



# 2014

ANNUAL REPORT



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**2014**

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## **ANNUAL REPORT 2014**

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*"The future belongs to those who believe in the beauty of their dreams." -  
Eleanor Roosevelt*

**POBA accompanies its customers in daily operations having great projects in mind for them.**





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



# REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

On behalf of the Supervisory Board and on my own behalf, I hereby present the Bank's performance for the year 2014. Despite 2014 being the most challenging year since the onset of the crisis, Podravska banka managed to preserve its position in the Croatian banking market.

Negative macroeconomic trends from the previous years persisted, and feeble signs of economic recovery could only be seen towards the end of the year, which gives us hope that the long-awaited rebound will begin in 2015.

With oil prices bottoming out and the euro experiencing a significant depreciation, the European Central Bank decided to accelerate the quantitative easing, and the European Commission presented an investment plan to help the economy and GDP growth rate in the European Union recover faster.

The performance of the Croatian banking industry in 2014 was surrounded by prevailing optimistic outlooks giving rise to debt aversion and increasing levels of non-performing loans as direct aftermaths of the economic crisis, the high unemployment rate and the continued decline in consumer lending.

Despite the loss for the year 2014, the performance of Podravska banka was satisfactory considering the aggravated and challenging trends occurring throughout the year.

Last year saw intensified commercial activities throughout the business network, mostly aimed at businesses, cost-optimisation measures and intensifying efforts to recover past due receivables. In addition, there were considerable efforts to improve and develop products and services, also thanks to the functionalities of the new IT system implemented in the Bank. Reasonable risk management, market diversification and service quality improvements are means by which Podravska banka seeks to preserve its position in the Croatian banking market.

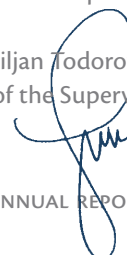
In the year ahead, we expect the implementation of the already launched business combination project of Kreditna banka Zagreb d.d. and Podravska banka d.d., on which both banks are working intensely with the consent of their respective supervisory boards. The expected outcome is a modern and efficient bank holding a share of around 2 percent of the Croatian banking market.

Further strengthening the market position, improving internal efficiency and maximising customer satisfaction are the Bank's key strategic goals for the following years.

It was thanks to the professionalism and commitment of the Bank's management and employees that the plan was achieved in almost all the segments, and hence they fully justified our trust.

On behalf of the Supervisory Board, I wish to thank all our customers and shareholders for the trust they placed in us, as well as express my gratitude and acknowledgement to all the Bank's employees and management for their commitment and exceptional contribution to the business. I also thank my colleagues on the Supervisory Board for their active support and contribution to the Bank's development.

Miljan Todorovic  
Chairman of the Supervisory Board





# REPORT OF THE MANAGEMENT BOARD ON THE AFFAIRS OF THE BANK

The Management Board of Podravska banka d.d. presents the results of operations for the year 2014.

Based on IMF estimates, the global economy grew at a rate of 3.5 percent in 2014, the same as in 2013. Despite the troubles, global economies continued to recover, albeit not at the same pace and speed which varied from country to country. The key growth driver was the rising demand in developed economies, whereas the economic activity in many evolving markets failed.

For the year 2014, the eurozone reported a GDP growth of 0.8 percent. The economy grew below expectations, mainly due to declining investments and low inflation which is expected to continue. Growth in 2015 is expected to be positively influenced by lower energy and fuel prices, expansionary monetary policy of the central bank, the depreciation of the euro and a loosened pressure towards fiscal consolidation of the EU member states.

In 2014 the Croatian economy featured: a high level of foreign and individual consumer debt, the slowly increasing, but still low exports, a lack of capital investments and foreign direct investments, recession, credit-rating downgrades and an increasing number of insolvent entities.

The Croatian economy completed the sixth year of recession with a decline in GDP. The year-on-year GDP fell by 0.4 percent, mostly due to the continuing drop in domestic demand.

