



**PODRAVSKA
BANKA**
ANNUAL REPORT 2015

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Innovation and transparency in communication

We are innovative and open, ready to change, adapt and acquire new knowledge. We have a positive and proactive relationship with customers; we know how to listen and to offer optimal solutions.

The background of the entire page is a vibrant sunset over a body of water. In the foreground, the silhouette of a person wearing a helmet and standing next to a bicycle is visible. The person's right arm is raised, pointing towards the sky. Several white, rounded rectangular shapes of varying sizes are scattered across the upper half of the image, some overlapping each other. The central text is contained within one of these shapes.

**REPORT OF THE
CHAIRMAN
OF THE
SUPERVISORY
BOARD**

REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

On behalf of the Supervisory Board as well as on my own behalf, I hereby present the Bank's business performance results for the year 2015.

Despite 2015 being one of the most challenging years for the banking sector since the beginning of the crisis, Podravska banka managed to maintain its stability and held its position in the Croatian banking market.

Economic growth in developed countries slowed at the end of 2015, with some of the unresolved issues still present in several large economies. The Chinese economy's transition towards moderate growth rates poses significant problems after decades of strong credit expansion and a large number of investments. A decline in commodity prices negatively affected a number of developing countries. Oil prices declined sharply at the beginning of 2016, but sentiment changed in February and prices rebounded. There are significant differences among developing countries on the current state of their local economies. Brazil and Russia are in a recession as well as many of the oil exporting countries. Growth in China and India is in line with expectations but trade growth slowed significantly as a result of a decline in investments. Low growth rates are expected in developed economies due to unfavourable demographic trends, low productivity growth and the consequences of the global financial crisis which are still present. Factors that will make a positive contribution to growth rates are expansionary monetary policy and low oil prices, which should spur domestic demand, while a negative impact will come from low foreign demand and, in the case of the USA, a currency exchange rate appreciation and monetary policy tightening.

Pessimism, which is evident in both business and consumer segments, resulted in an increase in non-performing loans as a direct result of the economic crisis and the high unemployment rate. It also triggered averseness to loan borrowing and encouraged saving, putting additional stress on the net interest profit of banks, which represents proportionally the largest share in their overall profits.

Global growth of 3.2 percent is expected in 2016. A significant recovery in economic activities (3.5 percent) is expected in 2017, which will be primarily influenced by growth in developing countries and countries currently in a crisis, which should gradually normalise their economies.

Despite difficult and challenging circumstances, Podravska banka managed to yield good business results and make a net profit of HRK 3.3 million.

Rational risk management, market diversification and improvements in service quality, all contribute to maintaining Podravska banka's position in the Croatian banking market. Last year was marked by strengthening commercial activities in the entire commercial network, increased efforts in due loan collection activities and rationalisation of operating processes and costs.

On behalf of the Supervisory Board, I would like to express my gratitude to the Podravska banka management and all its employees for their commitment and contribution to the business. I also wish to express my gratitude to all of my former and new colleagues in the Supervisory Board, for their active support in the Bank's development, as well as to the members of the Audit Committee for their counsel and contribution.

Miljan Todorovic
Chairman of the Supervisory Board



REPORT OF THE MANAGEMENT BOARD ON THE AFFAIRS OF THE BANK

Podravska bank d.d. Management board presents the results of operations for the year 2015.

Global economic growth was stimulated by an increase in personal consumption expenditures, lower energy costs, expansionary monetary policy and low interest rates. In the Eurozone, the European central bank stimulates economic growth and provides markets with a high level of liquidity by conducting its quantitative easing policy. According to the FED's announcements, an interest rate hike is to be expected that could lower the available liquidity level and spur capital withdrawal from emerging markets.

The Republic of Croatia's GDP grew by 1.6 percent in 2015 which was the result of increases in exports, industrial production, tourism, lower energy costs, personal consumption expenditure increase and a modest recovery in investments. The Croatian economy is faced with macroeconomic imbalances where deficit and public debt levels stand out. The European commission placed the Republic of Croatia under Excessive Deficit Procedure and Macroeconomic Imbalance Procedure with clearly defined reform activities that need to be conducted by its government. The Republic of Croatia has implemented part of the reforms concerning employment, fiscal policy, social transfers and healthcare but the rest of the reforms were omitted. Furthermore, a decline in investments and employment in previous years, as well as an aging population, has resulted in a low productivity increase and a low level of technological advancement.

Its credit rating has been lowered (BB- by S&P, Ba2 by Moody's and BB- by Fitch, with negative outlook) and is still under the influence of potential economic growth, high debt level and dependence on external financing sources, absence of reforms and fiscal consolidation. Macroeconomic imbalances have resulted in the country's high risk premium. 5Y CDS is at 300 bps, which is relatively high when compared to other central and eastern European countries.

The Croatian banking system continues to be stable, highly capitalised and liquid. Business banks operating in the Croatian market are currently in the process of transformation to better adapt to market and regulatory demands. Credit activity is lower with deleveraging in both retail and corporate sectors, with an increase in credit activities recorded in the public sector. In the corporate sector, there is a noticeable increase in borrowing abroad which is slowing down the decline in the sector's aggregate indebtedness.

Banking system non-performing loans (NPL) are at 16.6 percent, with value adjustment debt provisioning of 56.6 percent. Banking system capital adequacy is at 21.0 percent with the return on invested capital being lower than that of an average government bond yield. The banking sector operated with a net loss in 2015 due to amendments to the Consumer Credit Act that addressed CHF loans. The affected change in aggregate capital adequacy of the banks lowered this by more than 3 percentage points. In the current economic environment, Podravska banka proved its stability by achieving satisfactory results in the year 2015.

In the business year 2015 Podravska banka continued to strengthen its commercial activities in the entire territory of Croatia, with most of those activities aimed at the entrepreneur sector. Additionally, the Bank has continued with its activities in product

advancement and development using its new information system platform, introducing new deposit facilities in the German market and constantly undertaking measures to optimise costs, mostly by conducting a screening of all the business processes which led to significant rationalisation in operations. As in previous years, great attention was given to monitoring placements with the goal of optimising credit risk management.

In terms of total assets, the Bank ranked 11th out of total of 28 in Croatia in 2015. At the end of 2015 its total assets amounted to HRK 3.182 billion, 4.5 percent more than the previous year.

Total deposits increased by 4.1 percent year-on-year and amounted to HRK 2.349 billion. Retail deposits were the fastest growing as they have increased by 8.8 percent since 31 December 2014. In the total deposit structure, the fastest growth is attributed to the retail sector growing by 8.8 percent since 31 December 2014. The share of retail deposits amounted to 77 percent while corporate deposits amounted to 23 percent of total deposits.

In the loans department, total loans increased by 2.3 percent with retail loans remaining at the same level as the previous year while the volume of corporate loans increased by 5 percent.

Shares of retail and corporate loans remained unchanged when compared to the previous business year, with retail loans contributing to 28 percent and corporate loans to 72 percent of total loans.

The Bank remains highly capitalised considering the risk it is exposed to, with a regulatory capital ratio at 16.06 percent at the end of 2015. At the end of 2015, regulatory capital amounted to HRK 420 million which represents a 1.9 percent decrease when compared to the previous term.

When structure is considered, 327 million is attributed to core capital and 93 million to additional capital in the form of subordinated and hybrid bonds that the Bank issued during previous years.

Operating income amounts to HRK 133.2 million, with net interest income share contributing 66.2 percent, net fee and commission income 18.0 percent and other income share 15.8 percent.

Consolidated profit for the year amounts to HRK 3.3 million. Key risk factors affecting the Bank's performance are credit risk, liquidity risk, market risk and operational risk.

The Bank regulates risk management through a system of internal acts, organisation and control mechanisms, which include concentration, validation and risk assessment along with a restriction system and risk distribution to individual business segments.

The Risk management framework is designed and implemented in accordance with quantitative and qualitative regulatory requirements.

The Bank strives to achieve a high level of risk management effectiveness through continuous improvements in processes, methodologies, models, controls and systems.

During 2015 Podravska banka continued its activities in IT support improvements in all business segments as well as providing support to new distribution channels of services offered to its clients, customers relationship management, treasury management and qualitative improvements in risk management.

The Bank has also been focused on commercial activities, especially on the corporate sector in the short term segment. Activities have been undertaken focusing on the adjustment of the entire operational structure through dedicated stimulus programs aimed at operational processes and cost rationalisation.

The Bank did not redeem any of its shares during the previous year. As the result, the Bank held a total of 9,203 treasury shares on 31 December 2015, which represents 1.38 percent of the Bank's share capital.

In the year ahead, global growth is still expected to be under the positive influence of a personal consumption increase, scheduled investments and a relatively high demand for goods and services in the global market. Central banks still stimulate economic recovery by providing markets with a high liquidity environment and maintaining relatively low interest rates.

GDP in the Republic of Croatia is also expected to continue its growth, stimulated by considerable demand in trading partner countries, personal consumption increase, more efficient usage of European structural and investment funds and the routinely positive contribution of the tourist season. Fiscal policy remains to be a strong tool in stimulating economic recovery. It is reasonable to expect the Croatian government to adopt a budget aimed at reducing public debt and budget deficit and start implementing most of the much needed reforms. The Croatian banking sector is stable, highly liquid and highly capitalised.

In such circumstances the Bank will try to strengthen its commercial activities aimed especially at retail but also at the corporate sector, at the same time avoiding high concentration placements and issue short term, self-supporting lending with adequate collateral coverage.

Additional attention will be placed in managing risks and potentially risky receivables.

As in prior business years, the Treasury department's contribution will be of key importance, mainly by providing the necessary liquidity needed for the Bank's operations. In addition to investments, foreign exchange trading and securities trading, the Treasury department will play a key role in financing commercial activities with the goal of increasing volumes of operations and reducing the Bank's expenses. The Bank will remain committed to meeting its customers' needs and developing products and services accordingly, with an interest in maintaining long term relationships with them. By joining the European Union, the Bank has used the opportunity to introduce its products and services to foreign markets, offering competitive saving terms to German citizens by gathering term deposits using the Internet platform in cooperation with Raisin GmbH (ex SavingGlobal GmbH) and MHB-Bank AG, both based in Berlin.

Finally, I would like to take this opportunity to extend my gratitude to all our clients and business partners for the trust they have placed in us and for the cooperation which binds us to further improve the quality of our services.

I also wish to thank our shareholders and members of the Supervisory Board for their exceptional cooperation and support, and all of the Bank's staff for their effort and dedication.

M.Sc. Julio Kuruc
President of the Management Board





Competence and teamwork

We are a preferred employer and have professional, responsible and committed employees, who create a competitive sustainable business with their dedication and team spirit.



**DESCRIPTION
OF BUSINESS
OPERATIONS**

GLOBAL ECONOMY IN 2015

According to the World Bank report, an economic slowdown in developing countries was overshadowed by the modest recovery in leading high income countries in 2015. Global growth has once again disappointed as it is estimated at 2.4 percent which is significantly lower when compared to 3.3 percent recorded in 2014. Global economic growth is stimulated by an increase in personal consumption, lower energy cost, expansionary monetary policy and low interest rates. Despite difficulties, an uneven recovery of world economies continued while the speed of that recovery was dependent on individual countries.

Economic activity was lower than that predicted in many of the developing countries. The recovery in leading high income economies continued its course throughout 2015. A further increase in lending has been recorded in Eurozone countries and unemployment reduced, with the previous year's estimated growth at 1.5 percent, which is higher when compared to the modest 0.8 percent recorded in 2014, and is in line with expectations. The USA recorded GDP growth of 2.5 percent in 2015, the highest recorded in the post-crisis period. The unemployment rate continued to fall, giving additional stimulus to the personal consumption recovery. Japan continued its recovery at a modest 0.8 percent growth rate, despite significant monetary stimulus.

Given the fact that foreign demand will be negatively influenced by a slowdown in economic activities of the largest developing economies, 2016 growth estimates for leading high income countries are reduced but should still show progress when compared to 2015. It is estimated that the FED's monetary policy tightening will continue gradually while the Eurozone and Japan will continue to have room for monetary stimulus. The gradual slowdown of the Chinese economy continued in 2015 with further slowdowns in over-capacitated sectors being neutralised by strong growth in the service sector. Chinese GDP grew by 6.9 percent which is slower when compared to 7.3 percent in 2014, with expectations of further slowdown this year. Brazil (-3.7 percent) and Russia (-3.8 percent) are going through difficult adjustments on how to answer both domestic and external challenges.

On average, activities of goods exporting economies stagnated in 2015 as they were affected by significant price drops. As a result, the contribution of those economies to global growth was significantly reduced. The worsening outlook of developing countries is in line with the sharp decline in world trade, greater volatility in financial markets and the significant decline in capital inflows.

With expectations of a tighter US monetary policy, intensive pressure on currencies of developing countries is expected as well as a capital price increase, especially in goods exporting countries.

CROATIAN ECONOMY IN 2015

The negative trend from previous years has finally stopped and 2015 marked the starting year of the Croatian economic recovery, which can be seen in its GDP growth, the decline in unemployment rate and the gradual increase in employment at the year end. The trigger to achieve this result came from the sharp increase in exports of goods and services, which was influenced by favourable conditions in the region, with growth present in all of the countries that have a significant influence on Croatian export and tourism sector performance. Lower taxes on wages encouraged personal consumption growth, heightened by the favourable influence that the steep decline in oil derivative prices had in that regard. The initial positive movements, after the severe and long lasting crisis, that are reflected in the significant increase in industrial production and modest investment recovery are still not enough to conclude that the long period of economic deterioration and stagnation has come to its definitive end.

The country's GDP grew by 1.6 percent after six continuous years of GDP decline (12.5 percent cumulative). After the long lasting crisis, all of the GDP components, including domestic demand, recorded an increase. The decrease in employment stopped midyear mostly as a result of the higher seasonal demand in tourism, catering and supporting industries. The registered unemployment rate declined from 19.4 percent in December 2014 to 17.9 percent in December last year. A positive result in the current account balance recorded a multiple increase (to 4.5 percent of GDP), thanks to the significant increase in the service trading surplus (record earnings in the tourism sector) and the decrease of goods account deficit, but mostly as the result of the one-time effect of the legislation regulating CHF loans conversion. Investments increased slightly in 2015 at an estimated rate of 1.6 percent, with real volumes at approximately one third of that before the crisis. Also private investments have not picked up yet, which is mostly influenced by lower volumes of foreign direct investments. This indicates that the potential investor opinion and general investment climate in the country has not significantly improved yet.

Personal consumption increased significantly (real increase of 1.2 percent) due to the lower taxes on wages and pensions accompanied by deflation trends in the last year, but it is still around 12 percent lower than pre-crisis levels. Retail trade turnover increased even more (by 2.4 percent), but this is mostly due to significantly higher numbers in foreign tourist arrivals and consumption. Although personal consumption increased, the household sector continued to deleverage. Positive trends continued in the industrial production throughout 2015, mostly due to a significant increase in foreign demand.

Activity in industry accelerated from 1.2 percent growth rate in 2014 to 2.7 percent. Taking that into account, its level is still 15 basis points lower than in 2008. In the pre-election year the government did not take any significant steps toward radical reforms in public sector, leaving public finance results dependent on revenue collection. Revenues in 2015 were significantly higher compared to the previous year due to the end of the recession and an improvement in general conditions. Historically low interest rates in the financial markets had a positive effect on public finance stability. That helped to partly dampen the increase in expenditure associated with the payment of due interest on accumulated public debt and enabled the central government to finance its budget deficit, which is unsustainable in the long term, on relatively favourable terms. Despite its obligations deriving from the Excessive deficit procedure, in 2015, which was the pre-election year, the government decided to

abandon restrictive fiscal policy by reducing taxes on wages and pensions. Thanks to the achieved economic growth, an increase in collected revenues contributed to lowering the fiscal deficit (4.6 percent), which is significantly lower than in 2014 (5.7 percent). Consolidated central government revenues were up by 7.8 percent while expenditure decreased by 3.5 percent when compared to 2014. Looking at preliminary assessments, last year's total deficit (based on the cash principle) reached HRK 9.6 billion. General government debt continued to rise strongly, reaching HRK 288 billion or 86.6 percent of GDP in 2015.

Consumer prices in Croatia were lower on average by 0.5 percent in 2015 when compared to the previous year. Prices were 0.6 percent lower in December when compared to the end of the 2014, mostly due to lower domestic demand. Registered unemployment decreased by 9.9 percent in 2015. The total number of unemployed is still very high at 285,468 people. The registered unemployment rate decreased from 19.4 to 17.9 percent. The economic recovery was followed by an increase in real gross salaries in 2015, 1.7 percent on average. Real net salaries saw a significantly faster increase (3.7 percent), as a result of lower income tax.

The CNB continued conducting expansionary monetary policy during 2015, trying to maintain the high liquidity of the banking system without jeopardising the stability of the currency exchange rate and encourage loan placements to the real sector in the process with the goal to revive economic activities. Such policy in a low inflation environment resulted in extremely low interest rates enabling government financing of the domestic market. The main goal of increasing bank loan placements to the real sector was not achieved in 2015 mainly due to corporate sector's limited demand caused by still insufficient investment activities. The average HRK/EUR exchange rate in 2015 was 7.61, which represents a slight appreciation of 0.3 percent when compared to the 2014 average. CNB gross international reserves at the end of November 2015 amounted to EUR 13.7 billion which is an increase of EUR 1 billion when compared to the end of the previous year. According to CNB unrevised aggregate data, banking sector assets decreased by 0.4 percent in 2015, primarily due to a decrease in client loans associated with the new CHF loans conversion legislation.

Additionally, lower loan volumes were also influenced by several one-off transactions in the government and financial institutions segment (large payments) with the simultaneous continuation of the deleveraging process and still weak demand for loans. According to the CNB's statistical report, the Croatian banking sector accumulated a net loss of HRK 4.3 billion, mostly due to the amendments to the law governing CHF loans conversion but also due to the balance sheet adjustments of some of the banks which all led to a strong increase in loss provisioning. Although this event had a negative impact on banking sector capital positions, reducing the largest banks' capital adequacy by more than 3 percentage points, the Croatian banking sector remained highly capitalised with a capital adequacy rate of 20.98 percent on 31 December 2015, as per last available data provided by the CNB.

This additionally confirmed the high capitalisation of the Croatian banking system. Due to restructuring and economic recovery, on 31 December 2015 the non-performing loans ratio dropped to 16.6 percent (17.06 percent at the end of 2014). At the same time, non-performing loans coverage continued to rise, reaching 56.6 percent at the end of the December (compared to 51.3 percent on 31 December 2014).

CROATIAN MACROECONOMIC INDICATORS

	2015	2014	2013
GROSS DOMESTIC PRODUCT, HRK BILLION AT CURRENT PRICES	332.0	328.4	328.4
GROSS DOMESTIC PRODUCT (GDP), % CHANGE	1.6	(0.4)	(1.1)
GDP PER CAPITA, IN EUR	10,362	10,156	10,225
PERSONAL CONSUMPTION, % CHANGE	1.2	(0.7)	(1.9)
PUBLIC CONSUMPTION, % CHANGE	0.6	(1.9)	0.3
INVESTMENTS, % CHANGE	1.6	(3.6)	1.4
EXPORT OF GOODS AND SERVICES, % CHANGE	9.1	7.3	3.1
IMPORT OF GOODS AND SERVICES, % CHANGE	8.6	4.3	3.1
INDUSTRIAL PRODUCTION, % CHANGE	2.7	1.2	(1.8)
UNEMPLOYMENT RATE (ILO) (% OF ACTIVE POPULATION)	16.5	17.3	17.3
CONSUMER PRICES, % CHANGE	(0.5)	(0.2)	2.2
GENERAL GOVERNMENT BUDGET BALANCE (% GDP)	(4.6)	(5.7)	(5.4)
BALANCE OF PAYMENTS ON CURRENT ACCOUNT (% GDP)	4.5	0.7	1.0
EXTERNAL DEBT (% GDP)	105.7	108.4	105.6
CURRENCY EXCHANGE RATE: EUR, YEAR AVERAGE	7.61	7.63	7.57

Data source: Croatian Bureau of Statistics, CNB, Ministry of Finance, HAAB Economic Research

OVERVIEW OF THE BANK'S OPERATIONS

PRODUCTS AND SERVICES

The Bank seeks to meet the demands and needs of citizens, small business owners and entrepreneurs, as target customers, by improving its services and investing in the development of new technologies.

Competitiveness and flexibility are basic guidelines for providing financial support to clients. Great attention is paid to training employees so their expertise can be put at the disposal and meet expectation of its clients.

With the successful implementation of the new business information system which included the computerisation of all the business segments, new technological processes were set up that improved the client business relationship management, profitability, sales channels, and product and service management.

The new system further supported and improved business processes in Treasury and Investment banking, processes in commercial relationships with customers, processes in credit operations and collection of receivables, business decision-making processes, processes in card business, as well as regulatory reporting processes.

The process of developing and implementing mobile POS devices is in place, which the bank plans to use to acquire small and medium retailers.

Treasury and investment banking services (custody of financial instruments, brokerage...) are continuously upgraded and extended in domestic and global markets. Margin loans offers for the purchase of financial instruments and Lombard loans pledging financial instruments is further adjusted to be more competitive in the market, which is achieved by introducing a broader list of eligible domestic and foreign financial instruments and correction of conditions for loan approval.

By joining the European Union, possibilities for expansion in the markets of the Member States have emerged, which the Bank exploited by offering competitive terms on deposit savings to German citizens.

In October last year, Podravska banka, as the first Croatian bank, received the approval of the Croatian National Bank and German financial regulator BaFin to collect deposits from German citizens using the Internet platform.

In cooperation with Raisin GmbH (ex. SavingGlobal GmbH), which is the market leader in the German market and MHB-Bank AG in Berlin, German customers are able to invest their savings in EU member states using a sophisticated online platform. Due to habits of German savers to diversify and invest in the longer term periods, these savings have a positive effect on the deposit maturity structure of the Bank.

To help its customers access EU funds, Podravska Banka actively cooperates with WYG Consulting Ltd., and informs its customers about current possibilities of using EU funds, providing advisory and financial support at all stages of the application process as well as in the implementation of projects financed by EU funds.

To support the efforts of local communities in attracting EU funds, Podravska banka, as part of its socially responsible business practice, organised EU fund training. After previously organising training for representatives of the public sector in the Koprivnica-Križevci county, in 2015 the Bank arranged EU fund courses for representatives of the public sector - municipalities, city governments and companies, associations, tourist associations, regional development agencies and entrepreneurial centers in the Požeško-Slavonska and Bjelovarsko-Bilogorska county. In these workshops, topics such as "Public-private partnerships and EU funds", "Development of cost-benefit analysis", "Public Procurement and FIDIC rules" and "Project Cycle Management", were attended by about 60 employees, with a total value of Bank funded education of about HRK 100,000.00.

As an exclusive partner of Intermarket Diamond Business (largest sales market maker for investment diamonds in Italy) for Croatia, POBA brokers the sale of investment diamonds.

