deposits with domestic banks rose only slightly. Deposits with the CNB decreased by a total of HRK 2.1bn, almost equally on the basis of allocated reserve requirements and on the basis of balances in banks' settlement accounts. The share of money and deposits with the CNB remained almost unchanged, while deposits with banking institutions fell to 6.0%. The overall liquidity of the banking system remained high, so that liquidity surpluses deposited overnight with the CNB reached HRK 3.6bn at the end of the year. Nevertheless, some small banks had difficulties maintaining the required liquidity levels, especially after the compulsory winding up of a small bank in November 2011, so that they used short-term liquidity loans and the reduced reserve requirement facility, mainly in the first half of the year.

Of other, less significant asset items, high rates of change were observed in the assets taken in exchange for unsettled claims. These assets rose by HRK 428.5m or 49.3%, and stood at HRK 1.3bn at end-2012. However, the share of these assets in the total was still negligible (0.3%). All groups of banks increased the amounts of these assets, with the highest growth rates observed in banks from the large and medium-sized bank groups. The largest share of foreclosed and repossessed assets in total assets was again reported by small banks (1.7%). This has been the first noticeable increase in the value of foreclosed and repossessed assets since 2009 (when the annual growth rate stood at 54.5%), but the banks' holdings of tangible assets to own funds ratio (9.3%) still remained considerably below the permitted 40%. In addition to the foreclosed and repossessed assets, derivative financial assets also rose sharply (by 35.1%), largely due to developments in one large bank. Investments in subsidiaries, associates and joint ventures declined by HRK 168.7m (5.1%), due to the merger of a small bank with a banks from the group of large banks.

As a result of all this, the only major change in the asset structure relative to the end of 2012 was an increase in the share of securities from 8.3% to 9.9%. The largest share of securities was seen in small banks (13.1%) and the largest annual increase was reported by medium-sized banks (by 2.2 percentage points, to 12.7% of assets). Large banks increased the shares of securities to 9.3%. The shares of all the remaining asset items, except the less significant 'other assets' items, in total assets decreased, most of all net loans (by 0.9 percentage points, to 67.8%). This was due to negative developments in large banks, but this group of banks still retained the largest share of net loans in assets (68.9%). Only medium-sized banks recorded a slight increase in the share of loans (to 65.5%), primarily due to the growth in loans to government units and households. Small banks had the lowest shares of net loans in their assets, which dropped further to 58.8% at end-2012.

Liabilities and capital

Total bank liabilities declined in 2012, by HRK 8.7bn or 2.5% (2.6%, the exchange rate effects excluded), as a result of a decline in all liability items, especially received deposits (Table 1.6). The fall in liabilities was mostly due to external deleveraging by large banks. Foreign sources of financing accounted for a significant share of total sources of financing in large banks. Hence, their strong deleveraging during 2012 (at a rate of 19.5%) set the course of changes in the entire system.

TABLE 1.6 Structure of bank liabilities and capital, end of period, in million HRK and %

	Dec. 2009		Dec. 2010			Dec. 2011			Dec. 2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from financial institutions	21,180.5	5.6	18,178.8	4.6	–14.2	17,316.5	4.3	–4.7	16,798.2	4.2	–3.0
Short-term loans	10,167.9	2.7	7,407.9	1.9	–27.1	6,026.7	1.5	–18.6	3,899.3	1.0	–35.3
Long-term loans	11,012.6	2.9	10,770.9	2.8	–2.2	11,289.8	2.8	4.8	12,898.9	3.2	14.3
Deposits	256,810.0	67.9	269,182.6	68.8	4.8	281,390.5	69.1	4.5	275,837.0	69.0	–2.0
Giro account and current account deposits	34,526.9	9.1	37,258.1	9.5	7.9	39,628.4	9.7	6.4	40,675.7	10.2	2.6
Savings deposits	24,531.3	6.5	26,705.5	6.8	8.9	26,376.2	6.5	–1.2	27,959.4	7.0	6.0
Time deposits	197,751.7	52.3	205,219.0	52.5	3.8	215,386.0	52.9	5.0	207,201.9	51.8	–3.8
Other loans	31,787.5	8.4	31,594.3	8.1	–0.6	31,856.5	7.8	0.8	30,603.9	7.7	–3.9
Short-term loans	6,133.5	1.6	6,977.0	1.8	13.8	3,357.8	0.8	–51.9	4,399.3	1.1	31.0
Long-term loans	25,654.0	6.8	24,617.3	6.3	–4.0	28,498.7	7.0	15.8	26,204.7	6.6	–8.0
Derivative financial liabilities and other financial liabilities held for trading	418.9	0.1	1,475.2	0.4	252.1	1,383.7	0.3	–6.2	1,752.3	0.4	26.6
Debt securities issued	119.3	0.0	124.3	0.0	4.2	0.0	0.0	–100.0	300.0	0.1	0.0
Short-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt securities issued	119.3	0.0	124.3	0.0	4.2	0.0	0.0	–100.0	300.0	0.1	0.0
Subordinated instruments issued	396.6	0.1	468.4	0.1	18.1	1,366.2	0.3	191.7	1,391.0	0.3	1.8
Hybrid instruments issued	3,016.4	0.8	3,431.2	0.9	13.7	3,601.1	0.9	5.0	3,243.0	0.8	–9.9
Interest, fees and other liabilities	12,067.3	3.2	12,288.2	3.1	1.8	14,283.6	3.5	16.2	12,618.6	3.2	–11.7
TOTAL LIABILITIES	325,796.6	86.1	336,743.0	86.1	3.4	351,198.2	86.3	4.3	342,544.1	85.7	–2.5
Share capital	28,781.8	7.6	29,468.2	7.5	2.4	33,805.6	8.3	14.7	34,231.0	8.6	1.3
Current year profit/loss	3,277.7	0.9	3,450.8	0.9	5.3	3,784.9	0.9	9.7	2,723.9	0.7	–28.0
Retained earnings/loss	7,764.9	2.1	8,927.9	2.3	15.0	13,705.2	3.4	53.5	15,666.4	3.9	14.3
Legal reserves	1,084.1	0.3	1,097.9	0.3	1.3	1,058.6	0.3	–3.6	1,081.1	0.3	2.1
Reserves provided for by the articles of association and other capital reserves	11,789.2	3.1	11,382.4	2.9	–3.5	3,739.5	0.9	–67.1	3,390.4	0.8	–9.3
Unrealised gains/losses on value adjustments of financial assets available for sale	–27.7	0.0	20.0	0.0	–172.2	–291.8	–0.1	–	329.0	0.1	–
Reserves arising from hedging transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Previous year profit/loss	–96.0	0.0	–19.0	0.0	–80.2	–62.6	0.0	229.3	–50.1	0.0	–19.8
TOTAL CAPITAL	52,574.0	13.9	54,328.2	13.9	3.3	55,739.5	13.7	2.6	57,371.6	14.3	2.9
TOTAL LIABILITIES AND CAPITAL	378,370.6	100.0	391,071.2	100.0	3.4	406,937.6	100.0	4.1	399,915.7	100.0	–1.7

A marked decrease in foreign sources of financing (by HRK 16.7bn or 18.5%) was partly offset by solid growth in domestic sources (by HRK 9.4bn or 3.8%). Medium-sized banks (93.3%) and small banks (90.6%) predominantly relied on domestic sources, while the significance of domestic sources of financing for large banks after the said deleveraging increased to 74.4%.

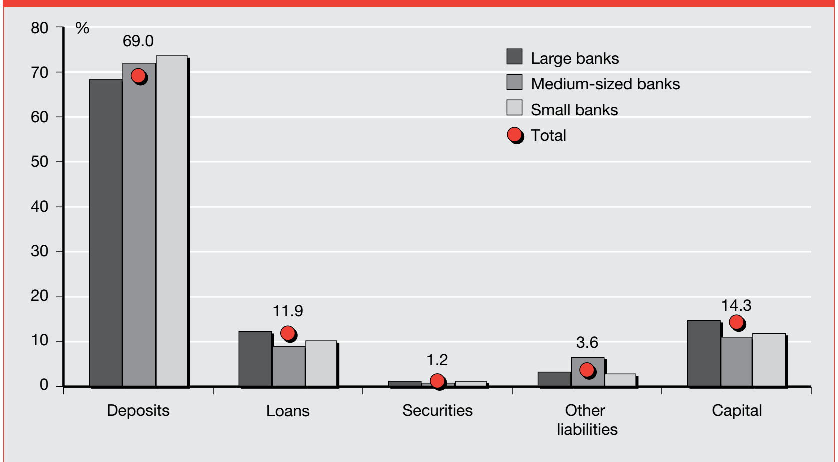
Household deposits were the main sources of bank financing, accounting for 50.7% of total sources of financing and as much as 60.3% of total deposits. The increase in the significance of household savings in total deposits (the largest since 2001) was due to their nominal growth, accompanied by the weakening of the sources from foreign majority owners and domestic corporates. Household deposits continued to show a steady but slow upward trend, growing by HRK 6.9bn (4.3%) at the annual level. The bulk of this increase occurred in the second half of the year, which is usually connected with seasonal inflows from tourism. By contrast, in the absence of any economic growth and under aggravated financing conditions, corporates have continuously spent their financial assets since the outset of the crises. During this five-year period, corporate deposits rose slightly only in 2010, mainly due, however, to the kuna exchange rate movements. During 2012, corporate deposits declined by a total of HRK 2.5bn (5.7%), as a result of a decline in time deposits with all bank groups, notably in the group of large banks, which led to a continued fall in the significance of corporate deposits. At the end of 2012, this sector had 15.2% of total deposits, while its share before the crisis mainly exceeded 20%. Among domestic deposits, a noticeable increase (HRK 4.6bn or 33.4%) was observed only in the deposits of financial institutions. Reliance on safer forms of investment, due, among other things, to reduced activity in the financial market, was particularly seen in other banking and non-banking institutions, which increased their deposits with all groups of banks, especially the medium-sized bank group.

A decline in loans received (by HRK 1.8bn or 3.6%) arose from the repayment of loans received from non-residents, foreign majority owners and other foreign financial institutions. Concurrently, debt to domestic sectors rose slightly (by 1.5%), thanks to the growth in repo loans received from domestic corporates, loans received from the CBRD and overnight bank loans. External deleveraging of banks, especially regarding liabilities to foreign majority owners related entirely to large banks. By contrast, the remaining two groups of banks (due to developments in several banks) saw an increase in debt, mostly due to a rise in loans received from foreign majority owners. In two small banks, there was a noticeable increase in the use of these sources, so that the sources of foreign majority owners were definitely the most significant sources of financing.

During 2012, banks reduced the amount of issued hybrid instruments by 10.0%, partly due to the conversion of these instruments into share capital in some small banks, while the amount of issued subordinate instruments rose slightly (by 1.8%). The role of hybrid and subordinate instruments in the sources of financing of all banks became slightly less important: they accounted for only 1.4% of total sources of financing. Small banks used these instruments to a slightly greater extent than the other two groups of banks, mainly to maintain a satisfactory level of capital adequacy. The use of financial instruments with the characteristics of equity was pronounced in 2011, when it surged (by 28.9%), mostly due to the growth in one large bank. At end-2012, this bank issued a long-term kuna corporate bond worth HRK 300.0m, for the purpose of diversification of its kuna sources of financing, so that, after three years, debt securities again appeared in the banks' sources of financing.

Despite weaker prospects for placement growth, banks continued to strengthen their capital bases, which led to a further increase in the already large share of capital in banks' liabilities and capital, to 14.3% (Figure 1.5). The increase in capital was mainly the result of the current year profit and the retention of a portion of earnings from 2011, followed by unrealised gains from value adjustment of

FIGURE 1.5 Structure of bank peer group liabilities and capital, as at 31 December 2012



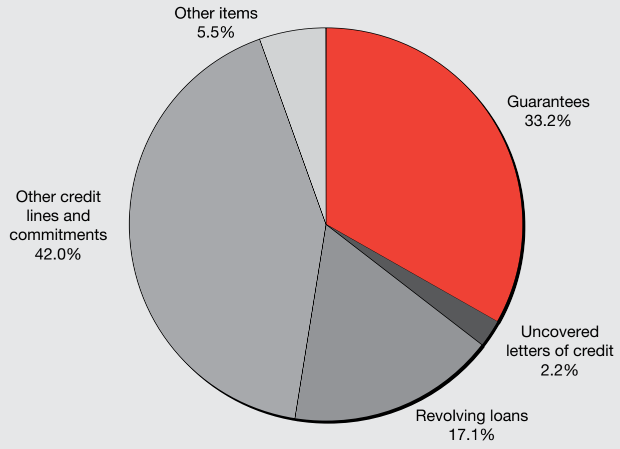
financial assets available for sale, and, finally, recapitalisation. During 2012, a total of HRK 2.1bn from the income realised in 2011 and earlier was paid in dividends. Only small banks (nine of them) were recapitalised in 2012, mostly by paying up ordinary shares, but also by converting hybrid instruments into equity. As a result of this, share capital increased by a total of HRK 628.8m. The capital of small banks was heavily burdened by previous years' losses, so that recapitalisations were made to cover these losses, except for only one bank where additional capital was provided to maintain the bank's growth. The capital-to-liabilities ratio remained satisfactory (11.8%) in small banks as a whole. This ratio was the lowest in medium-sized banks (11.3%) and the highest in large banks (15.0%).

Sharp changes in individual items affected the currency structure of banks' balance sheets. Foreign exchange assets decreased by HRK 8.4bn (3.2%) from end-2011, on account of a decline in loans to the non-financial sector and deposits with banking institutions. At the same time, the domestic currency component strengthened by 1.0%, on account of growth in kuna loans to financial institutions. As a result, the share of items denominated in foreign currency and in kuna with a currency clause in the structure of bank assets decreased by one percentage point in favour of the growth in kuna items (to 36.0% of total assets). The downward trend in the kuna component of bank assets (particularly pronounced at the outset of the crisis) was temporarily halted in 2010, but the share of kuna items again strengthened in the previous two years. Currency changes in liabilities were slightly different. The loan and deposit repayments to foreign majority owners mostly related to foreign currency deposits (HRK 9.7bn), but this decrease was offset by an increase in foreign currency time deposits of households and institutional sector deposits. In contrast to this, the kuna loan and deposit repayments to foreign majority owners was to no significant extent offset by growth in other items, so that the final decrease in liabilities was much more substantial in the kuna component (HRK 5.8bn or 5.1%) than in the foreign currency component (HRK 2.9bn or 1.2%). Accordingly, in the currency structure of sources from foreign majority owners, the kuna component decreased by 2.4 percentage points (to 25.6%). Kuna foreign sources for domestic banks reduced regulatory costs but increased the derivative financial instrument portfolio by entering into currency swap agreements with parent banks.

Standard off-balance sheet items

The downward trend in standard off-balance sheet items continued for the fifth consecutive year, and the minor nominal increase in 2011 was due to a change in the kuna exchange rate. At the end of 2012, standard off-balance sheet items stood at HRK 55.5bn, down HRK 4.2bn or 7.1% from the end of the previous year. The standard off-balance sheet items to assets ratio continued to decrease, falling to 13.9% at end-2012, a record low since the end of 2004. Almost all standard off-balance sheet items reported decreases at the annual level, and the strongest fall was seen in credit lines and commitments (HRK 2.7bn or 10.3%). Total issued guarantees fell by HRK 1.1bn or 5.5%. A marked decline in revolving loans from the first half of the year (by 14.0%) did not continue in the second semi-annual period, so that the amount of revolving loans decreased by only 1.9% at the end of 2012. Other less significant standard risky off-balance sheet items also declined. The only annual increase was recorded in issued bills of exchange, but they were reported to a minor extent by only one large bank. Due to the different dynamics of these negative movements, the significance of revolving loans and guarantees increased, while the share of credit lines and commitments in total standard off-balance sheet items decreased by 1.5 percentage points (Figure 1.6).

FIGURE 1.6 Structure of bank standard off-balance sheet items, as at 31 December 2012



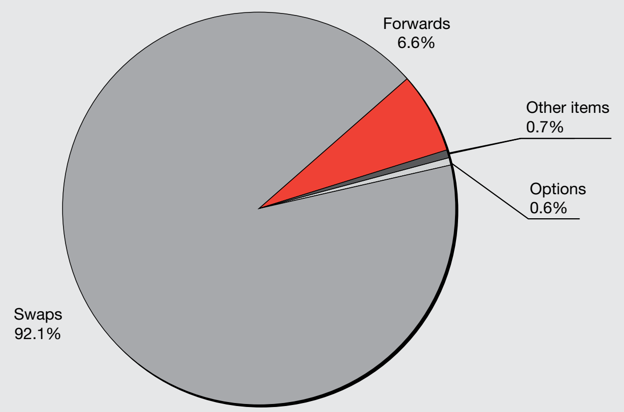
The fall in standard off-balance sheet items in 2012 was due to their decline in large banks (by 8.2%), especially in two large banks. In small banks, these items increased by 2.3%, thanks to the growth in credit lines and guarantees. However, a nominal decrease of 10.1% was reported as a result of the merger. The growth of standard off-balance sheet items in medium-sized banks (by almost 4.0%) arose from an increase in credit lines and commitments in one bank from that group. Despite the sharp negative changes, large banks maintained the highest standard off-balance sheet items to assets ratio (15.0%). This ratio stood at 9.8% for medium-sized banks, but remained the lowest (6.9%) for small banks.

Derivative financial instruments

During 2012, the notional value of derivative financial instruments fell by a total of HRK 8.8bn or 6.5%. The entire decrease occurred in the second half of the year, which eventually led to a fall in the notional value of derivative financial instruments to bank assets ratio from 33.6% in 2011 to 32.0% at end-2012. The changes in derivative financial instruments in 2012 were strongly influenced by changes in the structure of these instruments, reflected in a decline in forwards by 79.9%, while at the same time swaps went up by 26,1%. These perceptible changes were attributed to a large bank which, in the last quarter of 2012, moved almost the entire amount of its forwards to the position of swaps, for the sake of the correct record-keeping of these instruments. With the influence of this large bank excluded from the annual changes, the decline in forwards was markedly lower (26.2%), as was the rise in swaps (2.5%). As a result of all this, swaps prevailed convincingly in the structure of derivative financial instruments, comprising 92.1%. Forwards accounted for 6.6% and options for as little as 0.6%. All other types of derivative financial instruments accounted for the remaining 0.7% (Figure 1.7).

The bulk of this decrease related to a fall in the notional value of instruments with exchange rate as the underlying variable, by HRK 9.7bn or 13.4%, which led to a further fall in the share of these instruments in total instruments from 52.9% to 49.0%. Simultaneously, the share of instruments with interest rate as the underlying variable increased, so that, despite a slight decline at the annual level, these instruments accounted for 19.2% in the structure observed by type of the underlying

FIGURE 1.7 Structure of bank derivative financial instruments (notional amount), as at 31 December 2012



variable. The growth of the significance of instruments with both exchange rate and interest rate as the underlying variables, i.e. the growth in cross-currency interest rate swaps, continued. The latter instruments increased by almost six percent, reaching 31.4% of total derivative financial instruments. The remaining share of 0.3% consisted of instruments with index as the underlying variable and other instruments, whose significance also increased due to the low base. In the last two years, the notional value of cross-currency interest rate swaps more than doubled, and the largest contribution to growth in this period came from a large bank. The bulk of the increase in 2012 was attributable to agreements with the RC and two large companies.

Large banks accounted for over 95% of the total notional value of derivative financial instruments, so that these banks maintained the highest ratio of these instruments to assets, 37.2% (down 2 percentage points). In medium-sized banks, this ratio stood at 13.3% (up 1.4 percentage points) while small banks saw a further decline in the ratio, to a low of 1.3%.

Derivative financial instruments continued to be almost entirely intended for trading (over 99%). Although banks used some of these instruments to hedge against risks, they did not report them as such, which could probably be attributed to the complex hedge accounting rules that would then have become applicable. Only about one per mille of total derivative financial instruments was reported as hedging instruments. The remaining derivative financial instruments involved embedded derivatives.

1.2.3 Earnings

Income statement

Since the beginning of the crisis late in 2008, banks have made adjustments in their operations in order to alleviate the effects of adverse movements in the business environment and the materialisation of credit risk. After a sharp fall in 2009, bank profitability recovered slightly over the next two years, but remained markedly below the pre-crisis levels. However, in 2012, pre-tax profits of banks decreased by slightly over one fourth from 2011, and profitability indicators sank to the lowest level since 1999. The profitability decrease was due to a contraction in all margins, mostly in the net interest margin, and to growth in provisions for credit portfolio losses. The number of banks operating with losses rose to over one third of the total number of banks, all of these banks, except one medium-sized bank, belonging to the group of small banks.

At the end of 2012, pre-tax profits of banks stood at HRK 3.4bn, down HRK 1.3bn (27.2 %) from 2011 (Table 1.7). The largest contribution to the fall in profits came from a decline in net interest income by HRK 1.0bn or 8.8%. The movements in its determinants, interest income and expenses, primarily show a sharp increase in interest expenses, the bulk of which were the expenses of sources from foreign financial institutions. The increase in expenses of sources from foreign financial institutions was strongly fuelled by movements in one large bank which, at the same time, used derivative financial instruments for the purpose of hedging from changes in the prices of these sources. The bank so far reported these instruments as forwards, but, as these were essentially swaps, the bank moved them to the appropriate positions. The change in recording had a strong positive effect on interest income, due to the recording of interest income from swap agreements, which counterbalanced the interest expenses on sources from foreign financial institutions. Had the hedging effects been taken into account, the impact of the growth in interest expenses would have been much less pronounced, but still considerable. This was due to an increase in interest expenses of other sectors, especially the domestic financial institutions' sector. Specifically, in 2012, the deposits of domestic financial institutions, primarily investment and pension funds, rose markedly, which led to a surge in related costs. Much smaller contributions to the growth in interest expenses came from other domestic sectors, with the household sector reporting a fall in average interest expenses caused by a decline in interest rates on household deposits. The costs of issued securities, notably the costs of issued subordinate and hybrid instruments, exerted additional pressure on interest expenses. This was mostly attributable to large banks, particularly one of them which issued a subordinate bond in mid-2011.

This large bank, which strongly influenced the growth of expenses of sources from foreign financial institutions, had kuna sources from a foreign majority owner agreed at ZIBOR. The expenses of these sources should be viewed in the context of items intended as a hedge, i. e. in the context of interest income from swap agreements. The bank renewed a major portion of the sources of the foreign majority owners early in 2012, when the risk premiums of foreign parent banks and the Republic of Croatia were high. Therefore, the expenses relating to these sources were considerably higher in that

FIGURE 1.8 Bank income before taxes

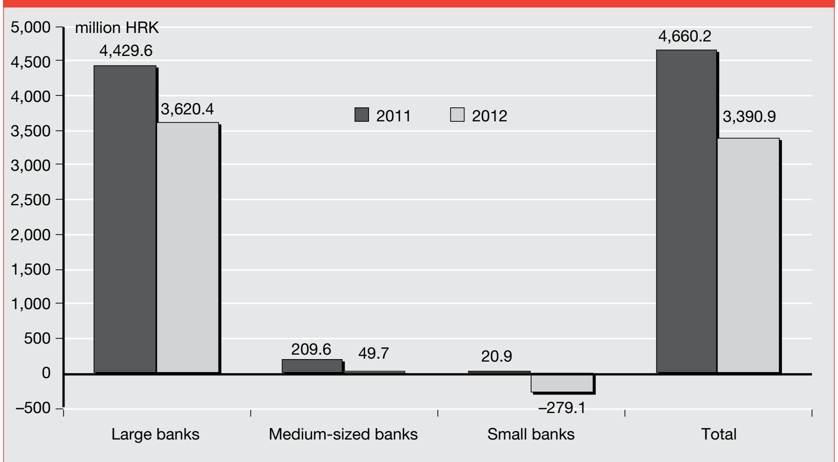


TABLE 1.7 Bank income statement, in million HRK

	Large banks		Medium-sized banks		Small banks		Total	
	Jan.-Dec. 2011	Jan.-Dec. 2012	Jan.-Dec. 2011	Jan.-Dec. 2012	Jan.-Dec. 2011	Jan.-Dec. 2012	Jan.-Dec. 2011	Jan.-Dec. 2012
Net interest income	9,495.4	8,703.4	1,069.6	1,037.3	1,029.8	835.7	11,594.9	10,576.5
Total interest income	17,686.6	17,843.7	1,977.6	1,987.9	2,114.9	1,859.0	21,779.1	21,690.7
Total interest expenses	8,191.1	9,140.2	908.0	950.6	1,085.1	1,023.3	10,184.2	11,114.2
Net income from fees and commissions	2,483.6	2,383.0	316.4	318.7	207.8	175.1	3,007.8	2,876.8
Total income from fees and commissions	3,257.7	3,221.7	753.8	731.8	284.9	243.6	4,296.4	4,197.1
Total expenses on fees and commissions	774.1	838.7	437.4	413.2	77.0	68.5	1,288.5	1,320.3
Net other non-interest income	1,164.9	1,193.4	177.4	98.1	129.9	100.2	1,472.2	1,391.7
Other non-interest income	1,633.3	1,555.3	283.9	182.0	199.7	171.7	2,117.0	1,909.1
Other non-interest expenses	468.4	361.9	106.6	83.9	69.8	71.5	644.8	517.3
Net non-interest income	3,648.5	3,576.5	493.8	416.8	337.7	275.3	4,480.0	4,268.5
General administrative expenses and depreciation	5,721.5	5,541.4	920.8	916.9	1,054.2	989.9	7,696.5	7,448.2
Net operating income before loss provisions	7,422.5	6,738.5	642.6	537.2	313.3	121.1	8,378.5	7,396.8
Total expenses on loss provisions	2,992.9	3,118.2	433.0	487.5	292.4	400.2	3,718.3	4,005.9
Expenses on value adjustments and provisions for identified losses	2,950.0	3,310.7	425.3	481.6	290.7	396.4	3,666.0	4,188.7
Expenses on collectively assessed impairment provisions	42.9	–192.5	7.7	5.9	1.7	3.8	52.3	–182.8
Income/loss before taxes	4,429.6	3,620.4	209.6	49.7	20.9	–279.1	4,660.2	3,390.9
Income tax	819.8	687.1	21.4	–4.2	34.0	–16.0	875.2	666.9
Current year profit/loss	3,609.8	2,933.2	188.2	53.8	–13.1	–263.1	3,784.9	2,723.9
Memo items:								
Gains (losses) from trading activities	197.9	857.1	44.7	90.8	110.4	85.3	353.0	1,033.1
Gains (losses) from securities trading	–87.5	21.4	–18.6	5.9	1.5	–1.3	–104.6	25.9
Gains (losses) from foreign currency trading	557.0	636.4	0.5	105.4	107.8	86.9	665.2	828.7
Gains (losses) from domestic currency trading	3.4	3.8	0.1	0.0	–0.9	–0.8	2.6	3.1
Gains (losses) from derivatives trading	–274.9	195.5	62.7	–20.5	1.9	0.5	–210.3	175.4
Gains (losses) from exchange rate differentials	749.5	35.1	64.3	21.1	7.0	12.3	820.7	68.5
Number of banks operating with losses	0	0	0	1	9	12	9	13

year. The pressure of these expenses on the bank's operations eased during the year, and a similar situation was observed in other banks using these sources. This was due not only to the movements in risk premiums and benchmark rates, but also a fall in these sources, i.e. bank deleveraging against their foreign parent banks, which strengthened gradually during the year. Against the background of ample liquidity in the system and low demand for loans, banks reduced their liabilities on the financial market and, consequently, their interest expenses. However, the prolonged recession led to a fall in all types of income, especially interest income from loans to corporates and households, and to a rise in expenses on loss provisions.

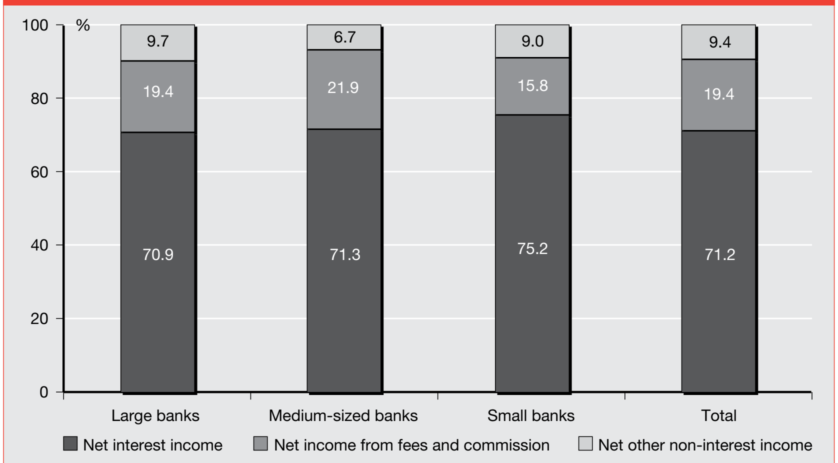
The change in recording of the aforementioned derivative financial instruments to the accounts of swaps and the recording of the related interest income resulted in more realistic reporting of net interest income, but it made it difficult to compare these data with the data from the previous period. These effects excluded, the fall in interest income was much sharper. The fall was caused by several factors, the most powerful among them being the increase in the level of non-performing loans, i.e. the growth in the B-1, B-2, B-3 and C category loans[11]. Moreover, the fall in interest income was also due to a low

11 Placements and off-balance sheet liabilities are classified into risk categories A, B-1, B-2, B-3 and C. Bank placements and off-balance sheet items are classified into risk categories as follows: A – fully recoverable placements and off-balance sheet liabilities; B-1, B-2 and B-3 - partly recoverable placements and off-balance sheet liabilities; and C – fully irrecoverable placements and off-balance sheet liabilities.

risk appetite, a fall in benchmark rates and the tightening of legal restrictions on the level of interest rates. A greater caution in risk assumption, observed for some time, was reflected in low credit activity and orientation to lower-return and lower-risk investments, and affected banks' interest income. As a result, the growth in interest income arising from more intensive lending to government units and public enterprises and increased investment in low-risk securities failed to offset the fall in interest income from loans to the most represented sectors, corporates and households. New credit activities with these sectors weakened, while the level of non-interest bearing loans increased. Interest income from loans to corporates and households declined by almost the same amount, while the rate of decline was somewhat stronger in the corporate sector. More than two thirds of the loans to this sector were negotiated at variable interest rates, i.e. they were pegged to benchmark rates such as EURIBOR, which adversely affected interest income. In the household sector, interest income from all types of loans decreased, mostly the interest income from car purchase loans, followed by housing loans. Car purchase loans declined markedly, while the movements in housing loans and other household loans were influenced by difficulties in loan recovery and a fall in interest rates caused either by incentive measures or legally prescribed limitations. As concerns overdraft facilities and other short-term loans, the fall in interest income was due to the limits on contractual interest rates imposed in mid-2011 to a maximum of 12%[12]. The fall in interest income from housing loans was due to a marked deterioration in their quality, especially as concerns loans in Swiss francs. Loans under the programme of subsidies and government guarantees for housing loans, granted at lower interest rates, had an additional negative impact on interest income. This was especially pronounced in the group of large banks, in which the fall in interest income from household loans, mainly caused by a decline in income from housing loans, made the largest contribution to the fall in total interest income from loans. The fall in this income in small and medium-sized banks was strongly influenced by a decline in the corporate sector. Interest income from loans declined in most banks, especially small ones.

Due to the predominance of traditional banking activities, i.e. deposit and lending activities, net interest income, despite its decrease, remained convincingly the most important component of bank net income, accounting for 71.2% of total net income (Figure 1.9). In addition to this most important

FIGURE 1.9 Structure of bank net income, as at 31 December 2012



12 As a result of reducing the CNB discount rate from 9% to 7% as of 1 July 2011, the statutory default interest rate and the maximum contractual rate in the relationships between legal and natural persons was set at 12% (the CNB discount rate increased by 5 percentage points).

source of income, net income from fees and commissions and net other non-interest income also fell. Net income from fees and commissions declined for the second consecutive year. This was caused by slower activities in the capital markets, a lower volume of off-balance sheet transactions and payment services, and also by the absence of income from cross-selling due to slow credit activity. Concurrently, expenses for fees and commissions, especially for non-resident services, went up markedly, due to the movements in the group of large banks. As a result, the large banks' net income from fees and commissions shrank markedly. Small banks saw an only slight decline in this income, while it rose a little in medium-sized banks. Only large banks managed to increase their other non-interest income, thanks to a decline in other non-interest expenses, i.e. the representation, advertising and marketing expenses, as well as expenses on provisions for various contingent liabilities (e.g. litigation costs, pensions and other liabilities to employees, etc.). Large banks intensified their efforts to improve internal efficiency. They were the only ones to succeed in cutting significantly their general administrative and depreciation expenses.

Adverse movements in all components, except for a slight decline in general operating costs (by 3.2%) led to a fall in net operating income before loss provisions. Compared to 2011, this income dropped by HRK 1.0bn or 11.7%, whereas the decline was recorded in all bank groups. It was slightly below 10% in large banks, and it stood at 16.4% in medium-sized ones. In the group of small banks, net operating income shrank by more than 50%. Nine small banks reported negative net operating income, i.e. the level of income was insufficient to cover the banks' general operating expenses. The slump in net operating income of small banks was mainly due to a fall in interest income from loans, especially to the corporate sector.

Expenses on loss provisions rose to HRK 4.0bn (7.7%) in 2012, mainly due to movements in the last quarter of the year, when banks usually assess more rigorously the quality of their credit exposures. An additional contribution to that growth came from CNB inspections, which established additional provisions. The increase in expenses on loss provisions was mitigated by the sale of loans and receivables of a large bank, when an income from repealed loss provision expenses was derived as a result of the difference between the purchase price and the net book value of the claims. The two main components of total expanses on loss provisions saw opposite trends. Banks reported income from removing expenses on provisions for latent losses in the risk category A, which partly softened the growth in expenses on provisions for B[13] and C category exposures. The reporting of income from repealed loss provisions for risk category A was due to a reduction in the allocation base, i.e. a fall in exposures assigned to this risk category, caused by the reclassification of exposures, as well as by a further decline in off-balance sheet activities and a lower level of deposits with banks. Banks maintained the level of coverage of risk category A placements by provisions (0.9%). In contrast to expenses on loss provisions for risk category A, expenses for loss provisions for risk categories B and C rose sharply (by 14.3%), due to a deteriorated economic situation and reduced ability of debtors to repay their liabilities to banks.