The persistent economic crisis also affected the banking industry, resulting in lower lending despite the industry's improved liquidity. A huge increase in non-performing loans, combined with the new regulatory requirements regarding provisioning, added considerably to the higher level of debt provisions. However, due to the high capitalisation rate, i.e. Capital Adequacy Ratio, which has been above 21 percent for many years, the system has remained fairly unaffected by the additional provisions.

With the economy being so, Podravska banka has managed to reassert itself as a stable bank despite the operating loss for the year ended 31 December 2014.

In 2014 Podravska banka continued enhancing its commercial efforts throughout the entire territory of Croatia, which were mainly aimed at entrepreneurs. In addition, the Bank followed up on the efforts to improve and develop products based on the platform of the new IT system and worked on an on-going basis at optimising its costs. The Bank is particularly focused on monitoring placements in its efforts to optimise its credit risk.

In terms of total assets, the Bank ranked 11th out of a total of 28 banks in Croatia in 2014.

At the end of 2014 its total assets amounted to HRK 3.045 billion, 1.3 percent less than in the prior year.

Total deposits increased by 2.1 percent year-on-year and amounted to HRK 2.3 billion. Corporate deposits were the fastest-growing and increased 6.6 percent from 31 December 2013.

Total loans to customers decreased by 1.5 percent, which is the least actual decline year-on-year, with loans to individuals having fallen by 1.3 percent and those to businesses by 1.6 percent.

The share of loans to individuals and corporate customers of the total loans remained unchanged from the previous year, with the first accounting for 28 percent, and the latter for 72 percent.

The Bank remains highly capitalised considering the risk which it is exposed to, despite its regulatory capital having decreased from the 2013 level.

New EU regulations on capital requirements and capital ratios have been in force since the beginning of 2014. The decrease resulted mainly from the new provisions imposing deduction of intangible assets from Tier 1 capital as well from the negative performance for the year caused by increased provisions for loans to a single debtor.

At 31 December 2014 the regulatory capital amounted to HRK 428 million, comprising Tier 1 capital in the amount of HRK 322 million and Tier 2 capital (subordinate and hybrid instruments — bonds issued by the Bank in prior years) in the amount of HRK 106 million.

The year-end Capital Adequacy Ratio (CAR) was 16.39 percent.

Operating income amounted to HRK 129.1 million, with the net interest income accounting for 66.1 percent, the net fee and commission income representing 18.6 percent and the share of other income being 15.3 percent.

The consolidated ordinary income amounts to HRK 103.5 million.

Consolidated loss for the year amounts to HRK 11.3 million.

The loss arose as a result of additional provisions for placements approved to one debtor. These receivables are under litigation and first instance of legal proceedings were brought in favour of the Bank. After the decision becomes final, the Bank expects total collection of the placement. Pursuant to the applicable laws, the Bank has the obligation to implement a system for measuring and monitoring its risk exposures arising from its operations.

The key risks affecting the Bank's performance comprise the credit risk, the liquidity risk, the market risk and the operational risk.

The Bank has set up its risk management through its implemented policies and procedures, organisation and control mechanisms which include monitoring and managing risk concentrations, validation and assessment as well as a system of defined limits and risk appetite for individual business segments.

The risk management system has been designed in accordance with the regulatory quantitative and qualitative requirements. The Bank seeks to manage its risk effectively by constantly improving its processes, methodologies, models, controls and systems.

In 2014 Podravska banka continued to work on improving the IT support in all the business segments as well as for its new sales channels, customer relationship management, treasury management, including qualitative improvements to risk management.

The Bank also focused on commercial activities, in particular on businesses in the short-term. Steps were taken to align the overall operations through specifically designed incentives aimed at cost rationalisation.

The Bank did not redeem any of its shares during the year. As a result, the Bank held a total of 9,203 treasury shares at 31 December 2014, which represents 1.38 percent of the Bank's share capital.

The Podravska Banka Group consists of the Bank and its subsidiary Poba faktor d.o.o.

The share capital of the subsidiary amounts to HRK 3.0 million and is held solely by the Bank.

The company is primarily engaged in factoring activities and bill-of-exchange discounting. It operates in the entire market of the Republic of Croatia. The majority of the factoring customers are of very recent origin, and the impact of the synergies they create in the Bank is shown in the number of new accounts opened with the Bank, increased volume of payment operations and use of other services.