DEPOSITS

Total deposits in 2015 rose by 4.1 percent compared to the previous year and amounted to 2.35 billion, while retail deposits increased by 8.8 percent and at the end of 2015 amounted to HRK 1.8 billion.

Sight deposits increased by 9.7 percent, while term deposits increased by 2.0 percent. The retail term deposits grew 8.0 percent, while corporate term deposits decreased by 19.2 percent. Retail sight deposits recorded a significant growth equal to 11.4 percent.

TOTAL DEPOSITS	AMOUNTS IN 000 HRK		CHANGE
	31.12.2015	31.12.2014	2015/2014
RETAIL	1,818,651	1,671,652	8.8 %
CORPORATE	530,327	584,411	-9.3 %
TOTAL DEPOSITS	2,348,978	2,256,063	4.1 %

TERM DEPOSITS	AMOUNTS IN 000 HRK		CHANGE
	31.12.2015	31.12.2014	2015/2014
RETAIL	1,377,615	1,275,621	8.0 %
CORPORATE	291,256	360,342	-19.2 %
TOTAL TERM DEPOSITS	1,668,871	1,635,963	2.0 %

DEMAND DEPOSITS	AMOUNTS IN 000 HRK		CHANGE
	31.12.2015	31.12.2014	2015/2014
RETAIL	441,036	396,031	11.4 %
CORPORATE	239,071	224,069	6.7 %
TOTAL DEMAND DEPOSITS	680,107	620,100	9.7 %

LOANS

Despite a challenging economic situation and high competitive pressure (especially in the interest rates area), in 2015 Podravska banka actively and successfully worked on retaining the existing, and expanding the newly acquired client base and managed to increase the number of new high-quality clients and volume of placements.

In the corporate lending business the focus of the Bank was again on short-term lending and factoring. In order to minimise risk and achieve greater security in loan collection, corporate financing was redirected from general purpose loans and loans without defined purpose to known cash flow financing of the operations based on delivery of goods and services, which at the same time, due to a faster turnover, achieved a greater profitability.

When placements are short-term, there are more maturities and new loans and thus the continuous analysis of clients' indicators is carried out, which minimises risks and strengthens the quality of the loan portfolio.

Exceptional attention is paid to the wishes and possibilities of individual clients, however, each new placement or renewal of an existing loan was carefully discussed and reviewed in detail in order to achieve optimal debt ratios, maturity and eligibility of collateral for both sides.

In this sense, we tried to strengthen placement collateral coverage, and gradually aim

to divest from the investments where we did not recognise long-term sustainability.

In 2015, the Bank was actively involved with and increased cooperation with CBRD through new overdraft credit lines for working capital and investments. These credit lines were intensively used in 2015, with the intention of further active use in 2016.

Besides overdrafts, which accelerated the decision making process, good business cooperation with CBRD also took place in all other programs that are arranged by CBRD.

Likewise, successful business cooperation with the Ministry of Business and Trade continued through the implementation of the Loan to success program - Measure 2, which continues until the negotiated credit potential is used up, as well as implementation of the program - Measure 1 Loan to competitiveness, in cooperation with the Ministry of Business and Trade and Counties.

With the successful implementation of the mentioned programs, the Bank is actively involved in schemes that are supported by the Government and aim at increasing the efficiency and competitiveness of the Croatian economy.

By implementing and supporting all loan programs, the Bank is successfully expanding its client base, focusing on credit customers with good business ideas, investments in working capital and that are making investments.

Loans to households were kept at last year's level (+ 0.1 percent), where most general purpose cash loans were granted. In the second half of 2015, the Bank refreshed its credit offer to the public with a number of improvements in terms of interest rates, lending currency (HRK), deadlines and so on. All this resulted in increasing demand, and significant effects are expected in 2016.

TOTAL LOANS	AMOUNTS IN 000 HRK		CHANGE
	31.12.2015	31.12.2014	2015/2014
TOTAL BRUTTO LOANS	2,110,585	2,035,952	3.7 %
TOTAL LOANS RESERVATIONS	238,279	212,268	12.3 %
TOTAL NET LOANS	1,872,306	1,823,684	2.7 %

TOTAL LOANS	AMOUNTS IN 000 HRK		CHANGE
	31.12.2015	31.12.2014	2015/2014
RETAIL	582,334	581,487	0.1 %
CORPORATE	1,528,251	1,454,465	5.1 %
TOTAL LOANS	2,110,585	2,035,952	3.7 %

FINANCIAL MARKETS DIVISION

In 2015, high levels of liquidity in the financial system and low interest rates in the money market lasted until the amendment to the Law on consumer credit which regulates CHF loan conversion. The period of rising interest rates lasted briefly, and the interest rates at the end of the year once again reached levels that preceded the adoption of the mentioned Act. This is largely the result of expansionary monetary policy of the

CNB, which suspended the decision on the compulsory purchase of CNB bills and is holding regular reverse repo auctions of short-term financing sources to ensure liquidity to financial market participants. In 2016, the CNB announced holding structural reverse repo auctions, which aim to ensure the long-term liquidity in the financial system which could cause the further reduction of interest rates on loans with longer maturities. Due to the continued trend of very high levels of liquidity in the financial system, the Financial Markets division continued with decreasing of interest rates and the extension of funding sources maturities, primarily in the form of term deposits. Excess HRK liquidity is primarily directed into investment cash funds, government bonds and reverse repo transactions with the money market participants.

The Treasury significantly reduced interest rates on foreign currency term deposits in 2015, which was possible thanks to the opening of a new sales channel which enabled term deposits to be offered to customers in the German market. Podravska banka started with this service on 19 October 2015 in cooperation with SavingGlobal GmbH, a company based in Berlin, and managed to raise EUR 16.1 million in term deposits with maturities of 12, 18 and 24 months by the end of 2015.

Further lowering of interest rates is expected in 2016 with the continuation of the very high liquidity period in the system. Due to low expected yields on domestic treasury bills in 2016, as well as low interest rates on short-term loans in the money market, the Bank will have very limited opportunities to place excess liquidity in the money market.

As a consequence of the CNB's expansionary monetary policy and the European Central Bank, a significant amount of excess liquidity in the system and lower yields on longer maturities is expected in 2016. This is the reason why it is intended to increase allocation to debt securities with longer maturities (primarily 2-5 years), taking into account the exposure to market risk and credit rating of the issuer. Positive effects of monetary policy are expected to be seen in equity markets as well, hence the limited amount of liquidity will be allocated to equities in order to increase profitability and return on capital.

In the total portfolio of financial investments, debt securities constitute 61.2 percent of the portfolio, investment funds are 31.2 percent of the portfolio, while equities make up 7.6 percent of the total securities portfolio.

The market value of the debt securities portfolio of Podravska banka on 31 December 2015 amounted to 263.7 million, while on 31 December 2014 it amounted to 274.1 million. The currency exposure of the portfolio consists of debt securities denominated in EUR with a share of 40 percent, in HRK with a share of 48 percent and in USD with a share of 12 percent. Regarding geographical exposure, most of the portfolio is invested in bonds of Croatian issuers, followed by issuers from European countries and south-east region.

In 2015, the Bank realised gains on foreign currency trading in the amount of HRK 5.4 million, while in 2014 profit amounted to HRK 5.9 million.

On the sales desk, currency trading profit amounted to HRK 13.3 million in 2015, while in 2014 it amounted to HRK 1.87 million.

Market value of the equity portfolio at the end of 2015 was equal to HRK 32.8 million, which is a decrease compared to 2014 of HRK 7.3 million. In the equity portfolio structure at the end of 2015, the value of equities issued by domestic companies

represents 65.5 percent of the portfolio, while the value of equities issued by foreign issuers amounted to 34.5 percent of the portfolio.

On 31 December 2015 the value of investments in investment funds was equal to HRK 126.9 million and was higher than the previous year when it was equal to HRK 134.5 million.

The value of assets under custody on 31 December 2015 increased to 1.06 billion, which is an increase of 43.13 percent compared to the previous year. HRK 613.7 million of assets under custody are Croatian assets, HRK 43.05 million of assets are from Montenegro and HRK 407.8 million are other foreign assets.

PAYMENTS SERVICES

By providing payment services through modern technology, payment instruments, ATM network and day-and-night vaults, Podravska banka dd is recognised by its clients as a safe, accurate and precise Bank.

The main characteristic of executed payment services in 2015 is an increase in the value and number of completed external payment transactions by clients. Total executed national external payments through domestic channels (CSLP and NCS) is over HRK 31.6 billion or over 2.5 million payment orders.

The value of foreign payments by clients in 2015 is above HRK 3.6 billion, and number of clients' orders is above 20,000. This represents an increase of 42 percent in value and 24 percent in the number of orders when compared to 2014.

Over HRK 7.5 billion is the value of payment transactions in HRK via the POBAklik service, which is an increase of 15 percent in value and 12 percent in the number of transactions when compared to the previous year.

A significant increase in the value of foreign payments via POBAklik services was achieved, amounting to over 875 million, an increase of 69 percent.

In international transactions by clients, an increase of inflows and outflows of 42 percent was achieved. Inflows that have been received by clients increased by 61 percent, with 31 percent increase in inflows to domestic corporate business accounts.

Business cooperation with Euroclear Bank Brussels was successfully continued in 2015 in area of settlement and safekeeping services for Bank's portfolio, brokerage and custody operations, and total amount of securities settlements amounts to over EUR 93 million.

The bank also traded in Croatia and total amount of payments through the CDCC is approximately HRK 189 million.

The Bank took into consideration the costs of payment operations, offered customers the best prices for payment services, achieved cost reduction benefits for payment services by 20 percent and increased revenue for payment services by 2 percent compared to the previous year.

BUSINESS NETWORK AND SALES CHANNELS

At the end of 2015, the Bank's sales network consisted of a total of 25 branches spread over almost all of Croatia. Apart from the well-dispersed sales network, the Bank is available to its customers through other sales channels: POBAklik, e-banking and mPOBA, ATMs, day-night safety vaults, EFTPOS terminals and SMS. All ATMs are equipped with the chip technology which prevents potential abuse and theft of card data. The Bank's ATM devices accept Maestro, MasterCard, VISA, American Express and Diners Club cards. Apart from the Bank's own ATM network, the Bank offers its customers free-of-charge cash withdrawals at over 1,000 ATMs within the MB NET throughout Croatia.

The Bank has 628 installed EFTPOS terminals. There were 561,000 transactions through the Bank's own ATM network in 2015, or 893 transactions per EFTPOS terminal on average.

The number of the Bank's e-banking service (POBAklik) users also increased, and there were almost 8,000 users at the end of 2015. The number of users using m-POBA, which was introduced in 2014, also increased and reached 963, showing a steady growth accompanied with increasing volumes and number of transactions. At the end of 2015 the Bank had a total of 10,675 POBAsms users.

The Bank also offers information to its customers through its Info Centre, which reported an increasing number of calls.

Following the contemporary trends in the sales channels and thanks to the new technology implemented, Podravska banka will continue improving all of its communication and customer follow-up activities at its branches, through the Internet, self-service devices, telephone and mobile devices.

ORGANISATION AND STAFF

On 31st of December 2015 Podravska banka had 240 employees, with the average age of 44. 67.5 percent of the total number of staff are female employees, and the front-office staff account for 60 percent of the total staff. The Bank's development caused certain organisational changes that increased efficiency and optimised the use of the technology and reduced total number of employees of the Bank by 12.7 percent. Continuous education and professional training are the Bank's primary goals concerning its staff.

Considerable attention is put on the social status of employees which is reflected in the conclusion of a new Collective Agreement.

Although the Bank seeks to ensure all employees use paid annual leave within a calendar year, in accordance with the applicable regulations, the Bank made provisions for unused paid annual leave of its employees in 2015 in the amount of 412,158.81 HRK.

In 2016 the Bank intends to continue investing in the advanced training of its staff and potentially hire competent professionals, mainly in the sales and risk management areas.

CAPITAL

The Bank's shareholders' equity amounts to HRK 393.4 million at the end of 2015. This represents an increase of 2.6 percent compared to last year, and it is mostly the result of an increase in the positive fair value reserve of available-for-sale assets. At the end of the year, the Bank reclassified part of the negative fair value reserve of equity portfolio from previous years in the retained loss.

The Bank's shareholders' equity accounts for 12.4 percent of the total sources of funding.

On 31st of December 2015 the share capital amounted to HRK 267.5 million and consisted of 668,749 ordinary shares, each with a par value of HRK 400.00. On 31st of December 2015 the bank held 9,203 treasury shares, which are carried at cost.

A group of the Bank's foreign equity holders, considered to form a whole, hold 85.85 percent of the Bank's shares.

The Bank's regulatory capital at the end of 2015 amounted to HRK 420 million, of which HRK 327 million represents Tier 1 capital and HRK 93 million is Tier 2 capital. Tier 2 capital includes subordinated bonds in the amount of HRK 53 million and hybrid bonds in the amount of HRK 40 million issued by the Bank in previous years.

The capital adequacy ratio (CAR) for 2015 is 16.06 percent.

INCOME STATEMENT

In 2015 Podravska banka generated a pre-tax profit of HRK 3,597 million, with a net profit of HRK 3,301 million.

Operating income rose 3.1 percent compared to the previous year and amounted to 133.2 HRK million.

Net interest income rose 3.2 percent compared to the previous year. During the year, the Bank approved loans to customers at more favourable interest rates, which resulted in a slight decrease in interest income. Significant savings were achieved in the area of interest expenses, resulting in an increase in net interest income of HRK 2.8 million.

Net fee and commission income generated in 2015 are at the level of the previous year with simultaneous increase in fee income and expenses.

Net interest income accounts for 66.1 percent of the bank's operating income, net fee and commission income represents 18 percent, and net gains on the sale of available-for-sale securities, net FX trading gains, rental and other income account in aggregate for 15.8 percent of the total operating income.

Operating expenses, which include depreciation and amortisation, decreased compared to the previous year and amount to HRK 129.6 million. The biggest savings were made in part of administrative costs, particularly in the work of the cost of services as a result of further rationalisation of operations, increasing efficiency and reducing the number of employees. The share of administrative expenses decreased by HRK 6 million, whereas the depreciation/amortisation charge of tangible and intangible assets increased by HRK 1.6 million. As a result of applying conservative policy and applica-

ble regulations, the Bank has allocated an additional HRK 25 million for adjustments and provisions. The share of provisions in the gross loans increased from 10.4 percent in 2014 to 11.3 percent in 2015. At the end of 2015 the total loan provision increased by HRK 26 million and reached HRK 238 million.

GOVERNANCE AND MANAGEMENT

Statement of adoption of the Corporate Governance Code

Pursuant to the rules of the Zagreb Stock Exchange, the Management and Supervisory Boards of Podravska banka d.d. hereby declare that Podravska banka d.d. applies the Corporate Governance Code developed jointly by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange. The 2015 Annual Questionnaire is an inseparable part of this Statement and contains responses to the questions and the required explanations.

The information about internal controls and risk management as well as about the Bank's shareholders is provided in the notes to the financial statements. The rules on the appointment and removal of Management Board members are contained in the Bank's Statute.

The number of the Management Board members is determined by the Supervisory Board, and pursuant to its decision from April 2015, the Management Board consists of five members. The Supervisory Board also adopts decisions regarding proposed members and president of the Management Board who have to meet the requirements specified by the legislation governing banking operations and other relevant regulations.

Once the Croatian National Bank approves the candidates, the Supervisory Board appoints the president and members of the Management Board with a mandate of up to five years, with the possibility of re-appointment. The Supervisory Board may withdraw its decisions appointing a member or the president of the Management Board for a due case as defined in the applicable legislation.

The authorities of the Bank's Management Board have been defined in the Bank's Statute, and a separate decision has been adopted regarding the segregation of the duties and responsibilities of the Management Board members.

The Management Board of the bank may acquire own shares in an organised market based on an underlying decision of the General Shareholders' Assembly.

Further information about the composition and activities of the Bank's Management and Supervisory Boards is provided in the enclosed Annual Questionnaire.

Rules applicable to amending the Bank's Statute are provided in the Statute. Decisions on such amendments are adopted by the Bank's General Shareholders' Assembly in accordance with the applicable legislation and the Statute by votes representing at least three-quarters of the share capital in a General Shareholders' meeting in which such decision is to be adopted.


Amendments to the Statute may be proposed by the Supervisory Board, the Management Board and the shareholders of the Bank.

In order to protect the interest of all investors, shareholders, customers, employees and other stakeholders, the Bank has implemented high corporate governance standards.



Social responsibility

We represent a positive power in society, taking into account the specificities of the local communities in which we operate. We care about improving the quality of life of the members of these communities - through active support and financial contributions to health, humanitarian, cultural, sports, educational and other development projects.

The background of the cover page is a blurred photograph of two people in a meeting. On the left, a person with glasses is partially visible. On the right, the back of a person's head and shoulder is visible. The overall tone is professional and collaborative.

**CORPORATE
GOVERNANCE
CODE - ANNUAL
QUESTIONNAIRE**

CORPORATE GOVERNANCE CODE – ANNUAL QUESTIONNAIRE FOR 2015

All the questions contained in this questionnaire relate to the period of one business year, to which annual financial statements also relate.

1. **Did the company accept the application of the Corporate Governance Code or did it accept its own policy of corporate governance?**

YES NO

2. **Did the Company adopt principles of corporate governance within the company's internal policies?**

YES NO

3. **Does the Company announce within its annual financial reports the compliance with the corporate governance principles of “comply or explain”?**

YES NO

4. **Does the Company take into account the interest of all shareholders in accordance with the principles of Corporate Governance Code while making decisions?**

YES NO

5. **Is the Company in a cross-shareholding relationship with another company or other companies? (if so, please explain)**

YES NO

6. **Does each share of the Company have one voting right? (if not, please explain)**

YES NO

7. **Does the company treat all shareholders equally? (if not, please explain)**

YES NO

8. **Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (if not, please explain)**

YES NO

9. **Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (if not, please explain)**

YES NO

10. Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (if not, please explain)

YES NO

11. Was the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (if not, please explain)

YES NO

12. Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (if not, please explain)

YES NO, there was no dividend payout

13. Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (if not, please explain)

YES NO, see answer 12

14. Were any shareholders favoured while receiving their dividends or advance dividends? (if so, please explain)

YES NO, see answer 12

15. Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (if not, please explain)

YES NO, there was no need for such participation

16. Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney etc.? (if so, please explain)

YES NO

advance registration of participation within the timeframe established by the Statute, enabling better organisation of the general meeting, considering the large number of shareholders

17. Did the management of the company publish the decisions of the general assembly of the company?

YES NO

18. Did the management of the company publish the data on legal actions, if any, challenging those decisions? (if not, please explain)

YES NO, there were no legal actions

PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS:

Julio Kuruc, President of the Management Board, Davorka Jakir – Board member, Daniel Unger – Board member, Goran Varat – Board member

PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD MEMBERS AND THEIR FUNCTIONS:

Miljan Todorovic – Chairman, Sigilfredo Montinari – Deputy Chairman, Filippo Disertori – Board member, Maurizio Dallochio – Board member, Dario Montinari – Board member, Dolly Predovic – Board member

19. Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (if not, please explain)

YES NO, board sessions convened by at will-need-necessity

20. Did the Supervisory or Management Board pass its internal code of conduct? (if not, please explain)

YES NO

21. Is the Supervisory Board composed of mostly independent members, i.e. are non-executive directors of the Management Board? (if not, please explain)

YES NO, most members are shareholders

22. Is there a long-term succession plan in the company? (if not, please explain)

YES NO

23. Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (if not, please explain)

YES NO

24. Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (if not, please explain)

YES NO

25. Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the company, including the structure of such remuneration, been made public? (if not, please explain)

YES NO

26. Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company's shares, not later than five trading days, after such a change occurs? (if not, please explain)
- YES NO
27. Were all transactions involving members of the Supervisory or Management Board or persons related to them and the company and persons related to it clearly presented in reports of the company? (if not, please explain)
- YES NO
28. Are there any contracts or agreements between members of the Supervisory or Management Board and the company?
- YES NO
29. Did they obtain prior approval of the Supervisory or Management Board? (if not, please explain)
- YES NO
30. Are important elements of all such contracts or agreements included in the annual report? (if not, please explain)
- YES NO
31. Did the Supervisory or Management Board establish the appointment committee?
- YES NO
32. Did the Supervisory or Management Board establish the remuneration committee?
- YES NO
33. Did the Supervisory or Management Board establish the audit committee?
- YES NO
34. Was the majority of the committee members selected from the group of independent members of the Supervisory Board? (if not, please explain)
- YES NO, the committee is in compliance with the Law on banks.
35. Did the committee monitor the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (if not, please explain)
- YES NO

36. Did the committee assess the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (if not, please explain)

YES NO

37. Has the committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (if not, please explain)

YES NO

38. If there is no internal audit system in the company, did the committee consider the need to establish it? (if not, please explain)

YES NO, the Bank has an internal auditing function established

39. Did the committee monitor the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (if not, please explain)

YES NO

40. Did the committee monitor nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (if not, please explain)

YES NO

41. Did the committee prepare rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (if not, please explain)

YES NO, it is defined by law

42. Did the committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (if not, please explain)

YES NO

43. Did the audit committee ensure the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (if not, please explain)

YES NO



44. Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (if not, please explain)

YES NO

45. Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (if not, please explain)

YES NO

46. Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?

YES NO

47. Did the company publish a statement on the remuneration policy for the management, Management Board and the Supervisory Board as part of the annual report? (if not, please explain)

YES NO, there is no such legal obligation

48. Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the company? (if not, please explain)

YES NO

49. Is detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the annual report of the company? (if not, please explain)

YES NO

the Bank discloses aggregate data on inter-related individuals and amounts on calculated, approved remunerations for the management/executives, published in the annual report, prepared in compliance with international standards of financial reporting, and published on the Bank's web homepage.

50. Are all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the company? (if not, please explain)

YES NO

51. Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (if not, please explain)

YES NO

52. Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the management of the company, and a special comment on its cooperation with the management? (if not, please explain)

YES NO

53. Does the company have an external auditor?

YES NO

54. Is the external auditor of the company related with the company in terms of ownership or interests?

YES NO

55. Is the external auditor of the company providing to the company, him/herself or through related persons, other services?

YES NO

56. Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (if not, please explain)

YES NO, the audit fee is agreed in an agreement

57. Does the company have internal auditors and an internal audit system established? (if not, please explain)

YES NO

58. Are the semi-annual, annual and quarterly reports available to the shareholders?

YES NO

59. Did the company prepare the calendar of important events?

YES NO, important events are announced/published on the Bank's website

60. Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?

YES NO

61. Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?

YES NO

62. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company?

YES NO

63. Did the management of the company hold meetings with interested investors in the last year?

YES NO

64. Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?

YES NO



Commitment to customers

Customer needs shape our business. We are always close by and available 24 hours a day. We provide them with a high quality, fast and competitive service for which we are recognised as a long-term business partner.



**FINANCIAL
STATEMENTS FOR
THE YEAR ENDED
31 DECEMBER 2015
TOGETHER WITH
THE INDEPENDENT
AUDITOR'S REPORT**

RESPONSIBILITIES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD FOR THE PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

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

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

The Management Board is responsible for the submission to the Supervisory Board of its annual reports together with the annual financial statements, after which the Supervisory Board approves the issuance of annual financial statements to the General Meeting of Shareholders for adoption.