After loss provisions, 13 banks (four banks more than in 2011) reported losses (before-tax). Except for one medium-sized bank, all these banks belonged to the group of small banks, and accounted for 5.2% of total bank assets. Due to a change in ownership in 2012, the medium-sized bank probably decided to assess its credit portfolio more rigorously, which led to an increase in expenses and the

13 Risk categories B-1, B-2 and B-3.

reported loss. In a few banks operating with losses, the level of losses imposed a heavy burden on capital, so that some of them had to strengthen their capital bases during 2012.

Indicators of returns

The slight recovery of return indicators for assets and capital observed in the previous two years was halted in 2012. What is more, these indicators fell to a record low since 1999. The ROAA (return on average assets) thus stood at 0.8% (Figure 1.10) and ROAE (return on average equity) at 4.8% (Figure 1.11). The profitability decrease was due to a fall in all margins, mostly in the net interest margin. Moreover, expenses on loan loss provisions increased markedly, due to the migration of non-performing claims to riskier categories.

The sharpest fall in net interest margin (the net interest income-to-average assets ratio) was seen in small banks, which also recorded the lowest values of that ratio. This was contrary to the previous

FIGURE 1.10 Bank return on average assets (ROAA)

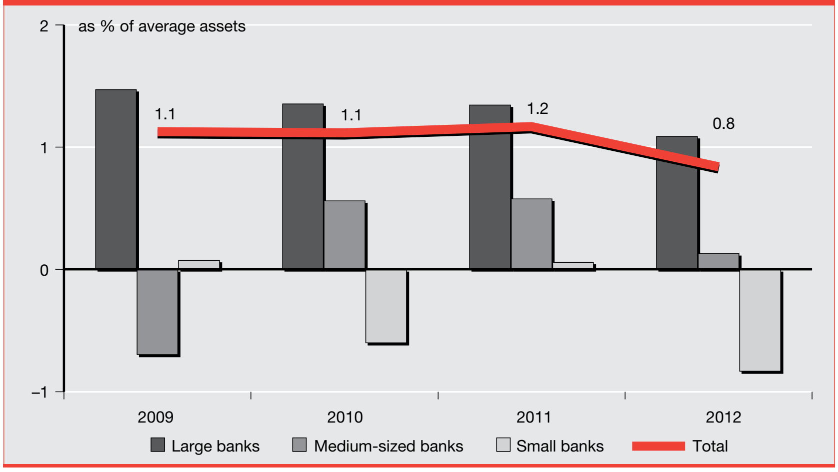
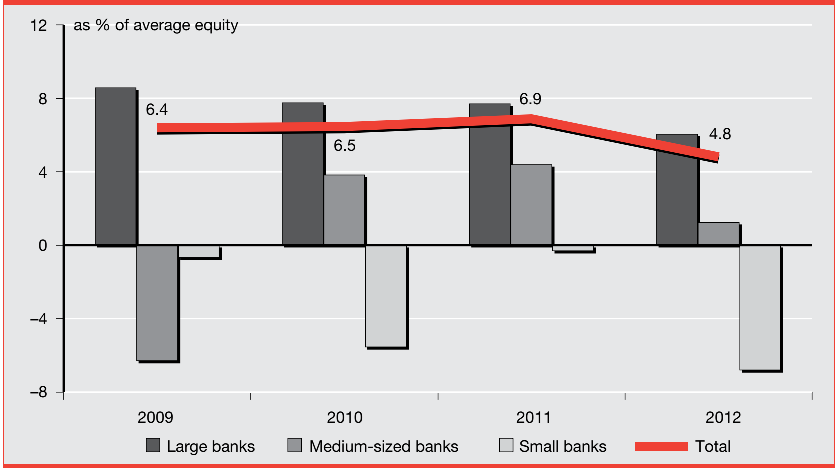


FIGURE 1.11 Bank return on average equity (ROAE)



movements and to the highest levels of net interest margin traditionally being recorded in the group of small banks. Small banks usually use higher net interest margins for the coverage of fixed costs and credit portfolio losses. In small banks, loans granted to corporates account for the largest share of the credit portfolio, and these loans are riskier than loans to households and government units. The net interest margin of small banks was jeopardised precisely by the increase in the level of B and C category loans, mostly in the corporate sector, while expenses on loss provisions (increased by slightly over one third) led the group as a whole to losses. As a result, both ROAA and ROAE for this group were negative. Only four banks reported ROAA above 1%. All these banks belonged to the group of large banks, so that ROAA for the group remained above 1% and stood at 1.1%, while ROAE amounted to 6.1%. In the group of medium-sized banks, ROAA and ROAE stood at 0.1% and 1.3% respectively.

Due to the aforementioned use of swap agreements as a hedge against interest risk and due to the change in their recording, it is difficult to compare the interest rate spread with that from the previous periods (Figure 1.12). However, it can be concluded that in 2012, pressures on the spread came from both the revenue and expenditure sides. Macroeconomic conditions limited the ability of

FIGURE 1.12 Income from interest-bearing assets and expenses on interest-bearing liabilities

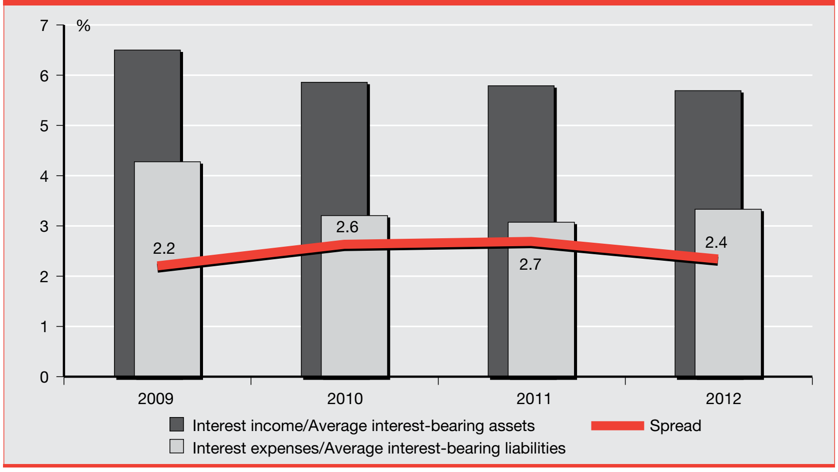
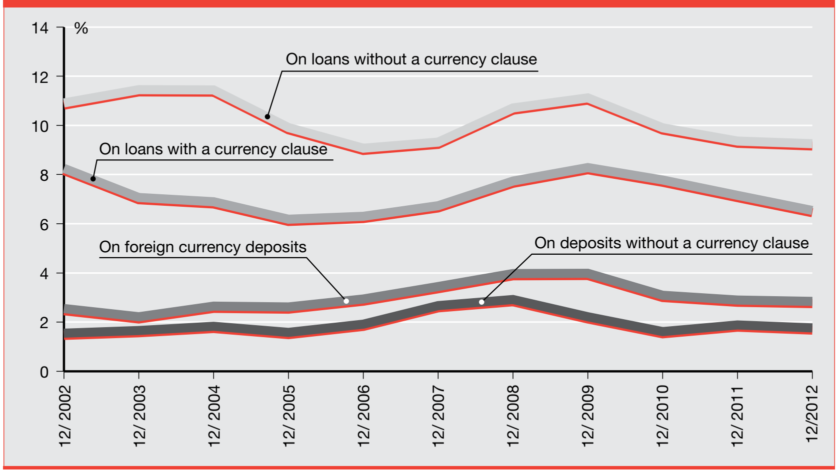


FIGURE 1.13 Weighted averages of bank monthly interest rates, on annual basis



banks to manage the interest income from the average interest-bearing assets, and this triggered the process of deleveraging, i.e. repayment of funds provided by foreign majority owners. In addition, banks tried to relieve the pressures on interest rate spread by reducing their general administrative and depreciation expenses by 3.2% in 2012. The expenses were reduced in all bank groups, but in the groups of medium-sized and small banks the reductions were negligible. This was primarily due to movements in one bank from the group of medium-sized and one from the group of small banks, in which a change in ownership led to changes in operations and growth in general operating expenses. Most banks cut these expenses. Large banks cut them by 4.2%, primarily as a result of a fall in staff expenses. Despite these savings, the ratio of general operating expenses to net income[14] (cost-to-income ratio) increased by more than two percentage points and exceeded 50% (Figure 1.15). This growth was recorded in all bank groups, most of all in small banks (to 89.1%), which usually report the lowest cost-effectiveness ratios. Due to the large number of employees and operating units, small banks have to distribute the business network costs and other fixed costs among a smaller number of clients. By contrast, large banks use more modern distribution channels, such as electronic banking.

FIGURE 1.14 Bank assets per employee

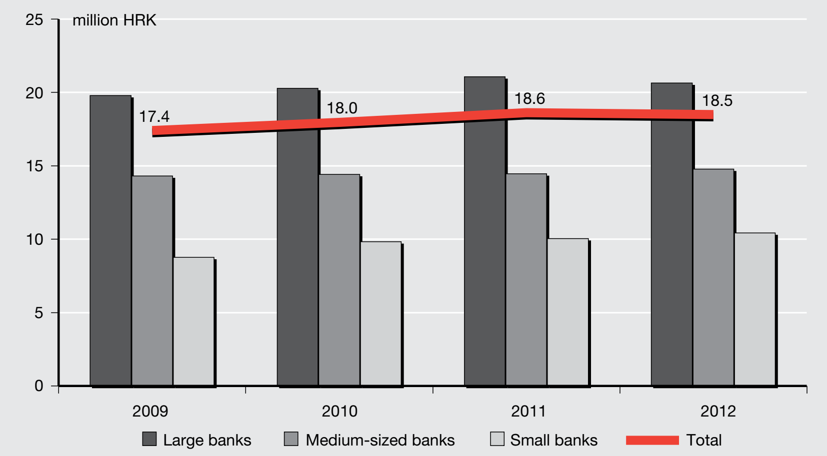
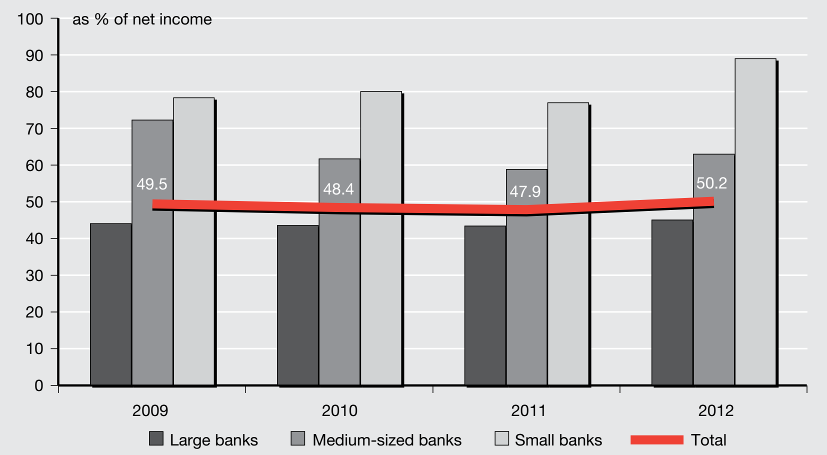


FIGURE 1.15 Bank operating expenses



14 The sum of net interest and net non-interest income.

They have managed to reduce the number of employees and average cost per employee. As a result of this, and the slowest fall in net income, large banks reported the smallest deterioration in the cost-to-income ratio, which stood at 45.1%. In medium-sized banks, however, it rose to 63.1%.

Total number of employees in banks declined only slightly (by 1,0%), while employee expenses continued to account for a little over one half of total general operating expenses. The rate of decline in the number of employees was different than that in bank assets, so that the amount of assets per employee decreased slightly, to HRK 18.5m (Figure 1.14). This was due to movements in large banks, while other bank groups saw a slight increase in this indicator. However, large banks maintained the most favourable level of this indicator.

Since 2009, net operating income has been heavily burdened by expenses on loss provisions, which have been the main cause of profitability being much lower than in the pre-crisis period. The ratio between expenses on loss provisions and net operating income increased from 44.4% at end-2011 to 54.2% at end-2012, its movements being mainly influenced by a fall in net operating income. The influence of the growth in expenses on loss provisions was also strong, caused by an increase in B and C category exposures, as well as the growth in average loss on these exposures. This was due to migration to riskier categories, or the growth of losses on exposures previously identified as partly irrecoverable. In 2012, for example, a sharp increase was observed in exposures classified into risk category C, where the loss or value adjustment amounted to 100% of the nominal book value of exposure. Hence, despite the slower growth of the risk category B and C exposures, expenses on loss provisions still had a strong impact on banks' performance. In the group of small banks, they exceeded several-fold the net operating income.

1.2.4 Credit risk

Placements and assumed off-balance sheet liabilities

Unfavourable trends in the domestic economy in 2012, adversely affected all major components of bank placements. Risk aversion and further deleveraging of the main sectors in the structure of bank placements compared with 2011 led to a decline in credit activities, deposits made and assumed off-balance sheet liabilities. Total placements and assumed off-balance sheet liabilities exposed to credit risk[15] and subject to classification into risk categories in accordance with the rules governing classification, stood at HRK 422.0bn at the end of 2012, down HRK 15.8bn or 3.6% from the end of 2011.

Half of the total decrease in placements and assumed off-balance sheet liabilities related to loans granted, the amount of which fell by HRK 7.8bn (2.7%) from the end of 2011. The rate of decrease was slightly more pronounced in deposits made and assumed off-balance sheet liabilities. These items declined by 7.1% each, which led to a slight decrease in their respective shares in the structure of

15 Total bank exposure to credit risk comprises placements (balance sheet items) and assumed off-balance sheet liabilities. The placements can be divided into a loan and receivables portfolio and a portfolio of held-to-maturity financial assets, with the receivables on interest and fees being covered by a separate item (receivables based on income). The portfolio of financial assets comprises various instruments such as loans, deposits, bonds and T-bills, while the assumed off-balance sheet liabilities comprise guarantees, credit lines, etc. For the purposes of a credit risk analysis, the abbreviation *loans* stands for loans from the loans and receivables portfolio, and the abbreviation *deposits* means deposits from the loans and receivables portfolio.

credit exposures (Figure 1.16). Banks usually assess deposits made and assumed off-balance sheet liabilities as the best-quality placements, so that their decline, together with a deterioration in the quality of loans, led to an increase in the share of partly irrecoverable and fully irrecoverable placements and assumed off-balance sheet liabilities in the total from 9.0% at end-2011 to 10.2% at the end of 2012. The said loan deterioration also led to an increase in credit portfolio losses, and their share in total credit risk exposure (the total value adjustments and provisions to total placements and assumed off-balance sheet liabilities ratio) increased for the fourth consecutive year, reaching 5.3% at the end of 2012 (Table 1.8).

The decline in deposits with other institutions was partly due to legislative changes during the first half of 2012, aimed at facilitating lending to the government and the private sector. Specifically, changes in the minimum required amount of foreign currency claims, introduced early in 2012, facilitated the subscription by banks of euro-denominated MoF T-bills worth EUR 758.8m. The banks distributed most of these securities in the portfolios of financial assets that are not subject to classification into risk categories, so that the effect of the said asset restructuring on total placements was negative[16]. By contrast, investments in securities falling within the scope of placements rose by

FIGURE 1.16 Structure of bank placements and assumed off-balance sheet liabilities, as at 31 December 2012

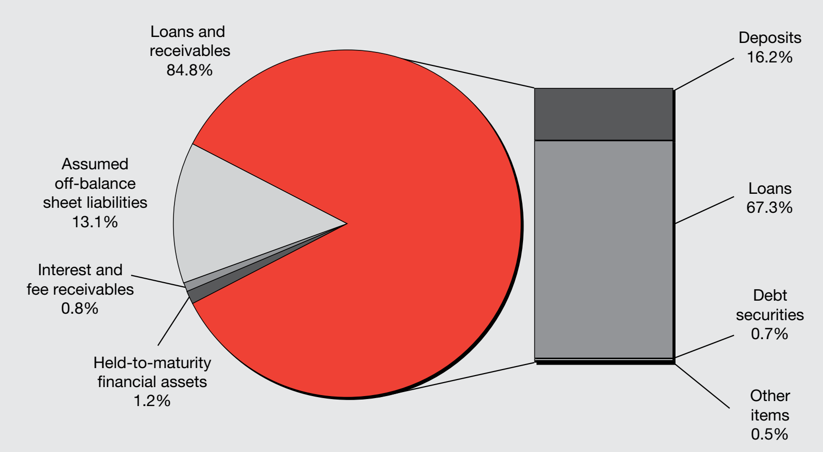


TABLE 1.8 Classification of bank placements and assumed off-balance sheet liabilities by risk categories, end of period, in million HRK and %

Risk category	Dec. 2009			Dec. 2010			Dec. 2011			Dec. 2012		
	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage	Placements and assumed off-balance sheet liabilities	Value adjustments and provisions	Coverage
A	403,906.5	3,613.0	0.9	386,077.1	3,564.9	0.9	398,369.0	3,600.3	0.9	378,979.1	3,418.1	0.9
B-1	10,764.0	1,416.9	13.2	16,233.9	2,151.0	13.2	16,731.9	2,341.9	14.0	18,812.4	2,608.7	13.9
B-2	5,303.4	2,225.6	42.0	9,327.2	4,147.6	44.5	13,909.9	6,173.1	44.4	13,703.7	6,346.6	46.3
B-3	1,283.3	931.8	72.6	1,895.2	1,518.0	80.1	1,854.0	1,486.9	80.2	2,839.8	2,290.3	80.6
C	5,366.6	5,281.8	98.4	5,784.8	5,784.4	100.0	6,852.2	6,852.2	100.0	7,630.9	7,629.7	100.0
Total	426,623.8	13,469.1	3.2	419,318.1	17,165.8	4.1	437,716.9	20,454.4	4.7	421,965.9	22,293.4	5.3

Note: Since 2010, the portfolio of financial assets available for sale has been excluded from the scope of placements and assumed off-balance sheet liabilities classified into risk categories.

16 About three-fourths of a long-term issue were allocated to the portfolio of financial assets available for sale, and the remaining share to the portfolio of financial assets carried at fair value.

HRK 1.3bn or 19.1%. However, due to the small significance of these investments, the growth had no major effect on the movements in total placements and assumed off-balance sheet liabilities. The growth in these securities was mainly due to placements in corporate bills of exchange.

The bulk of the total decrease in deposits (HRK 5.2bn) related to deposits with foreign banks (HRK 3.1bn) and was caused by a decline in deposits with parent banks by over HRK 4.8bn (53.8%) from the end of 2011. Despite this, banks managed to maintain the favourable coverage of foreign currency liabilities by foreign currency claims (21.2%), driven by a change in the minimum foreign exchange liquidity rules and the inclusion of the aforementioned MoF T-bills in the scope of liquid foreign currency claims. Deposits with the CNB dropped by HRK 2.1bn (4.5%) due to, in equal measure, a reduction in the allocated reserve requirement and the balances in the settlement accounts of banks.

A marked decline in assumed off-balance sheet liabilities to clients (by HRK 4.2bn) additionally indicate the aversion of banks to exposing themselves to credit risk. Banks reduced their standard risky off-balance sheet items by HRK 4.2bn, from the end of 2011, most of all credit lines and other commitments and guarantees. The largest nominal decrease related to assumed household financing liabilities (HRK 1.8bn or 8.4%).

Small banks reported the highest rate of decline in exposure to credit risk (4.5%), but this was the consequence of the reduced number of banks in that group. Excluding this effect, it was obvious that total placements and assumed off-balance sheet liabilities of small banks went up by 3.4%, as a result of an increase in all components of credit risk exposure, except investments in financial assets held to maturity. Total placements and assumed off-balance sheet liabilities of medium-sized banks rose at a slightly higher rate (3.6%) than those of small banks, and the main source of this growth was loans to government units. In contrast to the movements in small and medium-sized banks, large banks saw a decline in exposure to credit risk, i.e. a decline in placements and assumed off-balance sheet items by HRK 15.6bn or 4.2%, which determined the direction of changes in the entire system. This was mostly due to a decline in loans in the group of large banks, which was largely the consequence of the sale of these claims in one large bank. The bank sold loans and receivables worth HRK 5.6bn (gross) to a company indirectly owned by its foreign parent bank. If the part related to the sold claims is excluded from the decrease in the loans of large banks, then the fall in total placements and assumed off-balance sheet liabilities is less serious and stands at about 2.8%. Large banks were the only banks that reduced the total amount of assumed liabilities to clients, mostly by reducing the household and corporate financing liabilities.

In 2012, claims not fully recoverable continued to grow, again at a slower rate than a year before (9.3%). This slowdown was observed for the third consecutive year (31.7% in 2010 and 19.0% in 2011). However, the continuation of this trend in the reference year was exclusively due to the sale of partly recoverable and fully irrecoverable claims. This effect excluded, the downward trend in these claims would be halted, because the annual growth rate of claims classified into risk categories B and C would be much higher, about 23%. Concurrently, a sharp decrease was observed in claims usually assessed by banks as the highest-quality claims, i.e. classified into risk category A (4.9%) which includes placements with no objective evidence of value impairment and off-balance sheet liabilities for which either no outflows are expected or, where outflows do take place, they are expected to be fully recovered. This decrease was due to reduced bank placements in deposits and a fall in assumed liabilities, accompanied by deleveraging of bank clients and credit quality deterioration. As a result of the described opposite movements in risk categories, compared with those in 2011, the share of placements and assumed off-balance sheet liabilities classified into risk category A in total placements and assumed off-balance sheet liabilities decreased to 89.8%. The deterioration in the quality of placements in 2012 was additionally influenced by the absence of credit activity, so that the share of risk categories B and C increased to the aforementioned 10.2% or 1.2 percentage points. The growth in due but unpaid receivables was slower than in 2011, as were the activities of placement rollover and restructuring.

Within the B and C categories, only B-2 claims declined a little (a loss of 30% to 70% of the amount of claims), while all other claims increased sharply. The ageing of the part of portfolio classified into B and C categories led to the growth in arrears and losses, so that banks increased value adjustments and loss provisions for B and C category placements by 12.0%. This was a continuation of the slightly faster growth in value adjustments and loss provisions for B and C risk categories than in their bases observed since end-2010. As a result, the coverage of these placements continued to increase, from 42.8% at the end of 2011 to 43.9% at the end of 2012. However, this increase was only small, so the pre-crisis coverage was still not reached. Due to a decline in category A claims, both value adjustments and collectively assessed loss provisions decreased, so that the coverage of risk category A remained at the usual level of 0.9%.[17]

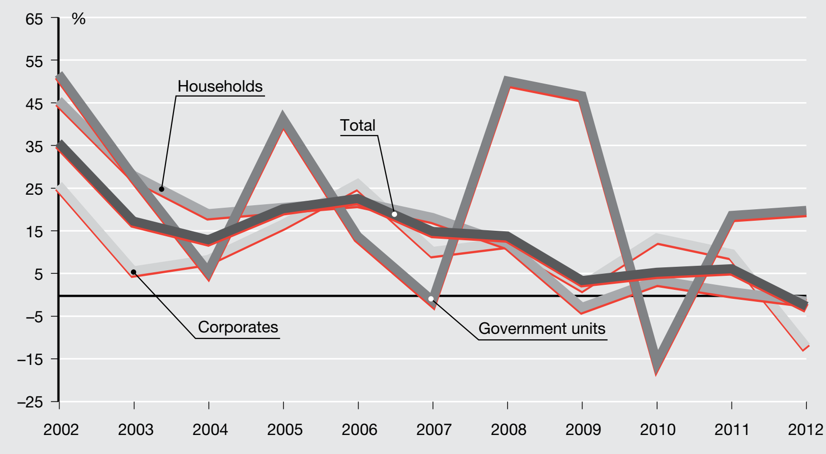
All bank groups recorded an increase in placements and off-balance sheet items classified into risk categories B and C, with the highest growth rate (19.4%) recorded in the group of small banks, which further lowered the quality of placements and off-balance sheet items of this group of banks. In this group, B and C category claims accounted for 15.2% of total credit risk exposure, up 3.0 percentage points from the year before. In a number of small banks, the share of B and C category placements considerably exceeded the average share for the group. The group of large banks again had the best quality of placements and off-balance sheet items, with the share of B and C risk categories standing at 9.3%. This was partly due to the credit portfolio structure, because the less risky household and government sectors and the public enterprises subsector accounted for a much larger share of large bank loans. An additional influence came from the aforementioned sale of claims, which limited the growth of risk categories B and C in this bank group to 7.1%. Medium-sized banks recorded an increase in the B and C category claims of 14.5% from 2011, which raised the share of these claims in total placements and off-balance sheet liabilities to 14.0%.

Loans

Granted bank loans (classified into the loans and receivables portfolio, gross) stood at HRK 283.9bn at the end of 2012, down HRK 7.8bn or 2.7%, from the end of the previous year (Table 1.9). This marked the end of a slight recovery of credit activity, observed in the previous two years (Figure 1.17). The reported growth in loans was largely fuelled by exchange rate changes and if their effects are excluded, loans grew effectively by 2.9%.

17 Credit institutions have to maintain the level of impairment (value adjustment) for placements and provisions for off-balance sheet liabilities classified into risk category A in the amount that is not below 0.85% or above 1.20% of the total balance of risk category A placements and off-balance sheet liabilities.

FIGURE 1.17 Rates of change of bank loans



The decline in loans was due to changes in the group of large banks in which loans granted fell by 3.5% from 2011. In contrast to this, medium-sized banks saw an increase in loans granted (6.4%), and, excluding the effect of the fall in the number of banks, the group of small banks also recorded a slight rise in loans (2.0%).

The credit portfolio of banks was influenced by certain factors which affected its level and quality, as well as its composition by institutional sector. The level of the credit portfolio was mostly affected by the sale of claims of a large bank, which led to a decline in the gross amount of B and C category loans of this bank by HRK 5.6bn. The claims sold accounted for the bulk of the total decrease in loans of all banks. Consequently, when this effect is excluded, the decline in loans at the level of the system was considerably lower (about 0.8%). In contrast to this negative effect, total loans of banks were positively influenced by banks' participation in the Programme for the Development of the Economy. Within this Programme, 13 banks made a syndicated loan of HRK 3.4bn to the CBRD. Subsequently, the banks and CBRD jointly granted loans to the business sector in the equivalent proportions of funds.

These changes also had a marked influence on the structure of loans granted by the institutional sector. As a consequence of the syndicated loan granted by banks to the CBRD, total loans to financial institutions grew at the highest rate of all sectors (38.0%). As a result, the share of loans to this sector in total bank loans increased from 2.5% in 2011 to 3.5% at end-2012. The growth rate of loans to government units was also high (15.3%), and was based on the transfer of shipyards' liabilities (worth about HRK 6.6bn) to the public debt of the RC pursuant to the Act on the Rights and Obligations of Shipyards in the Process of Restructuring[18]. As a consequence of this change, the share of loans to government units in the structure of loans granted by sector increased by 2.1 percentage points (to 13.3%), while the significance of corporates decreased. A very slight increase was also seen in loans to non-residents (2.1%), but, given their small share in the structure of loans granted by sector, this increase had no major influence on the movements and structure of total loans. The trend of household deleveraging continued for the fourth consecutive year, but the share of household loans in total bank loans still went up slightly (by 0.6 percentage points), to 44.5%, as a result of changes in other sectors.

18 OG 61/2011.

TABLE 1.9 Bank loans, end of period, in million HRK and %

	Dec. 2009		Dec. 2010			Dec. 2011			Dec. 2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans											
Government units	31,547.7	12.1	27,119.4	9.9	–14.0	32,722.6	11.2	20.7	37,720.1	13.3	15.3
Corporates	98,924.4	37.9	111,580.8	40.6	12.8	121,716.9	41.7	9.1	107,997.5	38.0	–11.3
Households	122,195.0	46.8	127,139.1	46.2	4.0	128,057.8	43.9	0.7	126,198.0	44.5	–1.5
Home loans	52,959.6	20.3	57,981.0	21.1	9.5	59,642.3	20.4	2.9	59,235.9	20.9	–0.7
Mortgage loans	3,084.2	1.2	3,513.3	1.3	13.9	3,261.3	1.1	–7.2	3,073.7	1.1	–5.8
Car loans	7,810.5	3.0	6,236.8	2.3	–20.1	4,539.4	1.6	–27.2	3,174.9	1.1	–30.1
Credit card loans	5,022.3	1.9	4,386.8	1.6	–12.7	4,109.3	1.4	–6.3	3,941.2	1.4	–4.1
Household overdraft facilities	...,	...,	8,069.0	2.9	–	8,196.0	2.8	1.6	8,611.7	3.0	5.1
General-purpose cash loans	...,	...,	33,689.7	12.3	–	36,284.4	12.4	7.7	36,436.4	12.8	0.4
Other household loans[a]	53,318.4	20.4	13,262.4	4.8	–75.1	12,025.1	4.1	–9.3	11,724.3	4.1	–2.5
Other sectors	8,472.0	3.2	9,110.4	3.3	7.5	9,219.5	3.2	1.2	11,990.1	4.2	30.1
Total	261,139.0	100.0	274,949.6	100.0	5.3	291,716.9	100.0	6.1	283,905.6	100.0	–2.7
Partly recoverable and fully irrecoverable loans											
Government units	62.1	0.3	75.5	0.2	21.7	97.4	0.3	29.0	68.2	0.2	–30.0
Corporates	12,736.0	62.6	20,257.0	65.6	59.1	24,744.7	68.2	22.2	26,952.3	68.1	8.9
Households	7,081.3	34.8	9,930.1	32.2	40.2	11,020.9	30.4	11.0	11,977.6	30.3	8.7
Home loans	1,446.6	7.1	2,584.7	8.4	78.7	3,111.4	8.6	20.4	3,654.2	9.2	17.4
Mortgage loans	368.0	1.8	788.6	2.6	114.3	699.8	1.9	–11.3	732.7	1.9	4.7
Car loans	330.3	1.6	257.6	0.8	–22.0	181.5	0.5	–29.5	157.7	0.4	–13.1
Credit card loans	152.6	0.7	174.6	0.6	14.4	164.3	0.5	–5.9	174.8	0.4	6.4
Household overdraft facilities	...,	...,	1,185.1	3.8	–	1,298.8	3.6	9.6	1,280.5	3.2	–1.4
General-purpose cash loans	...,	...,	2,659.8	8.6	–	3,052.2	8.4	14.8	3,297.5	8.3	8.0
Other household loans[a]	4,783.8	23.5	2,279.7	7.4	–52.3	2,512.9	6.9	10.2	2,680.2	6.8	6.7
Other sectors	481.7	2.4	616.1	2.0	27.9	411.5	1.1	–33.2	552.3	1.4	34.2
Total	20,361.1	100.0	30,878.6	100.0	51.7	36,274.5	100.0	17.5	39,550.4	100.0	9.0
Value adjustments of partly recoverable and fully irrecoverable loans											
Government units	5.5	0.1	6.0	0.1	8.8	19.8	0.1	228.2	25.4	0.2	28.6
Corporates	4,232.1	48.6	6,481.5	54.1	53.1	8,687.7	57.8	34.0	9,812.1	58.3	12.9
Households	4,309.5	49.5	5,269.9	44.0	22.3	6,059.2	40.3	15.0	6,690.5	39.7	10.4
Home loans	516.7	5.9	749.8	6.3	45.1	1,040.3	6.9	38.7	1,257.3	7.5	20.9
Mortgage loans	116.6	1.3	226.9	1.9	94.5	185.1	1.2	–18.4	213.8	1.3	15.5
Car loans	206.4	2.4	141.5	1.2	–31.4	138.9	0.9	–1.9	124.9	0.7	–10.1
Credit card loans	125.6	1.4	149.9	1.3	19.4	147.9	1.0	–1.3	161.2	1.0	9.0
Household overdraft facilities	...,	...,	1,109.3	9.3	–	1,204.6	8.0	8.6	1,205.3	7.2	0.1
General-purpose cash loans	...,	...,	1,827.6	15.2	–	2,224.7	14.8	21.7	2,455.3	14.6	10.4
Other household loans[a]	3,344.2	38.4	1,064.8	8.9	–68.2	1,117.7	7.4	5.0	1,272.7	7.6	13.9
Other sectors	163.5	1.9	230.0	1.9	40.7	262.6	1.7	14.2	305.2	1.8	16.2
Total	8,710.6	100.0	11,987.3	100.0	37.6	15,029.2	100.0	25.4	16,833.1	100.0	12.0

[a] In 2009 includes data on household overdraft facilities and general-purpose cash loans.