The company's total revenue for 2014 amounts to HRK 4.3 million and the profit it generated for the year amounts to HRK 1.3 million.

The year ahead will also be challenging and difficult, both for the banking industry and the economy in general. In Croatia, market conditions will remain tight and the economy will recover gradually and slowly.

Under such circumstances the Bank will seek to strengthen its commercial activities, especially towards the corporate segment, avoiding high concentrations and preferring short-term, self-supporting lending with an adequate collateral coverage ratio. It will also pay utmost attention to managing the risks and potentially risky receivables.

As in the previous years, the share of the Treasury will play a significant role, mainly by ensuring sufficient liquidity to support the safety of the Bank's operations. Apart from investments, foreign exchange trading and securities trading, the Treasury will play a key role in the financing of commercial activities aimed at increasing the volume of operations and reducing the Bank's expenses.

In addition the Bank will remain committed to meeting the needs of its customers and developing its product lines and services to maintain relationships with its customers in the long run.

The Bank will focus its activities on exploiting all of its internal potentials, optimising costs, aligning with market developments and improving business processes.

For the purpose of compliance with the new factoring regulations, the Bank intends to merge Poba faktor d.o.o. and hence optimise the overall level of operating expenses.

In 2015 the Bank will pay considerable attention to directing its efforts towards the vital project of entering into a business combination with Kreditna banka Zagreb d.d. Once finalised, the transaction will produce a bank with a respectable capital base, with an aggregate share of around 2 percent of the Croatian banking market. The synergies of the combination will be reflected in the possibility of the bank offering its products and services through a geographically much broader network to a sig-

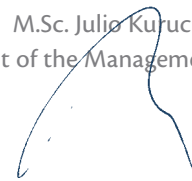
nificantly larger client base, accompanied by optimised business processes, improved operating efficiency and profitability as well as improved management and control of all the risks that arise from the bank's operations.

All these activities are aimed at strengthening the market activities and increasing Podravska banka's share of the Croatian financial market.

Finally, I would take this opportunity to thank all our customers and business partners for the trust they have placed in us as well as for their cooperation which obliges us to keep on improving the quality of our service.

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

M.Sc. Julij Kuruc  
President of the Management Board









*"The road to success is always under construction." -  
Arnold Palmer*

**POBA's products and services allow your business to run in the easiest way.**



An aerial photograph of a large concrete bridge spanning a deep canyon. The bridge has multiple tall, rectangular piers and a curved approach ramp on the left side. The canyon walls are rocky and sparsely vegetated. In the background, a large reservoir is visible, surrounded by more rugged, mountainous terrain. The sky is clear and blue. The overall scene is a mix of natural ruggedness and modern engineering.

**DESCRIPTION  
OF BUSINESS  
OPERATIONS**



## GLOBAL ECONOMY IN 2014

Based on IMF estimates, the global economy grew at a rate of 3.3 percent in 2014, the same as in 2013. Despite the troubles, global economies continued to recover, albeit not at the same pace and speed which varied from country to country. The key growth driver was the rising demand in developed economies, whereas the economic activity in many evolving markets failed.

For the year 2014, the eurozone reported a GDP growth of 0.8 percent. The economy grew slightly below expectations, mainly due to declining investments and low inflation which is expected to continue. Growth in 2015 is expected to be positively influenced by lower energy and fuel prices, expansionary monetary policy of the central bank, the depreciation of the euro and a loosened pressure towards fiscal consolidation of the EU member states.

In 2014, the United States reported a GDP growth of 2.4 percent. The unemployment rate continued to decrease, and inflation remained very low. The economic growth in the period from 2015 to 2016 is expected to increase above 3 percent as a result of higher domestic consumption and the stimulating monetary environment despite the announced higher interest rates. The appreciation of the US dollar will cause exports to decline.

Developing countries and evolving markets continue to report high growth rates, but with economic activity slowing down, especially in China.