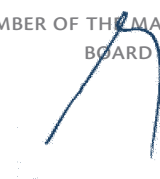
The financial statements set out on pages 23 to 103 were authorised by the Management Board on 28 April 2016 for issue to the Supervisory Board and are signed below to signify this.

The financial statements were approved by the Management Board on 28 April 2016, and are signed by:

JULIO KURUC
PRESIDENT OF THE
MANAGEMENT BOARD



DANIEL UNGER
MEMBER OF THE MANAGEMENT
BOARD



Koprivnica, 28 April 2016

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravska banka d.d.

Report on Financial Statements

We have audited the accompanying Financial Statements ("Financial Statements") of Podravska banka d.d. ("the Bank") which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (which are shown on pages 23 to 103).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank at 31 December 2015 and its financial results and cash flows for the year then ended in accordance with the statutory accounting requirements for banks in the Republic of Croatia.

Other legal and regulatory requirements

1. Pursuant to the Decision on the Structure and Content of Annual Financial Statements of Banks (Official Gazette 62/08, hereinafter: "the Decision") the Bank has prepared the forms, set out on pages 104 to 112, which comprise the balance sheet at 31 December 2015, the income statement, the statement of changes in equity and the statement of cash flows for the year then ended, together with the notes about the reconciliations with the financial statements of the Bank. These forms and the notes thereto are the responsibility of the Bank's Management Board and they do not constitute a part of the financial statements prepared under the statutory accounting requirements for banks in the Republic of Croatia, but rather a requirement imposed by the above-mentioned Decision. Our responsibility refers to the implementation of procedures we consider necessary for the adoption of the conclusion on whether the financial information in the forms is properly derived from the audited financial statements. In our opinion, based on the implemented procedures, the financial information in the forms is properly derived, in all material respects, from the audited financial statements prepared in accordance with legal accounting regulations applicable to the banks in the Republic of Croatia and shown on pages 23 to 103 of the Bank's accounts.
2. The Management Board of the Bank has prepared the Annual Report set out on pages 1 to 19. Pursuant to the Accounting Act, the Management Board is responsible for preparing the Annual Report and its accuracy. Our responsibility refers to the implementation of procedures we consider necessary for the adoption of the conclusion on whether the Annual Report is compliant with the audited financial statements. Our work as auditors was confined to checking the Annual Report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Bank. In our opinion, the accounting information presented in the Annual Report of the Bank for 2015 is consistent, in all material respects, with the audited annual financial statements for that year, which are presented on pages 23 to 103.

Other issues

The Financial Statements of the Company for the year ended 31 December 2014 were audited by another auditor who on 29 April 2015 issued the auditor's report without any reservations.



Zvonimir Madunić
Management Board Member and Certified Auditor
Ernst & Young d.o.o., Zagreb
Zagreb, 29 April 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

IN THOUSAND HRK	NOTE	2015	2014 RESTATED*
INTEREST AND SIMILAR INCOME	3	147,347	152,597
INTEREST AND SIMILAR EXPENSE	3	(59,253)	(67,258)
NET INTEREST INCOME		88,094	85,339
FEE AND COMMISSION INCOME	4	38,252	36,366
FEE AND COMMISSION EXPENSE	4	(14,254)	(12,388)
NET FEE AND COMMISSION INCOME		23,998	23,978
OTHER OPERATING INCOME, NET	5	21,064	19,788
OPERATING INCOME		133,156	129,105
IMPAIRMENT LOSSES AND PROVISIONS	6	(25,195)	(37,851)
ADMINISTRATIVE EXPENSES	7	(95,305)	(101,250)
DEPRECIATION AND AMORTISATION	8	(9,059)	(7,493)
PROFIT BEFORE TAXATION		3,597	(17,489)
INCOME TAX EXPENSE	9	(296)	3,096
NET PROFIT FOR THE YEAR		3,301	(14,393)
OTHER COMPREHENSIVE INCOME			
NET INCREASE/(DECREASE) OF FAIR VALUE OF AVAILABLE- FOR- SALE FINANCIAL ASSETS		8,212	4,520
DEFERRED TAX RECOGNISED IN EQUITY		(1,642)	(904)
OTHER COMPREHENSIVE INCOME		6,570	3,616
TOTAL COMPREHENSIVE INCOME AFTER TAX		9,871	(10,777)
EARNINGS PER SHARE FOR SHAREHOLDERS	10	HRK 4.94	HRK (21.52)

*Certain shown amounts do not match the amounts disclosed in the statements for 2014 and reflect restatements, please see Note 2.3. The accompanying accounting policies and notes on pages 43 to 107 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2015

IN THOUSAND HRK	NOTE	31 DECEMBER 2015	31 DECEMBER 2014 RESTATED	1 JANUARY 2014 RESTATED*
ASSETS				
CASH AND AMOUNTS DUE FROM BANKS	11	320,609	230,253	268,486
BALANCES WITH THE CROATIAN NATIONAL BANK	12	206,024	199,831	212,678
PLACEMENTS WITH OTHER BANKS	13	87,590	47,901	62,682
LOANS TO CUSTOMERS	14	1,872,306	1,823,684	1,887,966
FINANCIAL ASSETS AVAILABLE FOR SALE	15	469,160	446,429	481,962
FINANCIAL ASSETS HELD TO MATURITY	16	38,573	88,896	27,191
INVESTMENTS IN BRANCHES	19	-	4,770	4,770
INTANGIBLE ASSETS	17	46,785	48,128	40,754
PROPERTY AND EQUIPMENT	18	80,671	82,941	86,101
DEFERRED TAX ASSETS	9	6,210	8,148	5,957
OTHER ASSETS	20	53,621	64,260	24,580
TOTAL ASSETS		3,181,549	3,045,241	3,103,127
LIABILITIES AND EQUITY				
LIABILITIES				
AMOUNTS DUE TO OTHER BANKS	21	91,171	105,880	69,786
AMOUNTS DUE TO CUSTOMERS	22	2,348,978	2,256,063	2,208,746
OTHER BORROWED FUNDS	23	177,626	111,059	257,219
OTHER LIABILITIES	24	34,432	53,282	37,772
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	4,076	3,907	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	26	131,916	131,571	131,162
TOTAL LIABILITIES		2,788,199	2,661,762	2,708,871
SHAREHOLDER'S EQUITY				
SHARE CAPITAL	27	267,500	267,500	267,500
SHARE PREMIUM		3,015	3,015	3,015
TREASURY SHARES		(11,082)	(11,082)	(11,082)
OTHER RESERVES	28	148,796	142,227	137,558
PROFIT/(LOSS) FOR THE YEAR		3,301	(14,393)	(2,735)
ACCUMULATED LOSS		(18,180)	(3,788)	-
TOTAL EQUITY		393,350	383,479	394,256
TOTAL LIABILITIES AND EQUITY		3,181,549	3,045,241	3,103,127

*Certain shown amounts do not match the amounts disclosed in the statements for 2014 and reflect restatements, please see Note 2.3. The accompanying accounting policies and notes on pages 43 to 107 form an integral part of these financial statements.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2015

IN THOUSAND HRK	NOTE	2015	2014 RESTATED*
PROFIT FOR THE YEAR BEFORE TAXATION	9	3,597	(17,489)
ADJUSTMENTS FOR:			
DEPRECIATION AND AMORTISATION	8	9,059	7,493
NET GAINS ON SALE OF NON-CURRENT TANGIBLE ASSETS	5	(360)	(15)
NET GAINS ON SALE OF REPOSSESSED ASSETS	5	(1,176)	-
INCREASE IN PROVISIONS FOR LOANS AND OTHER PROVISIONS	6	25,195	37,851
DIVIDEND INCOME	5	(990)	(957)
NET FOREIGN EXCHANGE GAIN FROM ISSUED HYBRID INSTRUMENTS		(447)	403
PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS		31,281	27,286
CHANGES IN OPERATING ASSETS			
NET (INCREASE)/DECREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		(6,193)	12,847
NET (INCREASE)/DECREASE IN LOANS TO CUSTOMERS		(68,211)	29,381
NET (INCREASE)/DECREASE IN PLACEMENTS WITH BANKS		(8,789)	(12,662)
NET (INCREASE)/DECREASE IN OTHER ASSETS		10,187	(40,676)
(INCREASE)/DECREASE IN OTHER LIABILITIES		(18,970)	14,369
(INCREASE)/DECREASE IN AMOUNTS DUE TO OTHER BANKS		(14,709)	36,094
INCREASE IN DEPOSITS OF CUSTOMERS		92,914	47,317
SALE OF REPOSSESSED ASSETS		5,200	-
INCOME TAXES PAID		(114)	(1,147)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		22,596	115,103
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASES OF PROPERTY AND EQUIPMENT	17,18	(5,797)	(11,767)
DISPOSAL OF PROPERTY AND EQUIPMENT		491	75
NET (INCREASE)/DECREASE IN FINANCIAL ASSETS AVAILABLE FOR SALE		(14,715)	37,821
CASH RECEIPTS FROM DIVIDEND		990	957
INVESTMENTS HELD TO MATURITY		50,323	(61,705)
NET CASH USED IN INVESTING ACTIVITIES		31,292	(34,619)
CASH FLOWS FROM FINANCING ACTIVITIES			
BORROWED FUNDS		66,567	(146,160)
ISSUED BONDS		800	-
NET CASH OUTFLOW/(INFLOW) FROM FINANCING ACTIVITIES		67,367	(146,160)
NET INCREASE/DECREASE IN CASH		121,255	(65,676)
CASH AT BEGINNING OF PERIOD	11	254,722	320,398
CASH AT END OF PERIOD	11	375,977	254,722

*Certain shown amounts do not match the amounts disclosed in the statements for 2014 and reflect restatements, please see Note 2.3. The accompanying accounting policies and notes on pages 43 to 107 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

IN THOUSAND HRK	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	RETAINED PROFIT/(LOSS)	PROFIT/(LOSS) FOR THE YEAR	TOTAL
AS AT 1 JANUARY 2014	267,500	3,015	(11,082)	4,802	128,968	-	1,053	394,256
CORRECTION OF ERROR (NET OF TAX) (NOTE 2.3)	-	-	-	-	3,788	-	(3,788)	-
AS AT 1 JANUARY 2014 (RESTATED*)	267,500	3,015	(11,082)	4,802	132,756	-	(2,735)	394,256
LOSS SHOWN IN THE FINANCIAL STATEMENTS FOR 2014	-	-	-	-	-	-	(12,614)	(12,614)
CORRECTION OF ERROR (NET OF TAX) (NOTE 2.3)	-	-	-	-	-	-	(1,779)	(1,779)
RESTATE LOSS FOR 2014	-	-	-	-	-	-	(14,393)	(14,393)
OTHER COMPREHENSIVE INCOME SHOWN IN THE FINANCIAL STATEMENTS FOR 2014	-	-	-	-	1,837	-	-	1,837
CORRECTION OF ERROR (NET OF TAX) (NOTE 2.3)	-	-	-	-	1,779	-	-	1,779
RESTATE OTHER COMPREHENSIVE INCOME FOR 2014	-	-	-	-	3,616	-	-	3,616
ALLOCATION OF 2013 LOSS	-	-	-	-	1,053	(3,788)	2,735	-
AS AT 31 DECEMBER 2014 (RESTATED*)	267,500	3,015	(11,082)	4,802	137,425	(3,788)	(14,393)	383,479
IN THOUSAND HRK	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	RETAINED PROFIT/(LOSS)	PROFIT/(LOSS) FOR THE YEAR	TOTAL
AS AT 1 JANUARY 2015	267,500	3,015	(11,082)	4,802	137,425	(3,788)	(14,393)	383,479
ALLOCATION OF 2014 LOSS	-	-	-	-	-	(14,393)	14,393	-
OTHER COMPREHENSIVE INCOME	-	-	-	-	6,569	-	-	6,569
PROFIT FOR THE YEAR	-	-	-	-	-	-	3,301	3,301
AS AT 31 DECEMBER 2015	267,500	3,015	(11,082)	4,802	143,994	(18,180)	3,301	393,350

*Certain shown amounts do not match the amounts disclosed in the statements for 2014 and reflect restatements, please see Note 2.3. The accompanying accounting policies and notes on pages 43 to 107 form an integral part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. GENERAL INFORMATION

Podravska banka d.d. Koprivnica ("the Bank") is incorporated in the Republic of Croatia and was registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3.

Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards as adopted by the European Union, reference may be made to certain Standards in describing the accounting policies of the Bank; unless otherwise stated, these references are to Standards applicable at 31 December 2015.

Statement of compliance

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

Basis of preparation

The financial statements are prepared on the fair value basis for derivative financial instruments, trading assets and liabilities, other financial assets and liabilities at fair value through profit or loss, and financial and non-financial assets available for sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost. The financial statements are intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

The financial statements have been prepared in a format generally adopted and internationally recognised by banks, except for the differences described below.

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of potential commitments at the date of reporting, as well as amounts of income and expenses for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of preparing the financial statements, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if

the revision affects both current and future periods. Judgements made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 2. The accounting policies have been consistently applied to all periods presented in these financial statements, except for the accounting policy related to the impairment of assets available for sale, as described in Note 2.3.

Attention is drawn to the following differences between the accounting regulations of the CNB and IFRS recognition and measurement requirements:

The CNB requires banks to recognise impairment losses, in the income statement, on assets for which impairment losses are not recognised (including central government sovereign risk) at prescribed rates (excluding financial assets carried at fair value). The Bank has made portfolio-based provisions of HRK 27,275 thousand (2014: HRK 23,853 thousand) carried in the balance sheet in compliance with these regulations. The Bank has recognised the expenditure of HRK 1,422 thousand in relation to these provisions within the impairment losses (2014: income of HRK 251 thousand). Although, in accordance with IFRS, such provisions should more properly be presented as an appropriation within equity, the Bank continues to recognise such provisions in the statement of comprehensive income as a substitute for existing but unidentified impairment losses calculated in accordance with IFRS requirements.

Additionally, the CNB prescribes minimum levels of provisions for impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss calculated in accordance with IFRS.

Exemption from consolidation

As at 31 December 2015, the Bank did not prepare consolidated financial statements, as required by International Accounting Standards (IAS) because in the course of 2015 it acquired by merger the only subsidiary POBA faktor d.o.o. (Note 19), for which the Management Board of the Bank believes is not material for disclosure in the financial statements as at 31 December 2015. On 9 April 2015, the Bank received the permission from the CNB to exclude POBA faktor d.o.o. from consolidation because the company assets of POBA faktor as at 31 December 2014 stood at HRK 17,176 thousand and accounted for 0.56% of the total assets of the Bank.

The Bank has prepared the consolidated financial statements as at 31 December 2014, available on the Bank's website (www.poba.hr).

Standards and Interpretations effective in the current period

The Bank expects that, in the ordinary course of updating its accounting regulations, the CNB will take into account the following Standards and Interpretations issued by the International Accounting Standards Board and its International Financial Reporting Interpretations Committee, which were in issue as of the date on which these financial statements were authorised for issue, but which are applicable to entities reporting under IFRS as adopted by the EU in periods commencing after 31 December 2015, and which may have an impact on the Bank.

Cycle of annual improvements to IFRSs 2011 – 2013

Adopted standards that are still not applied and previously adopted

When it is considered that the application or interpretation of standards will have an effect on the financial statements or results of the Bank, this effect is described below:

- IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a set of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2015. The amended standards include:
- IFRS 3 Business combinations
- IFRS 13 Fair Value Measurement
- MRS 40 Investment properties

- **IFRS 9 Financial Instruments: Classification and measurement**

The standard is effective for annual periods beginning on or after 1 January 2018, with permitted earlier adoption. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for the classification and measurement, value adjustment and hedge accounting. The standard has not yet been endorsed by the EU.

- **IFRS 15 Revenue from Contracts with Customers**

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the Bank's ordinary activities (e.g. sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. The standard has not yet been endorsed by the EU.

- **IAS 1: Disclosure Initiative (Amendment)**

Amendments of IAS 1 *Presentation of Financial Statements* motivates the Bank to apply a professional assessment in deciding which information to disclose, and how to structure its financial statements resulting from an investment based on share method. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow focus of the IAS amendments explain, and do not materially change, the existing requirements of IAS 1. The amendments refer to the materiality, the order of the notes, sub-totals and classification, accounting policies and the presentation of items of other comprehensive profit.

- **IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a set of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2015. The amended standards include:

- IFRS 2 Share-based Payment
- IFRS 3 Business combinations
- IFRS 8 Operating Segments
- IFRS 13 Fair Value Measurement
- IAS 16 Property Plant & Equipment
- IAS 24 Related Party Disclosures
- IAS 38 Intangible Assets

- **IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a set of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 01 January 2016. The amended standards include:
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
 - IFRS 7 Financial Instruments: Disclosures
 - IAS 19 Employee Benefits
 - IAS 34 Interim Financial Reporting
- **IFRS 16: Leases**
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of both sides of the contract, e.g., buyer (“lessee”) and supplier (“lessor”). The new standard requires the lessee to list the majority of leases in the financial statements. The lessees will have a single accounting model for all leases, with specific exceptions. The lessor’s accounting is essentially unchanged. The standard has not yet been endorsed by the EU.

The Bank anticipates that the adoption of these standards, except IFRS 9, will have no material impact on the financial statements of the Bank in the period of initial application.

The Management of the Bank anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank’s financial assets and financial liabilities. Thus in the area of classification and validation, the Bank recognises the risk that it will have to revalidate at fair value, a part of its credit portfolio through the income statement, taking into account the agreed specificities of the cash flow as well as the risk that a change in the fair value of Bank’s investment in debt securities, which are currently classified as investment available for sale, and which will be measured at fair value, at the end of the reporting period will be recognised in the income statement. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed. At the same time the question of hedge accounting of financial assets and financial liabilities remains unregulated whose principles in the European Union have not yet been adopted.

According to the Bank’s estimates, the application of hedge accounting for financial assets or liabilities pursuant to IAS 39 “Financial Instruments: Recognition and Measurement”, would not materially impact the financial statements, if applied as at the balance sheet date.

Functional and presentation currency

These financial statements are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The exchange rate of kuna as at 31 December 2015 was HRK 7.635047 to EUR 1 and HRK 6.991801 to USD 1 (31 December 2014, the exchange rate of kuna stood at HRK 7.661471 to EUR 1 and HRK 6.302107 to USD 1).

Changes in presentation or classification of the items in the financial statements

Where necessary, comparative information has been reclassified to achieve consistency with current financial year amounts and other disclosures.

2 BASIS OF ACCOUNTING POLICY

2.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Bank's principal accounting policies is set out below.

Basis of accounting

The Bank maintains its accounting records in Croatian kuna (HRK) and in accordance with the Croatian law and the accounting principles and practices observed by financial institutions in Croatia.

Interest and similar income and expense

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

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

When loans become impaired, they are written down to their recoverable amounts and interest income thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees receivable are recognised when earned. Dividend income is recognised after being declared.

Fee and commission income

Fees and commission income comprises mainly fees for loans and guarantees granted and other services provided by the Bank, together with commissions from managing funds on behalf of legal entities and individuals and fees for foreign and domestic payment transactions.

Fees and commissions are recognised when the related service is rendered. Loan origination fees for loans which are likely of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan.

Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realised gains on securities classified as assets available for sale, foreign exchange revaluation, gains from disposal of fixed assets, dividends earned and other income.

Foreign currencies

Income and expenditure arising from transactions in foreign currencies are translated to HRK at the official rates of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated to HRK at the mid-market

exchange rate of the CNB on the last day of the accounting period. Gains and losses resulting from the foreign currency translation are included in the income statement, for the year to which they relate.

The Bank has receivables and liabilities originating in HRK, which are linked to foreign currencies with one-way currency clause. Due to this clause the Bank has an option to revalue the asset by the higher of: foreign exchange rate valid as of the date of repayments of the receivables by the debtors, or foreign exchange rate valid as of the date of origination of the financial instrument. The counterparty has this option if the liability is linked to this clause. Due to the specific conditions of the market in the Republic of Croatia, the fair value of this option cannot be calculated as the forward rates for HRK for periods over 9 months are generally not available. As such, the Bank revalues its receivables and liabilities linked to this clause by the CNB's midpoint exchange rate valid at the reporting date or foreign exchange rate agreed by the option (rate valid at origination), whichever is higher.

Staff costs

Provisions for bonuses are recognised when the Bank has a constructive obligation arising from a contract or past practice. In addition, the Bank recognises the obligation for accrued paid leave with reference to the unused paid leave at the reporting date.

Personnel social contributions

According to local legislation, the Bank is obliged to pay contributions to the Pension Funds and the State Health Fund. This obligation relates to full-time employees and provides for paying contributions of certain percentages determined on the basis of the gross salary as follows:

	2015	2014
CONTRIBUTIONS FOR PENSION FUND	20%	20%
CONTRIBUTIONS FOR STATE HEALTH FUND	15%	15%
CONTRIBUTIONS FOR THE STATE EMPLOYMENT BUREAU	1.7%	1.7%
INJURIES AT WORK	0.5%	0.5%

The Bank is also obliged to withhold contributions from the gross pay on behalf of the employee for the same funds.

The contributions on behalf of employees and on behalf of employer are charged to expenses in the period to which they relate (see Note 7).

In the course of normal operations, the Bank makes regular payments of contributions on behalf of its employees who are members of mandatory pension funds as provided by law. The mandatory pension contributions are included in the payroll costs when they are accrued. The Bank has no additional retirement benefit plan and, therefore, has no further obligations in respect of employee retirement benefits. In addition, the Bank has no obligation to provide any post-employment benefits to its employees.

Taxation

The corporate income tax payable is provided on taxable profits for the year at the current rate. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of the temporary differ-

ences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the expected tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets.

The Bank is subject to a tax rate of 20% in accordance with the Income Tax Law.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days of remaining maturity, including cash and current accounts with other banks.

Financial instruments

The Bank's financial assets and financial liabilities recorded on the statement of financial position include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term loans, deposits and investments. The accounting principles for these items are disclosed in the respective accounting policies.

The Bank recognises financial assets and liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities held by the Bank are categorised into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy.

Financial assets and liabilities are classified as "Financial assets at fair value through profit or loss", "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.

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

Regular way transactions with financial instruments are accounted for in the statement of financial position at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value on the underlying asset or liability are recognised starting from trade date.

The Bank recognises financial assets and financial liabilities initially at their fair value plus, except for financial assets at fair value through profit and loss, transaction costs directly attributable to the acquisition or delivery of a financial asset or a financial liability.

Financial assets at fair value through profit or loss

Financial instruments included in this portfolio are financial instruments held for trading, acquired to generate profits from short-term fluctuations in prices or brokerage fees, or are securities included in a portfolio with a pattern of short-term profit taking.

Such instruments are initially recognised at cost and subsequently measured at fair value, which is based on the quoted bid prices in an active market.