The developments in the portfolio of corporate loans in 2012 were marked by two changes. The transfer of shipyards' loans to the public debt led to a fall in loans to public companies, while the aforementioned sale of claims of a large bank caused a decline in loans to other corporates. Of a total decrease in loans to the corporate sector in 2012 relative to 2011, worth HRK 13.7bn (11.3%), the lion's share related to the effects of the said changes. Even if the influence of these changes were excluded, loans to corporate would still be decreased but by a much lower amount (1.5%). The fall

FIGURE 1.18 Structure of bank loans by activities, as at 31 December 2012

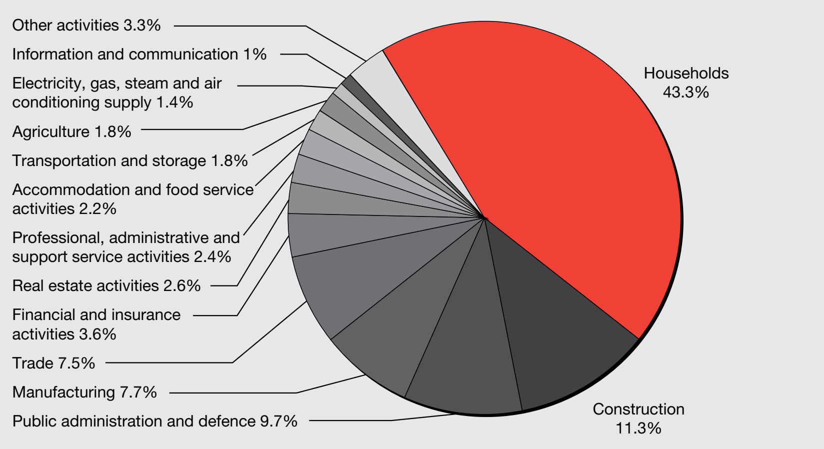
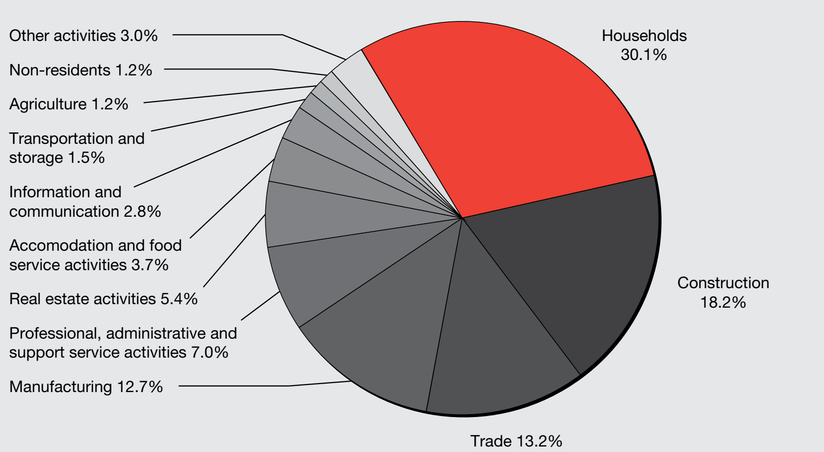


FIGURE 1.19 Structure of bank partly recoverable and fully irrecoverable loans by activities, as at 31 December 2012

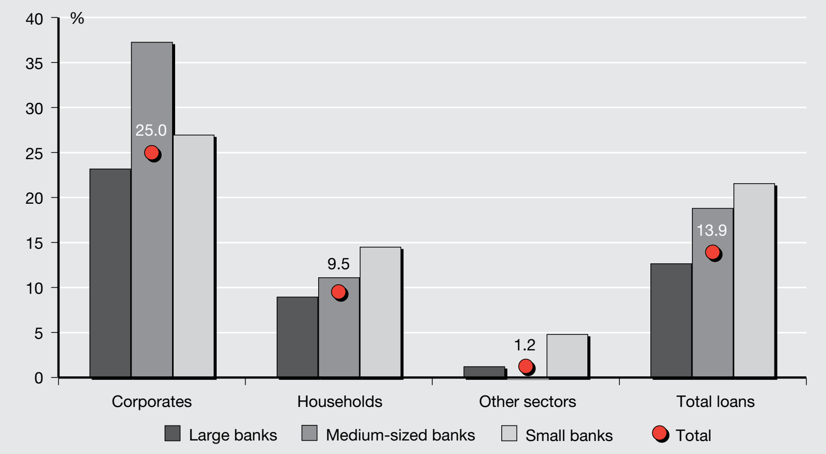


in corporate loans led to a decline in their share in the sectoral structure of loans relative to 2011 by 3.7 percentage points, i.e. to 38.0% at end-2012.

As a result of reduced credit activity, continued unfavourable economic movements and portfolio ageing, loan quality indicators deteriorated further. This trend continued, especially in the corporate sector, despite the decline in total bank exposure in this sector on account of the sale of claims arising from B and C category loans. The effects of the sale of claims slowed down the growth rate of total B and C category loans markedly (to 8.9%), while if these effects are excluded, the upward trend would accelerate, at a rate over 24.0%. The share of B and C risk category loans in total loans rose from 12.4% at the end of 2011 to 13.9% at the end of 2012 (Figure 1.20). The share of B and C category loans in the corporate loan portfolio reached 25.0%, up 4.6 percentage points from end-2011. The increase in the level of both of these shares was also limited, due to the aforementioned effect of the sale of claims classified into risk categories B and C.

With respect to the household sector, the growth rate of B and C category loans came down a little, to 8.7%. As a result, the household loan quality indicator increased to 9.5%, which represented

FIGURE 1.20 Share of bank partly recoverable and fully irrecoverable loans, as at 31 December 2012



a 0.9 percentage point increase in the share of B and C loans to households from end-2011. This deterioration in quality was mostly due to housing loans, in which the share of partly recoverable and irrecoverable loans increased to 6.2%, as a result of the growth in these claims at a rate of 17.4%. However, as household loans continued to account for the bulk of the banks' loan portfolio, their relatively good quality, compared with that of corporate loans, mitigated the level of the quality indicator of total loans.

At the end of 2012, the coverage of total B and C category loans by value adjustments stood at 42.6%. The coverage of total B and C category loans by value adjustments increased from 2011, owing to the fact that loan value adjustments grew faster (12.0%) than the partly recoverable and fully irrecoverable portions of these loans. The coverage indicator of total B and C category loans continued to be influenced by the coverage in household loans (55.9%), while in the case of corporates, despite the slight increase, the coverage of B and C loans by value adjustments was still much lower (36.4%). The difference in the level of indicators between the two sectors was caused, among other things, by the quality of collateral. This was particularly reflected in the markedly lower coverage of better collateralised loans, e.g. housing and mortgage loans, or in the higher coverage of loans that enable banks to assess credit risk on a collective basis, using the criterion of timeliness in meeting the obligations (small loan portfolio).

As in the case of the structure of loans granted by sector, the distribution of total loans by activity was also influenced by the transfer of shipyards' loans to the public debt of the RC. This change was the main cause of a decrease in banks' exposure to manufacturing which included shipbuilding (by HRK 8.4bn or 27.8%). In addition to the shipyards' loans, loans to other manufacturing branches also declined, reducing the significance of this activity in the structure of bank loans to 7.7%, almost three percentage points below the share at the end of 2011 (Figure1.18). Banks considerably reduced their exposures to two other activities: trade, which saw a decrease in loans by HRK 1.4bn (6.3%) and professional, scientific, administrative and ancillary service activities (by HRK 1.1bn or 13.6%). During 2012, banks increased loans to clients from only a few relatively poorly represented activities, such as electricity, gas, heat and air-conditioning supply (17.5%), and transport and storage (13.7%).

A surge in loans to construction in the previous years markedly affected the total amount and quality of bank loans. However, banks' support to the financing of the construction and sale of apartments and other buildings ceased in 2011, and shrank in 2012. Within this activity, loan growth was only recorded in the government sector and the sector of public enterprises engaged in the construction and management of state roads and motorways, while loans to other corporates in construction declined. These changes led to an increase in bank exposure to construction by HRK 1.1bn or 3.5%. The share of loans to construction in total bank loans thus rose from 10.7% at end-2011 to 11.3%, or, if the related real estate business is included, to 13.9%. The share ranged from the lowest value of 9.2% for medium-sized banks and 13.3% for small banks to 14.5% for large banks.

B and C category loans to construction rose by HRK 1.3bn (21.6%) from 2011. This activity was again the main contributor to deterioration in the quality of total bank loans in 2012, because they accounted for almost 40% of the total increase in B and C category loans. The share of B and C category loans in this activity reached 22.4%. However, if enterprises engaged in the construction and management of state roads and motorways are excluded, this share was considerably larger, as large as 43.9%. B and C category loans in the related real estate business activity also surged, so that at the end of 2012, these two activities accounted for almost one fourth of total partly recoverable and fully irrecoverable bank loans. The coverage of irrecoverable bank loans in construction rose a little, to 35.7%, but still remained below the aggregate indicator for the corporate sector and had a powerful influence on its value. The low coverage in this activity might be due to the fact that these loans were well-collateralised by real estate property.

Household deleveraging continued in 2012, with loan liabilities falling by 1.5% (1.7%, the exchange rate effects excluded), mostly due to a decline in car purchase loans, and a subsequent decline in most other types of loans, including housing loans. The decline in car purchase loans started in 2009, and the dynamics of that decline accelerated each year. These loans fell by 30.1% in 2012, and their share in household loans slumped to a low of 2.5%. The structure of household debt to banks changed in favour of general-purpose loans, i.e. loans suitable for servicing liabilities to various creditors, so that a noticeable increase was only recorded in overdraft facilities (5.1%) and in other general purpose loans (6.3%). A slight increase was also seen in some loans of less significance for the structure of loans to that sector, namely Lombard loans, loans for education and construction loans. Two types of loans continued to dominate the household sector, i.e. housing loans and general-purpose cash loans which accounted for 46.9% and 28.9% of total loans to this sector respectively. They were followed by overdraft facilities with a much lower share (6.8%) and all other household loans which accounted for 17.4% of total loans to this sector at the end of 2012.

Relative to 2011, housing loans decreased by 0.7% (1.1%, the exchange rate effects excluded), and the amounts and quality of the loans were influenced by changes in housing loans in Swiss francs. Bank exposures arising from loans in Swiss francs declined by HRK 1.5bn (6.2%). This decline was partly offset by the growth in euro housing loans (by HRK 1.2bn or 4.1%). The worsening quality of housing loans in Swiss francs and the growth in B and C category loans by 18.1% played a key role in the deterioration in total housing loans, despite the fact that B and C category kuna and euro housing loans rose at a similar pace. As a result, the share of partly recoverable and fully irrecoverable housing loans increased to 6.2% at the end of 2012, up one percentage point from end-2011. The growth in partly recoverable and fully irrecoverable receivables based on housing loans suggests further reduction in the prospects for their repayment, observed ever since 2010, when housing loans ceased to be the highest-quality component of household loans. This was also due to the materialisation of the currency-induced credit risk, reflected in a high level of B and C claims based on housing loans in Swiss francs. The share of these loans in total housing loans in this currency increased from 7.3% at end-2011 to 9.2% at end-2012, which represented the largest share of loans in all currencies in which housing loans have been granted. The share of B and C category kuna housing loans was slightly smaller (8.6%) and the share of euro housing loans was much smaller than that (3.7%). Loans in Swiss francs accounted for 39.0% of total housing loans, while their share in total B and C category housing loans was much larger 57.8%.

To alleviate the position of users of housing loans indexed to the Swiss franc, in June 2011 the Government of the Republic of Croatia and leading banks signed the Memorandum on alleviating the position of users of housing loans denominated in Swiss francs. In August of that year, they signed an Annex to this Memorandum aimed at fixing the exchange rate of the kuna against the Swiss franc at HRK 5.80/SFR and the transfer of the balance between the annuity calculated at the fixed and at the actual exchange rate to the so-called "deferred claims". Credit users showed no great interest in such a deferral of claims and only 25 users of housing loans in Swiss francs had taken advantage of this opportunity by the end of 2012. The number of users of loans in Swiss francs declined from 2011, and some of them have probably exercised other options to reduce their liabilities.

Despite the increase in the share of B and C loans in total housing loans relative to other types of household loans, the amount of this share was still favourable. For example, among the loans having the largest share in the household loan portfolio, the assessed quality was markedly lower for cash loans (9.0%), overdraft facilities (14.9%), mortgage loans (23.8%) and other general purpose loans (31.1%).

At the end of 2012, 63.0% of total placements and off-balance sheet items were exposed to a currency-induced credit risk. Relative to 2011, a decline was recorded in bank exposure to a currency-induced credit risk, i.e. in the share of placements and off-balance sheet liabilities exposed to a currency-induced credit risk and in the share of placements and off-balance sheet liabilities unhedged against this risk in total placements and off-balance sheet liabilities. In 2012, this change was mostly due to a decline in foreign exchange loans, i.e. loans in foreign currencies and kuna loans indexed to a foreign currency. Only kuna loans increased slightly from 2011. At the end of 2012, slightly over three quarters of total bank loans (net) were exposed to a currency-induced credit risk and a little over 90% of that amount was unhedged against this risk, i.e. placed to clients with unmatched currency positions. The bulk of the decrease in foreign exchange loans in 2012 related to euro loans and kuna loans indexed to that currency, the share of which decreased to 63.4% of total bank loans. The remaining share of the decrease in foreign exchange loans mainly related to loans in Swiss francs (including kuna loans indexed to that currency), which was a continuation of the downward trend from 2011. The share of these loans in total bank loans declined to 9.9%, but over 90% of their amount again related to household loans. The bulk of the decrease in loans in Swiss francs from 2011 was due to a decline in housing and car purchase loans in this currency.

1.2.5 Liquidity risk

Sources of financing

Total sources of bank financing[19] stood at HRK 328.2bn at the end of 2012, down HRK 7.4bn or 2.2% (2.3%, the exchange rate change excluded) from end-2011. A decrease in the sources of financing was last recorded in 1999. The main contribution to the fall in the sources of financing in 2012 came from strong bank deleveraging abroad, especially to majority foreign owners. The deleveraging started at the end of the second quarter and accelerated in each subsequent quarter. The highest quarterly rate was recorded in the last quarter of 2012, even if the effect of the sources drawn for the financing of the sale of claims to a large bank is excluded. Concurrently, domestic sources of financing rose markedly, spurred by all sectors except the corporate sector.

TABLE 1.10 Structure of bank sources of financing, end of period, in %

	Large banks		Medium-sized banks		Small banks		Total	
	Dec. 2011	Dec. 2012	Dec. 2011	Dec. 2012	Dec. 2011	Dec. 2012	Dec. 2011	Dec. 2012
Deposits	83.0	83.4	89.2	87.4	86.3	86.1	83.9	84.1
Loans	15.6	15.1	8.6	11.2	11.5	12.2	14.7	14.4
Debt securities issued	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Hybrid and subordinated instruments issued	1.3	1.4	2.1	1.4	2.2	1.7	1.5	1.4
TOTAL SOURCES OF FINANCING	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deposits and loans of majority foreign owner	24.0	18.7	4.5	3.5	4.1	5.1	20.5	16.1

The absence of any faster credit activity, accompanied by the said growth in domestic sources and ample liquidity in the system, prompted banks to reduce their external liabilities, so that by the end of the year, a total of HRK 16.0bn (23.3%) of loans and deposits was repaid to foreign majority owners. This was the sharpest decrease in these sources since the beginning of their separate monitoring (early 2004), which led to a fall in their share in total sources from 20.5% to 16.1% (Table 1.10). Loans and deposits received from majority foreign owners remained a stable and significant source of domestic bank growth throughout this period, and particularly from the onset of the crisis, but this trend came to a halt in 2012.

Viewed by type of sources, the sharpest decrease was seen in received deposits (HRK 5.6bn or 2.0%), followed by received loans (HRK 1.8bn or 3.6%). Despite the decline, deposits remained the dominant source of financing in all banks. The only increase in the sources was recorded in long-term issued debt securities. The re-inclusion of these instruments in the sources was attributable to one large bank. Involved here was a bond issue worth HRK 300m, so that the significance of these instruments in total sources of all banks was as little as 0.1%. Having grown rapidly in 2011, the significance of issued subordinated and hybrid instruments decreased only slightly at end-2012, due to negative changes in hybrid instruments, caused by the expiry of conditions for recognition and their conversion into share capital.

This decrease in sources was entirely due to changes in large banks which reduced their sources of financing by HRK 7.6bn or 2.8%, or, the merger effects excluded, by as much as HRK 10.1 or

19 The sources of financing include received deposits, received loans, issued debt securities and issued subordinated and hybrid instruments.

TABLE 1.11 Sectoral structure of received loans, end of period, in million HRK and %

	Dec. 2009		Dec. 2010			Dec. 2011			Dec. 2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from government units	62.2	0.1	15.2	0.0	–75.5	8.5	0.0	–44.3	6.0	0.0	–29.2
Loans from financial institutions	21,180.5	40.0	18,178.8	36.5	–14.2	17,316.5	35.2	–4.7	16,798.2	35.4	–3.0
Loans from corporates	4.6	0.0	1.7	0.0	–62.7	1.6	0.0	–5.0	788.6	1.7	48,253.5
Loans from foreign financial institutions	31,712.7	59.9	31,571.0	63.4	–0.4	31,841.5	64.8	0.9	29,805.5	62.9	–6.4
Loans from other non-residents	8.0	0.0	6.4	0.0	–20.3	4.9	0.0	–23.0	3.8	0.0	–23.2
TOTAL LOANS RECEIVED	52,968.0	100.0	49,773.1	100.0	–6.0	49,173.0	100.0	–1.2	47,402.1	100.0	–3.6
Loans from majority foreign owner	23,641.7	44.6	23,033.5	46.3	–2.6	25,128.2	51.1	9.1	23,846.2	50.3	–5.1

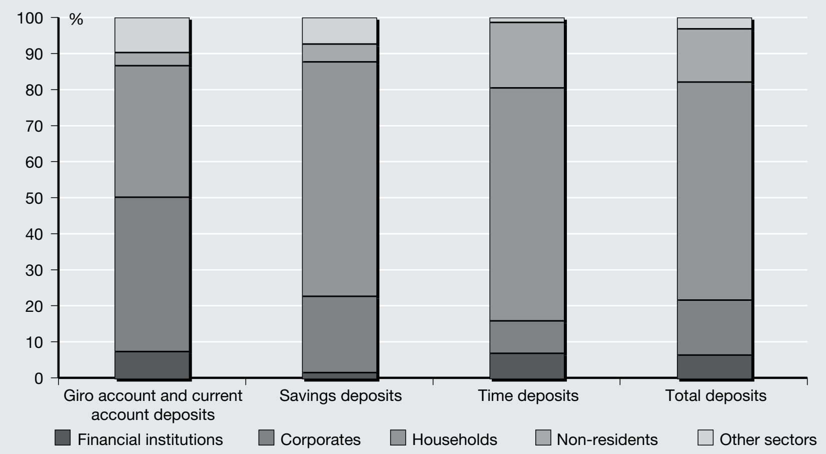
3.6%. In contrast to this, medium-sized and small banks partly offset that fall, thanks to the growth in their sources by 5.6% and 3.8% respectively (in nominal terms, the group of small banks reported a fall in the sources by about 4.8%, as a result of the merger of one small bank with a large bank). Changes in large banks greatly influenced system-wide changes, but changes in the structure of the sources of financing by groups of banks differed slightly from those at the aggregate level. Thus, in 2012, medium-sized and small banks saw a decline in the significance of deposits and instruments with characteristics of capital, while a slight increase was observed in the share of received loans in total sources. By contrast, the significance of received loans declined further at the aggregate level, due to their fall in large banks, which also led to a fall in the share of received loans in total assets of all banks (to 11.9%).

Total changes in deposits were marked by opposed movements in their two major components. External deleveraging of banks was reflected in a fall of deposits received from majority foreign owners, by a total of HRK 14.7bn (one-third). The decrease in deposits was the sharpest in large banks, where deposits fell by HRK 13.4bn (32.2%). Although the remaining two bank groups reduced deposits received from foreign owners (the medium-sized banks returned them almost completely), total sources of foreign owners in these banks increased, due to the substitution of loans for deposits.

External deleveraging of (large) banks was partly financed by an increase in domestic sources, especially household deposits. These deposits grew annually by HRK 6.9bn or 4.3%, increasing their share in total deposits by a significant 3.6 percentage points, i.e. to 60.3%. Household deposits increased in all banks (except for two small banks), from as little as 0.4% to as much as 34.2%. The bulk of this growth occurred in the fourth quarter, which is normal and related to seasonal inflows into that sector from tourism, although the surge in household savings with some small banks could probably be accounted for by simulative interest rates on time deposits. However, at the aggregate level, monthly weighted average interest rates on household time deposits (both kuna and foreign currency) decreased. Household preferences regarding the type of savings remained unchanged, so that the increase in time deposits (by HRK 7.2bn or 5.7%), especially foreign currency deposits (by 5.0%) was sharper than the total increase in household deposits. Foreign currency deposits continued to be dominant (85.8%) in the structure of household time deposits, despite the relatively strong increase in kuna deposits (11.7%) last year.

The slump in corporate deposits in the first half of the year (notably in the first quarter) was not offset in the following period, so that these deposits declined by 5.7% annually. This was a continuation of the downward trend in the share of these deposits in total deposits, as they fell from 15.8% to 15.2%.

FIGURE 1.21 Sectoral structure of received deposits, as at 31 December 2012



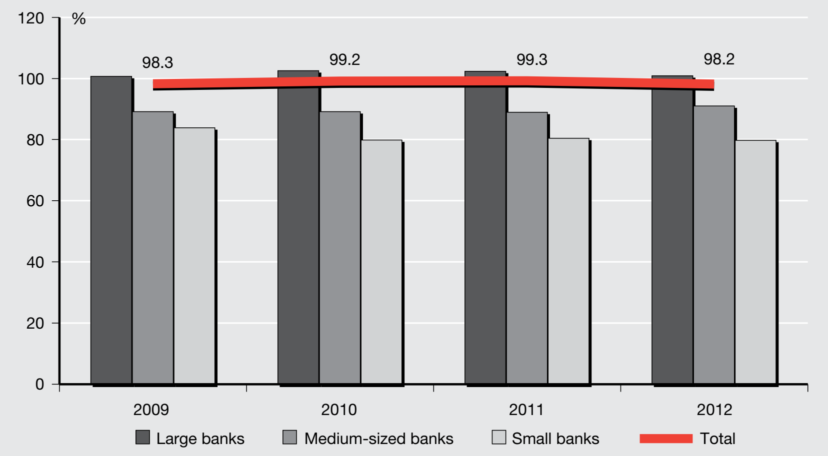
Deposits of other domestic sectors increased, particularly those of financial institutions which rose by HRK 4.6bn or 33.4%.

Changes in the maturity and currency structures of deposits were also influenced by banks' external deleveraging. This was especially pronounced in time deposits, where the repayment of HRK 15.1bn to foreign financial institutions was partly offset by the growth in domestic sectors – households and financial institutions, so that eventually, the total annual decrease in time deposits amounted to HRK 8.2bn or 3.8%. As a result, the share of time deposits in total deposits decreased by 1.4 percentage point, to 75.1%. The remaining one fourth included sight deposits, giro and current account deposits and savings deposits, which increased from the end of 2011 (by 2.6% and 6.0% respectively), owing to growth in domestic financial institutions, government units and other corporates. Large and medium-sized banks had almost equal maturity structures, with a share of time deposits of about three fourths, whereas the share of time deposits of small banks in total deposits was much larger; it even increased to 82.2% throughout the year.

In 2012, all types of deposits declined depending on their currencies. The sharpest decline in nominal terms was seen in kuna deposits (HRK 3.7bn or 4.0%), whereas the decrease in foreign currency deposits (by HRK 0.9bn or 0.5%) and foreign currency-indexed deposits (by HRK 1.0bn or 24.6%) was much slower. The decrease in kuna deposits was largely attributable to three large banks in which kuna deposits accounted for a significant share of the deposits repaid to foreign owners. As a result, the share of kuna deposits in total deposits of foreign majority owners declined from 28.0% to 25.6%. Moreover, the sharp decline in kuna time deposits was also attributable to two large companies, which contributed to a decline in total kuna time deposits of other corporates by as much as 40.2% from 2011. Mostly it was not the fall in their total deposits but the substitution of kuna time deposits by foreign currency time deposits. In contrast to this, kuna deposits grew in the financial and, as already mentioned, household sectors. The share of kuna deposits in total deposits of non-residents stood at about one third, while in the case of households, despite the increase in the significance of kuna deposits, their share in total deposits remained the lowest, 21.4%.

Accordingly, the share of currency deposits and foreign currency-indexed deposits increased slightly, to 67.9%. Euro deposits continued to have the largest share in these deposits, 85.2% (declining

FIGURE 1.22 Bank loans granted/deposits received



slightly), followed by US dollar deposits with 7.0% (and growing), while the share of deposits in Swiss francs decreased to 6.1%. Among other, less significant currencies, deposits in Australian and Canadian dollars accounted for only 10% of total currency and currency-indexed deposits.

Due to a decrease in (net) loans granted faster than that in deposits received, their ratio continued to decline. As a result, the loans granted to deposits received ratio stood at 98.2% at the end of 2012 (Figure 1.22). This ratio decreased in large and small banks, but increased in the medium-sized bank group. Despite the decrease (by 1.4 percentage points), it was again the highest in large banks (101.1%), followed by medium-sized banks (91.2%), while small banks retained the lowest ratio of loans granted to deposits received of 80.0%.

Total bank loans received (Table 1.11) declined by 3.6% from the end of 2011, standing at HRK 47.4bn at end-2012. Banks reduced loans from all sources except loans from domestic companies, which rose on account of repo loans in several banks. This decrease was mostly due to loans received from external sources. As a result, their share in total loans shrank to 62.9%. The bulk of this decrease (HRK 1.3bn or 5.1%) related to loans received from a foreign majority owner, which accounted for about a half of all loans received. Due to reduced need for funds loans received from domestic financial institutions fell, except the CBRD loans which rose by HRK 0.6bn or 4.0%, owing to loan incentive programmes.

A fall in loans received was entirely due to a decline in the group of large banks (by HRK 2.8bn or 6.5%), while loans received in the remaining two bank groups declined. The changes in the group of large banks were due to repayment of loans to foreign owners in three banks from the group. The surge in loans received in the group of medium-sized banks (by 36.5%) was caused by a new way of financing in one bank from the group (substitution of a foreign parent bank's deposits by loans). The slight increase in loans granted in the group of small banks (by 2,8%, if the merger effect is excluded) was caused by growth in loans received from foreign majority owners in two banks from this group, and, to a lesser extent, loans from the CBRD, while loans from all other domestic sources, mostly the CNB and banks, declined.

Maturity adjustment of bank assets and liabilities

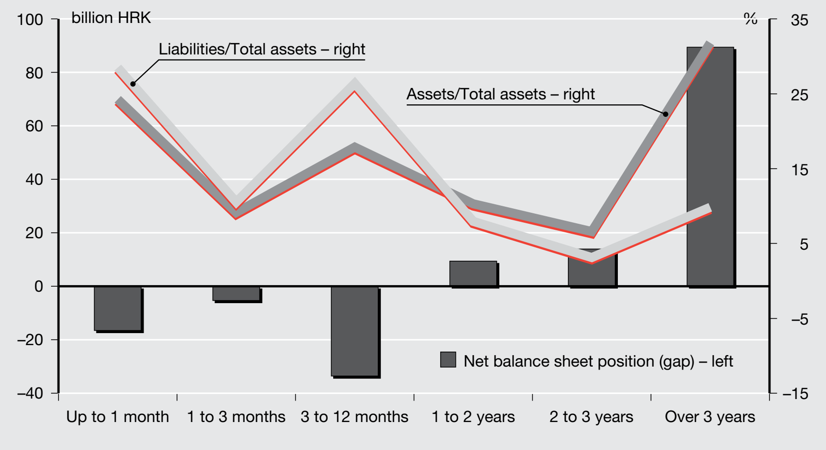
During 2012, banks reduced maturity mismatches between assets and liabilities in almost all the remaining maturity categories. However, in the categories with the largest gaps (maturities from three months to one year and over three years) the mismatch increased further (Figure 1.23).

Relative to the end of 2011, the sharpest decrease was seen in the negative short-term cumulative gap[20], (11.8bn or 17.4%), which stood at HRK 55.9bn at the end of 2012. This led to an increase in the coverage for short-term liabilities by short-term assets by 3.7 percentage points, to 78.7%.

A decline in the short-term mismatch was also influenced by a decline in short-term liabilities (notably deposit liabilities) by HRK 8.7bn or 3.2% and an increase in short-term assets (especially securities) by HRK 3.0bn or 1.5%. The so-called liquidity coefficient[21] continued to increase slightly for the fourth consecutive year, from 0.8 to 0.9 at end-2012., due to a stronger decrease in liabilities than in assets maturing within one month. On the liabilities side, this especially related to time deposits and loans received, and on the assets side, on deposits with banking institutions. The sharpest decline in short-time mismatches related to the category with the remaining maturity from one to three months, which declined from HRK 15.2bn to HRK 5.5bn. This was due to a decrease in time deposits by as much as HRK 8.3bn (18.1%), while the assets in this maturity bracket increased by 3.4% on account of loans granted. The largest gap was again in the maturity bracket from three months to one year (the mismatch stood at HRK 33.7bn, and increased further by HRK 0.9bn (2.7%). Perceptible changes on the assets side in this maturity bracket (an increase of HRK 6.2bn or 9.5%) were mainly due to the subscription of MoF T-bills, but the growth in (household) time deposits and loans received was even stronger, so that liabilities went up by HRK 7.2bn or 7.2%.

Due to the absence of any new credit activity, the medium-term loans declined. As a result, the positive gap between assets and liabilities narrowed, particularly in the maturity brackets from one to

FIGURE 1.23 Asset and liability maturity match or mismatch, as at 31 December 2012



20 The gap represents the difference between net assets and liabilities with the same term to maturity and includes all remaining maturity categories up to one year. A positive gap is a situation in which a bank's assets exceed its liabilities in a given period and a negative gap is a situation in which a bank's liabilities exceed its assets in a given period.

21 The ratio between total assets with a remaining maturity up to one month and total liabilities with the same remaining maturity.

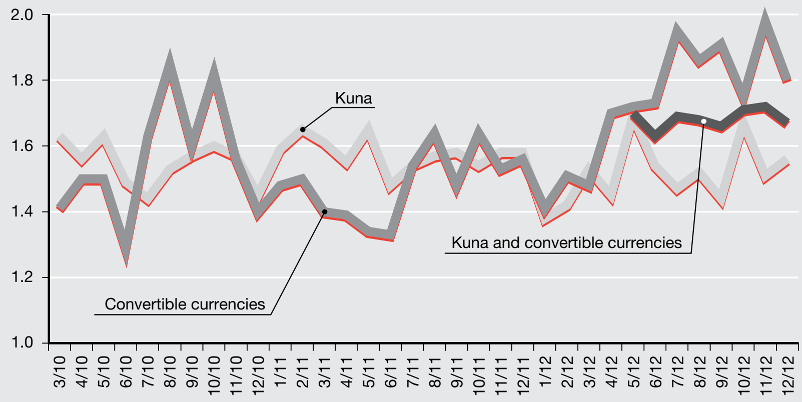
two years (by HRK 6.5bn or 40.1%), and in the category from two to three years (by HRK 6.5bn or 31.6%). By contrast, the gap between assets and liabilities in the maturity bracket over three years increased further by HRK 2.8bn or 3.2%.

Minimum liquidity coefficient[22]

In order to encourage lending and accelerate economic recovery, changes were introduced in the regulations governing liquidity risk[23] in 2012, with a view to relaxing requirements for the maintenance of the minimum liquidity coefficient (MLC). Thanks to these changes, in the period from 1 May 2012 to 30 June 2013, banks were allowed to maintain the MLC collectively, i.e. for kuna and all non-convertible currencies together. Moreover, in the said period, but no longer than for seven calendar days during the reporting month, banks were allowed to maintain the coefficient collectively at a level 10% below one (i.e. 0.9%), regardless of the time zone (up to one week or up to one month).

The aggregate minimum liquidity coefficients were maintained within a narrow range throughout the year, and remained well above the prescribed minimum (Figure 1.24). At the end of the year, the MLC of all banks maintained on a collective basis for a period up to one week stood at 2.3, and for a period of up to a month at 1.8. Small banks, as usual, reported the highest coefficients in both periods (4.0 and 2.8 respectively), although some banks from this group had difficulties in maintaining the minimum prescribed MLC on a collective basis. Large and medium-sized banks recorded much lower values, closer to the average for all banks. Consequently, in the two reference periods the MLC on a collective basis for medium-sized banks amounted to 2.0 and 1.5 respectively, and for large banks 2.3 and 1.6 respectively.

FIGURE 1.24 Minimum liquidity coefficient for the period of up to 1 month



Note: From 1 May 2012 until 30 June 2013, by way of exception, the credit institutions meet the minimum liquidity coefficient requirement on a collective basis, i.e. for kuna and all convertible currencies combined.

22 The obligation to calculate the minimum liquidity coefficient (MLC) was introduced in 2010. The MLC is calculated as the ratio of expected inflows (currently negotiable assets included) and the expected outflows in the last two given periods (up to one week and up to one month). The MLC is calculated for kuna, all convertible currencies together and for each non-convertible currency individually (depending on its significance).The MLC must be equal to one or greater than one in both given periods and by all currencies in question. By way of exception, in the period from 1 May 2012 to 30 June 2013, the MCL was allowed to be maintained collectively, i.e. for kuna and all non-convertible currencies together.

23 Decision on amendments to the Decision on liquidity risk management (OG 47/2012 and 142/2012).

Readily marketable assets (RMA)[24] increased only slightly from the previous year (by HRK 0.5bn or 0.9%) and stood at HRK 59.8bn. In view of the annual fall in bank assets, the share of RMA in total bank assets went up at a slightly faster pace, reaching almost 15.0%. The low rate of growth in readily marketable assets in 2012, despite the sharp changes in bank assets, was due to simultaneous but opposed movements in individual RMA items. The most pronounced was the increase in the MoF T-bills at the expense of deposits with banking institutions, owing to which total investments in readily marketable securities became the largest RMA item, accounting for 35.3%, while one half related to the MoF T-bills. Another 27.1% related to deposits held with the CNB, the share of which increased due to a rise in deposited liquidity surpluses. By contrast, the share of deposits/loans with credit institutions decreased by 8.7 percentage points, i.e. to 26.2%.

The currency structure of readily marketable assets saw only slight changes, i.e. the kuna share[25] increased to 54.6% (by 2.3 percentage points), due to an increase in almost all items. At the same time, assets in convertible currencies declined by 0.6%, as a result of a fall in deposits/loans with credit institutions. This fall was only partly offset by the total increase arising from T-bills. The bulk of the kuna RMA again related to deposits with the CNB (49.7%), and about one fourth to the MoF T-bills. Slightly over one half of readily marketable assets in convertible currencies were placed in deposits/loans with credit institutions, and almost the entire remaining share in securities, mostly held in the available-for-sale portfolio.