Developing countries and evolving markets should remain key drivers of economic growth, although the growth could be slower than in previous years. Asian evolving markets could preserve higher growth rates in the upcoming period, with India having a somewhat better growth potential. The Chinese economy should converge slightly lower, but at more easily sustainable growth rates in terms of structure and balance.

China's economy having reported a growth of 7.3 percent year-on-year somewhat missed expectations due to a shortfall in domestic demand. The risks for the medium-term growth arise from the unbalanced property markets, whose sky-rocketing growth in the previous years added significantly to the overall growth in China.

## CROATIAN ECONOMY IN 2014

At an annual level, real GDP growth was 0.4 percent lower than in 2013. Household consumption expenditure fell by 0.7 percent. Government household expenditure decreased 1.9 percent. Gross capital investments declined 4.0 percent. Exports of goods and services increased by 6.3 percent, and imports rose by 3.0 percent.

The processing industry added most to the 2014 GDP growth, while the construction industry was the key force underlying the decreased level of activity.

At the end of 2014, the average unemployment rate was 17.1 percent, and personal consumption declined 0.7 from 2013. The recovery in the segment of personal consumption remains curbed by the key labour market indicators, as the stagnating trend re-emerged in the number of employed and the real net salaries, with the retail lending continuing to recede.

Of Croatia's key foreign trade partners, the highest positive growth rate in the last quarter of 2014 was achieved with Germany (0.7 %). Austria's economic activity was stagnant, and in Italy the already persistent stagnation continued. As regards countries outside the eurozone, Serbia recovered slightly, while Bosnia and Herzegovina featured an economic downturn probably the most.

In the last one-year period, household deposits decelerated which is a sign that the inflows are effectively scarce. On the other hand, higher corporate deposits, the share of which in the total deposits kept falling during the crisis, were mostly caused by increased lending to public-sector companies who made term deposits on transaction accounts with banks as a result. The temporary nature of the new deposits from the private-sector customers stimulates banks to invest mainly in liquid foreign assets. In September 2014, the total banking assets fell by 1.9 percent year-on-year.

With the repayment of deposits and loans to foreign owners, the equity holders' shares in the equity-side of the banks' balance sheets continued to decrease, and at the end of September it fell to 20.7 percent, net, i.e. to the pre-crisis level. The currently cheap and readily available domestic sources of funding are partly used to reduce the level of debt to foreign owners, which improves capital management and reduces the cost of capital of the financial groups in which they operate. The receding net share of the debt capital on the equity-side of the balance sheets of banks was compensated for by an increased share of other non-residents' deposits.

As a result of the trends described above, liquidity ratios of banks grew significantly. Still, the higher liquidity was mainly due to the lacking opportunities to invest in the private sector. Thus, technically, it is not the current balance-sheet structure that prevents higher lending, but rather the future trend expectations and the risk aversion of banks and their customers.

On the asset-side, the crisis-related pattern of behaviour among the banks prevails, manifesting itself by a growing share of the state. A decline in lending to the government, which occurred in the third quarter, was temporary and compensated with new lending in October. At the same time, debt securities, issued mainly by the national government, were the only category of assets to grow steadily over the crisis period. On the other hand, the shrinking lending to the private sector, along with the worsening quality of the loans, lead to a decrease of their share in the banking assets.

The banking industry is highly capitalised, with the year-end CAR of 231.32 percent, the highest rate over the past ten years.

In 2014, the Croatian National Bank continued to support the high liquidity of the Croatian kuna in the country's monetary system, without tackling the issue of maintaining the stability of the exchange rate of the domestic currency. In doing so, the central bank has adopted a new measure by which it reduced the mandatory creation of the foreign-exchange reserve from related-party funds from 100 percent to 60 percent, having thus equalised the share of the mandatory reserve balances with the CNB for all sources denominated in foreign currencies. As a result, the mandatory reserve funds placed by banks with the CNB decreased by around EUR 80 million, and the mandatory reserve funds kept by banks on foreign accounts rose by the same amount.