Held-to-maturity assets

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

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

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

Loans and receivables

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

Loans and receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees incurred in securing a loan, are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

Impairment of financial assets

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. Loan loss allowances are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include: delinquency in contractual payments of principal or interest, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions, indications of bankruptcy or winding down proceedings and deterioration of the borrower's competitive position. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics (grouped by institutional sector, purpose and economic activity) and collectively assesses them for impairment.

The level of collective impairment (value adjustment) of A graded placements is determined as minimum 1% of the total balance of placements graded A. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Placements of the Bank are considered fully irrecoverable if they originated on a disputable legal basis and other receivables for which due to especially poor creditworthiness of a debtor and a lack of any eligible instrument of collateral, no cash flows can be expected for settling the debtor's liabilities towards the Bank. Fully adjusted placements classified into risk category C are reported in the balance sheet until legal actions are taken concerning the extinguishment of debtor's liabilities.

Individually and collectively determined impairment losses are charged to the Bank's income statement in which the losses are identified and recognised in the amount of the prescribed loss percentage, with the balance credited to the value adjustment of placements to which the losses relate on the asset side of the balance sheet.

If, following the reassessment, the amount of the loss increases, the increase is charged to the Bank's expenses for the period in which the losses are identified. If the loss subsequently decreases, the decrease is credited to the previously charged value adjustment item in the income statement, as well as charged to the value adjustment line item on the asset side of the balance sheet.

Placements reclassified from the A category into a B or C category on the basis of accrued interest income are fully impaired, but remain carried on the balance sheet until the underlying receivables are collected or written off.

Interest income accrued on partly irrecoverable placements is reported as an off-balance sheet item and recognised in the income statement when collected.

Regardless of legal actions undertaken for the collection of Bank's receivables by activating collaterals, after non-collection within a two-year period, starting from the day when debtor's irregularity of payment of obligations occurred, the Bank classifies not collected placements until the date of their collection into B-1 sub-category or worse. Then taking into account the remaining outlooks for collection, it carries out a 100% impairment of placements based on the calculated interest income and the value adjustment of at least 30% of the principal, and increased by 5% of the principal for each additional 180 days of receivables per principal of the placement.

Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. This category comprises equity and debt securities.

Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models.

In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has substantially transferred all risks and rewards of ownership.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment. For available-for-sale assets, gains and losses arising from changes in fair value are recognised directly in equity under the caption "Other reserves", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

At each balance sheet date, the Bank checks whether there is objective evidence for impairment of a financial asset or a group of financial assets. In the case of investment in equity or debt securities classified as available for sale, material (more than 30% of the cost of acquiring) or extended (more than 12 months) impairment of fair value of investment below the cost of acquiring is taken into account in determining whether the asset value is impaired. If such evidence exists for financial assets available for sale, cumulative loss, defined as the difference between the cost of acquiring and the current fair value, minus loss from impairment on the financial asset previously recognised in the income statement, is transferred from equity and is recognised in the income statement.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. Interest earned whilst holding available-for-sale securities is accrued on a monthly basis using the effective interest rate method and reported as Interest income in the income statement. Foreign exchange differences related to available-for-sale equity instruments held in foreign currency are reported together with fair value gains and losses in equity until the financial asset is sold. Foreign exchange differences related to available-for-sale debt instruments held in foreign currency are reported in the income statement. Dividends on securities available for sale are recorded as declared and included as a receivable in the statement of financial position line other assets and in other operating income in the income statement. Upon payment, the receivable is offset against the collected cash.

Foreclosed assets

Occasionally, by means of the enforcement procedure, the Bank acquires assets foreclosed in exchange for outstanding receivables. Foreclosed assets are classified on the

balance sheet as other assets held for sale. The Bank acquires the ownership of such assets on the basis of an enforcement judgement. On acquisition, such assets are recognised at cost of acquisition. Foreclosed assets are reviewed for impairment on an annual basis. Impairment losses are recognised as the difference between the carrying amount of the asset and the asset's recoverable amount in the period of impairment and included in the income statement. The recoverable amount is the fair value of an asset less costs to sell the asset. Fair values of those assets are determined on the basis of independent market value appraisal performed by a licensed appraiser or based on a tentative agreement on the sale of property.

Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. The real estate is stated at the lower of cost of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement. Real estate used as collateral for loans given to customers can be sold only in case it is subject to enforcement procedure.

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements and the counterparty is included in due to banks or customers as appropriate. Securities purchased under agreements to resell (reverse repo) are recorded as due from banks or loans to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation less any provision for impairment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation such as repairs and maintenance are normally charged to the income statement in the period in which the costs are incurred. Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment. Property and equipment is depreciated on a straight-line basis over the useful life of the assets as follows:

	2015	2014
BUILDINGS	40	40
FURNITURE	5	5
COMPUTERS	4	4
MOTOR VEHICLES	5	5
EQUIPMENT AND OTHER ASSETS	2 - 10	2 - 10

Land is not depreciated. The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at least at each financial year end. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and that the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed at each reporting period.

Intangible assets are amortised over the periods of 5 to 15 years (software). Amortisation period and amortisation method are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Impairment of non-financial assets

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

Goodwill

Goodwill arose on the acquisition of Požeška banka and is carried at cost as established at the date of acquisition of the entity less accumulated impairment losses, if any. Goodwill is tested for impairment using the Capital Asset Pricing Model (CAPM) which includes both general and specific risks. For the purpose of the impairment testing, goodwill is allocated to each cash-generating unit arisen on the acquisition, from which future benefits are expected. The cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is indication that such an organisational unit may be impaired.

Where the recoverable amount of a cash-generating unit is below its carrying amount, the impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to that unit and then proportionally to all other organisational units generating cash. Any gain or loss on remeasurement at fair value is included in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a cash-generating unit the attributable amount of goodwill is included in the determination of the profit or loss on the disposal.

Provisions for contingent liabilities

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

Managed funds

The Bank manages a significant amount of assets on behalf of third parties. A fee is charged for this service. These assets are not recorded in the Bank's statement of financial position (the details are set out in Note 29).

Dividend policy

The Bank has a policy to pay dividends to its shareholders based on the audited annual results.

Legal merger

In a case of legal merger, the pooling of interest method is applied. The balances of the company that is merged are carried at net book values to the Bank which is the legal successor and no restatements of prior periods are performed.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. In the process of applying the Bank's accounting policies, Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Held-to-maturity assets

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as Assets held to maturity (Note 16). This classification requires significant judgement. In making this judgement, the Bank evaluates its positive intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances (such as selling an insignificant amount relative to the total amount of investments held to maturity close to maturity) it will be required to reclassify the entire class as available for sale and measure it at fair value instead of amortised cost.

Estimating uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date that have a significant risk of causing a material adjust-

ment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Allowances for impairment of loans and receivables

The Bank regularly reviews its loans and receivables (Note 14) to assess whether there is objective evidence on impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little historical data available relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Provisions for court cases

Provisions (Note 25) are recognised when the Bank has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Management maintains provisions at the level it considers sufficient to cover the losses incurred, and it determines the sufficiency of provisions on the basis of insight into specific items, current legal circumstances, as well as other relevant factors.

Income tax

The Bank's profit is subject to corporate income tax in Croatia. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. These calculations that support the tax return may be subject to review and approval by the local tax authorities.

2.3 CORRECTION OF ERROR

In 2015, in validating the financial assets held in the held-for-sale portfolio, the Bank established a long-term impairment, based on which a previously recognised negative reserve in equity was subsequently transferred to the profit and loss in the financial statements of the previous year. If objective evidence of impairment exists, accumulated losses impair the financial assets held for sale and are recognised in the income statement, regardless of the fact that the financial assets are still recognised. The impairment carried out has no impact on total comprehensive profit or on the value of total equity of the Bank.

The error has been corrected by restating each position of the financial statements for previous periods, as follows:

Impact on equity
(increase/(decrease of
equity))

IN THOUSAND HRK	31 DECEMBER 2014
OTHER COMPREHENSIVE INCOME	1,799
LOSS FOR THE YEAR	(1,799)
NET IMPACT ON EQUITY	-

Impact on income
statement (increase/
decrease of profit)

IN THOUSAND HRK	31 DECEMBER 2014
IMPAIRMENT LOSSES AND PROVISIONS	2,224
INCOME TAX	(445)
NET IMPACT ON LOSS FOR THE YEAR	(1,779)

Impact on other
comprehensive profit

IN THOUSAND HRK	31 DECEMBER 2014
NET INCREASE/(DECREASE) OF FAIR VALUE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS	1,779
IMPACT ON OTHER COMPREHENSIVE PROFIT	1,779

Impact on cash flows

IN THOUSAND HRK	31 DECEMBER 2014
LOSS FOR THE YEAR BEFORE TAXATION	2,224
INCREASE IN PROVISIONS FOR LOANS AND OTHER PROVISIONS	(2,224)
NET IMPACT ON CASH FLOWS	-

Impact on earnings per
share for shareholders

IN THOUSAND HRK	31 DECEMBER 2014
EARNINGS PER SHARE	
BASIC, LOSS FOR THE YEAR FOR SHAREHOLDERS	(2.66)
DILUTED, LOSS FOR THE YEAR FOR SHAREHOLDERS	(2.66)

3. INTEREST AND SIMILAR INCOME AND EXPENSE

IN THOUSAND HRK	2015	2014
INTEREST INCOME		
COMPANIES	85,257	85,181
CITIZENS	39,177	40,928
SECURITIES	13,065	17,569
BANKS	1,186	889
PUBLIC AND OTHER SECTORS	8,662	8,030
	147,347	152,597
INTEREST EXPENSE		
COMPANIES	(11,161)	(13,226)
CITIZENS	(38,433)	(44,362)
BANKS	(7,423)	(7,582)
PUBLIC AND OTHER SECTORS	(2,236)	(2,088)
	(59,253)	(67,258)
NET INTEREST INCOME	88,094	85,339

Interest income also includes deferred fees on loans in the total amount of HRK 10,835 thousand (2014: HRK 12,259 thousand), which are recognised applying the effective interest rate methodology.

IN THOUSAND HRK	2015	2014
INTEREST INCOME ON:		
SUBSTANDARD LOANS	5,263	3,983
NON-PERFORMING LOANS	1,734	746
	6,997	4,729

4. FEE AND COMMISSION INCOME AND EXPENSE

IN THOUSAND HRK	2015	2014
FEE AND COMMISSION INCOME		
PAYMENT TRANSACTION FEES AND COMMISSIONS	13,941	13,635
FEES AND COMMISSIONS ON CREDIT CARD SERVICES	15,072	14,199
FEES AND COMMISSIONS FROM LENDING OPERATIONS	3,165	2,810
FEES AND COMMISSIONS ON SECURITIES TRADING	1,231	932
OTHER FEES AND COMMISSION INCOME	4,843	4,790
	38,252	36,366
FEE AND COMMISSION EXPENSE		
CASH OPERATION FEES AND COMMISSIONS	(4,852)	(5,038)
PAYMENT TRANSACTION CHARGES	(2,334)	(2,918)
INTERBANK SERVICE FEES	(585)	(593)
OTHER FEE AND COMMISSION EXPENSE	(6,483)	(3,839)
	(14,254)	(12,388)
NET FEE AND COMMISSION INCOME	23,998	23,978

Other fee and commission income consists mainly of fees collected on the Bank's counters from customers for the payments made and amounts to HRK 2,500 thousand (2014: HRK 2,654 thousand).

5. OTHER OPERATING INCOME, NET

IN THOUSAND HRK	2015	2014
FOREIGN EXCHANGE TRADING GAIN	6,255	5,916
REFUND OF COURT COSTS	1,497	2,636
NET GAIN ON DEALINGS IN AVAILABLE-FOR-SALE SECURITIES	8,410	6,936
DIVIDEND INCOME	990	957
LEASE INCOME	1,874	1,823
NET GAIN ON DISPOSAL OF PROPERTY AND EQUIPMENT	360	15
NET INCOME ON SALE OF REPOSSESSED ASSETS	1,176	-
INCOME ON SUBSEQUENT COLLECTION OF LOANS PREVIOUSLY WRITTEN OFF	6	4
FOREIGN EXCHANGE REVALUATION	(587)	356
OTHER INCOME	1,083	1,145
	21,064	19,788

6. IMPAIRMENT LOSSES AND PROVISIONS

IN THOUSAND HRK	2015	RESTATED 2014
PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS (NOTE 14D)	(24,378)	(34,901)
IMPAIRMENT OF EQUITY SECURITIES (NOTE 15E; NOTE 2.3)	(196)	(2,233)
COLLECTION OF SUSPENDED INTEREST RECEIVABLES (NOTE 14D)	-	-
PROVISIONS FOR GUARANTEES AND COMMITMENTS (NOTE 25)	(209)	359
OTHER ASSETS (NOTE 20)	(452)	(996)
PROVISIONS FOR LEGAL CASES (NOTE 25)	40	(80)
	(25,195)	(37,851)

7. ADMINISTRATIVE EXPENSES

IN THOUSAND HRK	2015	2014
STAFF COSTS	50,292	50,202
MATERIALS AND SERVICES	28,679	32,346
RENTALS	8,675	10,130
DEPOSIT INSURANCE PREMIUM	5,143	5,027
TAXES AND CONTRIBUTIONS	1,198	1,429
OTHER EXPENSES	1,318	2,116
	95,305	101,250

Other operating expenses include: cost of advertising, sponsorships, donations and other costs.

Staff costs

IN THOUSAND HRK	2015	2014
NET SALARIES	26,121	27,183
PENSION INSURANCE COSTS	6,849	7,156
HEALTH INSURANCE COSTS	5,900	6,081
OTHER COMPULSORY CONTRIBUTIONS	865	922
TAXES AND SURTAXES	6,354	7,556
PROVISIONS FOR EMPLOYEE BENEFITS	(138)	(1,384)
OTHER STAFF COSTS	4,341	2,688
	50,292	50,202

At 31 December 2015, the number of staff employed by the Group was 240 (2014: 278 employees).

8. DEPRECIATION AND AMORTISATION

IN THOUSAND HRK	BANK 2015	BANK 2014
DEPRECIATION OF PROPERTY AND EQUIPMENT	5,675	6,012
DEPRECIATION OF LEASEHOLD IMPROVEMENTS	495	430
AMORTISATION OF INTANGIBLE ASSETS	2,889	1,051
	9,059	7,493

9. INCOME TAX EXPENSE

Income tax is determined by applying the rate of 20% to taxable profits (2014: 20%).

Tax returns remain not final and are subject to supervisory inspection for at least a three-year period. Management states that the Bank has made adequate provisions for tax obligations in the presented financial statements.

Tax expense comprises the following:

IN THOUSAND HRK	2015	2014
CURRENT TAX EXPENSE	-	-
DEFERRED TAX EXPENSE/ (INCOME)	296	(3,096)
TAX EXPENSE/(INCOME)	296	(3,096)

The reconciliation between accounting profit and taxable profit is set out below:

IN THOUSAND HRK	2015	2014
PROFIT/(LOSS) BEFORE TAXATION	3,597	(17,489)
STATUTORY TAX RATE	20%	20%
INCOME TAX CALCULATED AT 20%	(719)	3,498

TAX EFFECT OF RECONCILIATIONS UP TO TAX BASIS

PROFIT DECREASE/LOSS INCREASE		
DIVIDENDS RECEIVED	196	191
REALISED LOSS – FINALISED LIQUIDATION	624	-
DEFERRED TERMINATION BENEFITS	-	271
UNREALISED LOSSES ON FINANCIAL ASSETS	5	4
DEFERRED LOAN ORIGINATION FEES	-	239
	825	705

PROFIT INCREASE/LOSS DECREASE

ACCRUED LOAN FEES	(132)	-
WRITE-OFF OF RECEIVABLES	(126)	(248)
ENTERTAINMENT AND PERSONAL TRANSPORTATION	(68)	(107)
DEPRECIATION ABOVE PRESCRIBED AMOUNTS	(38)	(62)
INTEREST BETWEEN RELATED PARTIES	(26)	(150)
IMPAIRMENT OF FINANCIAL ASSETS	-	(2)
PROVISIONS FOR LEGAL CASES – INTEREST	-	(20)
LOSS ON SECURITIES AVAILABLE FOR SALE	-	(445)
OTHER	(18)	(26)
	(408)	(1,060)
TAX LIABILITY	(302)	3,143
USE OF TAX LOSSES BROUGHT FORWARD	302	-
CHANGE IN DEFERRED TAX ASSETS	(296)	3,096
CURRENT TAX EXPENSE	(296)	3,096
EFFECTIVE TAX RATE	8.40%	0.00%
GROSS TAX LOSSES BROUGHT FORWARD FROM PREVIOUS PERIOD	15,715	-
INCREASE FROM ACQUISITION BY MERGER	2,517	-
TAX LOSSES FOR THE PERIOD	-	15,715
USED IN YEAR	(1,513)	-
GROSS TAX LOSSES AVAILABLE FOR CARRY FORWARD	16,719	15,715

As at 31 December 2015 the Bank has unused tax losses, which are disclosed below. Such tax losses may only be used to reduce taxable profits of the following five years.

The expiry dates for unused tax losses are as follows:

	GROSS TAX LOSSES	TAX BENEFIT
	IN THOUSAND HRK	IN THOUSAND HRK
31 DECEMBER 2016	-	-
31 DECEMBER 2017	-	-
31 DECEMBER 2018	-	-
31 DECEMBER 2019	14,202	15,715
31 DECEMBER 2020	2,517	-
	16,719	18,232

Movements in deferred tax assets are as follows:

	2015			
IN THOUSAND HRK	OPENING BALANCE	CHARGED TO INCOME STATEMENT	RECOGNISED IN EQUITY	CLOSING BALANCE
LOSSES ON FINANCIAL ASSETS	606	(5)	-	601
LOSSES ON OTHER INVESTMENTS	43	-	-	43
DEFERRED LOAN ORIGINATION FEES	1,522	132	-	1,653
FINANCIAL ASSETS AVAILABLE FOR SALE	799	-	(1,642)	(843)
IMPAIRMENT OF FINANCIAL ASSETS	623	(623)	-	-
PROVISIONS FOR LEGAL CASES – INTEREST	20	-	-	20
TAX LOSSES	3,143	201	-	3,344
LOSS ON SECURITIES AVAILABLE FOR SALE	1,392	-	-	1,392
	8,148	(296)	(1,642)	6,210
				2014
IN THOUSAND HRK	OPENING BALANCE	CHARGED TO INCOME STATEMENT	RECOGNISED IN EQUITY	CLOSING BALANCE
LOSSES ON FINANCIAL ASSETS	610	(4)	-	606
LOSSES ON OTHER INVESTMENTS	43	-	-	43
DEFERRED LOAN ORIGINATION FEES	1,761	(239)	-	1,522
FINANCIAL ASSETS AVAILABLE FOR SALE	1,703	(445)	(459)	799
IMPAIRMENT OF FINANCIAL ASSETS	621	2	-	623
DEFERRED TERMINATION BENEFITS	271	(271)	-	-
PROVISIONS FOR LEGAL CASES – INTEREST	-	20	-	20
TAX LOSSES	-	3,143	-	3,143
LOSS ON SECURITIES AVAILABLE FOR SALE	947	445	-	1,392
	5,956	2,651	(459)	8,148

10. EARNINGS PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders after deducting preference dividends.

	2015	2014
PROFIT FOR THE YEAR (IN THOUSAND HRK)	3,301	(14,393)
WEIGHTED AVERAGE NUMBER OF SHARES	668,749	668,749
EARNINGS PER SHARE (IN HRK) – BASIC AND DILUTED	4.94	(21.52)

11. CASH AND AMOUNTS DUE FROM BANKS

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	148,803	99,412
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	113,512	63,828
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	10,690	12,488
CASH IN HAND	35,063	41,708
OTHER ITEMS	12,541	12,817
	320,609	230,253

Cash and cash equivalents included in the cash flow statement:

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	148,803	99,412
CASH EQUIVALENTS – DEPOSITS WITH OTHER BANKS (NOTE 13)	55,369	24,469
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	113,512	63,828
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	10,690	12,488
CASH IN HAND	35,063	41,708
OTHER ITEMS	12,541	12,817
	375,978	254,722

12. BALANCES WITH THE CROATIAN NATIONAL BANK

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
OBLIGATORY AND MARGINAL RESERVE	206,024	197,984
TREASURY BILLS, MANDATORY ENROLMENT	-	1,847
	206,024	199,831

The mandatory reserve represents the amount of liquid assets banks are required to place with the Croatian National Bank. The mandatory reserve is calculated every second Wednesday in a month on certain average balances of liabilities for the previous month. The calculation base includes the daily average balance of received loans and deposits, issued debt securities, hybrid and subordinated instruments and other financial liabilities, along with certain deductible items. In late 2013 the mandatory reserve allocation rate was reduced from 13.5% to 12%, with the mandatory subscription of treasury bills of the Croatian National Bank. On 30 September 2015, the Croatian National Bank issued the Decision repealing the Decision on the purchase of compulsory CNB bills, and on the date of its entry into force on 7 October 2015 all the mandatory treasury bills were removed from subscription. The mandatory reserve allocation rate of 12% remained unchanged throughout 2015.

Of the total balance of the calculated mandatory reserve funds, 70% of the kuna-denominated reserve funds and 60% of the fx-denominated reserve funds are allocated and kept with the Croatian National Bank. The percentage of allocation for the kuna-denominated portion also includes a portion of the fx-denominated reserve maintained in Croatian kunas. Banks have the obligation to maintain 75% of the mandatory reserves in Croatian kuna. Balances with the Croatian National Bank are not interest-bearing.

13. PLACEMENTS WITH OTHER BANKS

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
TERM DEPOSITS	55,369	24,469
REVERSE REPO LOANS	32,221	24,032
	87,590	48,501
IMPAIRMENT ALLOWANCE	-	(600)
	87,590	47,901

Term deposits with banks amount to HRK 55,369 thousand and refer to term deposits bearing an interest rate of 0.0001% to 2.75% (2014: 0.00% to 4.40%). Of the total term deposits with other banks, deposits with foreign banks in 2015 amounted to HRK 24,369 thousand and with domestic banks amounted to HRK 31,000 thousand. Reverse repo loans amounting to HRK 32,221 thousand were granted to domestic customers with the pledge of equity and debt financial instruments.

Movements in impairment allowance

IN THOUSAND HRK	2015	2014
AT 1 JANUARY	600	600
WRITE OFF	(600)	-
AT 31 DECEMBER	-	600

The impairment allowance and write-off presented above relate to domestic banks in bankruptcy.