Small banks accounted for the largest share of RMA in total assets (17.4%), up 1.0 percentage point, while the shares of large and medium-sized banks remained almost unchanged (14.7% and 14.8% respectively). In 2012, only medium-sized banks saw a perceptible change in the value of their readily marketable assets, which declined by 10.0% as a result of a fall in deposits/loans with credit institutions in convertible currencies, sharper than the increase in investments in securities.

1.2.6 Currency adjustment of bank assets and liabilities

At the end of 2012, the share of foreign currency assets in total assets of banks, as in the case of their foreign currency liabilities (items in foreign currencies and items in kuna with a currency clause, the so-called foreign currency-indexed items) remained approximately the same (about two thirds). Three currencies again predominated in the currency structure of both foreign currency assets and liabilities, accounting for 98% of the totals (euro, Swiss Franc and US dollar).

During 2012, the kuna depreciated against the most widely represented foreign currency in bank balance sheets (the euro) by 0.2% and against the Swiss franc by 0.8%. By contrast, the domestic currency strengthened against the US dollar by 1.6%. As a result, the real decline in bank assets, the exchange rate effects excluded, was slightly sharper than the nominal one (1.7%), and was 1.9%.

24 Readily marketable assets (RMA) are those assets which may be turned into cash quickly (within four working days) and easily (with no significant losses).

25 For the purposes of calculating the minimum liquidity coefficient, exposures in kuna with a currency clause are considered exposures in kuna.

FIGURE 1.25 Long foreign exchange position of banks, quarterly averages

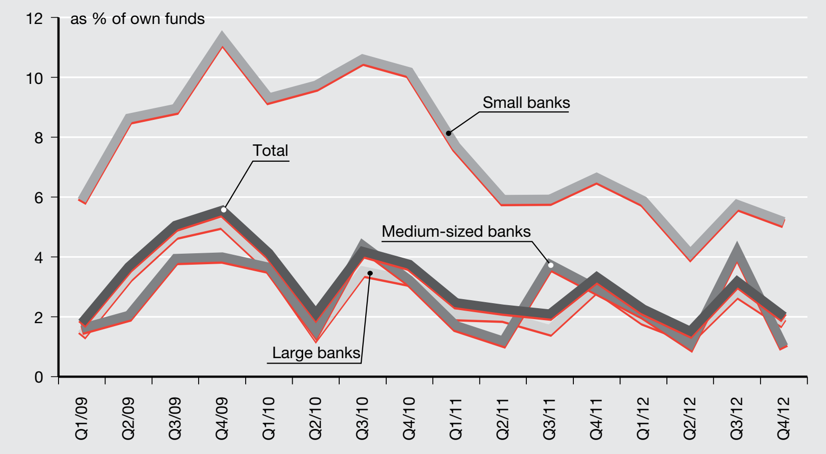
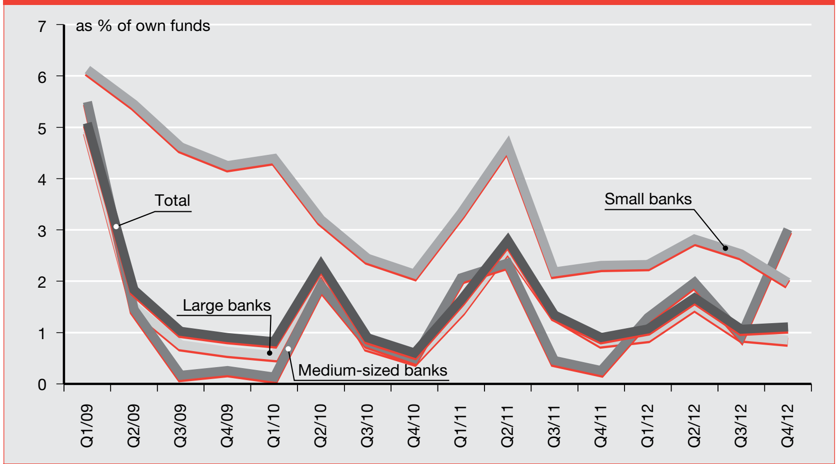


FIGURE 1.26 Short foreign exchange position of banks, quarterly averages



Total foreign currency assets of banks decreased by 3.2% (HRK 8.4bn), almost double the rate of decline in their total assets. This was a continuation of the decline in the share of foreign currency assets in total bank assets, which stood at 64.0% at the end of 2012, a record low in the past three-and-a-half years. The bulk of the decrease in foreign currency assets related to kuna assets indexed to a foreign currency which declined by 4.3% (HRK 7.2bn), while foreign currency assets shrank by 1.2% (HRK 1.2bn). As a result, at the end of 2012, kuna assets indexed to a foreign currency accounted for over one third (39.8%) and foreign currency assets for slightly less than a fourth (24.2%) of total bank assets.

Total foreign currency liabilities of banks decreased by 1.2% (HRK 2.9bn) in 2012, but, as in the case of total foreign currency assets, the bulk of the decrease related to the currency-indexed items, which fell by a significant 9.4% (HRK 1.5bn), while foreign currency liabilities decreased by as little as 0.6%. However, given their much larger share in total liabilities, the amounts of the decreases in nominal terms were almost equal, HRK 1.4bn. As the decrease in kuna liabilities was even sharper (5.1%), the share of foreign currency liabilities in total liabilities increased by almost a whole percentage point (to 68.6%), reaching a record high since the end of the first quarter of 2011. At the end of the reference period, foreign currency liabilities accounted for 64.4% and foreign currency-indexed liabilities for as little as 4.2% of total bank liabilities.

At end-2012, banks kept a long average open foreign exchange position, although it was slightly lower than at the end of 2011, standing at 3.2% of own funds. The open foreign exchange position was long in all bank groups. It was the highest in small banks (6.1% of own funds), while medium-sized banks maintained it at the level of 3.2%, with an only slight increase relative to end-2011. The average open position was the lowest in large banks (2.8% of own funds).

1.2.7 Interest rate risk in the non-trading book

At the end of 2012, bank exposure to interest rate risk, measured by the change in the economic value of the non-trading book (the total net weighted position)[26] in own funds, remained far below the legally prescribed limit of 20%. This change in the economic value amounted to HRK 962.5m, 1.7% of own funds. The amount of this ratio remained unchanged from the end of 2011. The share of change in the economic value in own funds did not change, because it increased insufficiently (by slightly below 5%), while own funds remained almost the same (or went up only slightly).

As in the previous periods, the largest share of interest rate-sensitive assets and liabilities was in short-term zones of up to one year. Given that the weight is very low in the shortest time zones, the

TABLE 1.12 Interest rate risk in the non-trading book, as at 31 December 2012, in million HRK and %

Currency	Interest rate type	Net position (before weighting)	Net weighted position
HRK	Administered interest rate	–19,714.4	–280.6
	Variable interest rate	35,814.9	421.9
	Fixed interest rate	8,101.1	450.0
EUR	Administered interest rate	–11,357.8	353.0
	Variable interest rate	62,222.0	144.9
	Fixed interest rate	–42,640.7	11.2
CHF	Administered interest rate	21,244.7	189.9
	Variable interest rate	–10,497.9	–34.0
	Fixed interest rate	–4,039.1	–206.1
USD	Administered interest rate	–1,014.8	–14.5
	Variable interest rate	880.4	0.7
	Fixed interest rate	–1,729.2	–6.1
Other	Administered interest rate	–7,799.0	–47.5
	Variable interest rate	3,338.9	–0.6
	Fixed interest rate	3,257.2	–19.7
Change in the economic value of the non-trading book			962.5
Own funds			55,800.3
Relative ratio: Change in the economic value of the non-trading book/Own funds			1.7

26 Interest rate risk in the non-trading book is due to maturity mismatch/revaluation of interest rates of non-trading book positions. For the purpose of measuring the effect of interest rate risk in the non-trading book, credit institutions are obliged to apply a standard interest rate shock which implies a parallel shift in all interest-bearing non-trading book positions (regardless of the type of interest rate and currency) in the reference yield curve of 200 basis points (2%). All interest rate-sensitive items of the non-trading book are distributed into 13 time zones and weighted by appropriate weights, calculated by multiplying the estimated modified duration for each time zone and assumed interest rate shock. The result is the estimated change in the economic value of the non-trading book, i.e. the estimated present value of all expected net cash flows, measured by the net weighted position, which may not exceed 20% of own funds.

amount of the net weighted position in the time zone from six months to one year was the only major amount (HRK 331.7m, slightly over one third of total net weighted positions of banks).

As at the end of 2011, the bulk of the interest rate-sensitive assets related to items with a variable interest rate (42.0%) which were the only items which increased their share, by slightly over two percentage points. The share of items with an administered interest rate remained unchanged (standing at slightly over one third or 35.4%), while items with a fixed interest rate continued to have the lowest share in interest-bearing assets (22.6%). Both of these shares declined by slightly more than 1% in the past year. In interest rate-sensitive liabilities, liabilities with an administered interest rate led the way with the share of 45.0%, while items with a fixed interest rate accounted for slightly over a third (36.3%). Liability items with a variable interest rate accounted for the smallest share (18.7%). Only items with the largest shares, i.e. those with an administered rate (as in the case of assets) increased (by 3.5%), while the remaining two groups of items declined by slightly more than 1.5%.

As in 2011, the amount of net weighted position was the largest for items with a variable interest rate, more than a half (55.4%) of the total change in economic value, mostly due to a surplus of assets over liabilities thanks to deposits associated with reserve requirements. The weighted positions with variable and fixed interest rates increased by 17.2% and 14.6% respectively, while the position with an administered interest rate decreased by 22.0%.

The greatest sensitivity to interest rate changes was seen in the positions in kuna, which decreased slightly in 2012 (by 6.9%). The net weighted position in kuna was positive and stood at HRK 591.3m, while the total positive net weighted position in euros was only slightly lower (HRK 509.1m). The positions in all other currencies were negative, as at the end of 2011 (HRK 19.9m for the positions in US dollars, HRK 50.2m for the positions in Swiss francs and HRK 67.9m for those in other currencies).

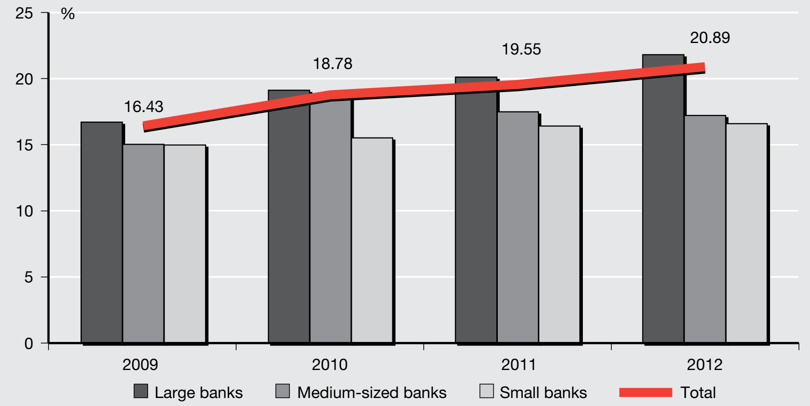
The ratio between the change in the economic value and own funds by bank groups did not change significantly from 2011. It was the highest for medium-sized banks and the lowest for large banks. Interest rate risk exposure in the non-trading book was lower than permitted in all banks, and two banks reported the ratios between the change in the economic value of the non-trading book and own funds of over 10%.

1.2.8 Capital adequacy

The growth in the bank capital adequacy ratio continued during 2012, and it stood at 20.89% at the end of the reference period. This growth amounted to almost one-and-a-half percentage points (Figure 1.27) and has been recorded for four consecutive years, since the beginning of the application of Basel II standards in March 2010. Including this increase, the ratio reached a record high since the end of 2000, when it stood at 21.27%. The movements in the capital adequacy ratio were due to both an increase in regulatory capital and a decrease in capital requirements, mostly due to a decline in bank credit activities.

The sharpest increase in the capital adequacy ratio was seen in large banks, where it was already the

FIGURE 1.27 Bank capital adequacy ratio



Note: Basel II has been applied since 31 March 2010 and the minimum capital adequacy ratio is 12% (as compared to the previous 10%).

highest among all bank groups (21.83%). Higher rates were also recorded in small banks, which had the lowest rate of 16.61%. By contrast, the rates in medium-sized banks fell to 17.23%.

At the end of 2012, two small banks (with the share in total bank assets smaller than 0.5%) reported capital adequacy ratios lower than the legally prescribed minimum of 12%. One of these banks brought its rate into line with the legal provisions in January 2013, whereas supervisory measures are being undertaken in the other bank. In most of the banks, the rates much exceeded the statutory minimum (Table 1.15).

Banks' own funds increased by 1.8% over the last year (slightly less than HRK 1bn) and amounted to HRK 55.8bn. This increase was due to a rise in original own funds by HRK 2.2bn or 4.4%, accompanied by a decline in additional own funds by slightly more than a fourth, i.e. by HRK 1.2bn or 26.3%.

The rise in original own funds was due to the recapitalisation of nine small banks and the retention of a portion of banks' earnings generated in 2012. By contrast, the exclusion of hybrid and subordinate instruments and their decline at rates higher than 10% (hybrid instruments decreased by HRK 0.4bn and subordinate instruments by HRK 0.2bn) resulted in a high rate of decline in additional own funds. However, a part of this decline was a transfer to original own funds, due to the conversion of hybrid instruments into share capital. As a result, the share of original own funds in own funds increased and stood at 93.9% at end-2012.

The groups of large and medium-sized banks increased their own funds by 2.2% and 3.2% respectively during the reference period. Small banks recorded a fall in own funds by 4.4%. Original own funds grew in the first two groups of banks, but fell by 1.3% in the group of small banks due to operating at a loss, despite recapitalisation. All bank groups reported a fall in additional own funds. This fall exceeded 20% in the groups of large and small banks, mostly due to a decline in hybrid instruments. Medium-sized banks reduced this capital component by less than 2%, as a result of a fall in subordinate instruments.

In addition to the increase in own funds, a decrease in total capital requirements also contributed to the growth in capital adequacy ratio in 2012. They fell by 4.7% (HRK 1.6bn) in 2012 and stood at HRK 32.1bn. As a result, surplus own funds increased by slightly more than 12%, to HRK 23.7bn.

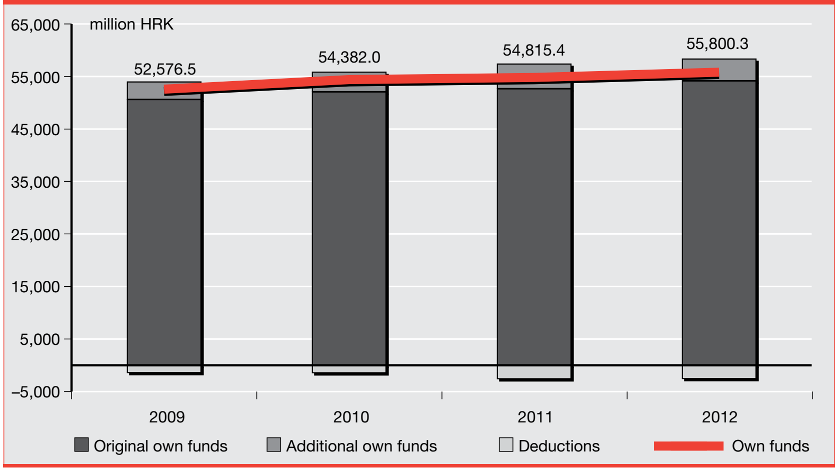
TABLE 1.13 Own funds, capital requirements and capital adequacy ratio of banks, as at 31 December 2012, in million HRK and %

	Large banks		Medium-sized banks		Small banks		Total	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Own funds	47,157.0	100.0	4,533.8	100.0	4,109.5	100.0	55,800.3	100.0
ORIGINAL OWN FUNDS	46,321.8	98.2	4,191.7	92.5	3,660.3	89.1	54,173.9	97.1
Paid up capital (excl. cumulative preferential shares) net of own shares	26,462.9	56.1	3,714.2	81.9	4,011.8	97.6	34,188.9	61.3
Reserves and retained earnings	20,267.8	43.0	598.2	13.2	–212.6	–5.2	20,653.4	37.0
Other	–408.9	–0.9	–120.6	–2.7	–138.9	–3.4	–668.4	–1.2
ADDITIONAL OWN FUNDS	3,292.9	7.0	409.5	9.0	455.9	11.1	4,158.3	7.5
Paid-up cumulative preferential shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid and subordinated instruments	3,292.9	7.0	409.5	9.0	484.3	11.8	4,186.6	7.5
Other	0.0	0.0	0.0	0.0	–28.3	–0.7	–28.3	–0.1
ITEMS DEDUCTED FROM ORIGINAL OWN FUNDS AND ADDITIONAL OWN FUNDS	–2,457.7	–5.2	–67.4	–1.5	–6.8	–0.2	–2,531.9	–4.5
Capital requirements	25,926.0	100.0	3,158.1	100.0	2,969.8	100.0	32,053.9	100.0
CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	22,844.0	88.1	2,688.3	85.1	2,671.3	90.0	28,203.6	88.0
Standardised approach	19,724.0	76.1	2,688.3	85.1	2,671.3	90.0	25,083.6	78.3
Corporates	8,335.9	32.2	1,148.6	36.4	1,079.2	36.3	10,563.7	33.0
o/w: Secured by real estate property	44.0	0.2	0.1	0.0	55.0	1.9	99.1	0.3
Retail	9,293.5	35.8	1,317.4	41.7	1,245.8	41.9	11,856.7	37.0
o/w: Secured by real estate property	472.3	1.8	13.4	0.4	39.2	1.3	525.0	1.6
Other	2,094.6	8.1	222.3	7.0	346.4	11.7	2,663.2	8.3
IRB approach	3,120.0	12.0	–	–	–	–	3,120.0	9.7
Corporates	1,870.6	7.2	–	–	–	–	1,870.6	5.8
Retail	740.4	2.9	–	–	–	–	740.4	2.3
SETTLEMENT/DELIVERY RISKS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
POSITION, FOREIGN EXCHANGE AND COMMODITY RISKS	477.1	1.8	124.6	3.9	27.0	0.9	628.7	2.0
o/w: Internal models	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Traded debt instruments	334.2	1.3	49.6	1.6	0.2	0.0	384.0	1.2
Foreign exchange	128.5	0.5	23.1	0.7	26.7	0.9	178.3	0.6
Other risks	14.4	0.1	51.9	1.6	0.1	0.0	66.4	0.2
RISK OF EXCEEDING THE PERMITTED EXPOSURE LIMITS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OPERATIONAL RISK	2,604.9	10.0	345.3	10.9	271.4	9.1	3,221.6	10.1
Simplified approach	0.0	0.0	130.7	4.1	271.4	9.1	402.1	1.3
Standardised approach	1,261.3	4.9	214.6	6.8	0.0	0.0	1,475.9	4.6
Advanced measurement approach	1,343.6	5.2	0.0	0.0	0.0	0.0	1,343.6	4.2
Surplus/deficit of own funds	21,231.0	–	1,375.7	–	1,139.7	–	23,746.4	–
Capital adequacy ratio	21.83	–	17.23	–	16.61	–	20.89	–

This decrease in capital requirements was, as always before, primarily due to a fall in the level of the largest of all capital requirements, i.e. the capital requirement for credit risk (which includes the counterparty, dilution and free delivery risks). This requirement accounted for 88.0% of total capital requirements at the end of 2012. As it decreased at a slightly higher rate during the observed year (5.8%) than did total capital requirements, its share went down as well. The share of capital requirement for operational risk stagnated, while only the share of requirements for position, currency and commodity risks increased, by slightly more than a fourth (26.4%).

The groups of large and small banks reduced their capital requirements by 5.7% and 4.7% respectively, while capital requirements of medium-sized banks went up by 4.9%. In all groups of banks,

FIGURE 1.28 Bank own funds



this was primarily due to movements in the capital requirement for credit risk, which decreased in large and small banks, by 6.8% and 4.5% respectively, but increased by 2.4% in medium-sized banks.

The bulk of the capital requirement for credit risk[27] related to the calculation according to the standardised approach. With the exception of one large bank which used the internal ratings-based approach (IRB) for the bulk of its exposure, all other banks exclusively applied the standardised approach. Therefore, the capital requirement calculated under this approach accounted for the bulk (88.9%) of the total capital requirement for credit risk. In 2012, both components of the capital requirement for credit risk decreased, the one calculated according to the standardised approach by 5.2% and the one obtained under the IRB approach by 9.9%.

Total net risk-weighted amount of bank exposure to credit risk under the standardised and IRB approaches declined by 1.4% or HRK 5.7bn, and stood at HRK 417.2bn. Despite the increase in net exposure according to the IRB approach by 10.8%, the decrease was caused by a fall in the amount of exposure according to the standardised approach (which accounted for 86.1% of total net exposure) by 3.1%. The decrease in the net amount (91.8%) related almost entirely to two categories, households and corporates, which jointly accounted for over a half of total exposure (55.8%). Net exposure of households and corporates declined by 4.4% and 5.7% respectively. This fall was partly due to a decrease in exposures to institutions and other exposures (to multilateral development banks, international organisations, exposures in the form of covered bonds and other) by 3.5% and 7.6% respectively. Exposure to central governments and central banks, the third largest exposure, with a share of almost one third (29.4%), remained almost unchanged from 2011 (a negligible rise of 0.2%).

However, the decrease in the amount after risk-weighting was larger, 5.8% (HRK 14.4bn). This was due to a marked decline in the results of the risk-weighting of balance sheet items by HRK 13.3bn

27 The capital requirements for credit risk are obtained by multiplying the credit risk-weighted exposure by 12% (the minimum capital adequacy ratio). The credit risk-weighted exposure amount is obtained by multiplying the exposure that is being weighted by the relevant credit risk weight. Under the standardised approach, the prescribed risk weights are used for some categories, depending of the external credit risk assessment. Under the IRB approach, the risk components (PD, LGD, EAD and M) are transformed into risk weighted assets and, consequently, into capital requirements. Some risk components are calculated by banks themselves, where the foundation IRB (FIRB) and the advanced IRB (AIRB) are distinguished by the share of input parameters obtained from a bank's own estimates and that determined by the supervisor. Under the advanced approach, the share of input parameters provided by banks is larger than under the foundation approach. Credit institutions may apply the IRB approach subject to approval by the CNB.

TABLE 1.14 Breakdown of net exposure to credit risk by risk weights, as at 31 December 2012, in million HRK

	Retail	Corporates	Central governments and central banks	Institutions	Public sector entities	Local and regional self-government	Collective investment undertakings	Other	Equity investment	Total
STANDARDISED APPROACH										
Total exposure	113,697.7	86,587.5	105,653.2	25,631.3	7,096.5	3,159.3	559.3	16,868.2	–	359,253.1
On-balance sheet items	109,876.6	71,542.9	104,668.3	23,531.6	6,173.4	3,072.1	559.3	16,439.4	–	335,863.8
Off-balance sheet items	3,818.6	14,014.0	638.8	649.8	601.5	87.2	0.0	136.5	–	19,946.6
Securities transactions and long settlement transactions	0.0	411.7	0.2	349.5	106.4	0.0	0.0	292.3	–	1,160.0
Derivative financial instruments	2.5	618.8	346.0	1,100.4	215.2	0.0	0.0	0.0	–	2,282.8
Contracts for novation and other netting agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	0.0
Breakdown of total exposure by risk weights										
Weight 0%	0.0	0.0	102,302.4	17.8	4,070.2	0.0	0.0	7,729.3	–	114,119.7
Weight 10%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	–	0.2
Weight 20%	0.0	23.8	15.3	16,173.0	18.3	262.8	40.0	670.7	–	17,204.0
Weight 35% (residential real estate property)	12,156.7	502.4	0.0	0.0	0.0	0.0	0.0	1.7	–	12,660.8
Weight 50%	239.9	1,300.0	3,285.0	8,635.2	2,932.6	2,880.5	11.4	0.0	–	19,284.7
o/w: Commercial real estate property	239.9	1,299.4	0.0	0.0	0.0	0.0	0.0	0.0	–	1,539.4
Weight 75%	34,194.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–	34,194.4
Weight 100%	63,750.0	79,667.5	46.9	794.9	73.8	0.8	454.8	8,349.1	–	153,137.9
o/w: Past due items	3,024.5	5,191.4	0.0	0.2	0.0	0.0	0.0	15.5	–	8,231.7
Weight 150%	3,356.8	4,958.6	3.5	10.4	1.6	15.2	53.1	25.7	–	8,424.8
o/w: Past due items	2,809.5	4,166.4	3.2	7.2	1.6	15.1	0.0	16.9	–	7,019.9
Other risk weights	0.0	135.1	0.0	0.0	0.0	0.0	0.0	91.5	–	226.6
Credit risk mitigation techniques – substitution effects										
Total outflow	–1,093.1	–5,714.4	–6.0	–287.5	–17,526.9	–29.7	0.0	–86.6	–	–24,744.2
Total inflow	9.7	190.4	19,951.7	493.6	56.3	498.4	0.0	1,454.6	–	22,654.6
IRB APPROACH										
Total exposure	18,303.8	18,417.2	18,561.7	2,534.2	–	–	–	–	115.1	57,932.1
On-balance sheet items	17,880.6	16,770.1	18,554.2	1,823.2	–	–	–	–	115.1	55,143.3
Off-balance sheet items	423.2	1,554.7	7.5	19.4	–	–	–	–	–	2,004.8
Securities transactions and long settlement transactions	0.0	62.3	0.0	597.1	–	–	–	–	–	659.3
Derivative financial instruments	0.0	30.1	0.0	94.6	–	–	–	–	–	124.7
Contracts for novation and other netting agreements	0.0	0.0	0.0	0.0	–	–	–	–	–	0.0
Credit risk mitigation techniques – effects of PD adjustment										
Total outflow	0.0	–150.0	0.0	0.0	–	–	–	–	0.0	–150.0
Total inflow	0.0	0.0	2,220.1	19.4	–	–	–	–	0.0	2,239.5

or 5.9%. This was mostly attributable to the risk-weighted value obtained under the standardised approach (HRK 11.5bn) which decreased by 5.2%.

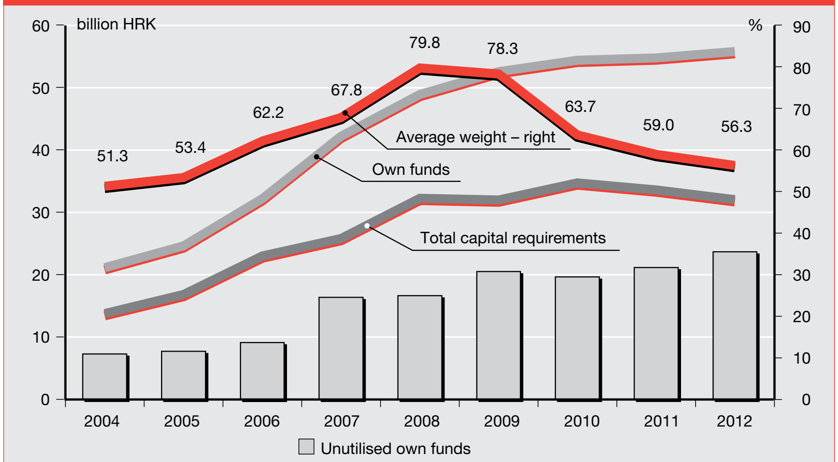
All banks used credit risk mitigation techniques during 2012. Mostly used were weight substitution techniques (which accounted for over one half or 55.3% of total credit protection) and the financial collateral comprehensive method (about one fourth), while other methods were used to a lesser extent. The amount of recognised credit protection totalled HRK 44.8bn. This represented a decrease of 18.9% or HRK 10.4bn from 2011. Slightly over a half (52.0%) of this protection related to unfunded credit protection (guarantees, counter-guarantees and credit derivatives) and the rest was funded protection (mainly collateral, balance sheet netting and standardised netting agreements)[28]. Both forms of credit protections decreased in 2012 (by 15.4% and 22.4% respectively).

As at the end of 2011, guarantees and counter-guarantees (a form of unfunded protection) accounted for over a half of the total amount of credit protection, and stood at HRK 23.3bn (down HRK 4.2bn), followed by financial collateral as the most represented form of funded credit protection, amounting to HRK 19.4bn. Its value decreased by one-fourth from the previous year, and the bulk of this funded credit protection instrument was recognised using the financial collateral comprehensive method (HRK 11.7bn). This method continued to be used mainly by large banks. The total level of this form of credit protection decreased by 13.7% from the previous year. This decline in the use of credit mitigation techniques was caused by not only the fall in total credit exposure, but also and especially by reduced relationships with parent banks.

The decrease in the net amount of bank exposures after the application of credit risk mitigation techniques according to the standardised approach (by HRK 11.5bn) was almost entirely due to a decline in this amount within a 100% weight (by HRK 12.1bn or 7.3%). As a result of this (and also due to a shift in other classes of net amount weighted, i.e. a decline in 0% and 20% weights in favour of 35% and 50% weights, and, to a lesser extent, a decline in the 150% weight), the relative decline in the weighted amount was sharper (5.2% or, in absolute terms, HRK 11.5bn) than the decline in the net amount itself.

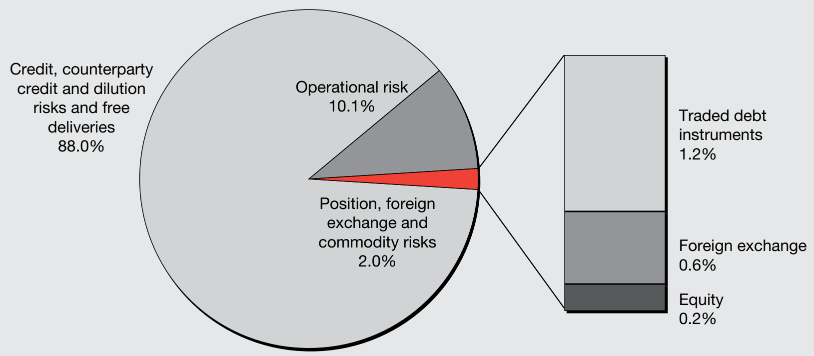
In the calculation of capital requirements for credit risk under the standardised approach, the decrease in net exposure with a 100% weight mainly related to households (HRK 8.4bn) and, half as much, to the category of corporates, the exposure to which further decreased by HRK 4.1bn. In each of the two categories, total exposure for all weights decreased by more than 5 billion kuna each. In the institutions category, exposures for the 20% weight were moved to the 50% class in a slightly lower amount of HRK 4bn. Under the internal ratings-based approach, the bulk of the increase in exposure related to the central government and central banks categories (HRK 5.2bn).

FIGURE 1.29 Average credit risk weight



28 The funded and unfunded credit protections are the two forms of protection available to credit institutions.

FIGURE 1.30 Structure of bank total capital requirements, as at 31 December 2012



The average total credit risk weight continued to decline (as it has for more than three years) at a rate of 2.6%. It reached 56.3% at end-2012. The decline was much sharper under the IRB approach (by 10%), to 44.3%, due to a serious decrease in the weight for corporates (14.4%). The average weight under the standardised approach was 58.2%, down 1.3% primarily due to a reduction in the weight for funds granted to the household sector (by 2.2%) and, to a lesser extent, due to a decline in weights for corporate placements (by 0.9%).

Although the capital requirement for operational risk rose in 2012 by as little as 0.3%, its share in total capital requirements continued to increase. It stood at HRK 3.2bn, thus exceeding a 10% share in total capital requirements of banks (it stood at 10.1%). The share of this capital requirement in total capital requirements was the largest in medium-sized banks (10.9%), while in large banks, accounting for 80.9% of this capital requirement, it was as expected equal to the total capital requirements of the banking system, 10.1%. Two large banks assessed their capital requirements for operational risk[29] using the advanced approach. The standardised approach was applied by seven banks, while the remaining banks used the simple approach.

TABLE 1.15 Breakdown of bank capital adequacy ratio, end of period

	Dec. 2009		Dec. 2010		Dec. 2011		Dec. 2012	
	Number of banks	Share in bank assets (%)	Number of banks	Share in bank assets (%)	Number of banks	Share in bank assets (%)	Number of banks	Share in bank assets (%)
Ratio lower than 10%	0	0.0	3	1.0	0	0.0	1	0.3
Ratio from 10% to 12%	6	5.8	0	0.0	1	0.5	1	0.1
Ratio from 12% to 15%	11	25.9	9	13.2	9	9.5	7	7.1
Ratio from 15% to 20%	9	55.3	11	55.2	13	34.6	12	37.5
Ratio higher than 20%	8	13.0	10	30.6	9	55.4	10	55.1

Note: From 31 March 2010 on. the minimum capital adequacy ratio is 12% (10% prior to this date).

29 Banks are offered three approaches for the assessment of operational risk exposure: the basic indicator approach, the standardised approach and the advanced approach. The regulatory capital requirement under the basic approach is set at about 15% of the average value of the last three annual calculations of the so-called relevant indicator which is based on net income from all bank activities. The standardised approach implies the classification of business activities into set business lines, where for each business activity a relevant indicator is calculated, weighted by the given rate of initial capital requirements, which ranges from 12% to 18%. The advanced measurement approach is a fully internally-based model for operational risk measurement which best reflects the specific exposure of a bank and implies fulfilment of a number of conditions before permission to use it can be obtained.

Despite its strong relative increase by over one-fourth (26.4%), the capital requirement for position, currency and commodity risks was again the lowest, accounting for slightly less than 2% of total capital requirements. The largest share of this capital requirement in total capital requirements was recorded in the group of medium-sized banks (3.9%); in large banks, it was half as large and in small banks it was below 1%.

This increase in unutilised own funds of banks was due to their growth (by 13.9%) in large banks (where they accounted for the largest share in own funds, 45%), while their share in medium-sized and small banks decreased a little. The share of unutilised own funds in total own funds rose by almost four percentage points, and accounted for 42.6% of total own funds at end-2012.

1.3 Housing savings banks

At the end of 2012, there were again five housing savings banks in the Republic of Croatia, and their already small market share declined further. Consequently, housing savings banks accounted for 1.8% of the total assets of credit institutions. Four savings banks were in direct or indirect foreign ownership and one was in indirect domestic state ownership.