The expansionary monetary policy in the second half of 2014 helped preserve the high liquidity of the monetary system established over the past several years. In the period from July to November the average liquidity surplus in the Croatian kuna denominated funds was slightly lower than in the first half of the year, but still remained very high and amounted to HRK 5 billion. The high liquidity resulted in interest rates on the interbank markets remaining very low and the yield figures on treasury bills declining further.

Croatia received from S&P the BB rating with a positive outlook, from Moody's Baa1 with a negative outlook and was downgraded by Fitch from BB+ to BB, with a stable outlook.

According to Zagreb Stock Exchange statistics, there were 221,933 ordinary transactions worth HRK 3.9 billion in total, which is 2.4 percent more than in the prior year.

There were 2,948 OTC ("over the counter") transactions, with a total amount of HRK 26.64 billion, which is up 40.6 percent from 31 December 2013.

The average daily trading volume for 2014 amounts to HRK 15.6 million, an increase of 2.4 percent from the prior year, representing on average 891 daily transactions, 13.0 percent less than in 2013.

The total stock-market capitalisation at the end of 2014 reached HRK 202.1 billion, which represents a growth of 10.0 percent from 2013. The securities currently listed on the Zagreb Stock Exchange comprise 204 shares, 39 bonds, 3 commercial papers and 43 structured products.



The interest rate movements during 2014 reveal a stagnating trend, with the rates remaining at an all-time low almost the entire year. A short section of the curve reveals fluctuations occurring in the second half of the year as a result of a higher demand for the domestic currency. The reasons underlying the stagnating interest rates can be found in the low economic activity, and the consequential lower loan demand, as well as in the measures of the CNB aimed at keeping the system highly liquid. The overnight ZIBOR on the interbank market fell from 0.50 percent at the end of 2013 to 0.43 percent at the end of 2014. The other end of the curve also features a decline, as the annual ZIBOR fell in the same period from 1.96 percent to the historical low of 1.78 percent.

The following macroeconomic indicators were reported in 2014:

	<b>VALUE</b>
GROSS DOMESTIC PRODUCT, GROWTH RATE, YEAR-ON-YEAR CHANGE IN %	-0.5
CONSUMER PRICE INDEX, YEAR-ON-YEAR CHANGE IN %	-0.2
CURRENT ACCOUNT (AS A % OF GDP)	0.7
EXPORTS OF GOODS AND SERVICES (AS A % OF GDP)	46.2
IMPORTS OF GOODS AND SERVICES (AS A % OF GDP)	44.9
EXTERNAL DEBT OF THE REPUBLIC OF CROATIA, € BILLIONS	46.71
PUBLIC DEBT, AS A PERCENTAGE OF GDP	80.1
AVERAGE NET SALARY, IN HRK	5,665
UNEMPLOYMENT RATE (%)	19.6
NUMBER OF UNEMPLOYED, OFFICIAL EMPLOYMENT BUREAU (HZZ) STATISTICS	316,763
AVERAGE HRK/USD EXCHANGE RATE	5.7493
AVERAGE HRK/EUR EXCHANGE RATE	7.6300

Source: Croatian Bureau of Statistics, CNB, MF, Raiffeisen Research

# PODRAVSKA BANKA - PERFORMANCE OVERVIEW

## BUSINESS DESCRIPTION

### PRODUCTS AND SERVICES

The Bank seeks to respond to the needs of individuals, small enterprises and business, as its target customers, by improving its products and investing in the development of new technologies.

Adaptability and competitiveness are the key aspects considered in providing financial support to customers.

Therefore, the Bank pays a lot of attention to the adequate education of its staff in an effort to make their professional skills meet customer expectations.

The successfully implemented new core banking system, which included the informatisation of all the operating segments of the Bank, has enabled the Bank to set up new technological processes that improve its customer relationship management, profitability, sales channels as well as product and service management.

The new system enabled additional support and improvement of the business processes at the Treasury and the Investment Banking divisions of the Bank, as well as of the customer relationship, lending, recovery, decision-making, card operations and regulatory reporting processes.