Geographical analysis

The analysis includes term deposits and current accounts (Note 11) with foreign banks:

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
BELGIUM	50,807	10,333
GERMANY	38,855	30,058
ITALY	28,248	25,000
USA	11,175	8,788
AUSTRALIA	2,266	1,907
AUSTRIA	2,133	2,733
UK	1,412	1,417
MONTENEGRO	1,222	3,358
SPAIN	903	2,263
SLOVENIA	375	741
CANADA	350	1,019
SWEDEN	112	596
DENMARK	22	84
	137,880	88,297

14. LOANS TO CUSTOMERS

a) Analysis by type of customer

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
CITIZENS		
– HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	556,946	555,300
– FOREIGN CURRENCY DENOMINATED	25,388	26,187
	582,334	581,487
COMPANIES		
– HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	1,315,966	1,280,679
– FOREIGN CURRENCY DENOMINATED	212,285	173,786
	1,528,251	1,454,465
	2,110,585	2,035,952
IMPAIRMENT ALLOWANCE	(238,279)	(212,268)
	1,872,306	1,823,684

b) Analysis by sector

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
CITIZENS	582,334	581,487
WHOLESALE AND RETAIL TRADE	471,722	468,341
MANUFACTURING	206,684	179,580
FOOD AND BEVERAGE INDUSTRY	201,301	196,384
CONSTRUCTION	117,231	112,377
AGRICULTURE AND FORESTRY	109,942	93,148
HOTELS AND RESTAURANTS	80,110	96,441
ELECTRICITY, GAS AND WATER SUPPLY	73,671	16,859
REAL ESTATE ACTIVITIES	63,011	41,217
TRANSPORT, STORAGE AND COMMUNICATION	33,812	45,358
OTHER SECTORS	170,767	204,760
	2,110,585	2,035,952
IMPAIRMENT ALLOWANCE	(238,279)	(212,268)
	1,872,306	1,823,684

c) Changes in principal of substandard and bad loans

BANK IN THOUSAND HRK	2015		2014	
	SUBSTANDARD LOANS	BAD LOANS	SUBSTANDARD LOANS	BAD LOANS
AS OF 1 JANUARY	222,240	130,027	245,170	116,528
TRANSFER FROM PERFORMING LOANS	84,033	2,469	53,833	1,140
TRANSFER FROM BAD LOANS	2	(2)	196	(196)
TRANSFER FROM SUBSTANDARD LOANS	(15,523)	15,523	(20,897)	20,897
TRANSFER TO PERFORMING LOANS	(2,947)	(98)	(4,257)	-
AMOUNTS COLLECTED	(14,594)	(1,874)	(51,805)	(5,568)
AMOUNTS WRITTEN OFF	(639)	(657)	-	(2,774)
INCREASE FROM MERGER	1,109	5,016	-	-
AS OF 31 JANUARY	273,681	150,404	222,240	130,027

On 31 December 2015, the gross principal amount of non-performing loans was HRK 150,404 thousand (2014: HRK 130,027 thousand). During 2015, HRK 1,874 thousand of non-performing loans was collected (2014: HRK 5,568 thousand). During 2015, HRK 54,131 thousand of loans to companies and sole traders were renegotiated (2014: HRK 46,629 thousand).

d) Provisions for losses

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	212,268	179,743
NEW PROVISIONS MADE	91,168	101,906
AMOUNTS COLLECTED	(67,240)	(67,477)
FOREIGN EXCHANGE DIFFERENCES	450	472
WRITE-OFFS	(1,111)	(2,376)
INCREASE OF PROVISIONS FOR INTEREST RECEIVABLES	-	-
INCREASE FROM ACQUISITION BY MERGER	2,744	-
BALANCE AT 31 DECEMBER	238,279	212,268

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to avoid undue concentration in a single industry. Where required, the Bank obtains acceptable collateral to reduce the level of credit risk.

15. FINANCIAL ASSETS AVAILABLE FOR SALE

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
TREASURY BILLS OF THE REPUBLIC OF CROATIA	-	-
COMMERCIAL BILLS	-	-
BONDS	268,353	278,856
UNITS IN INVESTMENT FUNDS	156,710	126,964
EQUITY SECURITIES	52,280	51,914
	477,343	457,734
IMPAIRMENT IN FINANCIAL ASSETS AVAILABLE FOR SALE	(8,184)	(11,305)
	469,159	446,429

Investments in debt securities are shown as follows:

a) Treasury bills of the Republic of Croatia

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	-	96,123
PURCHASE	-	2,457
COLLECTION	-	(99,866)
REALISED GAIN	-	703
CHANGE IN FAIR VALUE	-	583
BALANCE AT 31 DECEMBER	-	-

b) Commercial bills

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	-	1,888
PURCHASE	-	48
COLLECTION	-	(1,926)
CHANGE IN FAIR VALUE	-	(10)
BALANCE AT 31 DECEMBER	-	-

c) Bonds

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	278,856	241,051
PURCHASE	374,904	384,057
COLLECTION	(389,027)	(348,495)
REALISED GAIN/(LOSS)	4,003	5,425
CHANGE IN FAIR VALUE	(383)	(3,182)
BALANCE AT 31 DECEMBER	268,353	278,856

The table below presents the Bank's debt portfolio structure:

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
BONDS OF DOMESTIC ISSUERS		
– MINISTRY OF FINANCE OF THE REPUBLIC OF CROATIA	132,351	112,920
– FINANCIAL INSTITUTIONS	5,276	5,609
– NON-FINANCIAL INSTITUTIONS	42,831	49,569
	180,458	168,098
BONDS OF FOREIGN ISSUERS		
– FOREIGN GOVERNMENTS	49,356	56,330
– FINANCIAL INSTITUTIONS	16,427	32,431
– NON-FINANCIAL INSTITUTIONS	22,112	21,996
	87,895	110,757
	268,353	278,855

Investments in debt securities are shown as follows:

d) Units in investment funds

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	126,964	89,462
PURCHASE	146,378	157,560
COLLECTION	(120,683)	(122,175)
REALISED GAIN/(LOSS)	4,170	440
CHANGE IN FAIR VALUE	(119)	1,677
BALANCE AT 31 DECEMBER	156,710	126,964

e) Equity securities

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
QUOTED SECURITIES	43,853	43,416
UNQUOTED SECURITIES	8,427	8,498
	52,280	51,914
IMPAIRMENT IN EQUITY SECURITIES	(8,184)	(11,305)
TOTAL	44,096	40,609

Changes in equities during the year:

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	40,609	53,439
PURCHASE	31,690	47,277
DISPOSALS	(34,033)	(63,694)
REALISED GAIN	237	368
MOVEMENT IN THE FAIR VALUE	8,713	5,451
AMOUNTS WRITTEN OFF	(3,120)	-
IMPAIRMENT IN EQUITY SECURITIES	-	(2,233)
BALANCE AT 31 DECEMBER	44,096	40,609

The table below discloses details of the equity investment portfolio:

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
EQUITY INVESTMENTS OF DOMESTIC ISSUERS		
– FINANCIAL INSTITUTIONS	530	493
– NON-FINANCIAL INSTITUTIONS	29,161	23,237
	29,691	23,730
EQUITY INVESTMENTS OF FOREIGN ISSUERS		
– FINANCIAL INSTITUTIONS	17,521	15,880
– NON-FINANCIAL INSTITUTIONS	5,068	5,345
	22,589	21,225
	52,280	44,955
IMPAIRMENT IN EQUITY SECURITIES	(8,184)	(4,346)
	44,096	40,609

f) Revaluation reserve for financial assets available for sale

TYPE OF SECURITY IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014 – RESTATED
TYPE OF SECURITY:		
DEBT SECURITIES	(5,069)	(4,685)
UNITS IN INVESTMENT FUNDS	2,321	2,439
EQUITY SECURITIES	6,965	(1,748)
CALCULATED DEFERRED TAX (NOTE 9)	(843)	799
TOTAL REVALUATION RESERVE	3,374	(3,195)

Movements in the revaluation reserve

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	(3,195)	(6,812)
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	(384)	(2,609)
CHANGE IN FAIR VALUE OF UNITS IN INVESTMENT FUNDS	(118)	1,677
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	8,713	5,452
DEFERRED TAX RECOGNISED IN EQUITY (NOTE 9)	(1,642)	(904)
BALANCE AT 31 DECEMBER	3,374	(3,195)

Movements in impairment in financial assets available for sale

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	11,305	9,072
INCREASE	117	2,233
DECREASE	(117)	-
WRITE-OFFS	(3,121)	-
BALANCE AT 31 DECEMBER	8,184	11,305

16. FINANCIAL ASSETS HELD TO MATURITY

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
BONDS OF THE REPUBLIC OF CROATIA	-	26,872
BONDS OF FOREIGN FINANCIAL INSTITUTIONS	38,573	62,024
	38,573	88,896

Movements in held-to-maturity assets

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	88,896	27,191
PURCHASE	70,158	93,507
PAYMENT	(120,481)	(31,484)
CHANGES IN VALUE	-	(318)
BALANCE AT 31 DECEMBER	38,573	88,896

17. INTANGIBLE ASSETS

IN THOUSAND HRK	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
COST OR VALUATION				
AS AT 1 JANUARY 2014	14,451	16,867	20,915	52,233
ADDITIONS	247	-	8,178	8,425
TRANSFER FROM ASSETS UNDER DEVELOPMENT	-	-	-	-
AS AT 31 DECEMBER 2014	14,698	16,867	29,093	60,658
ADDITIONS	211	-	1,335	1,546
TRANSFER FROM ASSETS UNDER DEVELOPMENT	29,907	-	(29,907)	-
ADDITIONS FROM ACQUISITION BY MERGER	207	-	-	207
DISPOSALS AND RETIREMENTS	(207)	-	-	(207)
AS AT 31 DECEMBER 2015	44,815	16,867	522	62,204
ACCUMULATED AMORTISATION				
AS AT 1 JANUARY 2014	11,479	-	-	11,479
CHARGE FOR THE YEAR	1,051	-	-	1,051
AS AT 31 DECEMBER 2014	12,530	-	-	12,530
CHARGE FOR THE YEAR	2,889	-	-	2,889
ADDITIONS FROM ACQUISITION BY MERGER	204	-	-	204
DISPOSALS AND RETIREMENTS	(204)	-	-	(204)
AS AT 31 DECEMBER 2015	15,419	-	-	15,419

NET BOOK VALUE

AS AT 31 DECEMBER 2015	29,396	16,867	522	46,785
AS AT 31 DECEMBER 2014	2,168	16,867	29,093	48,128

Goodwill has been allocated to the cash generating units acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined on the basis of profitability calculation. For the purposes of calculation, cash flow forecasts have been developed on the basis of financial projection over a time horizon of five years. The discount rate applied to determine the value was 12.8% (2014: 11.6%) and the long-term growth rate of 2% (2014: 5%) was used. The planned budgeted gross margin has been determined on the basis of past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment. The Bank carries out stress tests on individual incoming data used in determining the value in use, with three scenarios.

The specific scenario in which the discount rate equals the used rate, while anticipated profitability is 5% lower, the systemic scenario in which due to the worsening of the credit rating of the Republic of Croatia the discount rate increases to the level of 18.2%, and a mixed scenario in which the anticipated profitability is 10% lower and the discount rate increases to the level of 18.2%.

The test results are presented below:

	AS AT 31/12/2015	SPECIFIC SCENARIO	SYSTEMIC SCENARIO	MIXED SCENARIO
COST OF INVESTMENT	43,465	43,465	43,465	43,465
TOTAL PRESENT VALUE	81,726	72,308	58,202	43,132
AMORTISATION	-	-	-	(333)

18 PROPERTY AND EQUIPMENT

COST OR VALUATION IN THOUSAND HRK	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	EQUIPMENT	LEASEHOLD IMPROVE- MENTS AND IT LONG-TERM LEASE	ASSETS UNDER CONSTRU- CTION	TOTAL
BALANCE AT 1 JANUARY 2014	122,404	45,469	2,965	43,622	11,187	-	225,647
ADDITIONS	-	1,469	-	43	1,830	-	3,342
DISPOSALS AND RETIREMENTS	(189)	(1,165)	-	(11,075)	(2,861)	-	(15,290)
BALANCE AT 31 DECEMBER 2014	122,215	45,773	2,965	32,590	10,156	-	213,699
ADDITIONS	60	2,275	1,684	14	218	-	4,251
INCREASE FROM ACQUISITION BY MERGER	-	153	134	-	-	-	287
DISPOSALS AND RETIREMENTS	(89)	(574)	(2,112)	-	-	-	(2,775)
BALANCE AT 31 DECEMBER 2015	122,186	47,627	2,671	32,604	10,374	-	215,462

ACCUMULATED AMORTISATION

BALANCE AT 1 JANUARY 2014	45,950	42,994	2,042	38,009	10,551	-	139,546
CHARGE FOR THE YEAR	2,325	946	472	2,269	430	-	6,442
DISPOSALS AND RETIREMENTS	(129)	(1,165)	-	(11,075)	(2,861)	-	(15,230)
BALANCE AT 31 DECEMBER 2014	48,146	42,775	2,514	29,203	8,120	-	130,758
CHARGE FOR THE YEAR	2,325	1,063	317	1,970	495	-	6,170
INCREASE FROM ACQUISITION BY MERGER	-	153	134	-	-	-	287
DISPOSALS AND RETIREMENTS	(89)	(574)	(1,761)	-	-	-	(2,424)
BALANCE AT 31 DECEMBER 2015	50,382	43,417	1,204	31,173	8,615	-	134,791
NET BOOK VALUE							
BALANCE AT 31 DECEMBER 2015	71,804	4,210	1,467	1,431	1,759	-	80,671
BALANCE AT 31 DECEMBER 2014	74,069	2,998	451	3,387	2,036	-	82,941

The Bank has no tangible assets pledged as collateral for deposits from corporate customers (2014: The Bank has no tangible assets pledged as collateral for deposits from corporate customers).

19. INVESTMENT IN SUBSIDIARIES

BANK IN THOUSAND HRK	2015	2014
BALANCE 1 JANUARY	4,770	4,770
INVESTMENT	(4,770)	-
BALANCE 31 DECEMBER	-	4,770

The Bank held 100% equity shares in POBA faktor d.o.o., which ceased its regular operations as of 30 June 2015 inclusive, after which it was acquired by merger by the parent company.

In accordance with the Agreement on Acquisition by Merger, signed between the Bank and POBA faktor d.o.o., the Bank has assumed all assets and liabilities of POBA faktor d.o.o. as of 1 July 2015, which on 30 June 2015 reported:

IN THOUSAND HRK	30 JUNE 2015	2014
TOTAL ASSETS	11,290	17,617
TOTAL NET ASSETS	4,398	4,124
NET GAIN/(LOSS) FOR THE YEAR	272	1,287

20. OTHER ASSETS

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
FORECLOSED ASSETS	44,289	44,223
ACCRUED FEES AND COMMISSIONS	5,845	5,587
PREPAID EXPENSES	2,336	2,582
OTHER ADVANCES MADE	1,001	264
INCOME TAX REFUND	3,622	3,622
OTHER ASSETS	1,993	13,183
	59,086	69,461
IMPAIRMENT ALLOWANCE	(5,465)	(5,201)
	53,621	64,260

Foreclosed property and equipment are assets not used by the Bank and amounted to HRK 44,289 thousand at 31 December 2015 (2014: HRK 44,223 thousand). They are carried by the Bank at cost.

Movements in impairment allowance for potential losses on other assets were as follows:

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	5,201	4,603
ADDITIONS	1,381	2,519
AMOUNTS COLLECTED	(932)	(1,527)
EXCHANGE DIFFERENCES	3	4
AMOUNTS WRITTEN OFF	(188)	(398)
BALANCE AT 31 DECEMBER	5,465	5,201

21. AMOUNTS DUE TO OTHER BANKS

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
FOREIGN CURRENCY DEMAND DEPOSITS	6,038	4,548
DOMESTIC CURRENCY DEMAND DEPOSITS	-	13
DOMESTIC AND FOREIGN BANK TERM DEPOSITS IN FOREIGN CURRENCY	85,133	66,309
DOMESTIC CURRENCY TERM DEPOSITS IN HRK	-	35,010
	91,171	105,880

The interest rate on received term deposits of domestic and foreign banks in foreign currency range from 0.30% to 1.00% (2014: from 1.00% to 2.80%).

22. AMOUNTS DUE TO CUSTOMERS

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
CITIZENS		
DEMAND DEPOSITS		
– HRK DENOMINATED	262,290	233,380
– FOREIGN CURRENCY DENOMINATED	178,746	162,651
TERM DEPOSITS		
– HRK DENOMINATED	359,669	358,373
– FOREIGN CURRENCY DENOMINATED	1,017,946	917,248
TOTAL CITIZENS	1,818,651	1,671,652
LEGAL ENTITIES		
DEMAND DEPOSITS		
– HRK DENOMINATED	216,646	196,371
– FOREIGN CURRENCY DENOMINATED	22,425	27,698
TERM DEPOSITS		
– HRK DENOMINATED	239,497	299,300
– FOREIGN CURRENCY DENOMINATED	51,759	61,042
TOTAL LEGAL ENTITIES	530,327	584,411
TOTAL DEPOSITS FROM CUSTOMERS	2,348,978	2,256,063

23. OTHER BORROWED FUNDS

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
HBOR LOANS	177,626	84,242
REPO-LOANS FROM DOMESTIC BANKS, FOREIGN CURRENCY DENOMINATED	-	26,817
	177,626	111,059

Repo loans from domestic banks comprise loans for which the Bank has pledged securities as collateral, with the obligation to repurchase them at a certain future date.

In 2014, the Bank had only one repo loan arrangement entered into with a domestic bank with the interest rate of 0.50% annually. As a basis of the repo agreement, Croatian government bonds RHMF-O-15CA were pledged. The received repo loan was returned on the maturity date with a simultaneous repurchase of previously pledged securities.

Loans from the Croatian Bank for Reconstruction and Development (HBOR) are intended for extending loans to legal entities and individuals in accordance with the HBOR SME, Tourist Trade and Agriculture Promotion Programme.

24. OTHER LIABILITIES

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
ITEMS IN COURSE OF PAYMENT	20,979	26,356
AMOUNTS DUE TO EMPLOYEES	3,353	4,046
AMOUNTS DUE TO SUPPLIERS	3,210	3,788
OTHER DOMESTIC CURRENCY LIABILITY	2,369	2,181
ACCRUED PREMIUMS FOR INSURING TERM DEPOSITS PAYABLE	1,342	1,253
LIABILITIES IN THE PAYMENT PROCESS	1,103	12,187
ACCRUED FEES AND COMMISSIONS	824	1,329
ACCRUALS IN RESPECT OF RECEIVED FUNDS	698	1,453
PROVISIONS FOR TERMINATION AND OTHER EMPLOYEE BENEFITS	412	550
DIVIDENDS PAYABLE	116	119
OTHER FOREIGN CURRENCY DENOMINATED LIABILITIES	26	20
	34,432	53,282

25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

a) Analysis

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
PROVISIONS FOR OVERDRAFT LOANS	2,978	2,709
PROVISIONS FOR GUARANTEES	590	487
PROVISIONS FOR LEGAL CASES	290	330
PROVISION FOR UNCOVERED LETTERS OF CREDIT	93	229
PROVISIONS FOR OTHER CONTINGENT LIABILITIES	125	152
	4,076	3,907

b) Movements in provisions

IN THOUSAND HRK	2015	2014
BALANCE AT 1 JANUARY	3,907	4,186
INCREASE DURING THE YEAR TO PROVISIONS FOR CREDIT RISK	11,877	11,424
DECREASE DURING THE YEAR TO PROVISIONS FOR CREDIT RISK	(11,668)	(11,783)
INCREASE/(DECREASE) DURING THE YEAR TO PROVISIONS FOR LEGAL CASES	(40)	80
BALANCE AT 31 DECEMBER	4,076	3,907

26. ISSUED HYBRID AND SUBORDINATED INSTRUMENTS

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,117	131,571
ISSUED BONDS	800	-
	131,917	131,571

On 22 August 2011 hybrid instruments were subscribed by issuing bonds with the ticker PDBA-O-188A. ISIN: HRPDBAO188A5. These are non-material registered bonds equivalent to EUR 10 million, 1-euro denomination. The interest rate is fixed and amounts to 7% per annum, payable on a semi-annual basis. The principal is due on a one-off basis in 2018.

On 23 December 2013 the Bank subscribed subordinated instruments by issuing bonds with a ticker symbol PDBA-O-21CA. ISIN: HRPDBAO21CA3. These are non-material registered bonds equivalent to EUR 6.9 million, 1-euro denomination. The interest rate is fixed and amounts to 6.5% per annum, payable on a semi-annual basis. The principal is due on a one-off basis in 2021.

On 29 April 2015, the Bank issued bonds with a ticker symbol PDBA-O-164A, ISIN: HRPDBAO164A6 in the total amount in kuna countervalue of EUR 103 thousand, with the interest rate of 2.5% per year and with one-off maturity on 29 April 2016.

27. SHARE CAPITAL

The share capital consists of ordinary shares. The total number of ordinary shares in issue at the end of 2015 was 668,749 ordinary shares (2013: 668,749 shares) with a nominal value of HRK 400.00 per share. At 31 December 2015, the Bank held 9,203 treasury shares which it carries at cost (2013: 9,203 treasury shares).

The key shareholders of the Bank at 31 December were as follows:

IN THOUSAND HRK	2015		2014	
	NUMBER OF SHARES	ORDINARY SHARES IN %	NUMBER OF SHARES	ORDINARY SHARES IN %
ANTONIA GORGONI	66,278	9.91	66,278	9.91
LORENZO GORGONI	66,002	9.87	66,002	9.87
ASSICURAZIONI GENERALI S.P.A.	63,791	9.54	63,791	9.54
CERERE S.P.A. TRIESTE	63,735	9.53	63,735	9.53
MILJAN TODOROVIC	55,731	8.33	55,731	8.33
SIGILFREDO MONTINARI	38,529	5.76	38,529	5.76
DARIO MONTINARI	38,526	5.76	38,526	5.76
ANDREA MONTINARI	38,515	5.76	38,515	5.76
PIERO MONTINARI	38,515	5.76	38,515	5.76
GIOVANNI SEMERARO	27,494	4.11	27,494	4.11
MIROSLAV BLAŽEV	25,509	3.81	25,509	3.81
MARIO GORGONI	20,670	3.09	20,670	3.09
TREASURY SHARES	9,203	1.38	9,203	1.38
OTHER SHAREHOLDERS (INDIVIDUALLY BELOW 3%)	116,251	17.38	116,251	17.38
	668,749	100	668,749	100

28. OTHER RESERVES

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
LEGAL RESERVES	118,686	118,686
RESERVES FOR TREASURY SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
FAIR VALUE RESERVE	3,374	(3,195)
NON-DISTRIBUTABLE RESERVES	143,994	137,425
CAPITAL GAINS ON TRADING IN TREASURY SHARES	4,802	4,802
DISTRIBUTABLE RESERVES	4,802	4,802
	148,796	142,227

In accordance with the Croatian Companies Act, the Bank is required to allocate part of the net profit to a non-distributable legal reserve until the reserve funds reach 5% of the share capital or more if specified by the Bank's statute. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Bank's exposure has been increasing at a rate below 15% annually. Other reserves are distributable only with the approval by the General Shareholders' Assembly.