1.3.1 Balance sheet

The assets of housing savings banks decreased continuously during the first three quarters of 2012. It was only in the last quarter that the usual increase in housing savings associated with government incentives paid to savers resulted in the growth of assets. However, this increase was insufficient to offset the changes from the previous part of the year. Thus, in 2012, housing savings banks' assets declined by 5.0%, to HRK 7.5bn (Table 1.16).

FIGURE 1.31 Assets, deposits and loans of housing savings banks

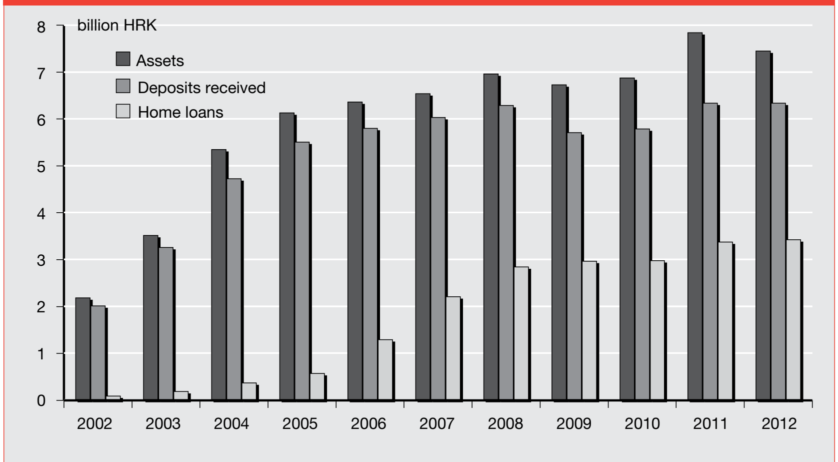


TABLE 1.16 Structure of housing savings bank assets, end of period, in million HRK and %

	Dec. 2009		Dec. 2010			Dec. 2011			Dec. 2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Money assets and deposits with the CNB	0.0	0.0	0.0	0.0	–28.6	0.0	0.0	60.0	0.0	0.0	–41.7
Money assets	0.0	0.0	0.0	0.0	–28.6	0.0	0.0	60.0	0.0	0.0	–41.7
Deposits with the CNB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits with banking institutions	177.8	2.6	185.0	2.7	4.1	669.7	8.5	262.1	723.1	9.7	8.0
MoF treasury bills and CNB bills	295.4	4.4	570.6	8.3	93.2	668.1	8.5	17.1	594.1	8.0	–11.1
Securities and other financial instruments held for trading	0.0	0.0	0.0	0.0	0.0	194.0	2.5	0.0	218.4	2.9	12.6
Securities and other financial instruments available for sale	71.5	1.1	137.4	2.0	92.3	210.4	2.7	53.1	417.5	5.6	98.5
Securities and other financial instruments held to maturity	794.5	11.8	798.6	11.6	0.5	820.4	10.5	2.7	647.8	8.7	–21.0
Securities and other financial instruments not traded in active markets but carried at fair value	99.7	1.5	101.6	1.5	1.9	99.9	1.3	–1.6	19.5	0.3	–80.5
Derivative financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans to financial institutions	117.0	1.7	73.6	1.1	–37.1	90.9	1.2	23.5	69.3	0.9	–23.8
Loans to other clients	4,847.8	71.9	4,689.1	68.1	–3.3	4,756.1	60.6	1.4	4,451.4	59.7	–6.4
Investments in subsidiaries and associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreclosed and repossessed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Tangible assets (net of depreciation)	7.5	0.1	7.2	0.1	–3.5	6.2	0.1	–14.1	5.8	0.1	–5.9
Interest, fees and other assets	383.2	5.7	368.3	5.4	–3.9	386.9	4.9	5.0	363.0	4.9	–6.2
Net of: Collectively assessed impairment provisions	55.9	0.8	50.8	0.7	–9.0	56.1	0.7	10.4	54.1	0.7	–3.6
TOTAL ASSETS	6,738.5	100.0	6,880.6	100.0	2.1	7,846.5	100.0	14.0	7,456.1	100.0	–5.0

The decrease in assets was largely due to changes in two housing savings banks which started to apply the adjusted input data model in the calculation of the change in the economic value of the non-trading book. The remaining three savings banks had started to apply the model in late 2011. Such models are based on the inclusion of the effects of renewal of housing savings banks' contracts, and using them reduces the need for long-term sources of financing. Therefore, the two aforementioned housing savings banks made a full repayment of the deposits and loans received from their parent banks, which led to a decline in total sources of housing savings banks' financing by 6.7%. Deposits of housing savings bank savers rose slightly (by 3.8%, i.e. to HRK 6.3bn), so that the total amount of deposits remained unchanged. In addition to deposits received, which accounted for as much as 85.1% of the housing savings banks' liabilities, the share of capital also strengthened. This was mainly due to a marked increase in profits in 2012, as well as to a decrease in unrealised losses arising from the value adjustment of financial assets available for sale. Capital went up by 18.9%, and accounted for 7.7% of the housing savings banks' liabilities at end-2012.

On the assets side, an increase was recorded only in deposits with banking institutions, caused by the growth of deposits placed to parent banks and other domestic banks. As shown in Table 1.17, the sharpest decrease, in both nominal and real terms, was recorded in loans granted. Nevertheless, it should be borne in mind that one housing savings bank reported a considerable amount of RC securities under the 'credits' item, classified into the loans and receivables portfolio and that it was exactly the amount of these investments that fell sharply in 2012. Given this, the amount of loans granted actually stagnated, their share in the housing savings banks' assets being only slightly above one half.

TABLE 1.17 Structure of housing savings bank liabilities and capital, end of period, in million HRK and %

	Dec. 2009		Dec. 2010			Dec. 2011			Dec. 2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
Loans from financial institutions	134.6	2.0	183.1	2.7	36.0	458.9	5.8	150.7	0.0	0.0	–100.0
Short-term loans	134.5	2.0	183.0	2.7	36.0	172.7	2.2	–5.6	0.0	0.0	–100.0
Long-term loans	0.1	0.0	0.1	0.0	–31.9	286.2	3.6	371,598.7	0.0	0.0	–100.0
Deposits	5,713.3	84.8	5,791.5	84.2	1.4	6,345.2	80.9	9.6	6,344.9	85.1	0.0
Giro account and current account deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings deposits	0.0	0.0	172.8	2.5	–	154.1	2.0	–10.8	160.7	2.2	4.3
Time deposits	5,713.3	84.8	5,618.7	81.7	–1.7	6,191.0	78.9	10.2	6,184.2	82.9	–0.1
Other loans	0.0	0.0	0.0	0.0	0.0	94.1	1.2	0.0	94.3	1.3	0.2
Short-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term loans	0.0	0.0	0.0	0.0	0.0	94.1	1.2	0.0	94.3	1.3	0.2
Derivative financial liabilities and other financial liabilities held for trading	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt securities issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subordinated instruments issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid instruments issued	96.1	1.4	96.7	1.4	0.6	97.7	1.2	1.0	97.8	1.3	0.1
Interest, fees and other liabilities	375.1	5.6	344.6	5.0	–8.1	368.3	4.7	6.9	345.4	4.6	–6.2
TOTAL LIABILITIES	6,319.2	93.8	6,415.9	93.2	1.5	7,364.1	93.9	14.8	6,882.4	92.3	–6.5
Share capital	487.9	7.2	487.9	7.1	0.0	487.9	6.2	0.0	487.9	6.5	0.0
Current year profit/loss	49.4	0.7	17.1	0.2	–65.4	10.6	0.1	–38.1	67.5	0.9	538.3
Retained earnings/loss	–50.0	–0.7	–1.3	0.0	–97.4	15.0	0.2	–1,248.5	25.1	0.3	67.2
Legal reserves	4.8	0.1	5.5	0.1	13.7	6.2	0.1	14.0	6.7	0.1	7.6
Reserves provided for by the articles of association and other capital reserves	0.1	0.0	10.9	0.2	–	9.2	0.1	–16.3	3.6	0.0	–61.1
Unrealised gains/losses on value adjustments of financial assets available for sale	–72.9	–1.1	–55.3	–0.8	–24.1	–46.5	–0.6	–15.9	–17.1	–0.2	–63.3
Reserves arising from hedging transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Previous year profit/loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL CAPITAL	419.3	6.2	464.8	6.8	10.8	482.4	6.1	3.8	573.7	7.7	18.9
TOTAL LIABILITIES AND CAPITAL	6,738.5	100.0	6,880.6	100.0	2.1	7,846.5	100.0	14.0	7,456.1	100.0	–5.0

Investments in securities, relating exclusively to T-bills and the MoF bonds, accounted for slightly over one-third of assets, with bonds accounting for more than three-fourths of the investments.

Stagnation in loans granted was due to a fall in loans to the corporate and financial institutions sectors, while loans to households increased a little. The increase related to housing loans which went up by a slight 1.5% (in gross terms). Housing loans to households accounted for 91.9% of total loans granted by housing savings banks, whereas these banks accounted for 5.5% of the total housing loans of all credit institutions. Owing to a loan (covered by a government guarantee) granted to a public enterprise by a housing savings bank, loans to enterprises accounted for 7.1% of the credit portfolio, whereas the remaining 1.8% related to loans to financial institutions. The household loan-to-deposit ratio stood at 54.1%.

1.3.2 Income statement

The profits of housing savings banks increased severalfold in 2012, as did the profitability indicators. The main cause of the profit growth was better performance of securities trading, as a result of favourable changes in the fair value of domestic government securities and their purchase/sale. In addition to this less stable source of income, an increase was recorded in the largest and most stable source of income, i.e. net interest income, while savings were made on the costs side.

In 2012, housing savings banks generated HRK 85.9m in profit before tax (Table 1.18), five times the amount recorded in 2011. Housing savings banks derived a profit of HRK 29.0m from securities trading activities, while in 2011, these activities resulted in a loss of HRK 13.3m. This change, observed in two housing savings banks reporting their financial assets classified in the portfolio held for trading (exclusively the Republic of Croatia bonds), was the main cause of a surge in profits. The performances of other housing savings banks also improved. In 2012, all housing savings banks recorded profits (before tax)[30], while in 2011 three of them made losses.

In addition to the increase in profits from trading activities, a number of other positive movements in the housing savings banks' income statements were observed. An almost equal effect was produced by an increase in interest income from housing loans and from deposits made, as well as by a cut in staffing expenses. Moreover, expenses on loss provisions also fell. Due to changes in the structure of interest-sensitive assets and liabilities, primarily the increased importance of housing loans and the repayment of more expensive sources of financing, interest rate spread went up markedly, to 1.7. Compared with the interest rate spread of banks, it still remained relatively low. However, the quality of the housing savings banks' credit exposure improved markedly, so that the burden of expenses for

TABLE 1.18 Housing savings bank income statement, in million HRK

	Jan.-Dec. 2011	Jan.-Dec. 2012
Net interest income	117.4	134.2
Total interest income	343.5	358.2
Total interest expenses	226.1	224.0
Net income from fees and commissions	61.8	59.4
Total income from fees and commissions	70.4	68.9
Total expenses on fees and commissions	8.7	9.4
Net other non-interest income	–21.6	22.4
Other non-interest income	–5.3	43.9
Other non-interest expenses	16.2	21.5
Net non-interest income	40.2	81.8
General administrative expenses and depreciation	134.4	127.7
Net operating income before loss provisions	23.2	88.3
Total expenses on loss provisions	7.3	2.4
Expenses on value adjustments and provisions for identified losses	1.9	4.4
Expenses on collectively assessed impairment provisions	5.4	–2.0
Income/loss before taxes	15.9	85.9
Income tax	5.3	18.5
Current year profit/loss	10.6	67.5

30 One housing savings bank reported a current year loss (before tax).

loss provisions on net operating income was significantly relieved. Some housing savings banks also relied heavily on the sales channels of the parent banks[31], which made it possible to make savings in general operating costs. These costs decreased by 5.0% in 2012, mostly due to a cut in labour expenses. The ratio between general operating costs and net income (the cost-to-income ratio) improved greatly, most of all due to a surge in income. The ratio stood at 59.1%, but varied significantly across housing savings banks. Its values were markedly higher in two housing savings banks, relying more heavily on their own business networks and having the above-average numbers of employees. As both of these institutions reduced the number of employees, the total number of employees fell by 7.0%, i.e. to 409. This led to an increase in the amount of assets per employee, which was still slightly below that in banks.

Expenses on loss provisions decreased sharply, exclusively as the result of changes in expenses on provisions for latent losses in the risk category A. Unlike in 2011, in 2012 the housing savings banks generated income from repealed provisions for risk category A. This was due to a marked decrease in placements of this risk category, caused primarily by reduced investment in the RC bonds distributed in the loans and receivables portfolio. While the risk B and C category placement provisions more than doubled, their significance still remained relatively low. The loss provision expenses to net operating income (before loss provisions) ratio was as low as 2.7%.

Due to the growth in the housing savings banks' income by over one third, coupled with a decline in general operating expenses and expenses on loss provisions, profitability indicators improved significantly. The return on average assets (ROAA) rose from 0.2% to 1.1% and return on average equity (ROAE) from 2.2% to 12.8%.

1.3.3 Credit risk

In 2012, total placements and off-balance sheet liabilities of housing savings banks (gross), i.e. the items exposed to credit risk and thus subject to classification into risk categories, declined by 6.8%, to HRK 6.0bn. This was due to the previously mentioned decrease in investments in the RC bonds. Loans granted stagnated, so that their share in total credit risk exposure increased to 62.8%. Thanks to the dominance of housing loans to households and the exposure to the RC, the quality of total exposure was very good. The B and C risk category placements accounted for as little as 0.5% of total placement and off-balance sheet liabilities of housing savings banks. One housing savings bank classified its total credit exposure as fully recoverable, i.e. into the risk category A.

Housing loans to households accounted for 57.2% of total credit risk exposure. The bulk of housing loans (almost 95%) related to kuna housing loans with a currency clause in euro. The rest were kuna loans (with no currency clause). Housing savings banks granted no housing loans pegged to the Swiss franc, and the entire portfolio of residential real estate property financing was agreed at

31 Three housing savings banks in Croatia have superordinate parent banks.

TABLE 1.19 Classification of housing savings bank placements and assumed off-balance sheet liabilities by risk categories, end of period, in million HRK and %

Risk category	Dec. 2009		Dec. 2010			Dec. 2011			Dec. 2012		
	Amount	Share	Amount	Share	Change	Amount	Share	Change	Amount	Share	Change
A	6,385.1	99.6	5,947.7	99.5	–6.8	6,423.0	99.5	8.0	5,979.0	99.5	–6.9
B-1, B-2 and B-3	18.8	0.3	31.5	0.5	67.9	27.8	0.4	–11.6	29.7	0.5	6.7
C	4.2	0.1	1.4	0.0	–67.6	2.0	0.0	49.6	2.7	0.0	31.5
Total	6,408.1	100.0	5,980.6	100.0	–6.7	6,452.9	100.0	7.9	6,011.4	100.0	–6.8

Note: Since 2010, the portfolio of financial assets available for sale has been excluded from the scope of placements and assumed off-balance sheet liabilities classified into risk categories.

TABLE 1.20 Coverage of housing savings bank total placements and assumed off-balance sheet liabilities by total value adjustments and provisions, end of period, in million HRK and %

	Dec 2009	Dec 2010	Dec 2011	Dec. 2012
Total value adjustments against placements and provisions for assumed off-balance sheet liabilities	64.2	57.3	62.3	61.2
Value adjustments and provisions	8.1	6.2	5.9	6.7
Collectively assessed value adjustments and provisions	56.2	51.0	56.4	54.5
Total placements and assumed off-balance sheet liabilities	6,408.1	5,980.6	6,452.9	6,011.4
Coverage	1.00	0.96	0.97	1.02

fixed interest rates. These facts certainly contributed to the quality of housing loans, as compared with banks. In the housing savings banks, B and C risk categories accounted for 0.9% of total housing loans. The average loss, i.e. the average coverage of B and C category housing loans by value adjustments stood at 19.9%.

1.3.4 Capital adequacy

At end-2012, the capital adequacy ratio of housing savings banks stood at 21.30%. This was an increase in the ratio relative to the end of 2011 (when it stood at 19.87%), caused by the growth in own funds. The capital adequacy ratios of all housing savings banks exceeded the minimum required ratio, and ranged between 16.24% and 50.44%.

Thanks to the good performance in 2012, the housing savings banks' own funds went up considerably (by 13.1%). Four housing savings banks reported current year profits and included them in the calculation of own funds in their year-end 2012 reports. Moreover, unrealised losses on value adjustments of financial assets available for sale decreased sharply. Original own funds, which constituted the highest quality component of own funds, accounted for the bulk of own funds (86.3%) and their capital adequacy ratio stood at a high 18.37%.

The growth in own funds led to an increase in the capital adequacy ratio, despite the increase in capital requirements (by 5.6%). Capital requirements for credit[32] and operational risks increased while the capital requirement for market risks declined. The decisive impact was made by the growth in

32 This ncludes the counterparty, dilution and free delivery risks.

the capital requirement for credit risk, caused by an increase in the average credit risk weight, i.e. increased riskiness of investment. The share of investments in risk-free exposures with a 0% risk weight, such as investments in the RC bonds, decreased, while the share of more risky exposure items, e.g. deposits with banks increased. As a result, the amount of exposure weighted for credit risk went up by 6.4%. Despite a sizeable increase, from 27.8% to 33.7%, the average credit risk weight remained low. This was due to the still present dominance of risk-free exposures (carrying a 0% weight). They accounted for a little over one-half of total risk-weighted net exposures, and related mainly to the central government and central banks category, according to original exposure, whereas the smaller portion was due to the inflows into that category on account of the use of government guarantees.

After the increase in the capital requirement for credit risk, its share in the total capital requirement structure increased slightly, to 83.2%. The shares of the remaining capital requirements decreased: the capital requirement for operational risk accounted for 12.7% and the capital requirement for market risks for 4.2% of the total capital requirements of housing savings banks.

2 Notes on methodology

End-of the year data on the business operations of credit institutions are based on unconsolidated audited financial reports delivered by credit institutions to the Croatian National Bank.

Tables

Table 1.1 Bank peer groups and their share in total bank assets

In accordance with the selected criterion – the relative share of assets of an individual bank in total bank assets – this table shows the bank peer groups. Banks (including savings banks) have been divided into three peer groups: large, medium-sized and small banks. Large banks are banks whose assets exceed 5% of the total assets of all banks, medium-sized banks are banks whose assets are greater than 1% and less than 5% of the total assets of all banks, and small banks are banks whose assets are less than 1% of the total assets of all banks. See Attachment I, List of Credit Institutions by Peer Groups, for the composition of individual bank groups.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets.

Table 1.2 Ownership structure of banks and their share in total bank assets

With respect to ownership structure, banks in the Republic of Croatia are divided into domestic and foreign-owned banks. Banks under domestic ownership are divided into private domestic banks and state-owned domestic banks. A bank is classified as a private domestic bank if it is majority owned by domestic natural and legal persons, or as a state-owned domestic bank if it is majority owned by governmental units. A bank is classified as a foreign-owned bank if it is majority owned by foreign natural and legal persons.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets. Up to 31 December 2009, the source of data on the ownership structure of banks was form PD3 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006) and, as of 31 March 2010, it is report PD32 (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012).

Table 1.3 Number of employees, operating units and ATMs

This table shows data on the number of employees, operating units and ATMs for each individual bank peer group and for all banks combined. Bank reports prescribed by the Decision on the obligation to submit the report on payment operations data (OG 189/2004) are the source of data on the number of operating units and ATMs. Up to 31 December 2009, the source of data on the number of employees was form PD3 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006), and as of 31 March 2010 the source of data is reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010, 95/2010, 146/2010 and 68/2011).

Table 1.4 Territorial distribution of operating units and ATMs by counties

The total number of operating units and the total number ATMs of all banks in the Republic of Croatia are classified by counties. Data for the City of Zagreb are included in the data for Zagreb County.
Bank reports prescribed by the Decision on the obligation to submit the report on payment operations data (OG 189/2004) are the source of data on the number of operating units and ATMs of banks.

Table 1.5 Structure of bank assets

This table shows bank assets items, the share of each item in total assets of all banks and the change in the balance relative to the balance at the end of the previous period.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets.

Table 1.6 Structure of bank liabilities and capital

This table shows bank liabilities and capital items, the share of each item in total liabilities and capital of all banks and the change in the balance since the end of the previous period.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank liabilities and capital.

Table 1.7 Bank income statement

Income statement items are shown for each bank peer group and for all banks combined.
Form RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on income statement.

Table 1.8 Classification of bank placements and assumed off-balance sheet liabilities by risk categories

This table shows the placements and assumed off-balance sheet liabilities of banks (gross) by risk categories and the relevant amounts of placement value adjustments and provisions for off-balance sheet items. The coverage is the ratio between value adjustments/provisions and placements and assumed off-balance sheet liabilities. Up to 31 December 2009, the source of data on the classification of placements and assumed off-balance sheet liabilities were forms RS1 and PIV1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006), and as of 31 March 2010 they are reports RS2 and PIV2 (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012).

Table 1.9 Bank loans

This table shows the loan amounts (gross), the amounts of partly recoverable and fully irrecoverable loans (gross) and value adjustments of partly recoverable and fully irrecoverable loans for selected sectors and types of household loans. As of 31 March 2010, loans include exclusively loans distributed in the loans and receivables category and household loans include loans to non-profit institutions serving households. Up to 31 December 2009, the source of data on bank loans and value adjustments was form RS1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006), and as of 31 March 2010 the source of data is report RS2 (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012). As of 31 March 2010, the distribution of exposure by institutional sectors is conducted by the CNB in accordance with the European System of Accounts 1995 (ESA 95), based on reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010, 95/2010, 146/2010 and 68/2011).

Table 1.10 Structure of bank sources of financing

The structure of the sources of financing is shown for each bank peer group and all banks combined by instruments. The share of deposits and received loans of the majority foreign owner are shown separately.
Forms BS1-2, BS/DEP1-8 and BS/OK1-9 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) are the source of data on the sources of bank financing.

Table 1.11 Sectoral structure of received loans

The amount of loans received from institutional sectors and their shares in total received loans are shown for all banks. The amount and the share of loans from the majority foreign owner in total received loans are shown separately.
Form BS/OKI-9 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the received loans of banks.

Table 1.12 Interest rate risk in the non-trading book

Interest rate risk in the non-trading book is measured by a change in its economic value in the conditions of a standard interest rate shock. A standard interest rate shock is a parallel shift in interest rates of 200 basis points. A change in the economic value of the non-trading book is calculated as a sum total of net weighted positions across all time zones, for each major currency individually (a currency that constitutes over 5% of the total balance sheet assets) and for other currencies on an aggregate basis. The ratio between the change in the economic value and bank own funds must not exceed 20%.
Forms EVKI-FKS, EVKI-PKS, EVKI-AKS and EVKI-ZBR (Decision on the management of interest rate risk in the non-trading book, OG 2/2010, 34/2010 and 37/2012) are the source of data on the interest rate risk in the non-trading book.

Table 1.13 Own funds, capital requirements and capital adequacy ratio of banks

This table shows the structure of own funds and capital requirements and the capital adequacy ratio at the end of the reporting period for each bank peer group and all banks combined. Up to 31 December 2009, the source of data on the capital adequacy of banks was forms JK2 and SAK (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009), and as of 31 March 2010 it is forms JKAP and SAJK (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012).

Table 1.14 Breakdown of net exposure to credit risk by risk weights

This table shows the net exposure to credit risk after the use of credit risk mitigation techniques. The net exposure is shown by approach used for assessment of the capital requirement for credit risk, by exposure classes and credit risk-weights. The line items total outflow and total inflow show the substitution effects of credit risk mitigation techniques, i.e. the effect of the method of risk weight substitution under the standardised approach, or of the method of the probability of default adjustment under the internal ratings based approach.
Forms SP and IRB by individual exposure classes (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012) are the source of data on the net exposure of banks to credit risk.

Table 1.15 Breakdown of bank capital adequacy ratio

This table shows the number of banks and their share of assets in the total assets of banks by buckets of the capital adequacy ratio.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets. Up to 31 December 2009, the source of data on the capital adequacy ratio of banks was form SAK (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009), and as of 31 March 2010 it is form SAJK (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012).

Table 1.16 Structure of housing savings bank assets

This table shows asset items of housing savings banks, the share of each item in total assets of all housing savings banks and the change in the balance relative to the balance at the end of the previous period.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of assets of housing savings banks.

Table 1.17 Structure of housing savings bank liabilities and capital

This table shows liabilities and capital items of housing savings banks, the share of each item in total liabilities and capital of all housing savings banks and the change in the balance relative to the balance at the end of the previous period.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of liabilities and capital of housing savings banks.

Table 1.18 Housing savings bank income statement

This table shows the amounts of income statement items of housing savings banks.
Form RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on income statement of housing savings banks.

Table 1.19 Classification of housing savings bank placements and assumed off-balance sheet liabilities by risk categories

This table shows the classification of placements and assumed off-balance sheet liabilities (gross) of housing savings banks by risk categories and their share in the total placements and assumed off-balance sheet liabilities classified into risk categories. Up to 31 December 2009, the source of data on the classification of placements and assumed off-balance sheet liabilities of housing savings banks was form RS1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006), and as of 31 March 2010 the source of data is form RS2 (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012).

Table 1.20 Coverage of housing savings bank total placements and assumed off-balance sheet liabilities by total value adjustments and provisions

The coverage is calculated by adding up placement value adjustments and provisions for assumed off-balance sheet liabilities (for categories B-1, B-2, B-3 and C) and collectively assessed placement value adjustments and provisions for assumed off-balance sheet liabilities for (for risk category A) and by dividing the amount thus obtained by the amount of total placements and assumed off-balance sheet liabilities. Up to 31 December 2009, the source of data on the ratio of total housing savings bank value adjustments and provisions and total placements and assumed off-balance sheet liabilities was forms PIV1 and RS1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006), and as of 31 March 2010 it is reports RS2 and PIV2 (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012).

Figures

Figure 1.1 Shares of assets, loans and deposits of the largest banks in total assets, loans and deposits

This figure shows the shares of the two largest banks, the five largest banks and the ten largest banks in total assets, loans and deposits of all banks. The criterion for selecting the two largest banks, the five largest banks and the ten largest banks is the size of their assets.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of assets, loans and deposits of banks.

Figure 1.2 Herfindahl-Hirschman Index (HHI)

The Herfindahl-Hirschman index (HHI), which is used to measure the degree of concentration of assets, is calculated on the basis of the following formula:

$$\mathrm{HHI} = \sum \left(\frac{\text{assets of a bank}}{\text{total assets of all banks}} \cdot 100 \right)^2$$

Granted loans and received deposits concentration indices are calculated by applying the same formula. The Herfindahl-Hirschman index can vary from 0 (perfectly competitive industry) to 10000 (monopoly).
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of assets, loans and deposits of banks.

Figure 1.3 Concentration of bank operating units and ATMs by counties

This figure shows in horizontal lines the relative share of the number of operating units and ATMs of banks by counties at the end of the reporting period. Data for the City of Zagreb are included in the data for Zagreb County.
Reports of banks prescribed by the Decision on the obligation to submit the report on payment operations data (OG 189/2004) are the source of data on the number of operating units and ATMs of banks.

Figure 1.4 Structure of bank peer group assets

This figure shows the structure of assets for each bank peer group and for all banks combined. Bank asset items consist of six positions: money assets and deposits with the CNB, deposits (with banking institutions), securities (including T-bills), loans (loans to financial institutions and other clients), other assets (derivative financial assets, investments in subsidiaries, associates and joint ventures, foreclosed and repossessed assets, tangible assets net of depreciation, and interest, fees and other assets) and collectively assessed impairment provisions.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank assets.

Figure 1.5 Structure of bank peer group liabilities and capital

This figure shows the structure of liabilities and capital for each bank peer group and for all banks combined. Bank liabilities and capital items consist of six positions: deposits (giro account and current account deposits, savings deposits and time deposits), loans (loans from financial institutions and other loans), securities (issued debt securities, issued subordinated instruments and issued hybrid instruments), other liabilities (derivative financial liabilities and other financial liabilities held for trading, and interest, fees and other liabilities) and capital.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of bank liabilities and capital.

Figure 1.6 Structure of bank standard off-balance sheet items

This figure shows the structure of standard off-balance sheet items of banks by instruments at the end of the reporting period.
Report IBS (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012) is the source of data on the amount of standard off-balance sheet items of banks.

Figure 1.7 Structure of bank derivative financial instruments (notional amount)

This figure shows the structure of derivative financial instruments (notional amount) by instruments at the end of the reporting period.
Report IBS (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012) is the source of data on the amount of derivative financial instruments of banks.

Figure 1.8 Bank income before taxes

The amount of income (loss) before taxes is shown for each bank peer group and all banks combined, for all the observed reporting periods.
Form RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of income (loss) before taxes of banks.

Figure 1.9 Structure of bank net income

The columns show the share of net interest income, net income from fees and commissions and net other non-interest income in total net income of individual bank peer groups and all banks combined at the end of the reporting period.
Form RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the net income of banks.

Figure 1.10 Bank return on average assets (ROAA)

The return on average assets of each bank peer group and of all banks combined is calculated as a ratio between income before taxes (on an annual level) and average assets of bank peer groups and all banks combined. The average assets of bank peer groups and all banks combined are calculated as the arithmetic mean of the balance in assets at the end of the reporting period and the balance in assets at the end of the previous year of those bank peer groups and all banks combined.
Forms BS1-2 and RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) are the source of data on return on average assets.

Figure 1.11 Bank return on average equity (ROAE)

The return on average equity of each bank peer group and all banks combined is calculated as a ratio between income after taxes (on an annual level) and average assets of bank peer groups and all banks combined. The average equity of bank peer groups and all banks combined is calculated as the arithmetic mean of the balance in equity at the end of the reporting period and the balance in equity at the end of the previous year of those bank peer groups and all banks combined.
Forms BS1-2 and RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) are the source of data on return on average equity.

Figure 1.12 Income from interest-bearing assets and expenses on interest-bearing liabilities

Income from interest-bearing assets is the ratio between total interest income (on an annual level) and average interest-bearing assets. Expenses on interest-bearing liabilities are the ratio between total interest expenses (on an annual level) and average interest-bearing liabilities. The spread is the difference between the share of interest income in the average interest-bearing assets and the share of interest expenses in the average interest-bearing liabilities. Interest-bearing assets comprise deposits with the CNB, deposits with banking institutions, debt securities (excluding debt securities held for trading), loans to financial institutions and loans to other clients. The average interest-bearing assets are calculated as the arithmetic mean of the balance in interest-bearing assets at the end of the reporting period and the balance in interest-bearing assets at the end of the previous year. Interest-bearing liabilities comprise received loans, received deposits, issued debt securities, issued subordinated instruments and issued hybrid instruments. The average interest-bearing liabilities are calculated as the arithmetic mean of the balance in interest-bearing liabilities at the end of the reporting period and the balance in interest-bearing liabilities at the end of the previous year.
Forms BS1-2 and RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) are the source of data on income from interest-bearing assets and expenses on interest-bearing liabilities.

Figure 1.13 Weighted averages of bank monthly interest rates

The base for the calculation of the weighted averages of bank monthly interest rates on kuna and foreign currency loans are the amounts of loans disbursed during the reporting month at certain interest rates. Exempted are interest rates on giro and current account overdrafts, for which the weighted averages were calculated based on the balance of these loans at the end of the reporting month. Interest rates on kuna deposits not tied to a currency clause comprise interest rates on giro account and current account deposits, savings deposits and time deposits. The averages of interest rates on total kuna deposits not tied to a currency clause and total foreign currency deposits are weighted by the end-of-the period balances of all categories included in the calculation. The exceptions are kuna and foreign currency time deposits, whose weighted averages are calculated on the basis of deposits received in the reporting month.
Data on interest rates of banks have been obtained from regular reports of banks and the source of data on interest rates of banks is the CNB statistics.

Figure 1.14 Bank assets per employee

The asset to employee ratio is shown for each bank peer group and for all banks combined.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on bank assets. Up to 31 December 2009, the source of data on the number of employees was form PD3 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006), and as of 31 March 2010 the source of data is reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010, 95/2010, 146/2010 and 68/2011).

Figure 1.15 Bank operating expenses

The ratio of operating expenses (general administrative expenses and depreciation) and the sum of net interest and net non-interest income is shown for each bank peer group and for all banks combined.
Form RDG1-1 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on operating expenses, net interest and net non-interest income of banks.

Figure 1.16 Structure of bank placements and assumed off-balance sheet liabilities

This figure shows the structure of exposure to credit risk (gross) of balance sheet (placements) and off-balance sheet items. The placements are divided into the loans and receivables category and into the category of financial assets held to maturity, with claims from interest and fees being covered under the item interest and fee receivables. The structure of the loans and receivables category is shown by instruments.
Report RS2 (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012) is the source of data on the structure of placements and assumed off-balance sheet liabilities of banks.

Figure 1.17 Rates of change of bank loans

As regards loans to selected sectors and total loans (gross), the figure shows the rates of change relative to the balance at the end of the previous period. As of 31 March 2010, loans include exclusively loans distributed in the loans and receivables category and household loans include loans to non-profit institutions serving households. Up to 31 December 2009, the source of data on bank loans was form RS1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006), and as of 31 March 2010 the source of data is report RS2 (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012). As of 31 March 2010, the distribution of exposure by institutional sectors is conducted by the CNB in accordance with the European System of Accounts 1995 (ESA 95), based on reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010, 95/2010, 146/2010 and 68/2011).

Figure 1.18 Structure of bank loans by activities

This figure shows the structure of bank loans (gross) by activities at the end of the reporting period. The distribution of exposure by activities is conducted by the CNB in accordance with the National Classification of Economic Activities 2007, based on reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010, 95/2010, 146/2010 and 68/2011).