The new functionalities in place enabled the Bank to offer its customers new services and products which comprise the following:

- issuing POBA Maestro® *PayPass*™ card to facilitate expedient and safe contact-free payment at envisaged EFTPOS terminals;
- m-banking services, mPOBA, to individuals, featuring ShootPay functionality that enables simple payment transactions based on 2D barcode scanning;
- new e-banking functionalities, POBA*klik*, and a broader palette of e-banking services;
- POBA *eBroker*, a web-based platform for trading securities listed on the Zagreb Stock Exchange.
- issuing VISA *Prepaid* gift cards, in cooperation with the Bank's business partners, enabling user-friendly and safe payments at the points of sale;
- instalment payments using POBA Maestro® *PayPass*™ and POBA MasterCard® cards.

Thanks to the spreading use of 2D barcodes on payment orders, the Bank has equipped its branches with barcode readers and hence improved the expediency of payments at the counters.

In 2014 Podravska banka was granted the principal status under VISA-e and MasterCard schemes. The principal status is a prerequisite for further development in the card operations segment which the Bank has identified as its strategic target.

The 2014 development cycle was highly dynamic, involving the development of new current account packages, paying invoices at ATMs and Info-kiosks, with Podravska banka being the first to provide this type of ATM service in Croatia.

Implementing the ATM depositing functionality has been considered, and the use of ATS devices will enable a complete redesign of the business processes at branches. In cooperation with a partner, the Bank is developing and implementing mobile POS devices to win small and medium-sized entities that accept payment cards.

The services provided by the Treasury and the Investment Banking divisions (custody of financial instruments, brokerage, etc.) are being permanently improved, both locally and globally. The offer of margin loans to purchase financial instruments as well as Lombard loans with pledged securities as collateral has been refined to become more competitive on the market. This has been achieved by expanding the list of eligible domestic and foreign financial instruments and revising lending terms and conditions.

Factoring remains a strategic service on offer by the Bank, as it facilitates the financing of businesses through the sale of short-term receivables not yet due.

To improve access to the EU funding for its customers, Podravska banka has been cooperating with WYG savjetovanje d.o.o. through which it informs its customers about the current opportunities to avail themselves of the EU funds, as well as advice and financial support at every stage of the application process as well as in the implementation of EU-funded projects.

To underpin the efforts of the local communities to attract EU funding, Podravska banka arranged, as part of its corporate social responsibility, training courses on EU funds for public-sector stakeholders (the City of Koprivnica and Koprivnički Poduzetnik Initiative). The training programme comprised the following workshops: 'Public-Private Partnerships and the EU Funds', 'Cost-Benefit Analysis', 'Public Procurement and FIDIC Rules' and 'Project Cycle Management'. More than 60 employees of the City management, city-owned companies and institutions, schools and nursery schools participated in those workshops worth in total over HRK 100,000.00 and funded by POBA.

POBA, as the exclusive partner of Intermarket Diamond Business (the top market maker for investment diamond trading in Italy), acts as the intermediary for Croatia in the sale of investment diamonds.

## DEPOSIT OPERATIONS

In 2014 total deposits increased by 2.1 percent from the prior year and amount to HRK 2.26 billion. Corporate deposits grew by 6.6 percent and amounted to HRK 584 million at the end of 2014.

Demand deposits decreased by 5.7 percent, and term deposit increased by 5.3 percent, with the retail deposits having declined by 1.1 percent and corporate deposits moving upward 36.6 percent.

TOTAL DEPOSITS	IN HRK THOUSANDS		CHANGE
	31.12.2014	31.12.2013	2014/2013
RETAIL	1,671,652	1,660,564	0.7 %
CORPORATE	584,411	548,182	6.6 %
<b>TOTAL DEPOSITS</b>	<b>2,256,063</b>	<b>2,208,746</b>	<b>2.1 %</b>

TERM DEPOSITS	IN HRK THOUSANDS		CHANGE
	31.12.2014	31.12.2013	2014/2013
RETAIL	1,275,621	1,289,757	-1.1 %
CORPORATE CUSTOMERS	360,342	263,719	36.6 %
<b>TOTAL TERM DEPOSITS</b>	<b>1,635,963</b>	<b>1,553,476</b>	<b>5.3 %</b>

## LENDING

In dealing with its corporate customers, Podravska banka focused its 2014 efforts towards strengthening its depositor base. Collecting deposits is the permanent priority of the Bank, and in 2014 the Bank aimed at attracting new corporate customers mainly to acquire cheaper funds available on demand. The overall poor economic situation and the continuing trend of extinguishing businesses, proactive efforts of the sales staff using publicly available customer bases and field surveys were the main tools that helped the Bank to increase the number of corporate customers throughout the year.