Both the distributable and non-distributable reserves of the Bank have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

29. FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES AND CUSTODY SERVICES

The Bank manages significant funds for and on behalf of third parties and individuals. Those assets are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to third parties and no liability falls on the Bank in connection with these transactions. The Bank charges a fee for its services.

Assets and liabilities on loans managed for and on behalf of third parties can be presented as follows:

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
ASSETS		
LOANS TO INDIVIDUALS	13,381	15,855
LOANS TO CORPORATE ENTITIES	1,135	1,107
CASH	614	816
TOTAL ASSETS:	15,130	17,778
LIABILITIES		
FINANCIAL INSTITUTIONS	3,940	8,881
PUBLIC SECTOR	2,573	5,993
CORPORATE ENTITIES	8,617	2,904
TOTAL LIABILITIES:	15,130	17,778

The Bank provides custody services for securities in the name and on behalf of third parties. The value of financial instruments taken under custody in the name and on behalf of third parties is shown in table below:

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
VALUE OF FINANCIAL INSTRUMENTS	1,064,557	743,764

30. CONTINGENT LIABILITIES AND COMMITMENTS

Legal actions

At 31 December 2015 there were several legal actions outstanding against the Bank. Based on the Management's estimate, HRK 290 thousand is provided for the potential losses in legal actions against the Bank (2014: HRK 330 thousand).

Total outstanding amounts under guarantees, letters of credit and undrawn loans at the year-end were as follows:

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
COMMITMENTS – UNDRAWN LOANS	177,928	164,263
COMMITMENTS – UNDRAWN OVERDRAFT FACILITIES ON TRANSACTION ACCOUNTS	129,796	113,909
GUARANTEES	59,011	48,440
FOREIGN CURRENCY LETTERS OF CREDIT	9,354	21,810
LETTER OF INTENT	-	3,781
	376,089	352,203

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

Future minimum lease payments under operating leases are as follows:

IN THOUSAND HRK	31 DECEMBER 2015	31 DECEMBER 2014
UP TO 1 YEAR	4,336	5,560
FROM 2 TO 5 YEARS	11,764	12,849
OVER 5 YEARS	1,067	1,332
TOTAL	17,167	19,741

Upon the expiry of the lease term, the lease agreements are renewable at the market price.

31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such transactions are made in the ordinary course of business at market terms and conditions, and market interest rates. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

IN THOUSAND HRK	KEY MANAGEMENT AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2015	2014	2015	2014
LOANS				
OPENING BALANCE	2,758	3,198	23,352	23,240
INCREASE DURING THE YEAR	429	(441)	(333)	112
CLOSING BALANCE	3,187	2,757	23,019	23,352
INTEREST INCOME	138	118	1,307	1,454
DEPOSITS RECEIVED				
OPENING BALANCE	7,338	6,780	600	897
INCREASE/(DECREASE) DURING THE YEAR	(6,031)	558	104	(297)
CLOSING BALANCE	1,307	7,338	704	600
INTEREST EXPENSE	167	280	1	-

In 2015, the Bank acquired POBA faktor by merger, as described in Note 19. The transactions realised in 2015 and 2014 with POBA faktor are presented in the table below.

IN THOUSAND HRK	2015	2014
INTEREST AND FEES INCOME	207	981
RENTALS	20	48
TOTAL INCOME	227	1,029
COSTS OF SERVICES	927	2,336
INTEREST AND SIMILAR EXPENSE	379	26
TOTAL EXPENSES	1,306	2,362

Key management remuneration

IN THOUSAND HRK	2015	2014
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	10,697	10,814

The Management Board consists of four members.

32. FINANCIAL RISK MANAGEMENT POLICIES

This Note provides details of the Bank's exposure to financial risks and describes the methods used by the Management to control the risk.

The Bank's operations expose it to various types of financial risks. These operations include analysing, assessing, accepting and managing a certain level of risk, or a combination of risks. Assuming risk is a fundamental feature of financial operations, with risks being inherent to the business. The Bank's aim is to achieve an appropriate balance between the risk and return, whilst minimising potential negative effects on its financial performance.

Risk policies have been designed to identify and analyse those risks in order to define appropriate limits and controls, and to monitor those risks and limit compliance by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect any changes in its markets, products and best practices. The most important types of financial risks to which the Bank is exposed are the credit risk, liquidity risk, market risk and operational risk. The market risk includes the currency risk, interest rate risk and equities and debt securities price risk.

An integrated system of risk management is being established at Group level by introducing a set of policies and procedures, determining the risk level limits acceptable to the Group. The limits are applied to all types of risks. The methodology and models for managing the operational risk have been developed.

Credit risk

The Bank takes on exposure to credit risk, which may be defined as the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. Major changes in the economy or the status of an industry in which the portfolio is concentrated, may lead to losses not provided for at the reporting date. Therefore, the Board manages its exposure to credit risk with a high level of prudence. The exposure to credit risk arises primarily in respect of loans and advances, debt and other securities. Credit risk is also present in off-balance sheet financial arrangements, such as commitments to extend credit and guarantees issued. Credit risk management is the responsibility of the Credit Risk Management Division and risk control is the responsibility of the Risk Management Division.

Credit risk is managed in accordance with policies, procedures and other internal guidelines. The Bank has defined its Credit policy as a set of measures for allocating loan funds to loan applicants with the aim of sound and prudent credit risk management, by ensuring unbiased lending principles and goals and setting them as a general rule and reliable guidance in making every decision to lend. The credit policy defines the focus of considerations to be made in performing credit operations. If a proposal to extend a loan departs from the credit policy, the final decision is made by the Bank's management.

The structure of loans over a certain period is defined by the credit policy. Loans are structured by type of customer, or groups of customers, type or group of products, by sector and industry. The policy sets limits for individual placements in accordance with the guidelines of the Croatian National Bank. Given that loans are approved using the four eye principle, it is very unlikely that a loan authorised by overriding the procedures might remain undetected.

The credit policy defines and sets out policies and procedures for extending loans to legal entities and individuals. Credit risk is reviewed on an ongoing basis and reported on regularly to promptly identify any indication of impairment in the loan portfolio. The Bank has been continually applying prudent methods and models used in the process of the credit risk assessment.

Loans are classified into the following three main groupings, in accordance with the regulations of the Croatian National Bank:

- Performing loans – A Risk Group – subject to a collective assessment
- Substandard loans – B Risk Group – subject to individual assessment
- Non-performing loans (bad debt) – C Risk Group – subject to individual assessment.

All three levels contain sub-categories, which are mandatory for the substandard loans.

Loans are classified into the groupings by criteria specified in the applicable Decision of the Croatian National Bank and the Bank's internal decision. In assessing each individual customer, the Bank considers the credit rating of the borrower, the past debt service history and the collaterals obtained for loans, guarantees and other placements.

The Bank reviews the risk assessment of its loans and advances on a quarterly basis. Based on the risk assessment and the risk groupings as defined by the Decision on the Internal Loan Classification System, the required level of provision is determined for every individual debtor impaired or type of placement. The final decision on the required level of provisions for identified potential losses is made by the Bank's Management.

Liquidity risk

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

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including different types of deposits, borrowings, subordinated liabilities including deposits, borrowings and share capital. Liquidity risk is continually assessed by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank's strategy. In addition, the Bank holds a portfolio of liquid assets as a part of its liquidity risk management.

The Bank adjusts its business activities related to liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, by matching liabilities and assets, monitoring compliance with the externally and internally set limits, preferred liquidity ratios and contingency planning procedure. The Treasury manages liquidity reserves daily, ensuring also the accomplishment of all customers' needs.

Concentration indicators indicate the concentration in the deposit portfolio (top 20 individual and corporate depositors in the total deposits) which is regularly reported to the Bank's Management Board on a monthly level.

In addition to the regulatory requirements set out above, the Bank has the obligation

to monitor the structural indicators of the liquidity and concentration levels, which have been set in the internal regulations of the Bank.

The structural liquidity level indicators present the correlations between certain items of assets and liabilities such as: the ratio of total loans to total deposits received; the ratio of total loans to total assets; the ratio of liquid assets to total deposits received; the ratio of total loans to total liabilities.

Market risk

The majority of available for sale instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable. Market risks represent potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Bank. Changes in market rates imply all changes in interest rates, exchange rates, prices of financial instruments, indices or other market factors that affect the value of financial instruments. The instruments are recognised at fair value, and all changes in market conditions directly affect re-valuation reserves. The Bank manages its use of trading instruments in response to changing market conditions.

The limits are defined in accordance with the Bank's requirements and strategy, and the senior management risk policy indications. The exposure to market risk is formally managed within the risk limits approved by the Management Board and revised annually at the least.

Key liquidity data about the liquidity positions in the local and foreign currency is provided to the Bank's Board and senior management on a daily basis, with a focus on the most significant fluctuations in interest and foreign exchange rates. The Treasury Division provides the Management Board with weekly reports on currency risk exposure. Also, the Risk Management Division provides the Management Board with monthly reports on the total currency risk exposure.

In managing its market risks, the Bank resorts to various risk protection strategies. Value-at-risk (VaR) methodology is applied to the Bank's open foreign currency position to estimate the maximum potential losses on the basis of certain assumptions regarding various changes in market conditions. The methodology defines the maximum loss that the Group may suffer with a limited level of reliability 99%, based on 260 days. However, this approach does not preclude any losses outside the defined limits in case of major changes in market terms and conditions.

Currency Risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The foreign exchange risk exposure is monitored on the overall balance sheet level in terms of foreign exchange open position as prescribed by the regulatory provisions and additionally through the internal limits on a daily basis.

The currency position is monitored daily through the report on the open foreign currency positions in accordance with the CNB requirements. For the purposes of analysing the currency risk exposure the Market, Operational and Other Risks Management Division prepares regular management reports. The openness of the total foreign currency position is reflected in the prescribed percentages.

Interest rate risk

The interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period generate interest rate risk.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that the interest-earning assets and interest-bearing liabilities mature or change rates at different times or in differing amounts. In case of the floating rate, the assets and liabilities are also exposed to the basis risk which is the difference in repricing characteristics of the various floating rate indices.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using repricing gap analysis in the sensitivity to changes in interest rates, the net interest income and economic value of equity. Risk management activities are aimed at optimising the net interest income and economic value of equity, when the market interest rate levels are consistent with the Bank's business strategies.

Interest rate risk is reported through an interest rate gap report by which the Management Board approves internally set limits for individual time horizons. The Bank's Management Board and Asset and Liability Committee control and manage the interest rate risk by involving all organisational units that operatively apply the prescribed interest rates.

Equity and debt security price risk

Equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments and other instruments that derive their value from these investments. The primary exposure to equity price risk arises from the available-for-sale equity shares accounted for at fair value.

Derivative financial assets and liabilities

The Bank enters into derivative financial assets and liabilities primarily to satisfy the needs and requirements of the customers. Derivative financial assets and liabilities used by the Bank include a one-way foreign currency clause.

Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk.

Operational risk management falls within the area of competence of the Market, Operational and Other Risk Management Division ("the Division"). The objectives of the Division are to collect data, prepare reports and analyses of the current and potential operational risk events and the underlying root causes, as well as to provide information that will allow operational risk to be managed efficiently.

Operational risk events are aggregated in a single database using a web application.

According to the Basel II guidelines and EU Directives, there are three operational risk assessment methods, which are as follows:

- Basic Indicator Approach (BIA)

- Standardised Approach (SA)
- Advanced Measurement Approach (AMA).
- The Bank has opted to adopt the Basic Indicator Approach (BIA).

For the purpose of actively managing operational risk and ensuring independent control and analysis of the risk, the Division monitors the operational risk exposure with reference to the defined internal by-laws and standards, collects operational risk data (risk events, key risk indicators, sensitivity analyses), proposes measures to reduce and/or avoid operational risk, monitors and reports about the Bank's operational risk profile, participates in the implementation of new products and significant changes, organises operational risk training and provides regular operational risk exposure reports to the Bank's Managing Board, Operational Risk Board and senior management.

The purpose and main principles of taking-on and managing operational risk as well as the Bank's operational risk appetite are defined in the Operational Risk Management Policy and other internal by-laws of the Bank.

For the purpose of protection against operational risk, the Bank has developed a risk map and implemented an operational risk monitoring system. Given the nature of operational risk, the controls are performed comparing the losses with the determined risk assessment. The risk assessment is defined using an internal methodology or by reference to operational risk losses. Key risk indicators are monitored on an ongoing basis.

Capital Management

From 1 January 2014, credit institutions in the Republic of Croatia are obliged to calculate and report prudential requirements according to Capital Requirements Regulation (EU) No. 575/2013 ("CRR"), Directive 2013/36/EU ("CRD IV"), technical standards and other relevant regulations prescribed by the European Banking Authority ("EBA") and the Croatian National Bank. The Bank has successfully managed capital to cover risks in business and meet all the capital requirements set by the Croatian National Bank and the European Banking Authority. On 31 December 2015, the total capital adequacy ratio is 16.06%, and the basic and basic share capital rate amounts to 12.50%.

The Bank meets all of the limits prescribed in Article 92 of Directive (EU) No. 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment funds and amending Directive (EU) No. 648/2012 (EU Official Journal L 176/2013), according to which institutions must meet the following capital requirements:

- (a) the regular rate of share capital of 4.5%;
- (b) share capital ratio of 6%;
- (c) the rate of the total capital of 8%.

Furthermore, the Bank's capital is covered by a protective layer for the preservation of capital, and under Article 117 of the Credit Institutions Act (Official Gazette No. 159/2013) amounts to 2.5 percent, or a protective layer for structural systemic risk at a rate of 1.5 percent based on the Decision on the application of the protective layer for structural systemic risk (Official Gazette 61/2014).

In the items of regular capital, the Bank has included equity, premium paid on the shares, accumulated other comprehensive income and other reserves for general banking risks. The deduction items include the loss of the current year, intangible assets and repurchased own shares.

The supplementary capital items include issue of the Bank's debt securities – subordinated bonds amounting to HRK 52,764 thousand and issue of hybrid bonds amounting to HRK 40,349 thousand.

	2015	2014
	IN THOUSAND HRK	IN THOUSAND HRK
REGULATORY CAPITAL		
SHARE CAPITAL	327,047	321,842
BASIC SHARE CAPITAL	327,047	321,843
SUPPLEMENTARY CAPITAL	93,114	106,366
TOTAL REGULATORY EQUITY	420,161	428,208
RATE OF TOTAL REGULATORY CAPITAL	16.06%	16.39%
MINIMUM RATE OF TOTAL REGULATORY CAPITAL	8.00%	8.00%

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or liability, the Bank is considering the characteristics of the respective asset or liability that would be considered by the market participants, in determining its price on the measurement date.

Measures of fair value for financial reporting purposes are classified in the first, second or third category of input parameters according to their degree of availability, i.e. visibility and significance in relation to the total measure of fair value, which are as follows:

Level 1 input information is (unmatched) prices quoted in active markets for identical assets or liabilities and is available on the measurement date.

Level 2 input information is input data that is not quoted prices included within Level 1 and is observed for the property, or liability, either directly or indirectly.

Input information of level 3 is input data on the asset or liability that are not noticed.

Fair value of financial instruments not measured at fair value

The tables below show the carrying amounts and fair value of financial assets and liabilities that in the Bank's statement of financial position are not included at fair value.

	BOOK VALUE		FAIR VALUE	
	31 DECEMBER 2015	31 DECEMBER 2014	31 DECEMBER 2015	31 DECEMBER 2014
FINANCIAL ASSETS				
PLACEMENTS WITH OTHER BANKS	87,590	47,901	87,590	47,901
LOANS TO CUSTOMERS	1,872,306	1,823,684	1,876,807	1,825,395
FINANCIAL ASSETS HELD TO MATURITY	38,573	88,896	38,484	89,619
FINANCIAL LIABILITIES				
AMOUNTS DUE TO OTHER BANKS	91,171	105,880	91,171	105,880
AMOUNTS DUE TO CUSTOMERS	2,348,978	2,256,063	2,352,926	2,261,407
OTHER BORROWED FUNDS	177,626	111,059	177,626	111,059
FAIR VALUE				
31 DECEMBER 2015	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FINANCIAL ASSETS				
PLACEMENTS WITH OTHER BANKS	87,590	-	-	87,590
LOANS TO CUSTOMERS	-	-	1,876,807	1,876,807
FINANCIAL ASSETS HELD TO MATURITY	-	-	38,484	38,484
FINANCIAL LIABILITIES				
AMOUNTS DUE TO OTHER BANKS	91,171	-	-	91,171
AMOUNTS DUE TO CUSTOMERS	-	-	2,352,926	2,352,926
OTHER BORROWED FUNDS	-	-	177,626	177,626
FAIR VALUE				
31 DECEMBER 2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
FINANCIAL ASSETS				
PLACEMENTS WITH OTHER BANKS	-	47,901	-	47,901
LOANS TO CUSTOMERS	-	-	1,825,395	1,825,395
FINANCIAL ASSETS HELD TO MATURITY	27,414	-	62,205	89,619
FINANCIAL LIABILITIES				
AMOUNTS DUE TO OTHER BANKS	-	105,880	-	105,880
AMOUNTS DUE TO CUSTOMERS	-	-	2,261,407	2,261,407
OTHER BORROWED FUNDS	-	-	111,059	111,059

Placements with other banks include deposits and loans to other banks. Since these are short-term assets, which have a high rate of tradability and liquidity, it has been estimated that the carrying and fair values do not differ.

Loans to customers are recognised in the statement of financial position at amortised cost. For used overdraft on current accounts and loans granted at a variable interest rate it has been estimated that the fair value approximates the carrying amounts. For loans granted at fixed interest rates, the fair value is determined as the present value of expected future cash flows, where the cash flows are discounted by applying the average interest rate of Croatian banks (on new loans) for the appropriate type of loan. For loans for which there are provisions for impairment, fair value is determined on a net basis as the amount of loans less amount of provisions.

The fair value of financial assets held to maturity is based on market prices of the stock market. If prices are not available, the fair value is estimated using quoted market prices for securities with similar characteristics.

Liabilities to banks include short-term deposits received from other banks. Since these are obligations that have a high rate of tradability and liquidity it has been estimated that the carrying and fair values do not differ.

Amounts due to customers include retail and corporate demand deposits and time deposits. For deposits for which the fair value is the amount payable at the reporting date and term deposits with a variable interest rate, it has been estimated that the fair value does not differ from the book value. For deposits with a fixed interest rate fair value is determined as the discounted amount of future cash flows at the current average interest rates of Croatian banks (on new deposits) for the appropriate type of deposit.

Other borrowed funds mainly include long-term loans from HBOR and partly short-term borrowings, for which it is estimated that there is no significant difference between the carrying amount and fair value.

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

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

2015

IN THOUSAND HRK	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
AVAILABLE-FOR-SALE ASSETS				
EQUITY SECURITIES	184,637	-	16,169	200,806
DEBT SECURITIES	258,352	-	10,002	268,354
TOTAL	442,989	-	26,171	469,160

The fair value level 3 includes the securities of companies HROK d.o.o., Central Clearing and Depository Company, Tržište novca d.d., Zagreb Stock Exchange Inc., S.W.I.F.T Belgium, Centralna depozitarna agencija ad Podgorica, Franck d.d., Oroplet d.d. in bankruptcy, Velebit osiguranje d.d., Velebit životno osiguranje d.d. and Atlasmont banka a.d. Podgorica, which are carried at the model or cost, minus recognised impairment.

Level 3 debt securities consist of the securities issued by JGL Rijeka.

In 2015, the bonds of JGL Rijeka were reclassified from level 1 to level 3, and the bonds of Jadrolinija Rijeka were reclassified from level 3 to level 1.

2014

IN THOUSAND HRK	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
AVAILABLE-FOR-SALE FINANCIAL ASSETS				
EQUITY SECURITIES	143,996	-	23,578	167,574
DEBT SECURITIES	277,282	-	1,573	278,855
TOTAL	421,278	-	25,151	446,429

Level 3 are equity securities of companies HROK d.o.o., Central Clearing and Depository Company, Tržište novca d.d., Zagreb Stock Exchange Inc., S.W.I.F.T Belgium, Centralna depozitarna agencija ad Podgorica, Franck d.d., Oroplet d.d. in bankruptcy, Western Balkan Investment Fund, Podgorica, Visa Europe Limited, Velebit osiguranje d.d., Velebit životno osiguranje d.d. and Atlas banka a.d Podgorica, which are valued at purchase cost minus recognised impairment. Level 3 debt securities consist of the securities issued by Jadrolinija Rijeka. In 2014, JGL d.d. Rijeka and HEP-Hrvatska elektroprivreda d.d. Zagreb were reclassified from level 3 to level 1.