Figure 1.19 Structure of bank partly recoverable and fully irrecoverable loans by activities

This figure shows the structure of partly recoverable and fully irrecoverable loans of banks (gross) by activities at the end of the reporting period. The distribution of exposure by activities is conducted by the CNB in accordance with the National Classification of Economic Activities 2007, based on reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010, 95/2010, 146/2010 and 68/2011).

Figure 1.20 Share of bank partly recoverable and fully irrecoverable loans

The total partly recoverable and fully irrecoverable loans (gross) of bank peer groups and all banks combined are expressed as a share of total loans (gross) of bank peer groups and all banks combined. Shown are the selected sectors and total loans at the end of the reporting period. Loans include exclusively loans distributed in the loans and receivables portfolio and household loans include loans to non-profit institutions serving households.
Report RS2 (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012) is the source of data on bank loans. The distribution of exposure by institutional sectors is conducted by the CNB in accordance with the European System of Accounts 1995 (ESA 95), based on reporting records delivered by banks in accordance with the Instructions for statistical and prudential reporting (OG 35/2010, 95/2010, 146/2010 and 68/2011).

Figure 1.21 Sectoral structure of received deposits

This figure shows the share of an individual institutional sector in giro account and current account deposits, savings deposits, time deposits and total deposits.
Form BS/DEP1-8 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the received deposits.

Figure 1.22 Bank loans granted/deposits received

This figure shows the ratio between total net loans granted by individual bank peer groups and all banks combined and total deposits received by individual bank peer groups and all banks combined at the end of the reporting period.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on granted loans and received deposits.

Figure 1.23 Asset and liability maturity match or mismatch

The maturity match or mismatch between assets and liabilities is shown by remaining maturity and on a net basis. The structure of assets by remaining maturity is calculated as a ratio between assets classified by remaining maturity terms and total assets at the end of the reporting period. The liabilities by remaining maturity are calculated as a ratio between liabilities classified by remaining maturity terms and total assets at the end of the reporting period. The net balance sheet position (gap) shows the mismatch between the maturity structures of assets and liabilities and represents the difference between assets and liabilities classified by remaining maturity terms.
Form BS/ROC1-14 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the assets and liabilities classified by remaining maturity terms.

Figure 1.24 Minimum liquidity coefficient for the period of up to 1 month

Minimum liquidity coefficient (MLC) for the period of up to 1 month is calculated as the ratio between the expected inflows (readily negotiable assets included) and the expected outflows in the reference period. MLC is calculated for kuna, all convertible currencies combined and for each non-convertible currency separately (where outflows in an individual non-convertible currency account for over 1% of the total assets of a credit institution). MLC has to equal or be greater than 1 on each day. By way of exception, in the period from 1 May 2012 until 30 June 2013, credit institutions shall meet the minimum liquidity coefficient on a collective basis, i.e. for both kuna and all convertible currencies combined. During this period, the MLC on a collective basis may be 10% lower than 1 (i.e. 0.9) for a maximum period of seven calendar days within a reporting month.
Form KL (Decision on liquidity risk management, OG 2/2010, 73/2011, 47/2012 and 142/2012) is the source of data on MLC.

Figure 1.25 Long foreign exchange position of banks

Each bank peer group ratio between its long foreign exchange position (f/c claims exceeding f/c liabilities) and its own funds is calculated by adding up first the quarterly average long foreign exchange positions of banks belonging to an individual bank peer group and then by adding up in the same manner own funds of all banks in the respective peer group. The sums thus calculated are mutually divided.
Up to 29 June 2011, the source of data on the long foreign exchange position was form VR-2 (Decision on the limitation of bank exposure to foreign exchange risk, OG 17/2003, 39/2006, 130/2006 and 25/2009 and the Decision on foreign exchange risk exposure limits of credit institutions, OG 38/2010), and as of 30 June 2011 it is form VR (Decision on amendments to the Decision on foreign exchange risk exposure limits of credit institutions, OG 62/2011). Up to 31 March 2010, the source of own funds data was form JK2 (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009), and as of 31 March 2001 it is form JKAP (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012).

Figure 1.26 Short foreign exchange position of banks

Each bank peer group ratio between its short foreign exchange position (f/c liabilities exceeding f/c claims) and its own funds is calculated by first adding up quarterly average short foreign exchange positions of banks belonging to an individual bank peer group and then by adding up own funds of all banks in the respective peer group. The sums thus calculated are mutually divided.
Up to 29 June 2011, the source of data on the long foreign exchange position was form VR-2 (Decision on the limitation of bank exposure to foreign exchange risk, OG 17/2003, 39/2006, 130/2006 and 25/2009 and the Decision on foreign exchange risk exposure limits of credit institutions, OG 38/2010), and as of 30 June 2011 it is form VR (Decision on amendments to the Decision on foreign exchange risk exposure limits of credit institutions, OG 62/2011). Up to 31 March 2010, the source of own funds data was form JK2 (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009), and as of 31 March 2010 it is form JKAP (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012).

Figure 1.27 Bank capital adequacy ratio

The capital adequacy ratio is calculated as a ratio between total own funds of individual bank peer groups and total own funds of all banks combined and total risk exposure of individual bank peer groups and all banks combined. Up to 31 December 2009, the total risk exposure was calculated as the sum of assets weighted by credit risk (including risky and derivative off-balance sheet items weighted by credit risk), increased by total foreign exchange position exposure to currency risk, capital requirements for position risks (multiplied by 10), capital requirements for settlement risk and capital requirements for counterparty risk (multiplied by 10), and capital requirements for exceeding the permissible exposure limits (multiplied by 10). As of 31 March 2010, the total risk exposure is calculated as the sum of exposures to credit, counterparty credit and dilution risks and free deliveries, increased by the initial capital requirements for settlement/delivery risk (multiplied by 12.5), the initial capital requirements for position, foreign exchange and commodity risk (multiplied by 12.5), the initial capital requirements for exceeding the permissible exposure limits (multiplied by 12.5) and the initial capital requirements for operational risk (multiplied by 12.5). As of 31 March 2010, the banks have to maintain a minimum capital adequacy ratio of 12% (previously 10%). Up to 31 December 2009, the source of data on the capital adequacy of banks was form SAK (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009), and as of 31 March 2010 it is form SAJK (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012).

Figure 1.28 Bank own funds

The columns show the components of own funds at the end of the reporting period. Up to 31 December 2011, the item additional own funds also included the amount of ancillary own funds (after the application of the limits). As of 1 January 2012, it is no longer possible to include ancillary own funds (for market risk coverage) in the calculation of own funds. Up to 31 December 2009, the source of data on the own funds of banks was form JK2 (Instructions for the uniform implementation of the Decision on the capital adequacy of banks, OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009), and as of 31 March 2010 it is form JKAP (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012).

Figure 1.29 Average credit risk weight

The average credit risk weight is calculated as a ratio between the weighted exposure and net exposure weighted for credit risk. The unused amount of own funds is the difference between own funds and the total capital requirement. Up to 31 December 2009, the source of data on own funds of banks, net exposure of banks that is weighted for credit risk and weighted exposure was forms JK2, PBA1, PIRS1 and KOIRS (Instructions for the uniform implementation of the Decision on the capital adequacy of banks OG 195/2003, 39/2004, 41/2006, 130/2006, 14/2008, 33/2008 and 18/2009), and as of 31 March 2010 it is form JKAP and form SAJK (Decision on reports on own funds and capital requirements of credit institutions OG 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012).

Figure 1.30 Structure of bank total capital requirements

The total capital requirements of banks is the sum total of capital requirements for credit risk (including counterparty, dilution and free delivery risks), settlement/delivery risk, position, currency and commodity risk, the risk of exceeding the permissible exposure limits and operational risk.
Form SAJK (Decision on reports on own funds and capital requirements of credit institutions, OG 1/2009, 41/2009, 75/2009, 2/2010 and 37/2012) is the source of data on the capital requirements.

Figure 1.31 Assets, deposits and loans of housing savings banks

This figure shows the amount of assets, received deposits and granted home loans (gross) of housing savings banks.
Form BS1-2 (Decision relating to the bank statistical report, OG 166/2003, 53/2004, 129/2004 and 60/2006) is the source of data on the amount of assets and received deposits of housing savings banks. Up to 31 December 2009, the source of data on housing savings banks loans was form RS1 (Decision on supervisory reports of banks, OG 115/2003, 29/2006, 46/2006 and 74/2006), and as of 31 March 2010 the source of data is form RS2 (Decision on supervisory reports of credit institutions, OG 35/2010, 81/2010, 146/2010, 68/2011, 147/2011 and 37/2012).

3 List of credit institutions

The list of credit institutions contains contact data and data on members of management and supervisory boards, shareholders and auditors of credit institutions. The key financial data and capital adequacy ratios of each institution are also enclosed.

Data on shareholders who hold 3% or more of share in the share capital of an institution, and financial and capital adequacy data are as at 31 December 2012. They are based on unconsolidated audited reports submitted to the Croatian National Bank by credit institutions.

Data on members of management and supervisory boards are as at 1 June 2013.

Data on auditors relate to the audits performed in 2012.

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Management board

Andrea Marabini – chairperson, Ivan Dujmović

Supervisory board

Luca Modonesi – chairperson, Fausto Perlato, Paolo Taverna, Roberto Teso, Željko Perić

Shareholders	Share in share capital (%)
1. Banco Popolare Società Cooperativa	98.26

Audit firm for 2012:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	281,990
Money assets	41,158
Deposits with the CNB	240,832
Deposits with banking institutions	311,311
MoF treasury bills and CNB bills	80,162
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	19,288
Securities and other financial instruments held to maturity	33,766
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	10,834
Loans to other clients	1,757,126
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	488
Tangible assets (net of depreciation)	59,907
Interest, fees and other assets	37,057
Net of: Collectively assessed impairment provisions	20,294
TOTAL ASSETS	2,571,632

Liabilities and capital	
Loans from financial institutions	151,209
Short-term loans	0
Long-term loans	151,209
Deposits	2,020,541
Giro account and current account deposits	50,672
Savings deposits	75,354
Time deposits	1,894,515
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	65,677
TOTAL LIABILITIES	2,237,428
Capital	334,204
TOTAL LIABILITIES AND CAPITAL	2,571,632

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	115,263
Total interest income	196,048
Total interest expenses	80,786
Net income from fees and commissions	13,301
Total income from fees and commissions	16,433
Total expenses on fees and commissions	3,133
Net other non-interest income	9,127
Other non-interest income	13,204
Other non-interest expenses	4,077
Net non-interest income	22,428
General administrative expenses and depreciation	102,573
Net operating income before loss provisions	35,118
Total expenses on loss provisions	31,683
Expenses on value adjustments and provisions for identified losses	32,307
Expenses on collectively assessed impairment provisions	–624
Income (loss) before taxes	3,435
Income tax	2,501
Current year profit (loss)	934

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	11,384
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	8,628
Margin credit lines	0
Other credit lines and commitments	1,559
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	21,570

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

16.83

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Management board

Gian Luigi Bonfe – chairperson, Darko Kosovec

Supervisory board

Pier Luigi Martelli – chairperson, Ivan Majdak, Emanuele Restelli Prandoni dela Fratta, Davor Štern, Gian Primo Gardi

Shareholders	Share in share capital (%)
1. Cassa di Risparmio della Repubblica di San Marino S.p.A.	99.58

Audit firm for 2012:
Grant Thornton revizija d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	130,292
Money assets	14,979
Deposits with the CNB	115,313
Deposits with banking institutions	94,018
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	22,403
Securities and other financial instruments held to maturity	3,262
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	105
Loans to financial institutions	18,555
Loans to other clients	729,254
Investments in subsidiaries and associates	141
Foreclosed and repossessed assets	26,961
Tangible assets (net of depreciation)	24,010
Interest, fees and other assets	26,197
Net of: Collectively assessed impairment provisions	8,058
TOTAL ASSETS	1,067,140

Liabilities and capital	
Loans from financial institutions	48,087
Short-term loans	10,600
Long-term loans	37,487
Deposits	868,094
Giro account and current account deposits	14,830
Savings deposits	45,509
Time deposits	807,756
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	27,481
Interest, fees and other liabilities	38,869
TOTAL LIABILITIES	982,532
Capital	84,609
TOTAL LIABILITIES AND CAPITAL	1,067,140

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	32,999
Total interest income	76,625
Total interest expenses	43,626
Net income from fees and commissions	4,775
Total income from fees and commissions	5,648
Total expenses on fees and commissions	873
Net other non-interest income	13,424
Other non-interest income	17,588
Other non-interest expenses	4,164
Net non-interest income	18,199
General administrative expenses and depreciation	51,115
Net operating income before loss provisions	83
Total expenses on loss provisions	63,241
Expenses on value adjustments and provisions for identified losses	64,447
Expenses on collectively assessed impairment provisions	–1,206
Income (loss) before taxes	–63,158
Income tax	–5,463
Current year profit (loss)	–57,695

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	11,874
Uncovered letters of credit	3,684
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	26,569
Other standard risky off-balance sheet items	5,356
Total standard off-balance sheet items	47,484

Derivative financial instruments	
Options	0
Swaps	0
Forwards	28,525
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	28,525

Capital adequacy ratio, in %
as at 31 December 2012

10.22

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Management board

Ante Blažević – chairperson, Ivo Krolo

Supervisory board

Irena Kalebić Bašić – chairperson, Nediljko Ivančević, Ivan Filipović

Shareholders	Share in share capital (%)
1. Juroslav Buljubašić	36.43
2. Hypo Alpe-Adria-Bank d.d. (custody account)	9.71
3. Irena Kalebić Bašić	7.88
4. Venči Čulić Meić	7.50
5. Joško Dvornik	5.75
6. Mirko Vukušić	5.74
7. Blue Line International INC.	5.51
8. Nataša Vuković	4.98
9. Own shares	4.51
10. Jakiša Medić	3.02

Audit firm for 2012:
Baševizor d.o.o., Split

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	44,845
Money assets	12,593
Deposits with the CNB	32,253
Deposits with banking institutions	53,475
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	1,008
Securities and other financial instruments available for sale	6,876
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	0
Loans to other clients	217,929
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	230
Tangible assets (net of depreciation)	14,650
Interest, fees and other assets	9,726
Net of: Collectively assessed impairment provisions	2,614
TOTAL ASSETS	346,126

Liabilities and capital	
Loans from financial institutions	1,503
Short-term loans	1,503
Long-term loans	0
Deposits	274,494
Giro account and current account deposits	7,267
Savings deposits	8,913
Time deposits	258,315
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	3,773
Interest, fees and other liabilities	14,285
TOTAL LIABILITIES	294,055
Capital	52,071
TOTAL LIABILITIES AND CAPITAL	346,126

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	17,891
Total interest income	30,158
Total interest expenses	12,267
Net income from fees and commissions	1,899
Total income from fees and commissions	2,635
Total expenses on fees and commissions	736
Net other non-interest income	2,162
Other non-interest income	4,537
Other non-interest expenses	2,375
Net non-interest income	4,061
General administrative expenses and depreciation	16,920
Net operating income before loss provisions	5,031
Total expenses on loss provisions	4,373
Expenses on value adjustments and provisions for identified losses	4,542
Expenses on collectively assessed impairment provisions	–169
Income (loss) before taxes	658
Income tax	203
Current year profit (loss)	455

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	814
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	2,081
Margin credit lines	0
Other credit lines and commitments	0
Other standard risky off-balance sheet items	32
Total standard off-balance sheet items	2,927

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

16.44

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Management board

Goran Rameša – chairperson, Christian Peter Pettinger

Supervisory board

Herta Stockbauer – chairperson, Dieter Vinzenz Krassnitzer, Ludwig-Hubert Ankele, Josef Morak, Harald Richard Brunner

Shareholders	Share in share capital (%)
1. BKS Bank AG	100.00

Audit firm for 2012:
KPMG Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	122,729
Money assets	5,160
Deposits with the CNB	117,569
Deposits with banking institutions	185,294
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	1,276
Securities and other financial instruments held to maturity	48,693
Securities and other financial instruments not traded in active markets but carried at fair value	45,772
Derivative financial assets	0
Loans to financial institutions	13,947
Loans to other clients	754,711
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	693
Tangible assets (net of depreciation)	23,208
Interest, fees and other assets	14,373
Net of: Collectively assessed impairment provisions	9,650
TOTAL ASSETS	1,201,046

Liabilities and capital	
Loans from financial institutions	46,433
Short-term loans	0
Long-term loans	46,433
Deposits	551,375
Giro account and current account deposits	114,266
Savings deposits	14,808
Time deposits	422,301
Other loans	373,508
Short-term loans	105,639
Long-term loans	267,870
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	20,481
TOTAL LIABILITIES	991,798
Capital	209,248
TOTAL LIABILITIES AND CAPITAL	1,201,046

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	28,315
Total interest income	50,906
Total interest expenses	22,591
Net income from fees and commissions	3,449
Total income from fees and commissions	5,067
Total expenses on fees and commissions	1,618
Net other non-interest income	–324
Other non-interest income	1,751
Other non-interest expenses	2,075
Net non-interest income	3,125
General administrative expenses and depreciation	29,981
Net operating income before loss provisions	1,459
Total expenses on loss provisions	7,009
Expenses on value adjustments and provisions for identified losses	6,569
Expenses on collectively assessed impairment provisions	440
Income (loss) before taxes	–5,550
Income tax	–217
Current year profit (loss)	–5,334

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	59,041
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	17,992
Margin credit lines	0
Other credit lines and commitments	9,371
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	86,404

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

22.18

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Management board

Ivo Markotić – chairperson, Borna Zane

Supervisory board

Dragutin Biondić – chairperson, Tomislav Marinac, Zoran Zemlić, Martin Pardupa, Maroje Matana

Shareholders	Share in share capital (%)
1. Alternative upravljanje d.o.o.	48.35
2. Heruc d.d.	31.33

Audit firm for 2012:
BDO Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	170,276
Money assets	9,574
Deposits with the CNB	160,702
Deposits with banking institutions	36,274
MoF treasury bills and CNB bills	32,933
Securities and other financial instruments held for trading	13,250
Securities and other financial instruments available for sale	48,667
Securities and other financial instruments held to maturity	12,443
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	12
Loans to financial institutions	5,702
Loans to other clients	1,156,097
Investments in subsidiaries and associates	650
Foreclosed and repossessed assets	34,236
Tangible assets (net of depreciation)	5,519
Interest, fees and other assets	66,319
Net of: Collectively assessed impairment provisions	11,348
TOTAL ASSETS	1,571,033

Liabilities and capital	
Loans from financial institutions	410,534
Short-term loans	75,540
Long-term loans	334,994
Deposits	846,931
Giro account and current account deposits	107,948
Savings deposits	16,029
Time deposits	722,954
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	102
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	14,106
Interest, fees and other liabilities	50,158
TOTAL LIABILITIES	1,321,830
Capital	249,202
TOTAL LIABILITIES AND CAPITAL	1,571,033

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	46,066
Total interest income	105,288
Total interest expenses	59,222
Net income from fees and commissions	7,453
Total income from fees and commissions	11,293
Total expenses on fees and commissions	3,840
Net other non-interest income	–5,206
Other non-interest income	–3,851
Other non-interest expenses	1,356
Net non-interest income	2,247
General administrative expenses and depreciation	53,728
Net operating income before loss provisions	–5,415
Total expenses on loss provisions	70,835
Expenses on value adjustments and provisions for identified losses	72,444
Expenses on collectively assessed impairment provisions	–1,609
Income (loss) before taxes	–76,250
Income tax	0
Current year profit (loss)	–76,250

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	116,202
Uncovered letters of credit	2,605
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	2,053
Margin credit lines	0
Other credit lines and commitments	55,096
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	175,957

Derivative financial instruments	
Options	8,207
Swaps	0
Forwards	11,535
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	19,742

Capital adequacy ratio, in %
as at 31 December 2012

14.12

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Management board

Suzana Brenko – chairperson, Stjepan Mandić, Jasminka Gregurić Matić

Supervisory board

Marija Hrebac – chairperson, Branka Grabovac, Mladen Duliba, Alen Kišić, Ivan Tomljenović

Shareholders	Share in share capital (%)
1. State Agency for Deposit Insurance and Bank Rehabilitation	100.00

Audit firms for 2012:
Uhy Rudan d.o.o., Zagreb and
Antares revizija d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	193,627
Money assets	25,610
Deposits with the CNB	168,017
Deposits with banking institutions	158,462
MoF treasury bills and CNB bills	226,444
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	209,410
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	113
Loans to financial institutions	53,393
Loans to other clients	1,004,151
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	52,458
Tangible assets (net of depreciation)	21,463
Interest, fees and other assets	72,071
Net of: Collectively assessed impairment provisions	11,570
TOTAL ASSETS	1,980,022

Liabilities and capital	
Loans from financial institutions	223,309
Short-term loans	35,000
Long-term loans	188,309
Deposits	1,445,655
Giro account and current account deposits	213,659
Savings deposits	75,985
Time deposits	1,156,012
Other loans	22,637
Short-term loans	22,637
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	106
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	72,377
TOTAL LIABILITIES	1,764,084
Capital	215,937
TOTAL LIABILITIES AND CAPITAL	1,980,022

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	38,981
Total interest income	91,491
Total interest expenses	52,510
Net income from fees and commissions	5,494
Total income from fees and commissions	10,146
Total expenses on fees and commissions	4,652
Net other non-interest income	4,129
Other non-interest income	10,355
Other non-interest expenses	6,226
Net non-interest income	9,623
General administrative expenses and depreciation	67,397
Net operating income before loss provisions	–18,792
Total expenses on loss provisions	74,853
Expenses on value adjustments and provisions for identified losses	75,731
Expenses on collectively assessed impairment provisions	–879
Income (loss) before taxes	–93,645
Income tax	–26,434
Current year profit (loss)	–67,211

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	49,075
Uncovered letters of credit	2,010
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	26,331
Margin credit lines	0
Other credit lines and commitments	0
Other standard risky off-balance sheet items	28
Total standard off-balance sheet items	77,445

Derivative financial instruments	
Options	13,717
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	13,717

Capital adequacy ratio, in %
as at 31 December 2012

17.09

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Shareholders | **Share in share capital (%)**

1. ESB Holding GmbH — 100.00

Audit firm for 2012:
Ernst & Young d.o.o., Zagreb

Management board

Petar Radaković – chairperson, Tomislav Vuić,
Boris Centner, Slađana Jagar, Christoph Schoefboeck

Supervisory board

Herbert Juranek – chairperson, Sava Ivanov Dalbokov,
Franz Kerber, Gerhard Maier, Peter Nemschak,
Reinhard Ortner, Ernst Gideon Loudon

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	7,460,536
Money assets	788,803
Deposits with the CNB	6,671,733
Deposits with banking institutions	1,647,143
MoF treasury bills and CNB bills	1,125,710
Securities and other financial instruments held for trading	18,355
Securities and other financial instruments available for sale	5,285,821
Securities and other financial instruments held to maturity	191,909
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	56,553
Loans to financial institutions	955,647
Loans to other clients	39,795,405
Investments in subsidiaries and associates	1,300,256
Foreclosed and repossessed assets	177,869
Tangible assets (net of depreciation)	386,897
Interest, fees and other assets	655,954
Net of: Collectively assessed impairment provisions	370,853
TOTAL ASSETS	58,687,201

Liabilities and capital	
Loans from financial institutions	2,966,748
Short-term loans	703,909
Long-term loans	2,262,839
Deposits	43,199,341
Giro account and current account deposits	4,226,633
Savings deposits	3,154,676
Time deposits	35,818,032
Other loans	2,762,066
Short-term loans	996,564
Long-term loans	1,765,503
Derivative financial liabilities and other financial liabilities held for trading	90,490
Debt securities issued	300,000
Short-term debt securities issued	0
Long-term debt securities issued	300,000
Subordinated instruments issued	830,019
Hybrid instruments issued	0
Interest, fees and other liabilities	1,575,730
TOTAL LIABILITIES	51,724,394
Capital	6,962,807
TOTAL LIABILITIES AND CAPITAL	58,687,201

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	1,482,446
Total interest income	3,375,487
Total interest expenses	1,893,042
Net income from fees and commissions	314,687
Total income from fees and commissions	447,564
Total expenses on fees and commissions	132,877
Net other non-interest income	224,372
Other non-interest income	269,180
Other non-interest expenses	44,807
Net non-interest income	539,059
General administrative expenses and depreciation	780,581
Net operating income before loss provisions	1,240,923
Total expenses on loss provisions	642,762
Expenses on value adjustments and provisions for identified losses	723,070
Expenses on collectively assessed impairment provisions	–80,309
Income (loss) before taxes	598,161
Income tax	115,452
Current year profit (loss)	482,709

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	1,510,326
Uncovered letters of credit	200,981
Guaranteed bills of exchange	810
Accepted bills of exchange	0
Revolving loans	477,266
Margin credit lines	0
Other credit lines and commitments	1,078,698
Other standard risky off-balance sheet items	9,642
Total standard off-balance sheet items	3,277,723

Derivative financial instruments	
Options	96,436
Swaps	26,849,595
Forwards	2,802,709
Futures	0
Warrants	0
Other derivative financial instruments	6,036
Total notional amount of derivative financial instruments	29,754,776

Capital adequacy ratio, in %
as at 31 December 2012

17.41

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Management board

Čedo Maletić – chairperson, Dubravka Kolarić, Tanja Šimunović, Boženka Mostarčić

Supervisory board

Dražen Kobas – chairperson, Nada Karaman Aksentijević, Sanja Martinko, Niko Raič, Marin Palada

Shareholders	Share in share capital (%)
1. Republic of Croatia	51.46
2. Hrvatska pošta d.d.	27.49
3. Croatian Pension Insurance Administration	20.18

Audit firm for 2012:
Deloitte d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	2,202,592
Money assets	440,660
Deposits with the CNB	1,761,932
Deposits with banking institutions	636,864
MoF treasury bills and CNB bills	149,460
Securities and other financial instruments held for trading	509,914
Securities and other financial instruments available for sale	1,132,625
Securities and other financial instruments held to maturity	683,258
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	806
Loans to financial institutions	372,733
Loans to other clients	10,618,200
Investments in subsidiaries and associates	75,541
Foreclosed and repossessed assets	149,544
Tangible assets (net of depreciation)	151,908
Interest, fees and other assets	499,139
Net of: Collectively assessed impairment provisions	124,201
TOTAL ASSETS	17,058,383

Liabilities and capital	
Loans from financial institutions	1,122,004
Short-term loans	68,284
Long-term loans	1,053,720
Deposits	12,193,476
Giro account and current account deposits	2,591,197
Savings deposits	1,128,631
Time deposits	8,473,648
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	370
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	401,742
Interest, fees and other liabilities	1,929,807
TOTAL LIABILITIES	15,647,399
Capital	1,410,984
TOTAL LIABILITIES AND CAPITAL	17,058,383

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	451,934
Total interest income	883,382
Total interest expenses	431,448
Net income from fees and commissions	170,204
Total income from fees and commissions	539,207
Total expenses on fees and commissions	369,003
Net other non-interest income	69,988
Other non-interest income	106,140
Other non-interest expenses	36,152
Net non-interest income	240,191
General administrative expenses and depreciation	430,072
Net operating income before loss provisions	262,053
Total expenses on loss provisions	168,291
Expenses on value adjustments and provisions for identified losses	165,010
Expenses on collectively assessed impairment provisions	3,281
Income (loss) before taxes	93,762
Income tax	–301
Current year profit (loss)	94,063

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	379,140
Uncovered letters of credit	73,715
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	455,100
Margin credit lines	0
Other credit lines and commitments	1,143,690
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	2,051,644

Derivative financial instruments	
Options	0
Swaps	221,369
Forwards	301,324
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	522,693

Capital adequacy ratio, in %
as at 31 December 2012

14.89

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Management board

Markus Ferstl – chairperson, Ivo Bilić, Brane Golubić, Tea Martinčić, Joško Mihić, Slawomir Roman Konias

Supervisory board

Gottwald Kranebitter – chairperson, Wolfgang Edelmüller, Neven Raić, Sebastian Firlinger, Goran Radman

Shareholders	Share in share capital (%)
1. Hypo Alpe-Adria-Bank International AG	100.00

Audit firm for 2012:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	4,077,995
Money assets	389,511
Deposits with the CNB	3,688,484
Deposits with banking institutions	568,330
MoF treasury bills and CNB bills	625,725
Securities and other financial instruments held for trading	9,374
Securities and other financial instruments available for sale	3,353,818
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	4,702
Loans to financial institutions	714,884
Loans to other clients	24,397,052
Investments in subsidiaries and associates	244,234
Foreclosed and repossessed assets	136,359
Tangible assets (net of depreciation)	351,709
Interest, fees and other assets	459,040
Net of: Collectively assessed impairment provisions	249,767
TOTAL ASSETS	34,693,455

Liabilities and capital	
Loans from financial institutions	1,336,859
Short-term loans	70,115
Long-term loans	1,266,744
Deposits	22,109,332
Giro account and current account deposits	2,300,925
Savings deposits	1,378,640
Time deposits	18,429,767
Other loans	2,270,566
Short-term loans	1,821,541
Long-term loans	449,025
Derivative financial liabilities and other financial liabilities held for trading	58,925
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	2,440,703
Interest, fees and other liabilities	794,099
TOTAL LIABILITIES	29,010,482
Capital	5,682,973
TOTAL LIABILITIES AND CAPITAL	34,693,455

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	648,556
Total interest income	1,844,681
Total interest expenses	1,196,125
Net income from fees and commissions	218,134
Total income from fees and commissions	292,743
Total expenses on fees and commissions	74,609
Net other non-interest income	93,716
Other non-interest income	134,027
Other non-interest expenses	40,312
Net non-interest income	311,850
General administrative expenses and depreciation	659,115
Net operating income before loss provisions	301,291
Total expenses on loss provisions	–25,202
Expenses on value adjustments and provisions for identified losses	7,215
Expenses on collectively assessed impairment provisions	–32,416
Income (loss) before taxes	326,492
Income tax	69,517
Current year profit (loss)	256,975

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	1,441,342
Uncovered letters of credit	33,894
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	175,042
Margin credit lines	0
Other credit lines and commitments	1,004,647
Other standard risky off-balance sheet items	675,441
Total standard off-balance sheet items	3,330,366

Derivative financial instruments	
Options	0
Swaps	8,466,695
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	8,466,695

Capital adequacy ratio, in %
as at 31 December 2012

30.19

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Management board

Branko Buljan – chairperson, Ružica Šarić

Supervisory board

Darko Medak – chairperson, Dubravka Ostojić, Petar Kavelj

Shareholders	Share in share capital (%)
1. Branko Buljan	77.98
2. Ivka Mijić	22.02

Audit firm for 2012:
Revenio d.o.o., Split

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	308,221
Money assets	21,389
Deposits with the CNB	286,832
Deposits with banking institutions	227,020
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	16,513
Securities and other financial instruments available for sale	0
Securities and other financial instruments held to maturity	244,061
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	77,842
Loans to other clients	1,163,692
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	9,710
Tangible assets (net of depreciation)	39,838
Interest, fees and other assets	35,585
Net of: Collectively assessed impairment provisions	16,036
TOTAL ASSETS	2,106,446

Liabilities and capital	
Loans from financial institutions	117,962
Short-term loans	0
Long-term loans	117,962
Deposits	1,714,101
Giro account and current account deposits	84,827
Savings deposits	19,558
Time deposits	1,609,717
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	99,612
Interest, fees and other liabilities	44,628
TOTAL LIABILITIES	1,976,304
Capital	130,143
TOTAL LIABILITIES AND CAPITAL	2,106,446

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	51,255
Total interest income	133,211
Total interest expenses	81,956
Net income from fees and commissions	7,485
Total income from fees and commissions	9,966
Total expenses on fees and commissions	2,481
Net other non-interest income	63
Other non-interest income	2,731
Other non-interest expenses	2,667
Net non-interest income	7,549
General administrative expenses and depreciation	34,442
Net operating income before loss provisions	24,362
Total expenses on loss provisions	11,401
Expenses on value adjustments and provisions for identified losses	10,922
Expenses on collectively assessed impairment provisions	479
Income (loss) before taxes	12,960
Income tax	2,698
Current year profit (loss)	10,263

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	61,329
Uncovered letters of credit	6,131
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	16,996
Other standard risky off-balance sheet items	3
Total standard off-balance sheet items	84,457

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

14.68

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Management board

Miro Dodić – chairperson, Marina Vidič, Klaudija Paljuh

Supervisory board

Milan Travan – chairperson, Edo Ivančić, Marijan Kovačić, Anton Belušić, Vlatko Reschner

	Shareholders	Share in share capital (%)
1.	Intercommerce d.o.o.	17.16
2.	Tvornica cementa Umag d.o.o.	15.31
3.	Serfin d.o.o.	9.84
4.	Assicurazioni Generali S.p.A.	7.76
5.	Marijan Kovačić	6.91
6.	Branko Kovačić	3.64
7.	Plava laguna d.d.	3.63
8.	Nerio Perich	3.45
9.	Milenko Opačić	3.40

Audit firm for 2012:
PricewaterhouseCoopers d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	489,728
Money assets	63,215
Deposits with the CNB	426,513
Deposits with banking institutions	347,800
MoF treasury bills and CNB bills	193,709
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	2,805
Securities and other financial instruments held to maturity	113,295
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	35
Loans to financial institutions	38,540
Loans to other clients	1,442,370
Investments in subsidiaries and associates	20
Foreclosed and repossessed assets	4,644
Tangible assets (net of depreciation)	53,693
Interest, fees and other assets	15,320
Net of: Collectively assessed impairment provisions	20,297
TOTAL ASSETS	2,681,664

Liabilities and capital	
Loans from financial institutions	72,117
Short-term loans	11,773
Long-term loans	60,344
Deposits	2,283,886
Giro account and current account deposits	306,853
Savings deposits	352,463
Time deposits	1,624,570
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	2
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	23,728
Interest, fees and other liabilities	46,775
TOTAL LIABILITIES	2,426,508
Capital	255,156
TOTAL LIABILITIES AND CAPITAL	2,681,664