Fair value measurement

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE AS AT (IN THOUSAND HRK)		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)
	31/12/2015	31/12/2014			
EQUITY SECURITIES	184,637	143,996	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	NOT-APPLICABLE
				IMPAIRMENT TEST (NO TRADING OR LIQUIDITY ON THE MARKET FOR THESE SHARES) OR VALUATION AT COST SINCE THIS IS NOT MATERIAL	DISCOUNT RATE 7.9% – 10.4%
EQUITY SECURITIES	16,169	23,578	LEVEL 3	INVESTMENT	LONG-TERM GROWTH RATE 2% – 3%
TOTAL EQUITY SECURITIES:	200,806	167,574			
DEBT SECURITIES	258,352	277,282	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	NOT-APPLICABLE
DEBT SECURITIES	-	-	LEVEL 2	VALUATION ACCORDING TO THE SIMILAR PROPERTY (TREASURY BILLS AND COMMERCIAL BILLS ARE COMPARED WITH THE PRICES FROM RECENT AUCTIONS OF TREASURY BILLS)	NOT-APPLICABLE
DEBT SECURITIES	10,002	1,573	LEVEL 3	VALUATION IN ACCORDANCE WITH THE EFFECTIVE INTEREST RATE (NO PRICE OR MARKET FOR THESE SECURITIES, ILLIQUID SECURITIES)	NOT-APPLICABLE
TOTAL DEBT SECURITIES:	268,354	278,855			
TOTAL SECURITIES:	469,160	446,429			

34. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2015 and 2014 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

AS AT 31 DECEMBER 2015 IN THOUSAND HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON – INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	320,609	320,609
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	206,024	206,024
PLACEMENTS WITH OTHER BANKS	64,634	22,956	-	-	-	87,590
LOANS TO CUSTOMERS	1,546,007	148,144	104,156	71,083	2,916	1,872,306
FINANCIAL ASSETS AVAILABLE FOR SALE	9,986	1,473	9,668	247,226	200,807	469,160
FINANCIAL ASSETS HELD TO MATURITY	652	-	37,921	-	-	38,573
INVESTMENT IN SUBSIDIARIES	-	-	-	-	-	-
INTANGIBLE ASSETS	-	-	-	-	46,785	46,785
PROPERTY AND EQUIPMENT	-	-	-	-	80,671	80,671
DEFERRED TAX ASSETS	-	-	-	-	6,210	6,210
OTHER ASSETS	-	-	-	-	53,621	53,621
TOTAL ASSETS	1,621,279	172,573	151,745	318,309	917,643	3,181,549
LIABILITIES AND SHAREHOLDER'S EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	69,217	21,954	-	-	-	91,171
AMOUNTS DUE TO CUSTOMERS	920,687	314,420	921,415	192,456	-	2,348,978
OTHER BORROWED FUNDS	4,545	24,321	37,957	110,803	-	177,626
OTHER LIABILITIES	-	-	-	-	34,432	34,432
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,076	4,076
ISSUED HYBRID INSTRUMENTS	-	1,906	884	129,126	-	131,916
TOTAL LIABILITIES	994,449	362,601	960,256	432,385	38,508	2,788,199
SHAREHOLDER'S EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	148,796	148,796
PROFIT FOR THE YEAR	-	-	-	-	3,301	3,301
RETAINED PROFIT/(LOSS)	-	-	-	-	(18,180)	(18,180)
TOTAL SHAREHOLDER'S EQUITY	-	-	-	-	393,350	393,350
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	994,449	362,601	960,256	432,385	431,858	3,181,549
NET INTEREST GAP	626,830	(190,028)	(808,511)	(114,076)	485,785	-

AS AT 31 DECEMBER 2014 IN THOUSAND HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON – INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	230,253	230,253
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	199,831	199,831
PLACEMENTS WITH OTHER BANKS	24,849	23,052	-	-	-	47,901
LOANS TO CUSTOMERS	1,348,336	237,239	174,343	43,587	20,179	1,823,684
FINANCIAL ASSETS AVAILABLE FOR SALE	26,564	549	46,752	204,990	167,574	446,429
FINANCIAL ASSETS HELD TO MATURITY	62,024	-	26,872	-	-	88,896
INVESTMENT IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	48,128	48,128
PROPERTY AND EQUIPMENT	-	-	-	-	82,941	82,941
DEFERRED TAX ASSETS	-	-	-	-	8,148	8,148
OTHER ASSETS	-	-	-	-	64,260	64,260
TOTAL ASSETS	1,461,773	260,840	247,967	248,577	826,084	3,045,241
LIABILITIES AND SHAREHOLDER'S EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	58,725	24,815	22,340	-	-	105,880
AMOUNTS DUE TO CUSTOMERS	798,218	363,175	878,830	215,840	-	2,256,063
OTHER BORROWED FUNDS	28,130	15,183	20,681	47,065	-	111,059
OTHER LIABILITIES	-	-	-	-	53,282	53,282
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	3,907	3,907
ISSUED HYBRID INSTRUMENTS	-	2,667	6,009	122,895	-	131,571
TOTAL LIABILITIES	885,073	405,840	927,860	385,800	57,189	2,661,762
SHAREHOLDER'S EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	136,660	136,660
PROFIT FOR THE YEAR	-	-	-	-	(12,614)	(12,614)
TOTAL SHAREHOLDER'S EQUITY	-	-	-	-	383,479	383,479
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	885,073	405,840	927,860	385,800	440,668	3,045,241
NET INTEREST GAP	576,700	(145,000)	(679,893)	(137,223)	385,416	-

Weighted effective interest rates on loans to customers in 2015 stood at 6.79% (2014: 7.27%).

Weighted effective interest rates on deposits received from customers in 2015 stood at 2.58% (2014: 2.38%).

The table below presents the sensitivity of the Bank's assets and liabilities that carry the variable interest on changes in interest rates. The assumptions of growth were taken from the recorded increase or decrease in the interest rates during 2015 and 2014. Changes in interest rates have a direct impact on net interest income. In case of a decrease in the interest rate in the same percentage, there would be interest expense in the same amount.

IN THOUSAND HRK	ASSUMED INCREASE OF THE INTEREST RATE	IMPACT ON 2015 PROFIT AND LOSS	IMPACT ON 2014 PROFIT AND LOSS
ASSETS	5% RELATIVE	4,074	3,813
LIABILITIES	5% RELATIVE	(798)	(427)
IMPACT ON NET INTEREST INCOME		3,276	3,386

35. CURRENCY RISK

The Bank manages its exposure to currency risk through a variety of measures, including the use of a currency clause, which has the same effect as denominating HRK assets in other currencies.

AT 31 DECEMBER 2015 IN THOUSAND HRK	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	94,439	14,957	25,826	135,222	185,387	320,609
BALANCES WITH THE CROATIAN NATIONAL BANK	22,623	-	-	22,623	183,401	206,024
PLACEMENTS WITH OTHER BANKS	52,843	1,395	-	54,238	33,352	87,590
LOANS TO CUSTOMERS	1,041,957	7,850	-	1,049,807	822,499	1,872,306
FINANCIAL ASSETS AVAILABLE FOR SALE	198,895	31,403	1,713	232,011	237,149	469,160
FINANCIAL ASSETS HELD TO MATURITY	38,573	-	-	38,573	-	38,573
INVESTMENT IN SUBSIDIARIES	-	-	-	-	-	-
INTANGIBLE ASSETS	-	-	-	-	46,785	46,785
PROPERTY AND EQUIPMENT	-	-	-	-	80,671	80,671
DEFERRED TAX ASSETS	-	-	-	-	6,210	6,210
OTHER ASSETS	22	-	-	22	53,599	53,621
TOTAL ASSETS	1,449,352	55,605	27,539	1,532,496	1,649,053	3,181,549
LIABILITIES AND SHAREHOLDER'S EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	69,545	21,626	-	91,171	-	91,171
AMOUNTS DUE TO CUSTOMERS	1,227,530	33,755	23,762	1,285,047	1,063,931	2,348,978
OTHER BORROWED FUNDS	25,983	-	-	25,983	151,643	177,626
OTHER LIABILITIES	777	17	19	813	33,619	34,432
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	335	74	-	409	3,667	4,076
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,916	-	-	131,916	-	131,916
TOTAL LIABILITIES	1,456,086	55,472	23,781	1,535,339	1,252,860	2,788,199
SHAREHOLDER'S EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	148,796	148,796
PROFIT FOR THE YEAR	-	-	-	-	3,301	3,301
RETAINED PROFIT/(LOSS)	-	-	-	-	(18,180)	(18,180)
TOTAL SHAREHOLDER'S EQUITY	-	-	-	-	397,900	385,286
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	1,456,086	55,472	23,781	1,535,339	1,646,210	3,181,549
NET FX GAP	(6,734)	133	3,758	(2,843)	2,843	-

AT 31 DECEMBER 2014 IN THOUSAND HRK	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	59,670	12,216	17,084	88,970	141,283	230,253
BALANCES WITH THE CROATIAN NATIONAL BANK	17,698	4,216	-	21,914	177,917	199,831
PLACEMENTS WITH OTHER BANKS	45,549	-	-	45,549	2,352	47,901
LOANS TO CUSTOMERS	932,268	9,361	-	941,629	882,055	1,823,684
FINANCIAL ASSETS AVAILABLE FOR SALE	225,852	33,791	7,822	267,465	178,964	446,429
FINANCIAL ASSETS HELD TO MATURITY	62,024	-	-	62,024	26,872	88,896
INVESTMENT IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	48,128	48,128
PROPERTY AND EQUIPMENT	-	-	-	-	82,941	82,941
DEFERRED TAX ASSETS	-	-	-	-	8,148	8,148
OTHER ASSETS	3,426	-	7	3,433	60,827	64,260
TOTAL ASSETS	1,346,487	59,584	24,913	1,430,984	1,614,257	3,045,241
LIABILITIES AND SHAREHOLDER'S EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	60,978	9,879	-	70,857	35,023	105,880
AMOUNTS DUE TO CUSTOMERS	1,144,812	24,132	21,154	1,190,098	1,065,965	2,256,063
OTHER BORROWED FUNDS	24,047	26,818	-	50,865	60,194	111,059
OTHER LIABILITIES	4,530	39	19	4,588	48,694	53,282
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	857	54	-	911	2,996	3,907
ISSUED HYBRID INSTRUMENTS	131,571	-	-	131,571	-	131,571
TOTAL LIABILITIES	1,366,795	60,922	21,173	1,448,890	1,212,872	2,661,762
SHAREHOLDER'S EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	136,660	136,660
PROFIT FOR THE YEAR	-	-	-	-	(12,614)	(12,614)
TOTAL SHAREHOLDER'S EQUITY	-	-	-	-	383,479	383,479
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	1,366,795	60,922	21,173	1,448,890	1,596,351	3,045,241
NET FX GAP	(20,308)	(1,338)	3,740	(17,906)	17,906	-

The Table below presents the sensitivity of the Bank's net assets and profit and loss to a change in the CNB's middle exchange rate, i.e. to an increase in the exchange rate and the effect on the profit and loss, showing a summary amount of the simplified increase in all currencies by 2%. By applying the same assumed percentage to a decrease of the CNB middle exchange rate, the impact on the profit or loss, on the net principle, by individual currency would be the same and opposite, that is, the aggregate impact on all currencies would result as an expense for 2015 and as an income for 2015. The results of fluctuations in exchange rates are reported in the income statement as foreign exchange gains or losses.

CURRENCY ON 31 DECEMBER 2015	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	IMPACT ON PROFIT	IMPACT ON PROFIT	IMPACT ON PROFIT
		AND LOSS	AND LOSS	AND LOSS
IN THOUSAND HRK		ASSETS	LIABILITIES	NET
ASSETS	2.00%	30,421	-	30,421
LIABILITIES	2.00%	-	30,707	30,707
NET ASSETS/ (LIABILITIES)		30,421	30,707	(286)

CURRENCY ON 31 DECEMBER 2014	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	IMPACT ON PROFIT	IMPACT ON PROFIT	IMPACT ON PROFIT
		AND LOSS	AND LOSS	AND LOSS
IN THOUSAND HRK		ASSETS	LIABILITIES	NET
ASSETS	2.00%	28,620	-	28,620
LIABILITIES	2.00%	-	28,978	(28,978)
NET ASSETS/ (LIABILITIES)		28,620	28,978	(358)



36. LIQUIDITY RISK

AT 31 DECEMBER 2015 IN THOUSAND HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	320,609	-	-	-	-	320,609
BALANCES WITH THE CROATIAN NATIONAL BANK	206,024	-	-	-	-	206,024
PLACEMENTS WITH OTHER BANKS	64,634	22,956	-	-	-	87,590
LOANS TO CUSTOMERS	379,112	255,136	463,480	365,369	409,209	1,872,306
FINANCIAL ASSETS AVAILABLE FOR SALE	201,547	1,507	18,880	113,719	133,507	469,160
FINANCIAL ASSETS HELD TO MATURITY	652	-	37,921	-	-	38,573
FINANCIAL ASSETS	1,172,578	279,599	520,281	479,088	542,716	2,994,262
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	69,217	21,954	-	-	-	91,171
AMOUNTS DUE TO CUSTOMERS	917,161	314,704	922,583	179,354	15,176	2,348,978
OTHER BORROWED FUNDS	4,545	24,322	37,956	53,239	57,564	177,626
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	1,907	884	76,360	52,765	131,916
FINANCIAL LIABILITIES	990,923	362,887	961,423	308,953	125,505	2,749,691
ACCUMULATED GAP	181,655	98,367	(342,775)	(172,640)	244,571	244,571

AT 31 DECEMBER 2014 IN THOUSAND HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	230,253	-	-	-	-	230,253
BALANCES WITH THE CROATIAN NATIONAL BANK	197,984	-	-	1,847	-	199,831
PLACEMENTS WITH OTHER BANKS	24,849	23,052	-	-	-	47,901
LOANS TO CUSTOMERS	402,605	335,889	512,858	252,688	319,644	1,823,684
FINANCIAL ASSETS AVAILABLE FOR SALE	168,425	619	46,920	154,809	75,656	446,429
FINANCIAL ASSETS HELD TO MATURITY	62,024	-	26,872	-	-	88,896
FINANCIAL ASSETS	1,086,140	359,560	586,650	409,344	395,300	2,836,994
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	58,725	24,815	22,340	-	-	105,880
AMOUNTS DUE TO CUSTOMERS	793,186	363,338	880,969	196,102	22,468	2,256,063
OTHER BORROWED FUNDS	28,133	15,183	20,681	28,619	18,443	111,059
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	2,667	6,009	17,351	105,544	131,571
FINANCIAL LIABILITIES	880,044	406,003	929,999	242,072	146,455	2,604,573
ACCUMULATED GAP	206,096	159,653	(183,696)	(16,424)	232,421	-

37. CREDIT RISK

a) Overall exposure to credit risk – on-balance sheet and off-balance sheet

IN THOUSAND HRK AS AT 31 DECEMBER 2015	GROSS PLACEMENTS	PROVISIONS ON INDIVIDUAL BASIS	PROVISIONS ON GENERAL BASIS	NET PLACEMENTS
A BALANCE SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	206,024	-	-	206,024
PLACEMENTS WITH OTHER BANKS	87,590	-	-	87,590
ASSETS AVAILABLE FOR SALE	458,959	(1,226)	-	457,733
ASSETS HELD TO MATURITY	38,573	-	-	38,573
LOANS TO CUSTOMERS				
- PERFORMING	1,687,663	-	(22,240)	1,665,423
- SUBSTANDARD	272,519	(65,636)	-	206,883
- NON PERFORMING (BAD)	150,403	(150,403)	-	-
OVERALL BALANCE SHEET EXPOSURE	2,901,731	(217,265)	(22,240)	2,662,226
B OFF-BALANCE SHEET EXPOSURE				
CUSTOMERS				
- PERFORMING	375,469	-	(3,755)	371,714
- SUBSTANDARD	603	(14)	-	589
- NON PERFORMING (BAD)	17	(17)	-	-
OVERALL OFF-BALANCE SHEET EXPOSURE	376,089	(31)	(3,755)	372,303
OVERALL EXPOSURE (A+B)	3,277,820	(217,296)	(25,995)	3,034,529

IN THOUSAND HRK AS AT 31 DECEMBER 2014	GROSS PLACEMENTS	PROVISIONS ON INDIVIDUAL BASIS	PROVISIONS ON GENERAL BASIS	NET PLACEMENTS
A BALANCE SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	199,831	-	-	199,831
PLACEMENTS WITH OTHER BANKS	48,501	(600)	-	47,901
ASSETS AVAILABLE FOR SALE	450,774	(4,345)	-	446,429
ASSETS HELD TO MATURITY	88,896	-	-	88,896
LOANS TO CUSTOMERS				
- PERFORMING	1,669,170	-	(20,633)	1,648,537
- SUBSTANDARD	227,996	(52,849)	-	175,147
- NON PERFORMING (BAD)	138,785	(138,785)	-	-
OVERALL BALANCE SHEET EXPOSURE	2,823,953	(196,579)	(20,633)	2,606,741
B OFF-BALANCE SHEET EXPOSURE				
CUSTOMERS				
- PERFORMING	352,188	-	(3,567)	348,621
- SUBSTANDARD	5	(1)	-	4
- NON PERFORMING (BAD)	9	(9)	-	-
OVERALL OFF-BALANCE SHEET EXPOSURE	352,202	(10)	(3,567)	348,625
OVERALL EXPOSURE (A+B)	3,176,155	(196,589)	(24,200)	2,955,366

b) Past due claims

Outstanding receivables comprise amounts with unimpaired principal, determined on the level of the individual placement, including outstanding interest. Other receivables past due comprise outstanding balances, the collection of which is still in progress.

IN THOUSAND HRK AS AT 31 DECEMBER 2015	PAST DUE UP TO 30 DAYS	PAST DUE BETWEEN 31 AND 90 DAYS	PAST DUE BETWEEN 91 AND 180 DAYS	PAST DUE BETWEEN 181 AND 365 DAYS	PAST DUE BETWEEN 1 TO 2 YEARS	PAST DUE BETWEEN 2 TO 3 YEARS	PAST DUE OVER 3 YEARS
PLACEMENTS WITH OTHER BANKS	-	-	-	-	-	-	-
LOANS TO CUSTOMERS							
- CITIZENS	5,512	1,080	1,983	2,682	4,046	3,345	44,558
- COMPANIES	9,255	1,938	5,193	6,279	21,877	6,894	180,933
- PUBLIC AND OTHER SECTORS	202	5	1	-	2	3	356
OTHER PAST DUE CLAIMS	1,527	231	7,279	164	726	901	5,686
TOTAL PAST DUE CLAIMS	16,496	3,255	14,456	9,124	26,651	11,142	231,533

IN THOUSAND HRK AS AT 31 DECEMBER 2014	PAST DUE UP TO 30 DAYS	PAST DUE BETWEEN 31 AND 90 DAYS	PAST DUE BETWEEN 91 AND 180 DAYS	PAST DUE BETWEEN 181 AND 365 DAYS	PAST DUE BETWEEN 1 TO 2 YEARS	PAST DUE BETWEEN 2 TO 3 YEARS	PAST DUE OVER 3 YEARS
PLACEMENTS WITH OTHER BANKS	-	-	-	-	-	-	600
LOANS TO CUSTOMERS							
- CITIZENS	6,871	1,211	1,075	2,082	4,092	4,765	43,145
- COMPANIES	22,340	25,225	19,717	8,154	9,030	87,855	98,711
- PUBLIC AND OTHER SECTORS	-	-	-	-	-	-	-
OTHER PAST DUE CLAIMS	2,410	314	545	784	1,031	588	5,843
TOTAL PAST DUE CLAIMS	31,621	26,750	21,337	11,020	14,153	93,208	148,299

c) Placements covered by collaterals

AS AT 31 DECEMBER 2015 IN THOUSAND HRK	DEPOSIT	HOUSING MORTGAGES	BUSINESS MORTGAGES	OTHER COLLATERALS	NO COLLATERAL
A BALANCE SHEET EXPOSURE					206,024
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	55,691
PLACEMENTS WITH OTHER BANKS	-	-	-	-	1,225,747
LOANS TO CUSTOMERS	25,151	164,308	382,233	74,867	469,160
ASSETS AVAILABLE FOR SALE	-	-	-	-	38,573
ASSETS HELD TO MATURITY	-	-	-	-	206,024
OVERALL BALANCE SHEET EXPOSURE	25,151	164,308	382,233	106,766	1,995,195
B OFF-BALANCE SHEET EXPOSURE					
CUSTOMERS	7,212	4,390	21,124	132	343,231
OVERALL OFF-BALANCE SHEET EXPOSURE	7,212	4,390	21,124	132	343,231
OVERALL EXPOSURE (A+B)	32,363	168,698	403,357	106,898	2,338,426
AS AT 31 DECEMBER 2014					
A BALANCE SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	199,831
PLACEMENTS WITH OTHER BANKS	-	-	-	-	47,901
LOANS TO CUSTOMERS	32,379	135,523	332,538	97,416	1,225,828
ASSETS AVAILABLE FOR SALE	-	-	-	-	446,429
ASSETS HELD TO MATURITY	-	-	-	-	88,896
OVERALL BALANCE SHEET EXPOSURE	32,379	135,523	332,538	97,416	2,008,885
B OFF-BALANCE SHEET EXPOSURE					
CUSTOMERS	7,780	5,498	47,239	5,691	285,995
OVERALL OFF-BALANCE SHEET EXPOSURE	7,780	5,498	47,239	5,691	285,995
OVERALL EXPOSURE (A+B)	40,159	141,021	379,777	103,107	2,294,880

d) Provision ratio in loans to customers

IN THOUSAND HRK	2015		2014	
	LOANS TO CUSTOMERS (%)	PROVISION RATIO IN LOANS (%)	LOANS TO CUSTOMERS (%)	PROVISION RATIO IN LOANS (%)
PERFORMING LOANS	80.0	1.3	82.0	1.2
SUBSTANDARD LOANS	12.9	24.1	11.2	23.2
NON-PERFORMING LOANS	7.1	100.0	6.8	100.0
TOTAL	100		100	

38. PRICE RISK

Equity and debt financial instrument price risk represents the sensitivity of the portfolio of available-for-sale securities to fluctuations in market prices, with effects on the income statement and the revaluation reserve within the Bank's equity.

IN THOUSAND HRK	ASSUMED PRICE CHANGE	IMPACT OF PRICE INCREASE ON REVALUATION RESERVES
AS AT 31 DECEMBER 2015	3%	14,075
AS AT 31 DECEMBER 2014	3%	13,393

39. CONCENTRATIONS OF ASSETS AND LIABILITIES

There is a significant concentration of the Bank's assets to the Republic of Croatia, which is analysed as follows:

IN THOUSAND HRK	2015	2014
RESERVE REQUIREMENT AND TREASURY NOTES WITH THE CROATIAN NATIONAL BANK	206,024	199,831
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	148,803	99,412
BONDS OF THE REPUBLIC OF CROATIA	132,351	139,793
OTHER CASH RESERVE FUNDS	10,000	10,000
OTHER ASSETS	7,276	3,618
TREASURY BILLS OF THE REPUBLIC OF CROATIA	0	0
CURRENT TAX LIABILITY	0	0
DEPOSITS RECEIVED	(41)	(697)
	504,413	451,957

The Bank's indirect exposure to the Republic of Croatia as at 31 December in respect of loans and other exposures were as follows:

IN THOUSAND HRK	2015	2014
OTHER LOANS	21,499	19,171
CUSTOMER LOANS GUARANTEED BY THE STATE	19,115	18,727
STATE AGENCY FOR DEPOSIT INSURANCE AND BANK REHABILITATION	(1,342)	(1,253)
OTHER LIABILITIES	(1,447)	(895)
DEPOSITS RECEIVED	(76,591)	(53,151)
LOANS RECEIVED FROM HBOR	(177,702)	(84,242)
	(216,468)	(101,643)

40. EVENTS AFTER THE BALANCE SHEET DATE

The foreclosure procedure of the Bank as the foreclosure creditor against foreclosure debtor Dalekovod d.d. was closed in March 2016, and on 11 March 2016 the Bank received the payment and collected the claim from the foreclosure debtor in the amount of HRK 53,992,998.82.

Management considers that from the balance sheet date to the date of issuance of the report no other business events have been reported that could significantly cause changes in the regular business of the Bank.

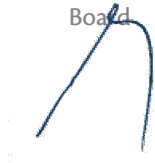
41. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 28 April 2016 and were signed on its behalf by:

JULIO KURUC
PRESIDENT OF THE
MANAGEMENT BOARD



DANIEL UNGER
Member of the Management
Board





BANK'S MANAGEMENT BOARD AND ORGANISATIONAL STRUCTURE

The Bank's operations are supervised by the Supervisory Board and managed by the Management Board.

Supervisory Board

Miljan Todorovic, Chairman of the Supervisory Board
Sigilfredo Montinari, Deputy Chairman of the Supervisory Board
Maurizio Dallochio, Member of the Supervisory Board
Filippo Disertori, Member of the Supervisory Board
Dario Montinari, Member of the Supervisory Board
Dolly Predovic, Member of the Supervisory Board

Bank's Management Board

Julio Kuruc, Chairman of the Management Board
Davorka Jakir, Member of the Management Board
Marijan Marušić, Member of the Management Board until 16/04/2015
Daniel Unger, Member of the Management Board since 17/04/2015
Goran Varat, Member of the Management Board since 17/04/2015

Chief Executive Officer

Moreno Marson

Units

Internal Audit Unit – Krunoslav Vnučec
Risk Control Unit – Vesna Laloš
Compliance Monitoring Unit – Mario Brajnić
Head of Information System Security – Vladimir Vojvodić
Risk Management Unit – Renata Vinković
Development and Marketing Unit – Sanda Fuček Šanjić
Administration and HR Management Unit – Božana Kovačević
Accounting and Reporting Unit – Željka Artner Pavković

Departments

Financial Markets Division – Goran Varat
Corporate Customers Division – Daniel Unger
Retail Customers Division – Dragica Hrkalović
Payment & Back Offices Division – Snježana Pobi
Operations & Supports Department – Marko Žigmund



Legend

 Commercial Centre

 Branches

RETAIL CENTERS

Commercial Centre Zagreb

Zagreb, Green Gold – Ulica grada Vukovara 269f,
tel. 072 655 450, fax. 072 655 459

Zagreb, Trg Petra Preradovića 3,
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Commercial Centre Koprivnica

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tel. 072 655 000, fax. 072 655 200

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Koprivnica, Ivana Meštrovića bb,
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Gola, Trg kardinala A. Stepinca 6b,
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Đelekovec, P. Kvakana bb,
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Legrad, Trg Svetog Trojstva bb,
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Commercial Centre Bjelovar

Bjelovar, Trg Eugena Kvaternika 12,
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Đurđevac, Stjepana Radića 16,
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Commercial Centre Osijek

Osijek, Kapucinska 38,
tel. 072 655 790, fax. 072 655 799

**Commercial Centre
Požega**

Požega, Republike Hrvatske 1b,
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Pleternica, Ivana Šveara 4,
tel. 072 655 770, fax. 072 655 779

Kutjevo, Kralja Tomislava 2,
tel. 072 655 780, fax. 072 655 789

**Commercial Centre
Rijeka**

Rijeka, Ivana Zajca 18,
tel. 072 655 660, fax. 072 655 669

**Commercial Centre
Split**

Split, Ulica slobode 33,
tel. 072 655 630, fax. 072 655 639

**Commercial Centre
Varaždin**

Varaždin, Trg slobode 2,
tel. 072 655 600, fax. 072 655 609

Ludbreg, Petra Zrinskog 32,
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**Commercial Centre
Zadar**

Zadar, Stjepana Radića 2f,
tel. 072 655 650, fax. 072 655 659

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APPENDIX 1

**SUPPLEMENTARY
REPORTS FOR
THE CROATIAN
NATIONAL BANK**

Pursuant to the Croatian Accounting Act (Official Gazette 109/07), the Croatian National Bank has promulgated the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 62/08). The following tables present financial statements in accordance to the above mentioned decision:

INCOME STATEMENT

	2015 UNAUDITED HRK '000	2014 UNAUDITED HRK '000
1 INTEREST INCOME:	147,239	152,557
2 INTEREST EXPENSES	(64,386)	(72,375)
3 NET INTEREST INCOME	82,853	80,182
4 COMMISSION AND FEE INCOME	38,250	36,367
5 COMMISSION AND FEE EXPENSES	(14,253)	(12,388)
6 NET COMMISSION AND FEE INCOME	23,997	23,979
7 GAIN/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
8 GAIN/(LOSS) FROM TRADING ACTIVITIES	6,255	5,916
9 GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-
10 GAIN/(LOSS) FROM FINANCIAL ASSETS NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
11 GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	8,196	6,936
12 GAIN/(LOSS) FROM FINANCIAL ASSETS HELD TO MATURITY	-	-
13 GAIN/(LOSS) FROM HEDGING TRANSACTIONS	-	-
14 INCOME FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
15 INCOME FROM OTHER EQUITY INVESTMENTS	990	957
16 GAIN/(LOSS) FROM FOREIGN EXCHANGE DIFFERENCES	(488)	485
17 OTHER INCOME	6,032	5,619
18 OTHER EXPENSES	(7,920)	(6,654)
19 GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(91,304)	(97,142)
20 NET INCOME BEFORE VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	28,611	20,278
21 EXPENSES FROM VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	(25,015)	(35,543)
22 PROFIT/(LOSS) BEFORE TAXATION	3,596	(15,265)
23 INCOME TAX	(295)	2,651
24 CURRENT YEAR PROFIT/(LOSS)	3,301	(12,614)
25 EARNINGS PER SHARE	4.94	(18.86)

APPENDIX TO THE INCOME STATEMENT

	2015 HRK '000	2014 HRK '000
CURRENT YEAR PROFIT/(LOSS)	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

BALANCE SHEET

	2015 UNAUDITED HRK '000	2014 UNAUDITED HRK '000
ASSETS		
1 CASH AND DEPOSITS WITH THE CNB	400,095	351,481
1.1 CASH	35,269	42,238
1.2 DEPOSITS WITH THE CNB	364,826	309,243
2 DEPOSITS WITH BANKING INSTITUTIONS	179,519	100,718
3 TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	0	-
4 SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	0	-
5 SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	622,035	663,843
6 SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	118,340	147,712
7 SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
8 DERIVATIVE FINANCIAL ASSETS	-	-
9 LOANS TO FINANCIAL INSTITUTIONS	32,204	23,447
10 LOANS TO OTHER CLIENTS	1,620,307	1,524,875
11 INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	4,770
12 REPOSSESSED ASSETS	44,289	44,223
13 TANGIBLE AND INTANGIBLE ASSETS (MINUS DEPRECIATION AND AMORTISATION)	127,535	80,988
14 INTERESTS, FEES AND OTHER ASSETS	37,225	103,184
A TOTAL ASSETS	3,181,549	3,045,241
LIABILITIES AND EQUITY		
1 BORROWINGS FROM FINANCIAL INSTITUTIONS	177,390	110,943
1.1 SHORT-TERM BORROWINGS	17,404	39,234
1.2 LONG-TERM BORROWINGS	159,986	71,709
2 DEPOSITS	2,413,281	2,333,887
2.1 DEPOSITS ON GIRO-ACCOUNTS AND CURRENT ACCOUNTS	454,152	403,390
2.2 SAVINGS DEPOSITS	227,601	217,412
2.3 TERM DEPOSITS	1,731,528	1,713,085
3 OTHER BORROWINGS	-	-
3.1 SHORT-TERM BORROWINGS	-	-
3.2 LONG-TERM BORROWINGS	-	-
4 DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING FINANCIAL LIABILITIES	-	-
5 ISSUED DEBT SECURITIES	786	-
5.1 ISSUED SHORT-TERM DEBT SECURITIES	-	-
5.2 ISSUED LONG-TERM DEBT SECURITIES	786	-
6 ISSUED SUBORDINATED INSTRUMENTS	52,765	52,947
7 ISSUED HYBRID INSTRUMENTS	76,350	76,615
8 INTERESTS, FEES AND OTHER LIABILITIES	66,889	86,619
B TOTAL LIABILITIES	2,787,461	2,661,011
EQUITY		
1 SHARE CAPITAL	259,433	259,433
2 CURRENT YEAR GAIN/LOSS	3,301	(12,614)
3 RETAINED EARNINGS/(LOSS)	(18,181)	-
4 LEGAL RESERVES	118,687	118,687
5 STATUTORY AND OTHER CAPITAL RESERVES	26,630	29,676
6 UNREALISED GAIN/(LOSS) FROM AVAILABLE FOR SALE FAIR VALUE ADJUSTMENT	4,218	(10,952)
C TOTAL EQUITY	394,088	384,230
D TOTAL LIABILITIES AND EQUITY	3,181,549	3,045,241

APPENDIX TO THE BALANCE SHEET

IN THOUSAND HRK	2015 HRK '000	2014 HRK '000
TOTAL EQUITY	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

CASH FLOW STATEMENT

	2015 UNAUDITED HRK '000	2014 UNAUDITED HRK '000
OPERATING ACTIVITIES		
1.1 GAIN/(LOSS) BEFORE TAX	3,596	(15,265)
1.2 VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	25,015	35,543
1.3 DEPRECIATION AND AMORTISATION	9,059	7,493
1.4 NET UNREALISED (GAIN)/LOSS FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
1.5 GAIN/(LOSS) FROM SALE OF TANGIBLE ASSETS	(360)	(15)
1.6 OTHER (GAINS)/LOSSES	-	-
1 OPERATING CASH FLOW BEFORE CHANGES IN OPERATING ASSETS	37,310	27,756
2.1 DEPOSITS WITH THE CNB	(6,193)	12,847
2.2 TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	-	96,123
2.3 DEPOSITS WITH BANKING INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	(8,757)	(23,447)
2.4 LOANS TO OTHER CLIENTS	(120,447)	12,103
2.5 SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
2.6 SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	56,978	(27,471)
2.7 SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT TRADED ON ACTIVE MARKETS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-
2.8 OTHER OPERATING ASSETS	12,052	(66,768)
2 NET (INCREASE)/DECREASE IN OPERATING ASSETS (INCREASE)/DECREASE IN OPERATING LIABILITIES	(66,367)	3,387
3.1 DEMAND DEPOSITS	50,762	(40,919)
3.2 SAVINGS AND TERM DEPOSITS	28,632	140,751
3.3 DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING LIABILITIES	-	-
3.4 OTHER LIABILITIES	(20,606)	1,094
3 NET INCREASE/(DECREASE) IN OPERATING LIABILITIES	58,788	100,926
4 NET CASH FLOW FROM OPERATING ACTIVITIES BEFORE PROFIT TAX	29,731	132,069
5 PROFIT TAX PAID	(114)	(897)
6 NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	29,617	131,172
INVESTING ACTIVITIES		
7.1 PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF TANGIBLE AND INTANGIBLE ASSETS	(5,544)	38,478
7.2 PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	-
7.3 PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	29,372	(62,919)
7.4 DIVIDENDS RECEIVED	990	957
7.5 OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	(66)	(27,805)
7 NET CASH FLOW FROM INVESTING ACTIVITIES	24,852	(51,289)
FINANCING ACTIVITIES		
8.1 NET INCREASE/(DECREASE) IN BORROWINGS	66,447	(145,962)
8.2 NET INCREASE/(DECREASE) IN ISSUED DEBT SECURITIES	786	-
8.3 NET INCREASE/(DECREASE) IN SUBORDINATED DEBT AND HYBRID AND SUBORDINATED INSTRUMENTS	(447)	403
8.4 RECEIPTS FROM ISSUED SHARE CAPITAL	-	-
8.5 (DIVIDENDS PAID)	-	-
8.6 OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	-	-
8 NET CASH FLOW FROM FINANCIAL ACTIVITIES	66,786	(145,559)
9 NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	121,255	(65,676)
10 CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	254,722	320,398
11 CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	375,977	254,722

STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL	TREASURY SHARES	LEGAL, STATUTORY AND OTHER RESERVES	RETAINED EARNINGS/ (LOSS)	CURRENT YEAR PROFIT/ LOSS	UNREALISED GAIN/ LOSSES FROM AVAILABLE FOR SALE FINANCIAL ASSETS FAIR VALUE ADJUSTMENT	MINORITY INTEREST	TOTAL CAPITAL AND RESERVES
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
1 BALANCE AT 1 JANUARY 2015	270,515	(11,082)	146,172	(12,614)	-	(8,761)	-	384,230
2 CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	1	(5,567)	-	5,566	-	0
3 RESTATED CURRENT YEAR BALANCE	270,515	(11,082)	146,173	(18,181)	-	(3,195)	-	384,230
4 SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	0
5 FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	8,212	-	8,212
6 TAX ON ITEMS RECOGNISED DIRECTLY IN OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	(1,642)	-	(1,642)
7 OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	0
8 NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	-	-	-	-	-	6,570	-	6,570
9 CURRENT YEAR PROFIT/(LOSS)	-	-	-	-	3,301	-	-	3,301
10 TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR	-	-	-	-	3,301	6,570	-	9,871
11 INCREASE/(DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	0
12 PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	0
13 OTHER CHANGES	-	-	(12)	-	-	(1)	-	(13)
14 TRANSFER TO RESERVES	-	-	-	-	-	-	-	0
15 DIVIDENDS PAID	-	-	-	-	-	-	-	0
16 ALLOCATION OF PROFIT	-	-	-	-	-	-	-	0
17 BALANCE 31 DECEMBER 2015	270,515	(11,082)	146,161	(18,181)	3,301	3,374	-	394,088

	SHARE CAPITAL	TREASURY SHARES	LEGAL, STATUTORY AND OTHER RESERVES	RETAINED EARNINGS/ (LOSS)	CURRENT YEAR PROFIT/(LOSS)	UNREALISED GAIN / LOSSES FROM AVAILABLE FOR SALE FAIR FINANCIAL ASSETS FAIR VALUE ADJUSTMENT	MINORITY INTEREST	TOTAL CAPITAL AND RESERVES
	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED	UNAUDITED
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
1 BALANCE AT 1 JANUARY 2014	270,515	(11,082)	145,063	1,053	-	(10,598)	-	394,951
2 CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
3 RESTATED CURRENT YEAR BALANCE	270,515	(11,082)	145,063	1,053	-	(10,598)	-	394,951
4 SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	0
5 FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	2,296	-	2,296
6 TAX ON ITEMS RECOGNISED DIRECTLY IN OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	(459)	-	(459)
7 OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	0
8 NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	-	-	-	-	-	1,837	-	1,837
9 CURRENT YEAR GAIN/(LOSS)	-	-	-	-	(12,614)	-	-	(12,614)
10 TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR	-	-	-	-	(12,614)	1,837	-	(10,777)
11 INCREASE/(DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	0
12 PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	0
13 OTHER CHANGES	-	-	56	-	-	-	-	56
14 TRANSFER TO RESERVES	-	-	-	-	-	-	-	0
15 DIVIDENDS PAID	-	-	-	-	-	-	-	0
16 ALLOCATION OF PROFIT	-	-	1,053	(1,053)	-	-	-	0
17 BALANCE AT 31 DECEMBER 2014	270,515	(11,082)	146,172	-	(12,614)	(8,761)	-	384,230

The data in the financial statements prepared in accordance with the Croatian National Bank (“CNB”) Decision is classified differently from that in the financial statements prepared according to the statutory accounting requirements for banks in Croatia.

Comparatives for the income statement ended 31 December 2015 and 31 December 2014:

	2015	2015	2015	2014	2014	2014
	CROATIAN NATIONAL BANK DECISION	ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA	DIFFERENCE	CROATIAN NATIONAL BANK DECISION	ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA	DIFFERENCE
	UNAUDITED			UNAUDITED		
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
INTEREST AND SIMILAR INCOME	147,239	147,347	(108)	152,557	152,597	(40)
INTEREST AND SIMILAR EXPENSE	(64,386)	(59,253)	(5,133)	(72,375)	(67,258)	(5,117)
NET INTEREST INCOME	82,853	88,094	(5,241)	80,182	85,339	(5,157)
FEE AND COMMISSION INCOME	38,250	38,252	(2)	36,367	36,366	1
FEE AND COMMISSION EXPENSE	(14,253)	(14,254)	1	(12,388)	(12,388)	-
NET FEE AND COMMISSION INCOME	23,997	23,998	(1)	23,979	23,978	1
NET TRADING GAIN	6,255	6,255	-	5,916	5,916	-
GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-	-	-	-	-
GAIN/(LOSS) FROM ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	-	-
GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	8,196	8,410	(214)	6,936	6,936	-
INCOME FROM OTHER INVESTMENTS IN EQUITY SECURITIES	990	990	-	957	957	-
NET FOREIGN EXCHANGE DIFFERENCES	(488)	(587)	99	485	356	129
OTHER OPERATING INCOME	6,032	5,996	36	5,619	5,623	(4)
TOTAL OTHER INCOME	20,985	21,064	(79)	19,913	19,788	125
GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(91,304)	(104,364)	13,060	(97,142)	(108,743)	11,601
IMPAIRMENT ALLOWANCE AND PROVISIONS	(25,015)	(25,195)	180	(35,543)	(35,627)	84
OTHER OPERATING EXPENSES	(7,920)	-	(7,920)	(6,654)	-	(6,654)
TOTAL OTHER EXPENSES	(124,239)	(129,559)	5,320	(139,339)	(144,370)	5,031
PROFIT BEFORE TAX	3,596	3,597	(1)	(15,265)	(15,265)	-
INCOME TAX EXPENSE	(295)	(296)	1	2,651	2,651	-
NET PROFIT FOR THE YEAR	3,301	3,301	-	(12,614)	(12,614)	-
EARNINGS PER SHARE (IN HRK)	HRK 4.94	HRK 4.94		(18.86)	(18.86)	

The difference of HRK 108 thousand (2014: HRK 40 thousand) for the year ended 31 December 2015 on the line item "Interest and similar income" relates to exchange differences on interest income.

The difference of HRK 5,113 thousand (2014: HRK 5,117 thousand) on the line item "Interest and similar expense" relates mainly to savings deposit insurance premiums, which amount to HRK 5,143 thousand (2014: HRK 5,027 thousand) and are presented in the audited income statement under the line item "General and administrative expenses". Other differences relate to the reclassification of exchange differences on interest expense to the net foreign exchange gains in the amount of HRK 10 thousand.

The difference in the "Other non-interest income" item, except for exchange differences, refers to the reclassification of collected written off debts from impairment in other operating income in the amount of HRK 46 thousand.

The difference in the "General and administrative expenses" item, except for the reclassification of interest and other non-interest expenses, refers to the reclassification of amortisation from general administrative expenses in the amount of HRK 9,059 thousand in the extracted position depreciation and amortisation.

Differences in "Other non-interest expenses" are the result of the reclassification of provisions for legal cases from other expenses to the cost of provision in the amount of HRK 40 thousand and other non-interest expenses in the amount of HRK 7,960 thousand in general and other administrative expenses.

The difference in the "Other business expenses" item refers to the reclassification of other non-interest expenses in the amount of HRK 7,920 thousand in the "General and other administrative expenses" item.



Comparatives for the unconsolidated balance sheet ended 31 December 2015 and 31 December 2014:

	2015 CNB DECISION	2015 ACCOUNTING REQUIREMENTS FOR BANKS	2015 DIFFERENCE	2014 CNB DECISION	2014 ACCOUNTING REQUIREMENTS FOR BANKS	2014 DIFFERENCE
	UNAUDITED			UNAUDITED		
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS						
CASH AND DEPOSITS WITH THE CROATIAN NATIONAL BANK	400,095	526,633	(126,538)	351,481	430,084	(78,603)
TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	-	-	-	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	622,035	469,160	152,875	663,843	446,429	217,414
FINANCIAL ASSETS HELD TO MATURITY	118,340	38,573	79,767	147,712	88,896	58,816
PLACEMENTS WITH AND LOANS TO OTHER BANKS	211,723	87,590	124,133	124,165	47,901	76,264
LOANS AND RECEIVABLES	1,620,307	1,872,306	(251,999)	1,524,875	1,823,684	(298,809)
INVESTMENT IN SUBSIDIARIES	-	-	-	4,770	4,770	-
REPOSSESSED ASSETS	44,289	-	44,289	44,223	-	44,223
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	127,535	127,456	79	80,988	131,069	(50,081)
DEFERRED TAX ASSETS	6,210	6,210	-	8,148	8,148	-
OTHER ASSETS	31,015	53,621	(22,606)	95,036	64,260	30,776
TOTAL ASSETS	3,181,549	3,181,549	-	3,045,241	3,045,241	-
LIABILITIES						
DUE TO OTHER BANKS AND DEPOSITS FROM CUSTOMERS	2,590,671	2,617,775	(27,104)	2,444,830	2,473,002	(28,172)
PROVISIONS FOR LIABILITIES AND CHARGES	3,786	4,076	(290)	3,936	3,907	29
OTHER LIABILITIES	63,103	34,432	28,671	82,683	53,282	29,401
TOTAL LIABILITIES	2,657,560	2,656,283	1,277	2,531,449	2,530,191	1,258
HYBRID AND SUBORDINATED INSTRUMENTS	129,901	131,916	(2,015)	129,562	131,571	(2,009)
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	267,500	267,500	-	267,500	267,500	-
SHARE PREMIUM	3,015	3,015	-	3,015	3,015	-
TREASURY SHARES	(11,082)	(11,082)	-	(11,082)	(11,082)	-
NET PROFIT FOR THE YEAR	3,301	3,301	-	(12,614)	(12,614)	-
RETAINED EARNINGS/(LOSS)	(18,181)	(18,180)	(1)			
UNREALISED GAIN/(LOSS) FROM FAIR VALUE ADJUSTMENT OF AVAILABLE FOR SALE FINANCIAL ASSETS	4,218	0	4,218	(10,952)	-	(10,952)
RESERVES	145,317	148,796	(3,479)	148,363	136,660	11,703
TOTAL EQUITY	394,088	393,350	738	384,230	383,479	751
TOTAL LIABILITIES AND EQUITY	3,181,549	3,181,549	-	3,045,241	3,045,241	-

The most significant differences on balance positions arise from different classification of interest receivables and interest payables. In the balance sheet, according to the CNB Decision on the structure and content of annual financial statements of banks, interest receivables and interest payables are presented in "Other assets" and "Other liabilities", while in the balance sheet, in accordance with statutory accounting requirements for banks in Croatia, they are presented in the positions of assets and liabilities to which they relate.

Assets

Cash on current accounts with domestic and foreign banks as well as other deposits in the total amount of HRK 285,339 thousand (2014: HRK 188,015 thousand) are presented in the audited financial statements under the line-item "Cash and balances with banks", whereas under the CNB Decision they are included in "Deposits with banking institutions".

In the audited statements, placements with customers represent placements on the basis of discounted bills of exchange and receivables from factoring in the total amount of HRK 237,977 thousand (2014: HRK 282,446 thousand) are included in the line item "Loans to customers", whereas under the CNB Decision they are presented according to the portfolio of financial assets in which they are classified, as follows: HRK 157,558 thousand of discounted bills are included into available-for-sale financial assets (2014: HRK 222,717 thousand) and HRK 80,419 thousand of factoring is reclassified into financial assets held to maturity portfolio (2014: HRK 59,729 thousand).

Repossessed i.e., foreclosed assets are reported under the CNB Decision separately, while in the audited accounts they have been included within "Other assets" in the amount of HRK 44,289 thousand. Small inventories of HRK 79 thousand (2014: HRK 83 thousand) are presented in the audited accounts within "Other assets", whereas under the CNB Decision they are included in "Property, plant and equipment, and intangible assets".

Deferred tax assets of HRK 6,210 thousand (2014: HRK 8,148 thousand) are reported separately in the audited accounts, whereas according to the reporting requirements of the CNB they are included within "Other assets".

Liabilities and equity

According to the CNB Decision, "Other liabilities" include provisions for legal cases, which have been presented separately in the audited accounts in the amount of HRK 290 thousand, whereas in the audited accounts they are reported as part of the provisions for liabilities and expenses.

According to the CNB requirements, the position "Statutory and other capital reserves" includes reserves of HRK 738 thousand (2014: HRK 751 thousand), formed in respect of flats with tenancy rights not sold, which are included in the audited accounts within "Other liabilities".