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	62,431
Total interest income	124,235
Total interest expenses	61,804
Net income from fees and commissions	21,371
Total income from fees and commissions	25,513
Total expenses on fees and commissions	4,142
Net other non-interest income	12,790
Other non-interest income	15,655
Other non-interest expenses	2,865
Net non-interest income	34,161
General administrative expenses and depreciation	64,998
Net operating income before loss provisions	31,595
Total expenses on loss provisions	10,099
Expenses on value adjustments and provisions for identified losses	9,224
Expenses on collectively assessed impairment provisions	875
Income (loss) before taxes	21,496
Income tax	4,249
Current year profit (loss)	17,246

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	50,678
Uncovered letters of credit	6,558
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	22,928
Margin credit lines	0
Other credit lines and commitments	44,134
Other standard risky off-balance sheet items	243
Total standard off-balance sheet items	124,542

Derivative financial instruments	
Options	3,606
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	3,606

Capital adequacy ratio, in %
as at 31 December 2012

15.40

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Management board

Ivo Šinko – chairperson, Marija Trlaja, Mirko Goreta

Supervisory board

Miro Petric – chairperson, Duje Stančić, Stipe Kuvač, Milivoj Paić, Petar Škender

Shareholders	Share in share capital (%)
1. HOK-Osiguranje d.d.	8.03
2. Alfa d.d.	7.06
3. Croatia osiguranje d.d.	6.48
4. Josip Stojanović	4.80
5. Ugo grupa d.o.o.	4.58
6. Importanne d.o.o.	4.40
7. Marko Sarađen	3.61
8. Vodovod i odvodnja d.o.o.	3.39

Audit firm for 2012:
Šibenski Revicon d.o.o., Šibenik

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	370,937
Money assets	51,876
Deposits with the CNB	319,062
Deposits with banking institutions	518,950
MoF treasury bills and CNB bills	81,991
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	66,255
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	102,939
Loans to other clients	1,710,695
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	170,651
Tangible assets (net of depreciation)	25,003
Interest, fees and other assets	34,649
Net of: Collectively assessed impairment provisions	18,810
TOTAL ASSETS	3,063,260

Liabilities and capital	
Loans from financial institutions	322,361
Short-term loans	126,500
Long-term loans	195,861
Deposits	2,331,821
Giro account and current account deposits	238,807
Savings deposits	311,821
Time deposits	1,781,194
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	22
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	15,264
Hybrid instruments issued	0
Interest, fees and other liabilities	61,439
TOTAL LIABILITIES	2,730,906
Capital	332,354
TOTAL LIABILITIES AND CAPITAL	3,063,260

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	44,179
Total interest income	142,594
Total interest expenses	98,415
Net income from fees and commissions	17,555
Total income from fees and commissions	22,140
Total expenses on fees and commissions	4,585
Net other non-interest income	20,261
Other non-interest income	31,717
Other non-interest expenses	11,456
Net non-interest income	37,816
General administrative expenses and depreciation	60,774
Net operating income before loss provisions	21,221
Total expenses on loss provisions	13,972
Expenses on value adjustments and provisions for identified losses	14,289
Expenses on collectively assessed impairment provisions	–317
Income (loss) before taxes	7,249
Income tax	0
Current year profit (loss)	7,249

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	43,369
Uncovered letters of credit	4,493
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	148,319
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	196,181

Derivative financial instruments	
Options	310
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	310

Capital adequacy ratio, in %
as at 31 December 2012

15.25

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Management board

Josip Delaš – chairperson, Amalija Ikšić

Supervisory board

Ivan Vrljić – chairperson, Ranko Predović, Vedrana Pavelić, Danijel Žamboki

	Shareholders	Share in share capital (%)
1.	Sandi Šola	17.16
2.	Mate Šarić	7.59
3.	Jaime Ivan Guerrero Devlahovich	6.69
4.	GIP Pionir d.o.o.	4.96
5.	Paron d.o.o.	4.96
6.	Europatrade d.o.o.	4.61
7.	Marijan Šarić	3.89
8.	Société Générale – Splitska banka d.d. (custody account)	3.20
9.	Dario Šimić	3.12

Audit firm for 2012:
BDO Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	227,962
Money assets	26,835
Deposits with the CNB	201,127
Deposits with banking institutions	150,398
MoF treasury bills and CNB bills	22,547
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	6,167
Securities and other financial instruments held to maturity	288,089
Securities and other financial instruments not traded in active markets but carried at fair value	94,188
Derivative financial assets	17
Loans to financial institutions	0
Loans to other clients	733,404
Investments in subsidiaries and associates	28,546
Foreclosed and repossessed assets	122,591
Tangible assets (net of depreciation)	79,652
Interest, fees and other assets	39,506
Net of: Collectively assessed impairment provisions	11,119
TOTAL ASSETS	1,781,948

Liabilities and capital	
Loans from financial institutions	111,613
Short-term loans	9,500
Long-term loans	102,113
Deposits	1,474,656
Giro account and current account deposits	244,562
Savings deposits	199,721
Time deposits	1,030,373
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	13
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	67,821
Interest, fees and other liabilities	52,955
TOTAL LIABILITIES	1,707,058
Capital	74,891
TOTAL LIABILITIES AND CAPITAL	1,781,948

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	23,868
Total interest income	82,693
Total interest expenses	58,825
Net income from fees and commissions	11,922
Total income from fees and commissions	18,680
Total expenses on fees and commissions	6,758
Net other non-interest income	8,509
Other non-interest income	12,653
Other non-interest expenses	4,143
Net non-interest income	20,431
General administrative expenses and depreciation	65,397
Net operating income before loss provisions	–21,097
Total expenses on loss provisions	4,414
Expenses on value adjustments and provisions for identified losses	4,975
Expenses on collectively assessed impairment provisions	–561
Income (loss) before taxes	–25,511
Income tax	0
Current year profit (loss)	–25,511

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	137,202
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	12,065
Margin credit lines	0
Other credit lines and commitments	140,987
Other standard risky off-balance sheet items	2,983
Total standard off-balance sheet items	293,238

Derivative financial instruments	
Options	1,997
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	1,997

Capital adequacy ratio, in %
as at 31 December 2012

12.77

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Management board

Mehmet Murat Sabaz – chairperson, Mićo Tomičić

Supervisory board

Burak Tashkinov Ekmekchiev – chairperson,
Mehmet Koçak, Boris Zenić

Shareholders	Share in share capital (%)
1. Eksen Holding A.Ş.	92.36

Audit firm for 2012:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	98,912
Money assets	21,038
Deposits with the CNB	77,874
Deposits with banking institutions	42,795
MoF treasury bills and CNB bills	78,665
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	43,911
Securities and other financial instruments held to maturity	51,368
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	18
Loans to financial institutions	3,427
Loans to other clients	260,203
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	578
Tangible assets (net of depreciation)	12,667
Interest, fees and other assets	19,375
Net of: Collectively assessed impairment provisions	3,544
TOTAL ASSETS	608,373

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	486,541
Giro account and current account deposits	14,511
Savings deposits	10,335
Time deposits	461,695
Other loans	241
Short-term loans	0
Long-term loans	241
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	24,181
TOTAL LIABILITIES	510,963
Capital	97,410
TOTAL LIABILITIES AND CAPITAL	608,373

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	19,337
Total interest income	40,650
Total interest expenses	21,313
Net income from fees and commissions	4,725
Total income from fees and commissions	6,730
Total expenses on fees and commissions	2,005
Net other non-interest income	343
Other non-interest income	3,389
Other non-interest expenses	3,047
Net non-interest income	5,068
General administrative expenses and depreciation	39,906
Net operating income before loss provisions	–15,502
Total expenses on loss provisions	13,747
Expenses on value adjustments and provisions for identified losses	13,816
Expenses on collectively assessed impairment provisions	–69
Income (loss) before taxes	–29,249
Income tax	0
Current year profit (loss)	–29,249

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	5,915
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	291
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	6,206

Derivative financial instruments	
Options	1,211
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	1,211

Capital adequacy ratio, in %
as at 31 December 2012

18.85

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Management board

Ante Gašparović – chairperson, Ivan Dropulić, Boris Zadro

Supervisory board

Nadira Eror – chairperson, Branka Klopović, Josip Rubić, Irena Severin, Ankica Čeko

Shareholders	Share in share capital (%)
1. Agram životno osiguranje d.d.	17.86
2. Euroherc osiguranje d.d.	17.79
3. Jadransko osiguranje d.d.	16.24
4. Euroleasing d.o.o.	14.39
5. Euro daus d.d.	4.99
6. Euroagram Tis d.o.o.	4.85
7. Euroduhan d.d.	4.32
9. Automehanika servisi d.d.	4.19
10. Sunce osiguranje d.d.	3.58
11. Privredna banka Zagreb d.d. (custody account)	3.11
12. Eurodom d.o.o.	3.09

Audit firm for 2012:
Grant Thornton revizija d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	579,326
Money assets	78,471
Deposits with the CNB	500,855
Deposits with banking institutions	221,865
MoF treasury bills and CNB bills	2,978
Securities and other financial instruments held for trading	1,688
Securities and other financial instruments available for sale	209,868
Securities and other financial instruments held to maturity	230,832
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	765
Loans to financial institutions	227,432
Loans to other clients	1,623,467
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	14,257
Tangible assets (net of depreciation)	41,062
Interest, fees and other assets	72,532
Net of: Collectively assessed impairment provisions	23,574
TOTAL ASSETS	3,202,496

Liabilities and capital	
Loans from financial institutions	127,417
Short-term loans	55,435
Long-term loans	71,982
Deposits	2,599,113
Giro account and current account deposits	286,877
Savings deposits	82,772
Time deposits	2,229,463
Other loans	37,728
Short-term loans	37,728
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	381
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	60,000
Hybrid instruments issued	0
Interest, fees and other liabilities	78,783
TOTAL LIABILITIES	2,903,422
Capital	299,074
TOTAL LIABILITIES AND CAPITAL	3,202,496

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	77,220
Total interest income	194,831
Total interest expenses	117,611
Net income from fees and commissions	16,118
Total income from fees and commissions	25,056
Total expenses on fees and commissions	8,938
Net other non-interest income	12,500
Other non-interest income	14,386
Other non-interest expenses	1,886
Net non-interest income	28,618
General administrative expenses and depreciation	72,708
Net operating income before loss provisions	33,130
Total expenses on loss provisions	12,441
Expenses on value adjustments and provisions for identified losses	6,949
Expenses on collectively assessed impairment provisions	5,492
Income (loss) before taxes	20,689
Income tax	4,599
Current year profit (loss)	16,090

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	93,179
Uncovered letters of credit	5,543
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	48,189
Margin credit lines	0
Other credit lines and commitments	46,929
Other standard risky off-balance sheet items	15,452
Total standard off-balance sheet items	209,292

Derivative financial instruments	
Options	13,775
Swaps	0
Forwards	23,068
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	36,843

Capital adequacy ratio, in %
as at 31 December 2012

13.96

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Management board

Jakov Gelo – deputy chairperson, Ivan Gudelj – deputy management board member

Supervisory board

Višnjica Mališa – chairperson, Daniel Hrnjak, Anđelko Ivančić

	Shareholders	Share in share capital (%)
1.	GIP Pionir d.o.o.	29.88
2.	Paron d.o.o.	19.73
3.	Gradko d.o.o.	9.84
4.	Munis d.o.o.	9.82
5.	Kemika d.d.	9.08
6.	Tehnikagradnja d.o.o.	3.36

Audit firm for 2012:
BDO Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	30,471
Money assets	5,674
Deposits with the CNB	24,798
Deposits with banking institutions	11,964
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	11,958
Securities and other financial instruments held to maturity	10,751
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	0
Loans to other clients	192,766
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	11,277
Tangible assets (net of depreciation)	1,753
Interest, fees and other assets	7,926
Net of: Collectively assessed impairment provisions	1,551
TOTAL ASSETS	277,315

Liabilities and capital	
Loans from financial institutions	23,650
Short-term loans	23,650
Long-term loans	0
Deposits	213,127
Giro account and current account deposits	22,831
Savings deposits	60,913
Time deposits	129,383
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	20,021
Interest, fees and other liabilities	6,862
TOTAL LIABILITIES	263,661
Capital	13,654
TOTAL LIABILITIES AND CAPITAL	277,315

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	3,293
Total interest income	14,663
Total interest expenses	11,370
Net income from fees and commissions	930
Total income from fees and commissions	1,710
Total expenses on fees and commissions	780
Net other non-interest income	–3,329
Other non-interest income	–2,616
Other non-interest expenses	713
Net non-interest income	–2,400
General administrative expenses and depreciation	10,552
Net operating income before loss provisions	–9,659
Total expenses on loss provisions	5,471
Expenses on value adjustments and provisions for identified losses	5,665
Expenses on collectively assessed impairment provisions	–194
Income (loss) before taxes	–15,130
Income tax	0
Current year profit (loss)	–15,130

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	36,813
Uncovered letters of credit	302
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	3,230
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	40,345

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

9.17

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Shareholders	Share in share capital (%)
1. OTP Bank NYRT	100.00

Audit firm for 2012:
Deloitte d.o.o., Zagreb

Management board

Balazs Pal Bekeffy – chairperson, Zorislav Vidović, Helena Banjad, Slaven Celić

Supervisory board

Antal Lászlo Pongrácz – chairperson, Szabolcs Annus, Branko Mikša, László Kecskés, Balázs Fábián, Zsolt Szabó, Árpád Sranko, Fülöp Benedek, István Vastag

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	1,607,658
Money assets	288,498
Deposits with the CNB	1,319,160
Deposits with banking institutions	727,470
MoF treasury bills and CNB bills	310,258
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	1,446,038
Securities and other financial instruments held to maturity	68,838
Securities and other financial instruments not traded in active markets but carried at fair value	10,697
Derivative financial assets	5,104
Loans to financial institutions	152,452
Loans to other clients	8,625,390
Investments in subsidiaries and associates	73,233
Foreclosed and repossessed assets	5,919
Tangible assets (net of depreciation)	216,295
Interest, fees and other assets	213,269
Net of: Collectively assessed impairment provisions	87,830
TOTAL ASSETS	13,374,792

Liabilities and capital	
Loans from financial institutions	868,635
Short-term loans	3,215
Long-term loans	865,420
Deposits	10,587,776
Giro account and current account deposits	1,347,926
Savings deposits	1,417,153
Time deposits	7,822,697
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	2,431
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	38,580
Hybrid instruments issued	0
Interest, fees and other liabilities	348,386
TOTAL LIABILITIES	11,845,808
Capital	1,528,983
TOTAL LIABILITIES AND CAPITAL	13,374,792

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	401,082
Total interest income	725,347
Total interest expenses	324,265
Net income from fees and commissions	116,250
Total income from fees and commissions	151,305
Total expenses on fees and commissions	35,055
Net other non-interest income	14,410
Other non-interest income	40,462
Other non-interest expenses	26,052
Net non-interest income	130,660
General administrative expenses and depreciation	320,949
Net operating income before loss provisions	210,793
Total expenses on loss provisions	83,190
Expenses on value adjustments and provisions for identified losses	83,986
Expenses on collectively assessed impairment provisions	–797
Income (loss) before taxes	127,604
Income tax	27,531
Current year profit (loss)	100,072

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	130,332
Uncovered letters of credit	14,568
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	110,130
Margin credit lines	0
Other credit lines and commitments	1,090,628
Other standard risky off-balance sheet items	170
Total standard off-balance sheet items	1,345,829

Derivative financial instruments	
Options	57,704
Swaps	2,574,550
Forwards	69,609
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	2,701,863

Capital adequacy ratio, in %
as at 31 December 2012

16.04

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Shareholders | **Share in share capital (%)**

1. Metroholding d.d. — 99.99

Audit firm for 2012:
Krako-Revizija d.o.o., Zagreb

Management board

Ivan Ćurković – chairperson, Petar Repušić

Supervisory board

Božo Čulo – chairperson, Ivan Miloloža, Radovan Fuchs

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	107,418
Money assets	16,827
Deposits with the CNB	90,591
Deposits with banking institutions	79,885
MoF treasury bills and CNB bills	103,216
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	27,101
Securities and other financial instruments held to maturity	2,028
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	28
Loans to financial institutions	4,667
Loans to other clients	877,433
Investments in subsidiaries and associates	197
Foreclosed and repossessed assets	22,373
Tangible assets (net of depreciation)	41,261
Interest, fees and other assets	37,853
Net of: Collectively assessed impairment provisions	8,295
TOTAL ASSETS	1,295,165

Liabilities and capital	
Loans from financial institutions	282,707
Short-term loans	80,825
Long-term loans	201,882
Deposits	820,431
Giro account and current account deposits	124,542
Savings deposits	26,845
Time deposits	669,043
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	30
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	10,000
Hybrid instruments issued	0
Interest, fees and other liabilities	22,181
TOTAL LIABILITIES	1,135,348
Capital	159,817
TOTAL LIABILITIES AND CAPITAL	1,295,165

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	44,759
Total interest income	85,424
Total interest expenses	40,665
Net income from fees and commissions	6,081
Total income from fees and commissions	8,896
Total expenses on fees and commissions	2,815
Net other non-interest income	8,984
Other non-interest income	10,530
Other non-interest expenses	1,546
Net non-interest income	15,065
General administrative expenses and depreciation	43,238
Net operating income before loss provisions	16,585
Total expenses on loss provisions	38,970
Expenses on value adjustments and provisions for identified losses	40,159
Expenses on collectively assessed impairment provisions	–1,189
Income (loss) before taxes	–22,384
Income tax	–4,678
Current year profit (loss)	–17,706

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	74,098
Uncovered letters of credit	4,165
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	4,586
Margin credit lines	0
Other credit lines and commitments	6,053
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	88,902

Derivative financial instruments	
Options	7,542
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	7,542

Capital adequacy ratio, in %
as at 31 December 2012

14.14

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Management board

Julio Kuruc – chairperson, Davorka Jakir, Marijan Marušić

Supervisory board

Miljan Todorović – chairperson, Sigilfredo Montinari, Dario Montinari, Đuro Predović, Dolly Predović, Maurizio Dallocchio, Filippo Disertori

Shareholders	Share in share capital (%)
1. Lorenzo Gorgoni	9.87
2. Antonia Gorgoni	9.77
3. Assicurazioni Generali S.p.A.	9.54
4. Cerere S.R.L.	9.53
5. Miljan Todorović	8.33
6. Zagrebačka banka d.d. (custody account)	5.96
7. Andrea Montinari	5.76
8. Sigilfredo Montinari	5.76
9.. Dario Montinari	4.27
10. Giovanni Semeraro	4.11

Audit firm for 2012:
Deloitte d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	420,161
Money assets	41,374
Deposits with the CNB	378,787
Deposits with banking institutions	308,061
MoF treasury bills and CNB bills	29,563
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	443,974
Securities and other financial instruments held to maturity	57,680
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	18,925
Loans to other clients	1,620,530
Investments in subsidiaries and associates	4,770
Foreclosed and repossessed assets	6,748
Tangible assets (net of depreciation)	93,185
Interest, fees and other assets	86,122
Net of: Collectively assessed impairment provisions	22,040
TOTAL ASSETS	3,067,680

Liabilities and capital	
Loans from financial institutions	208,156
Short-term loans	33,600
Long-term loans	174,556
Deposits	2,296,674
Giro account and current account deposits	372,017
Savings deposits	202,989
Time deposits	1,721,668
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	75,456
Interest, fees and other liabilities	93,934
TOTAL LIABILITIES	2,674,220
Capital	393,460
TOTAL LIABILITIES AND CAPITAL	3,067,680

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	88,010
Total interest income	169,708
Total interest expenses	81,698
Net income from fees and commissions	23,645
Total income from fees and commissions	34,377
Total expenses on fees and commissions	10,732
Net other non-interest income	948
Other non-interest income	12,864
Other non-interest expenses	11,915
Net non-interest income	24,593
General administrative expenses and depreciation	99,215
Net operating income before loss provisions	13,388
Total expenses on loss provisions	3,174
Expenses on value adjustments and provisions for identified losses	1,274
Expenses on collectively assessed impairment provisions	1,900
Income (loss) before taxes	10,214
Income tax	2,085
Current year profit (loss)	8,129

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	66,774
Uncovered letters of credit	16,420
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	13,163
Margin credit lines	456
Other credit lines and commitments	328,528
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	425,341

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

17.00

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Management board

Anto Pekić – chairperson, Zdenko Šošić

Supervisory board

Jože Perić – chairperson, Gordana Pavletić, Franco Brunati

Shareholders	Share in share capital (%)
1. C.I.M. Banque SA	49.40
2. Francesco Signorio	28.37
3. Domenico Petrella	6.17
4. Svetlana Signorio	4.98
5. Cofisi S.A.	4.25

Audit firm for 2012:
BDO Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	36,470
Money assets	3,088
Deposits with the CNB	33,382
Deposits with banking institutions	36,806
MoF treasury bills and CNB bills	16,915
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	41,055
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	7,778
Loans to other clients	67,637
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	137
Tangible assets (net of depreciation)	1,049
Interest, fees and other assets	3,958
Net of: Collectively assessed impairment provisions	1,188
TOTAL ASSETS	210,618

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	157,762
Giro account and current account deposits	11,273
Savings deposits	22,127
Time deposits	124,362
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	15,274
Interest, fees and other liabilities	4,492
TOTAL LIABILITIES	177,529
Capital	33,089
TOTAL LIABILITIES AND CAPITAL	210,618

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	4,091
Total interest income	10,216
Total interest expenses	6,125
Net income from fees and commissions	673
Total income from fees and commissions	1,454
Total expenses on fees and commissions	781
Net other non-interest income	1,242
Other non-interest income	1,350
Other non-interest expenses	109
Net non-interest income	1,914
General administrative expenses and depreciation	12,327
Net operating income before loss provisions	–6,322
Total expenses on loss provisions	3,158
Expenses on value adjustments and provisions for identified losses	2,913
Expenses on collectively assessed impairment provisions	245
Income (loss) before taxes	–9,480
Income tax	0
Current year profit (loss)	–9,480

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	1,450
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	8,735
Other standard risky off-balance sheet items	1,885
Total standard off-balance sheet items	12,070

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

40.20

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Management board

Božo Prka – chairperson, Ivan Gerovac, Gabriele Pace, Darko Drozdek, Draženko Kopljar, Dinko Lucić, Andrea Pavlović

Supervisory board

György Surányi – chairperson, Nóra Katalin Kocsis, Ivan Šramko, Beáta Kissné Földi, Branko Jeren, Massimo Malagoli, Paolo Sarcinelli

Shareholders	Share in share capital (%)
1. Intesa Bci Holding International S.A.	76.59
2. European Bank for Reconstruction and Development (EBRD)	20.88

Audit firm for 2012:
KPMG Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	8,764,651
Money assets	1,398,153
Deposits with the CNB	7,366,499
Deposits with banking institutions	6,166,500
MoF treasury bills and CNB bills	2,524,927
Securities and other financial instruments held for trading	18,154
Securities and other financial instruments available for sale	80,749
Securities and other financial instruments held to maturity	845,265
Securities and other financial instruments not traded in active markets but carried at fair value	1,278,733
Derivative financial assets	4,373
Loans to financial institutions	1,456,056
Loans to other clients	46,376,783
Investments in subsidiaries and associates	219,712
Foreclosed and repossessed assets	36,533
Tangible assets (net of depreciation)	692,670
Interest, fees and other assets	1,029,691
Net of: Collectively assessed impairment provisions	544,444
TOTAL ASSETS	68,950,352

Liabilities and capital	
Loans from financial institutions	2,210,779
Short-term loans	801,467
Long-term loans	1,409,312
Deposits	47,352,982
Giro account and current account deposits	8,126,240
Savings deposits	7,252,603
Time deposits	31,974,139
Other loans	5,692,904
Short-term loans	149,019
Long-term loans	5,543,886
Derivative financial liabilities and other financial liabilities held for trading	3,625
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	1,963,691
TOTAL LIABILITIES	57,223,981
Capital	11,726,371
TOTAL LIABILITIES AND CAPITAL	68,950,352

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	2,127,001
Total interest income	3,555,084
Total interest expenses	1,428,083
Net income from fees and commissions	462,624
Total income from fees and commissions	753,852
Total expenses on fees and commissions	291,228
Net other non-interest income	216,022
Other non-interest income	347,412
Other non-interest expenses	131,390
Net non-interest income	678,646
General administrative expenses and depreciation	1,200,412
Net operating income before loss provisions	1,605,234
Total expenses on loss provisions	575,021
Expenses on value adjustments and provisions for identified losses	563,321
Expenses on collectively assessed impairment provisions	11,700
Income (loss) before taxes	1,030,213
Income tax	184,654
Current year profit (loss)	845,559

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	2,671,028
Uncovered letters of credit	175,614
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	3,423,724
Margin credit lines	0
Other credit lines and commitments	5,056,198
Other standard risky off-balance sheet items	58,289
Total standard off-balance sheet items	11,384,853

Derivative financial instruments	
Options	36,551
Swaps	2,722,198
Forwards	472,852
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	3,231,602

Capital adequacy ratio, in %
as at 31 December 2012

21.75

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Management board

Zdenko Adrović – chairperson, Vlasta Žubrinić-Pick, Jasna Širola, Zoran Košćak, Vesna Ciganek Vuković, Mario Žižek

Supervisory board

Peter Lennkh – chairperson, Razvan Munteanu, Peter Bazil, Paul Alan Kocher, Franz Rogi, Lovorka Penavić, Peter Jacenko

Shareholders	Share in share capital (%)
1. Raiffeisen SEE Region Holding GmbH	75.00
2. Raiffeisenbank-Zagreb-Beteiligungs GmbH	25.00

Audit firm for 2012:
Deloitte d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	4,392,591
Money assets	658,237
Deposits with the CNB	3,734,354
Deposits with banking institutions	1,553,850
MoF treasury bills and CNB bills	823,964
Securities and other financial instruments held for trading	1,628,642
Securities and other financial instruments available for sale	4,313
Securities and other financial instruments held to maturity	604,413
Securities and other financial instruments not traded in active markets but carried at fair value	1,580,484
Derivative financial assets	66,177
Loans to financial institutions	1,290,903
Loans to other clients	22,431,996
Investments in subsidiaries and associates	210,745
Foreclosed and repossessed assets	134,346
Tangible assets (net of depreciation)	457,538
Interest, fees and other assets	810,342
Net of: Collectively assessed impairment provisions	290,529
TOTAL ASSETS	35,699,773

Liabilities and capital	
Loans from financial institutions	2,020,105
Short-term loans	833,411
Long-term loans	1,186,694
Deposits	23,144,116
Giro account and current account deposits	5,192,738
Savings deposits	2,993,665
Time deposits	14,957,713
Other loans	3,184,765
Short-term loans	115,649
Long-term loans	3,069,116
Derivative financial liabilities and other financial liabilities held for trading	1,026,918
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	895,547
TOTAL LIABILITIES	30,271,451
Capital	5,428,322
TOTAL LIABILITIES AND CAPITAL	35,699,773

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	1,150,375
Total interest income	2,013,543
Total interest expenses	863,168
Net income from fees and commissions	301,190
Total income from fees and commissions	437,977
Total expenses on fees and commissions	136,787
Net other non-interest income	190,227
Other non-interest income	236,041
Other non-interest expenses	45,814
Net non-interest income	491,417
General administrative expenses and depreciation	808,375
Net operating income before loss provisions	833,418
Total expenses on loss provisions	401,268
Expenses on value adjustments and provisions for identified losses	432,052
Expenses on collectively assessed impairment provisions	–30,784
Income (loss) before taxes	432,149
Income tax	67,795
Current year profit (loss)	364,355

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	4,075,376
Uncovered letters of credit	170,303
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	538,895
Margin credit lines	0
Other credit lines and commitments	1,648,340
Other standard risky off-balance sheet items	1,796,812
Total standard off-balance sheet items	8,229,727

Derivative financial instruments	
Options	17,215
Swaps	26,113,456
Forwards	931,072
Futures	709,696
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	27,771,439

Capital adequacy ratio, in %
as at 31 December 2012

18.30

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Management board

Marijan Kantolić – chairperson, Verica Ljubičić

Supervisory board

Dragutin Plahutar – chairperson, Želimir Kodrić, Milan Penava, Martina Crljen, Martin Jazbec

Shareholders	Share in share capital (%)
1. Aquae Vivae d.d.	83.54
2. Samoborka d.d.	5.15
3. Tigra d.o.o.	3.13

Audit firm for 2012:
HLB Revidicon d.o.o. Varaždin

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	59,127
Money assets	10,797
Deposits with the CNB	48,330
Deposits with banking institutions	132,915
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	258
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	925
Loans to financial institutions	2,508
Loans to other clients	196,683
Investments in subsidiaries and associates	44
Foreclosed and repossessed assets	10,299
Tangible assets (net of depreciation)	29,933
Interest, fees and other assets	4,353
Net of: Collectively assessed impairment provisions	3,358
TOTAL ASSETS	433,686

Liabilities and capital	
Loans from financial institutions	276
Short-term loans	0
Long-term loans	276
Deposits	338,244
Giro account and current account deposits	68,728
Savings deposits	55,108
Time deposits	214,408
Other loans	38
Short-term loans	38
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	8,801
TOTAL LIABILITIES	347,358
Capital	86,328
TOTAL LIABILITIES AND CAPITAL	433,686

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	10,442
Total interest income	19,844
Total interest expenses	9,402
Net income from fees and commissions	2,251
Total income from fees and commissions	4,042
Total expenses on fees and commissions	1,791
Net other non-interest income	1,155
Other non-interest income	1,677
Other non-interest expenses	522
Net non-interest income	3,407
General administrative expenses and depreciation	12,583
Net operating income before loss provisions	1,266
Total expenses on loss provisions	–416
Expenses on value adjustments and provisions for identified losses	–630
Expenses on collectively assessed impairment provisions	215
Income (loss) before taxes	1,681
Income tax	382
Current year profit (loss)	1,299

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	8,281
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	9,575
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	17,856

Derivative financial instruments	
Options	43,678
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	43,678

Capital adequacy ratio, in %
as at 31 December 2012

26.83

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Management board

Angelina Horvat – chairperson, Marko Krajina, Marko Brnić

Supervisory board

Ružica Vađić – chairperson, Tomislav Rosandić, Blaženka Eror Matić, Hrvoje Markovinović, Denis Smolar

Shareholders	Share in share capital (%)
1. Hypo Alpe-Adria-Bank d.d. (custody account)	16.59
2. State Agency for Deposit Insurance and Bank Rehabilitation	8.32
3. Dragutin Sokačić	7.89
4. Own shares	7.77
5. Zagrebačka banka d.d. (custody account)	5.47
6. Raiffeisenbank Austria d.d. (custody account)	4.38
7. Josip Galić	3.26
8. Milivoj Mrkoci	3.26
9. Finesa Credos d.d.	3.16
10. Croatia Lloyd d.d.	3.02

Audit firm for 2012:
BDO Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	214,029
Money assets	27,412
Deposits with the CNB	186,617
Deposits with banking institutions	113,509
MoF treasury bills and CNB bills	139,882
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	34,540
Securities and other financial instruments held to maturity	83,892
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	6
Loans to financial institutions	15,005
Loans to other clients	778,528
Investments in subsidiaries and associates	5,679
Foreclosed and repossessed assets	13,741
Tangible assets (net of depreciation)	27,535
Interest, fees and other assets	26,204
Net of: Collectively assessed impairment provisions	10,293
TOTAL ASSETS	1,442,257

Liabilities and capital	
Loans from financial institutions	148,089
Short-term loans	21,913
Long-term loans	126,176
Deposits	1,055,783
Giro account and current account deposits	114,488
Savings deposits	81,485
Time deposits	859,810
Other loans	13,558
Short-term loans	0
Long-term loans	13,558
Derivative financial liabilities and other financial liabilities held for trading	5
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	49,528
TOTAL LIABILITIES	1,266,963
Capital	175,294
TOTAL LIABILITIES AND CAPITAL	1,442,257

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	36,581
Total interest income	84,471
Total interest expenses	47,890
Net income from fees and commissions	10,077
Total income from fees and commissions	13,011
Total expenses on fees and commissions	2,935
Net other non-interest income	5,986
Other non-interest income	8,846
Other non-interest expenses	2,860
Net non-interest income	16,063
General administrative expenses and depreciation	40,967
Net operating income before loss provisions	11,677
Total expenses on loss provisions	5,274
Expenses on value adjustments and provisions for identified losses	4,571
Expenses on collectively assessed impairment provisions	703
Income (loss) before taxes	6,403
Income tax	1,407
Current year profit (loss)	4,997

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	13,777
Uncovered letters of credit	555
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	2,723
Margin credit lines	0
Other credit lines and commitments	50,262
Other standard risky off-balance sheet items	570
Total standard off-balance sheet items	67,888

Derivative financial instruments	
Options	1,568
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	1,568

Capital adequacy ratio, in %
as at 31 December 2012

16.83

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Management board

Andre Marc Prudent-Toccanier – chairperson,
Nelsi Rončević, Zvonimir Akrap

Supervisory board

Jean-Luc Parer – chairperson, Patrick Pierre Gelin,
Giovanni Luca Soma

Shareholders	Share in share capital (%)
1. Société Générale	100.00

Audit firm for 2012:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	4,064,327
Money assets	323,622
Deposits with the CNB	3,740,706
Deposits with banking institutions	2,650,939
MoF treasury bills and CNB bills	958,278
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	609,712
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	1,848
Loans to financial institutions	606,100
Loans to other clients	16,980,206
Investments in subsidiaries and associates	36,369
Foreclosed and repossessed assets	2,139
Tangible assets (net of depreciation)	176,483
Interest, fees and other assets	545,822
Net of: Collectively assessed impairment provisions	200,817
TOTAL ASSETS	26,431,406

Liabilities and capital	
Loans from financial institutions	1,238,333
Short-term loans	5,300
Long-term loans	1,233,033
Deposits	15,620,277
Giro account and current account deposits	2,740,386
Savings deposits	1,824,805
Time deposits	11,055,086
Other loans	4,430,146
Short-term loans	0
Long-term loans	4,430,146
Derivative financial liabilities and other financial liabilities held for trading	9,375
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	437,174
Hybrid instruments issued	0
Interest, fees and other liabilities	1,126,846
TOTAL LIABILITIES	22,862,151
Capital	3,569,254
TOTAL LIABILITIES AND CAPITAL	26,431,406

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	752,464
Total interest income	1,348,952
Total interest expenses	596,488
Net income from fees and commissions	233,211
Total income from fees and commissions	291,726
Total expenses on fees and commissions	58,515
Net other non-interest income	94,975
Other non-interest income	104,809
Other non-interest expenses	9,834
Net non-interest income	328,186
General administrative expenses and depreciation	620,542
Net operating income before loss provisions	460,109
Total expenses on loss provisions	330,356
Expenses on value adjustments and provisions for identified losses	348,230
Expenses on collectively assessed impairment provisions	–17,874
Income (loss) before taxes	129,753
Income tax	33,725
Current year profit (loss)	96,028

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	1,867,406
Uncovered letters of credit	176,380
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	1,265,389
Margin credit lines	0
Other credit lines and commitments	1,644,475
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	4,953,651

Derivative financial instruments	
Options	1,520
Swaps	894,735
Forwards	278,427
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	1,174,682

Capital adequacy ratio, in %
as at 31 December 2012

17.63

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Management board

Ante Babić – chairperson, Zdravko Zrinušić

Supervisory board

Ivo Andrijanić – chairperson, Đuro Benček, Petar Ćurković

Shareholders	Share in share capital (%)
1. Šted-Nova d.o.o.	80.74
2. Željko Udovičić	9.87
3. Šted-invest d.o.o.	6.35
4. Redip d.o.o.	3.04

Audit firm for 2012:
BDO Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	95,079
Money assets	4,062
Deposits with the CNB	91,017
Deposits with banking institutions	104,693
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	85,073
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	1,513
Loans to financial institutions	96,243
Loans to other clients	812,152
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	14,369
Tangible assets (net of depreciation)	2,671
Interest, fees and other assets	15,024
Net of: Collectively assessed impairment provisions	9,648
TOTAL ASSETS	1,217,167

Liabilities and capital	
Loans from financial institutions	73,093
Short-term loans	6,000
Long-term loans	67,093
Deposits	742,556
Giro account and current account deposits	31,638
Savings deposits	53,568
Time deposits	657,350
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	912
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	50,234
Interest, fees and other liabilities	30,961
TOTAL LIABILITIES	897,755
Capital	319,412
TOTAL LIABILITIES AND CAPITAL	1,217,167

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	33,047
Total interest income	75,765
Total interest expenses	42,717
Net income from fees and commissions	5,044
Total income from fees and commissions	6,797
Total expenses on fees and commissions	1,753
Net other non-interest income	4,525
Other non-interest income	6,711
Other non-interest expenses	2,186
Net non-interest income	9,570
General administrative expenses and depreciation	14,900
Net operating income before loss provisions	27,718
Total expenses on loss provisions	16,441
Expenses on value adjustments and provisions for identified losses	17,990
Expenses on collectively assessed impairment provisions	–1,549
Income (loss) before taxes	11,277
Income tax	2,634
Current year profit (loss)	8,643

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	99,140
Uncovered letters of credit	8,935
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	13,521
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	121,595

Derivative financial instruments	
Options	244,554
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	41
Total notional amount of derivative financial instruments	244,594

Capital adequacy ratio, in %
as at 31 December 2012

34.94

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Management board

Zvonko Agičić – chairperson, Dubravka Filipčić

Supervisory board

Milorad Pupovac – chairperson, Biljana Jovanović, Zoran Pavlović

Shareholders	Share in share capital (%)
1 Development Fund of the Republic of Serbia	29.12
2. Development Fund of the Autonomous Province of Vojvodina	25.96
3. Zvijezda d.d.	10.78
4. Končar-elektroindustrija d.d.	9.43
5. Đuro Đaković d.d.	5.45
6. Sladorana d.d.	5.39

Audit firm for 2012:
HLB Revidicon d.o.o., Varaždin

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	3,118
Money assets	371
Deposits with the CNB	2,747
Deposits with banking institutions	180
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	4,255
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	1,500
Loans to other clients	17,375
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	538
Interest, fees and other assets	626
Net of: Collectively assessed impairment provisions	225
TOTAL ASSETS	27,367

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	3,248
Giro account and current account deposits	1,440
Savings deposits	103
Time deposits	1,706
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	1,090
TOTAL LIABILITIES	4,339
Capital	23,028
TOTAL LIABILITIES AND CAPITAL	27,367

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	1,796
Total interest income	1,952
Total interest expenses	156
Net income from fees and commissions	31
Total income from fees and commissions	135
Total expenses on fees and commissions	104
Net other non-interest income	178
Other non-interest income	192
Other non-interest expenses	14
Net non-interest income	209
General administrative expenses and depreciation	7,738
Net operating income before loss provisions	–5,734
Total expenses on loss provisions	189
Expenses on value adjustments and provisions for identified losses	245
Expenses on collectively assessed impairment provisions	–56
Income (loss) before taxes	–5,923
Income tax	0
Current year profit (loss)	–5,923

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	750
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	10
Margin credit lines	50
Other credit lines and commitments	33
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	843

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

99.89

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Management board

Stanko Kežman – chairperson, Natalija Jambrečić

Supervisory board

Július Strapek – chairperson, Vladimir Koščec, Tomáš Hlaváč, Mario Baburić, Zoran Zemlić, Irena Adžić Jagodić, Tomislav Marinac

Shareholders	Share in share capital (%)
1. Validus d.d.	29.09
2. Balkan Financial Sector Equity Fund C.V.	16.54
3. Pluris d.d.	8.99
4. Gara Secundus d.o.o.	4.31
5. Finesa Conceptus d.o.o.	3.53
6. Jozo Kalem	3.53
7. InterFinance d.o.o.	3.53

Audit firm for 2012:
Grant Thornton revizija d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	144,353
Money assets	21,670
Deposits with the CNB	122,683
Deposits with banking institutions	37,001
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	195,744
Securities and other financial instruments held to maturity	16,239
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	6,683
Loans to other clients	711,730
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	24,649
Tangible assets (net of depreciation)	23,126
Interest, fees and other assets	51,969
Net of: Collectively assessed impairment provisions	7,222
TOTAL ASSETS	1,204,271

Liabilities and capital	
Loans from financial institutions	97,685
Short-term loans	86,100
Long-term loans	11,585
Deposits	849,354
Giro account and current account deposits	49,827
Savings deposits	13,560
Time deposits	785,967
Other loans	99,988
Short-term loans	81,124
Long-term loans	18,864
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	3,018
Interest, fees and other liabilities	27,283
TOTAL LIABILITIES	1,077,328
Capital	126,943
TOTAL LIABILITIES AND CAPITAL	1,204,271

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	29,100
Total interest income	73,106
Total interest expenses	44,006
Net income from fees and commissions	4,513
Total income from fees and commissions	6,217
Total expenses on fees and commissions	1,704
Net other non-interest income	3,243
Other non-interest income	5,465
Other non-interest expenses	2,223
Net non-interest income	7,756
General administrative expenses and depreciation	44,831
Net operating income before loss provisions	–7,975
Total expenses on loss provisions	4,724
Expenses on value adjustments and provisions for identified losses	4,884
Expenses on collectively assessed impairment provisions	–160
Income (loss) before taxes	–12,699
Income tax	0
Current year profit (loss)	–12,699

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	49,380
Uncovered letters of credit	348
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	4,262
Margin credit lines	0
Other credit lines and commitments	28,300
Other standard risky off-balance sheet items	6,353
Total standard off-balance sheet items	88,643

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

12.16

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Management board

Michele Romano – chairperson, Fernando Zavatarelli, Leonardo Iannotta, Boris Kalajdžić

Supervisory board

Gian-Quinto Perissinotto – chairperson, Pierluigi Ronzani, Carraro Diego, Paruzzolo Antonio, Atos Varusio

Shareholders	Share in share capital (%)
1. Veneto Banca Holding S.C.P.A.	100.00

Audit firm for 2012:
PricewaterhouseCoopers d.o.o., Zagreb

Balance sheet as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	133,848
Money assets	11,621
Deposits with the CNB	122,228
Deposits with banking institutions	25,743
MoF treasury bills and CNB bills	29,987
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	375,263
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	339
Loans to financial institutions	2,839
Loans to other clients	659,611
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	6,696
Tangible assets (net of depreciation)	31,353
Interest, fees and other assets	35,957
Net of: Collectively assessed impairment provisions	7,192
TOTAL ASSETS	1,294,443

Liabilities and capital	
Loans from financial institutions	17,096
Short-term loans	0
Long-term loans	17,096
Deposits	623,910
Giro account and current account deposits	33,863
Savings deposits	23,775
Time deposits	566,272
Other loans	358,805
Short-term loans	0
Long-term loans	358,805
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	103,548
TOTAL LIABILITIES	1,103,358
Capital	191,085
TOTAL LIABILITIES AND CAPITAL	1,294,443

Income statement as at 31 December 2012, in thousand HRK

Net interest income	26,808
Total interest income	55,166
Total interest expenses	28,358
Net income from fees and commissions	6,311
Total income from fees and commissions	7,611
Total expenses on fees and commissions	1,300
Net other non-interest income	–523
Other non-interest income	2,563
Other non-interest expenses	3,086
Net non-interest income	5,788
General administrative expenses and depreciation	43,651
Net operating income before loss provisions	–11,055
Total expenses on loss provisions	5,147
Expenses on value adjustments and provisions for identified losses	3,104
Expenses on collectively assessed impairment provisions	2,043
Income (loss) before taxes	–16,202
Income tax	0
Current year profit (loss)	–16,202

Off-balance sheet items as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	57,105
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	15,452
Other standard risky off-balance sheet items	251
Total standard off-balance sheet items	72,807

Derivative financial instruments	
Options	14,695
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	14,695

Capital adequacy ratio, in % as at 31 December 2012

20.76

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Shareholders	Share in share capital (%)
1. Sberbank Europe AG	100.00

Audit firm for 2012:
Ernst & Young d.o.o., Zagreb

Management board

Andrea Kovacs-Wöhry – chairperson, Igor Repin, Dubravka Lukić, Dubravko-Ante Mlikotić, Mario Henjak

Supervisory board

András Krisztián Hámori – chairperson, David Joseph O'Mahony, Dragutin Bohuš, Natalia Revina, Thoralf Arlt

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	820,639
Money assets	85,583
Deposits with the CNB	735,056
Deposits with banking institutions	1,083,882
MoF treasury bills and CNB bills	338,028
Securities and other financial instruments held for trading	74,232
Securities and other financial instruments available for sale	177,792
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	3,620
Loans to financial institutions	124,631
Loans to other clients	5,431,730
Investments in subsidiaries and associates	1,950
Foreclosed and repossessed assets	53,822
Tangible assets (net of depreciation)	17,874
Interest, fees and other assets	163,119
Net of: Collectively assessed impairment provisions	58,522
TOTAL ASSETS	8,232,797

Liabilities and capital	
Loans from financial institutions	381,217
Short-term loans	225,375
Long-term loans	155,842
Deposits	4,983,417
Giro account and current account deposits	464,706
Savings deposits	730,110
Time deposits	3,788,602
Other loans	1,174,893
Short-term loans	1,061,708
Long-term loans	113,184
Derivative financial liabilities and other financial liabilities held for trading	191
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	252,350
TOTAL LIABILITIES	6,792,069
Capital	1,440,729
TOTAL LIABILITIES AND CAPITAL	8,232,797

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	184,319
Total interest income	379,213
Total interest expenses	194,894
Net income from fees and commissions	32,216
Total income from fees and commissions	41,310
Total expenses on fees and commissions	9,094
Net other non-interest income	13,708
Other non-interest income	35,434
Other non-interest expenses	21,726
Net non-interest income	45,924
General administrative expenses and depreciation	165,899
Net operating income before loss provisions	64,344
Total expenses on loss provisions	236,054
Expenses on value adjustments and provisions for identified losses	232,622
Expenses on collectively assessed impairment provisions	3,432
Income (loss) before taxes	–171,710
Income tax	–31,397
Current year profit (loss)	–140,313

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	125,610
Uncovered letters of credit	3,259
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	9,489
Margin credit lines	0
Other credit lines and commitments	251,298
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	389,657

Derivative financial instruments	
Options	6,116
Swaps	0
Forwards	1,928,630
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	1,934,746

Capital adequacy ratio, in %
as at 31 December 2012

23.30

1 Volksbank d.d. changed its name to Sberbank d.d. on 18 January 2013.

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Management board

Franjo Luković – chairperson, Milivoj Goldštajn, Sanja Rendulić, Miljenko Živaljić, Marko Remenar, Daniela Roguljić Novak, Nikolaus Maximilian Linarić

Supervisory board

Erich Hampel – chairperson, Jakša Barbić, Franco Andreetta, Robert Zadrazil, Fabrizio Onida, Francesco Giordano, Gianfranco Bisagni, Harold Michael Thomas Langley-Poole, Emilio Terpin, Jürgen Kullnigg, Christoph Metze

Shareholders	Share in share capital (%)
1. UniCredit Bank Austria AG	84.50
2. Allianz SE	11.72

Audit firm for 2012:
KPMG Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	13,521,612
Money assets	1,557,194
Deposits with the CNB	11,964,418
Deposits with banking institutions	5,613,831
MoF treasury bills and CNB bills	2,877,699
Securities and other financial instruments held for trading	61,396
Securities and other financial instruments available for sale	5,129,384
Securities and other financial instruments held to maturity	863,934
Securities and other financial instruments not traded in active markets but carried at fair value	88,635
Derivative financial assets	763,577
Loans to financial institutions	2,713,875
Loans to other clients	68,769,505
Investments in subsidiaries and associates	917,890
Foreclosed and repossessed assets	52,508
Tangible assets (net of depreciation)	1,220,714
Interest, fees and other assets	2,275,846
Net of: Collectively assessed impairment provisions	733,992
TOTAL ASSETS	104,136,413

Liabilities and capital	
Loans from financial institutions	2,170,180
Short-term loans	610,280
Long-term loans	1,559,900
Deposits	72,647,996
Giro account and current account deposits	11,169,197
Savings deposits	6,325,369
Time deposits	55,153,430
Other loans	10,182,098
Short-term loans	7,606
Long-term loans	10,174,492
Derivative financial liabilities and other financial liabilities held for trading	558,434
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	2,812,908
TOTAL LIABILITIES	88,371,616
Capital	15,764,797
TOTAL LIABILITIES AND CAPITAL	104,136,413

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	2,542,588
Total interest income	5,705,919
Total interest expenses	3,163,331
Net income from fees and commissions	853,167
Total income from fees and commissions	997,867
Total expenses on fees and commissions	144,700
Net other non-interest income	374,126
Other non-interest income	463,869
Other non-interest expenses	89,743
Net non-interest income	1,227,293
General administrative expenses and depreciation	1,472,340
Net operating income before loss provisions	2,297,541
Total expenses on loss provisions	1,193,956
Expenses on value adjustments and provisions for identified losses	1,236,799
Expenses on collectively assessed impairment provisions	–42,843
Income (loss) before taxes	1,103,585
Income tax	216,003
Current year profit (loss)	887,582

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	5,181,200
Uncovered letters of credit	337,353
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	2,852,238
Margin credit lines	0
Other credit lines and commitments	9,422,471
Other standard risky off-balance sheet items	465,547
Total standard off-balance sheet items	18,258,809

Derivative financial instruments	
Options	213,183
Swaps	49,820,671
Forwards	1,646,283
Futures	0
Warrants	0
Other derivative financial instruments	117,403
Total notional amount of derivative financial instruments	51,797,540

Capital adequacy ratio, in %
as at 31 December 2012

23.63

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Management board

Damir Šprem – chairperson, Gordana Amančić

Supervisory board

Čedo Maletić – chairperson, Dubravka Kolarić,
Mato Filipović, Alen Stojanović, Boženka Mostarčić

Shareholders	Share in share capital (%)
1. Hrvatska poštanska banka d.d.	100.00

Audit firm for 2012:
Deloitte d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	0
Money assets	0
Deposits with the CNB	0
Deposits with banking institutions	65,353
MoF treasury bills and CNB bills	2,037
Securities and other financial instruments held for trading	66,482
Securities and other financial instruments available for sale	71,877
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	0
Loans to other clients	99,463
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	134
Interest, fees and other assets	26,632
Net of: Collectively assessed impairment provisions	1,551
TOTAL ASSETS	330,427

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	264,757
Giro account and current account deposits	0
Savings deposits	0
Time deposits	264,757
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	31,024
TOTAL LIABILITIES	295,781
Capital	34,646
TOTAL LIABILITIES AND CAPITAL	330,427

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	5,529
Total interest income	13,555
Total interest expenses	8,026
Net income from fees and commissions	4,144
Total income from fees and commissions	5,065
Total expenses on fees and commissions	921
Net other non-interest income	6,560
Other non-interest income	8,426
Other non-interest expenses	1,866
Net non-interest income	10,704
General administrative expenses and depreciation	7,402
Net operating income before loss provisions	8,832
Total expenses on loss provisions	541
Expenses on value adjustments and provisions for identified losses	55
Expenses on collectively assessed impairment provisions	486
Income (loss) before taxes	8,291
Income tax	0
Current year profit (loss)	8,291

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	2,712
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	2,712

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

30.78

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Management board

Mirko Brozović – chairperson, Branimir Čosić

Supervisory board

Dinko Lucić – chairperson, Dražen Kovačić, Nenad Štimac, Andrea Pavlović, Damir Novotny

Shareholders	Share in share capital (%)
1. Privredna banka Zagreb d.d.	100.00

Audit firm for 2012:
KPMG Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	0
Money assets	0
Deposits with the CNB	0
Deposits with banking institutions	379,864
MoF treasury bills and CNB bills	59,150
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	0
Securities and other financial instruments held to maturity	206,028
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	0
Loans to other clients	799,467
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	94
Interest, fees and other assets	26,498
Net of: Collectively assessed impairment provisions	11,972
TOTAL ASSETS	1,459,129

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	1,280,566
Giro account and current account deposits	0
Savings deposits	160,719
Time deposits	1,119,847
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	10,000
Interest, fees and other liabilities	9,988
TOTAL LIABILITIES	1,300,554
Capital	158,576
TOTAL LIABILITIES AND CAPITAL	1,459,129

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	23,200
Total interest income	68,913
Total interest expenses	45,713
Net income from fees and commissions	7,087
Total income from fees and commissions	8,645
Total expenses on fees and commissions	1,558
Net other non-interest income	–715
Other non-interest income	1,278
Other non-interest expenses	1,993
Net non-interest income	6,372
General administrative expenses and depreciation	12,572
Net operating income before loss provisions	17,000
Total expenses on loss provisions	–2,600
Expenses on value adjustments and provisions for identified losses	0
Expenses on collectively assessed impairment provisions	–2,600
Income (loss) before taxes	19,600
Income tax	3,701
Current year profit (loss)	15,899

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	1,480
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	1,480

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

50.44

PRVA STAMBENA ŠTEDIONICA d.d.

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Management board

Katarina Šobat – chairperson, Marija Posavec

Supervisory board

Daniela Roguljić Novak – chairperson, Davor Pavlić, Danimir Gulin

Shareholders	Share in share capital (%)
1. Zagrebačka banka d.d.	100.00

Audit firm for 2012:
KPMG Croatia d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	0
Money assets	0
Deposits with the CNB	0
Deposits with banking institutions	204,981
MoF treasury bills and CNB bills	427,388
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	317,752
Securities and other financial instruments held to maturity	0
Securities and other financial instruments not traded in active markets but carried at fair value	0
Derivative financial assets	0
Loans to financial institutions	45,274
Loans to other clients	1,158,883
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	567
Interest, fees and other assets	156,026
Net of: Collectively assessed impairment provisions	13,468
TOTAL ASSETS	2,297,403

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	1,918,398
Giro account and current account deposits	0
Savings deposits	1
Time deposits	1,918,397
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	0
Interest, fees and other liabilities	166,244
TOTAL LIABILITIES	2,084,642
Capital	212,761
TOTAL LIABILITIES AND CAPITAL	2,297,403

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	31,292
Total interest income	105,814
Total interest expenses	74,523
Net income from fees and commissions	15,274
Total income from fees and commissions	18,048
Total expenses on fees and commissions	2,774
Net other non-interest income	–4,260
Other non-interest income	289
Other non-interest expenses	4,549
Net non-interest income	11,015
General administrative expenses and depreciation	12,272
Net operating income before loss provisions	30,034
Total expenses on loss provisions	–2,128
Expenses on value adjustments and provisions for identified losses	319
Expenses on collectively assessed impairment provisions	–2,447
Income (loss) before taxes	32,162
Income tax	6,494
Current year profit (loss)	25,668

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	19,171
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	19,171

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

19.07

RAIFFEISEN STAMBENA ŠTEDIONICA d.d.

Ulica Savezne Republike Njemačke 8, 10000 Zagreb
Phone: + 385 1 6006-100
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www2.raiffeisenstambena.hr

Management board

Hans Christian Vallant – chairperson, Franjo Franjić

Supervisory board

Johann Ertl – chairperson, Neven Vranković, David Marwan

Shareholders	Share in share capital (%)
1. Raiffeisen Bausparkasse GmbH	100.00

Audit firm for 2012:
Deloitte d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	5
Money assets	5
Deposits with the CNB	0
Deposits with banking institutions	47,507
MoF treasury bills and CNB bills	0
Securities and other financial instruments held for trading	0
Securities and other financial instruments available for sale	23,814
Securities and other financial instruments held to maturity	325,255
Securities and other financial instruments not traded in active markets but carried at fair value	12,909
Derivative financial assets	0
Loans to financial institutions	0
Loans to other clients	1,140,888
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	0
Tangible assets (net of depreciation)	2,241
Interest, fees and other assets	139,830
Net of: Collectively assessed impairment provisions	12,991
TOTAL ASSETS	1,679,457

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	1,426,035
Giro account and current account deposits	0
Savings deposits	0
Time deposits	1,426,035
Other loans	0
Short-term loans	0
Long-term loans	0
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	51,354
Interest, fees and other liabilities	122,195
TOTAL LIABILITIES	1,599,584
Capital	79,873
TOTAL LIABILITIES AND CAPITAL	1,679,457

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	31,381
Total interest income	83,873
Total interest expenses	52,492
Net income from fees and commissions	13,585
Total income from fees and commissions	17,419
Total expenses on fees and commissions	3,834
Net other non-interest income	3,271
Other non-interest income	9,665
Other non-interest expenses	6,394
Net non-interest income	16,856
General administrative expenses and depreciation	44,002
Net operating income before loss provisions	4,235
Total expenses on loss provisions	3,219
Expenses on value adjustments and provisions for identified losses	2,892
Expenses on collectively assessed impairment provisions	327
Income (loss) before taxes	1,016
Income tax	5,432
Current year profit (loss)	–4,416

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	8,412
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	8,412

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

17.62

WÜSTENROT STAMBENA ŠTEDIONICA d.d.

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Management board

Zdravko Anđel – chairperson, Ivan Ostojić

Supervisory board

Franz Meingast – chairperson, Marlies Wiest-Jetter, Werner Wabscheg, Sigmund Raugust, Rainer Hager

Shareholders	Share in share capital (%)
1. Bausparkasse Wüstenrot AG	100.00

Audit firm for 2012:
Ernst & Young d.o.o., Zagreb

Balance sheet
as at 31 December 2012, in thousand HRK

Assets	
Money assets and deposits with the CNB	9
Money assets	9
Deposits with the CNB	0
Deposits with banking institutions	25,431
MoF treasury bills and CNB bills	105,479
Securities and other financial instruments held for trading	151,959
Securities and other financial instruments available for sale	4,090
Securities and other financial instruments held to maturity	116,523
Securities and other financial instruments not traded in active markets but carried at fair value	6,608
Derivative financial assets	0
Loans to financial institutions	24,000
Loans to other clients	1,252,736
Investments in subsidiaries and associates	0
Foreclosed and repossessed assets	154
Tangible assets (net of depreciation)	2,796
Interest, fees and other assets	14,007
Net of: Collectively assessed impairment provisions	14,126
TOTAL ASSETS	1,689,666

Liabilities and capital	
Loans from financial institutions	0
Short-term loans	0
Long-term loans	0
Deposits	1,455,130
Giro account and current account deposits	0
Savings deposits	0
Time deposits	1,455,130
Other loans	94,320
Short-term loans	0
Long-term loans	94,320
Derivative financial liabilities and other financial liabilities held for trading	0
Debt securities issued	0
Short-term debt securities issued	0
Long-term debt securities issued	0
Subordinated instruments issued	0
Hybrid instruments issued	36,408
Interest, fees and other liabilities	15,998
TOTAL LIABILITIES	1,601,855
Capital	87,811
TOTAL LIABILITIES AND CAPITAL	1,689,666

Income statement
as at 31 December 2012, in thousand HRK

Net interest income	42,836
Total interest income	86,045
Total interest expenses	43,210
Net income from fees and commissions	19,313
Total income from fees and commissions	19,673
Total expenses on fees and commissions	360
Net other non-interest income	17,564
Other non-interest income	24,266
Other non-interest expenses	6,702
Net non-interest income	36,877
General administrative expenses and depreciation	51,491
Net operating income before loss provisions	28,222
Total expenses on loss provisions	3,362
Expenses on value adjustments and provisions for identified losses	1,100
Expenses on collectively assessed impairment provisions	2,262
Income (loss) before taxes	24,859
Income tax	2,825
Current year profit (loss)	22,034

Off-balance sheet items
as at 31 December 2012, in thousand HRK

Standard off-balance sheet items	
Guarantees	0
Uncovered letters of credit	0
Guaranteed bills of exchange	0
Accepted bills of exchange	0
Revolving loans	0
Margin credit lines	0
Other credit lines and commitments	7,509
Other standard risky off-balance sheet items	0
Total standard off-balance sheet items	7,509

Derivative financial instruments	
Options	0
Swaps	0
Forwards	0
Futures	0
Warrants	0
Other derivative financial instruments	0
Total notional amount of derivative financial instruments	0

Capital adequacy ratio, in %
as at 31 December 2012

16.24

Attachment I

List of credit institutions by peer groups, end of period

Ordinal no. as at 31 December 2012	Name of credit institution and its registered office	Peer group identifier			
		Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012
1	Banco Popolare Croatia d.d., Zagreb	S	S	S	S
2	Banka Kovanica d.d., Varaždin	S	S	S	S
3	Banka Splitsko-dalmatinska d.d., Split	S	S	S	S
4	BKS Bank d.d., Rijeka	S	S	S	S
5	Centar banka d.d., Zagreb	S	S	S	S
	Credo banka d.d., Split[1)]	S	S	–	–
6	Croatia banka d.d., Zagreb	S	S	S	S
7	Erste & Steiermärkische Bank d.d., Rijeka	L	L	L	L
8	Hrvatska poštanska banka d.d., Zagreb	MS	MS	MS	MS
9	Hypo Alpe-Adria-Bank d.d., Zagreb	L	L	L	L
10	Imex banka d.d., Split	S	S	S	S
11	Istarska kreditna banka Umag d.d., Umag	S	S	S	S
12	Jadranska banka d.d., Šibenik	S	S	S	S
13	Karlovačka banka d.d., Karlovac	S	S	S	S
14	KentBank d.d., Zagreb[2)]	S	S	S	S
15	Kreditna banka Zagreb d.d., Zagreb	S	S	S	S
	Međimurska banka d.d., Čakovec[3)]	S	S	S	–
16	Nava banka d.d., Zagreb	S	S	S	S
	Obrtnička štedna banka d.d., Zagreb[4)]	S	–	–	–
17	OTP banka Hrvatska d.d., Zadar	MS	MS	MS	MS
18	Partner banka d.d., Zagreb	S	S	S	S
19	Podravska banka d.d., Koprivnica	S	S	S	S
20	Primorska banka d.d., Rijeka	S	S	S	S
21	Privredna banka Zagreb d.d., Zagreb	L	L	L	L
22	Raiffeisenbank Austria d.d., Zagreb	L	L	L	L
23	Samoborska banka d.d., Samobor	S	S	S	S
24	Slatinska banka d.d., Slatina	S	S	S	S
25	Société Générale-Splitska banka d.d., Split	L	L	L	L
26	Štedbanka d.d., Zagreb	S	S	S	S
27	Tesla štedna banka d.d., Zagreb[5)]	S	S	S	S
28	Vaba d.d. banka Varaždin, Varaždin	S	S	S	S
29	Veneto banka d.d., Zagreb	S	S	S	S
30	Volksbank d.d., Zagreb[6)]	MS	MS	MS	MS
31	Zagrebačka banka d.d., Zagreb	L	L	L	L
1	HPB stambena štedionica d.d., Zagreb	HSB	HSB	HSB	HSB
2	PBZ stambena štedionica d.d., Zagreb	HSB	HSB	HSB	HSB
3	Prva stambena štedionica d.d., Zagreb	HSB	HSB	HSB	HSB
4	Raiffeisen stambena štedionica d.d., Zagreb	HSB	HSB	HSB	HSB
5	Wüstenrot stambena štedionica d.d., Zagreb	HSB	HSB	HSB	HSB

[1)] Credo banka d.d., Split had its authorisation withdrawn on 22 November 2011. [2)] Banka Brod d.d., Slavonski Brod changed its name to KentBank d.d., Zagreb on 6 July 2012. [3)] Međimurska banka d.d., Čakovec merged with Privredna banka Zagreb d.d., Zagreb on 1 December 2012. [4)] Obrtnička štedna banka d.d., Zagreb had its authorisation withdrawn on 22 December 2010. [5)] A štedna banka malog poduzetništva d.d., Zagreb had begun operating on 1 April 2009 and changed its name to Tesla štedna banka d.d., Zagreb on 23 May 2011. [6)] Volksbank d.d., Zagreb changed its name to Sberbank d.d., Zagreb on 18 January 2013.

Note:
L – large bank (share in total bank assets above 5%)
MS – medium-sized bank (share in total bank assets between 1% and 5%)
S – small bank (share in total bank assets below 1%)
HSB – housing savings bank

Attachment II

Credit institution groups subject to reporting to the CNB on a consolidated basis, as at 31 December 2012

	Credit institution group	Superordinate credit institution	Group members
1.	ERSTE & STEIERMÄRKISCHE BANK	Erste & Steiermärkische Bank d.d., Rijeka	Erste bank AD, Podgorica
			Erste Card Club d.d., Zagreb
			Erste d.o.o. za upravljanje obveznim mirovinskim fondom, Zagreb
			Erste DMD d.o.o. za upravljanje dobrovoljnim mirovinskim fondom, Zagreb
			Erste delta d.o.o., Zagreb
			Erste factoring d.o.o., Zagreb
			Erste nekretnine d.o.o., Zagreb
			S Immorent leasing Zeta d.o.o. za poslovanje nekretninama, Zagreb
			Immokor Buzin d.o.o., Zagreb
			Diners Club BIH d.o.o., Sarajevo
			s IT Solutions HR d.o.o., Bjelovar
2.	HRVATSKA POŠTANSKA BANKA	Hrvatska poštanska banka d.d., Zagreb	HPB-Stambena štedionica d.d., Zagreb
3.	HYPO ALPE-ADRIA-BANK	Hypo Alpe-Adria-Bank d.d., Zagreb	Hypo Alpe-Adria-Invest d.d., Zagreb
			Hypo Alpe-Adria-Leasing d.o.o., Zagreb
			Hypo Alpe-Adria-Nekretnine d.o.o., Zagreb
			H-ABDUCO d.o.o., Zagreb
4.	PRIVREDNA BANKA ZAGREB	Privredna banka Zagreb d.d., Zagreb	PBZ CARD d.o.o., Zagreb
			PBZ Croatia osiguranje d.d. za upravljanje obveznim mirovinskim fondom, Zagreb
			PBZ Invest d.o.o., Zagreb
			PBZ Leasing d.o.o., Zagreb
			PBZ stambena štedionica d.d., Zagreb
			PBZ-NEKRETNINE d.o.o., Zagreb
5.	RAIFFEISENBANK AUSTRIA	Raiffeisenbank Austria d.d., Zagreb	Raiffeisen Consulting d.o.o., Zagreb
			Raiffeisen Factoring d.o.o., Zagreb
			Raiffeisen Invest d.o.o., Zagreb
			Raiffeisen Leasing d.o.o., Zagreb
			Raiffeisen mirovinsko društvo za upravljanje dobrovoljnim mirovinskim fondom d.o.o., Zagreb
			Raiffeisen mirovinsko društvo za upravljanje obveznim mirovinskim fondom d.o.o., Zagreb
6.	SOCIÉTÉ GÉNÉRALE-SPLITSKA BANKA	Société Générale-Splitska banka d.d., Split	SG Consumer Finance d.o.o., Zagreb
			SG Leasing d.o.o., Zagreb
7.	ZAGREBAČKA BANKA	Zagrebačka banka d.d., Zagreb	Allianz ZB društvo za upravljanje dobrovoljnim mirovinskim fondovima d.o.o., Zagreb
			Allianz ZB društvo za upravljanje obveznim mirovinskim fondom d.o.o., Zagreb
			Pominvest d.d., Split
			Prva stambena štedionica d.d., Zagreb
			UniCredit Bank d.d., Mostar
			Zagreb nekretnine d.o.o., Zagreb
			ZANE BH d.o.o. za poslovanje nekretninama, Sarajevo
			ZB Invest d.o.o., Zagreb

Abbreviations

BAN	– bank account number
BIS	– Bank for International Settlements
bn	– billion
CBRD	– Croatian Bank for Reconstruction and Development
CBS	– Croatian Bureau of Statistics
CICR	– currency-induced credit risk
CNB	– Croatian National Bank
ECB	– European Central Bank
EU	– European Union
HHI	– Herfindahl-Hirschman index
HRK	– kuna
m	– million
MLC	– minimum liquidity coefficient
MoF	– Ministry of Finance
OG	– Official Gazette
RC	– Republic of Croatia
ROAA	– return on average assets
ROAE	– return on average equity

Symbols

–	– no entry
....	– data not available

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