Corporate lending remained based on short-term loans and factoring. Risk minimisation was sought to be achieved by avoiding general-purpose facilities and by extending loans based on known cash flows and to businesses delivering goods and services. This helped increase the safety of recovery because of the known cash flows, higher turnover and profitability, often accompanied by recourse and several linked debtors. Short-term facilities are more frequently renewed, which hence applies at the annual level, and on-going analyses of the key performance indicators of borrowers add to the minimisation of risks.

In 2014 the Bank worked constantly on improving the quality of its loan portfolio, insisting on negotiations with customers whenever they applied for a new loan or extension of an existing facility, with the aim of optimising the level of debt, maturities and acceptability of collateral according to the needs and possibilities of individual customers. Large exposures to individual customers were reduced, collateral instruments were enhanced and certain lending relationships featuring doubtful sustainability in the long run were abandoned.

While doing that, we also managed to win new sound customers and increase our customer base.

In 2014 the Bank cooperated with the Croatian development bank (HBOR) intensely and even expanded the cooperation through Risk Sharing models, involvement in Entrepreneurship Support Measures, the lines of credit schemes, etc. Moreover, we entered into new credit programmes with the Ministry of Entrepreneurship and Crafts "Credit for Success". Measure 1. "Credit for Competitiveness" and Measure 2 "Credit for Success in Business" are agendas enabling the Bank to become actively involved in the Croatian Government programmes aimed at improving the terms of financing Croatian businesses, the competitiveness of the Croatian economy, while preserving existing jobs and creating new ones.

LOANS	IN HRK THOUSANDS		CHANGE
	31.12.2014	31.12.2013	2014/2013
TOTAL LOANS, GROSS	2,035,952	2,067,709	-1.56 %
TOTAL LOAN PROVISIONS	212,268	179,743	18.1 %
<b>TOTAL LOANS, NET OF PROVISIONS</b>	<b>1,823,684</b>	<b>1,887,966</b>	<b>-3.5 %</b>



## TREASURY OPERATIONS

In an effort to reflect more appropriately the actual business processes taking place at the Bank, certain organisational units were renamed in 2014. The Treasury Department became the Financial Market Department, and the Trading Division was renamed the Treasury Division.

Given the continuing high liquidity of the financial system, the Financial Market Department continued to follow suit in the area of receding interest rates and extending the maturities of liabilities, mainly in the form of term deposits. Surplus liquid funds in Croatian kunas were invested mainly in cash and bond funds and government and corporate bonds on the capital market.

Early in the year, tax on interest from savings deposits was introduced, which could cause the behaviour of domestic savings depositors to shift towards converting term-deposit funds in those types of assets that warrant higher yield and are not subject to taxation. These are mainly short-term securities and investments in various bond and equity funds. Although such a trend was not that significant in the early part of the year, the Bank has developed and implemented new financial instruments such as commercial papers and senior bonds to be able to offer to its customers alternative investment instruments should the deposit funds start flowing out.

2015 is expected to be marked by historically low interest rates and the high systemic liquidity. Given the low yields expected in 2015 mainly on domestic treasury bills and the low interest rates on money-market borrowings, the Bank will have a very limited number of options available for investing liquidity surplus in the money market.

Furthermore, given that the reference rates, primarily those in the United States, are expected to increase, the intent is to invest mainly in bonds with average maturities of up to 5 years. The eurozone continues to feature the trend of expansionary monetary policy in combination with quantitative easing, which could have a positive impact on the money markets. This is why investing in securities with a price growth potential while maintaining the coupon yield at the 2014 level of around 4.00 percent will be the target.

Debt securities constitute 62.1 percent of the total portfolio of securities, investments in investment funds account for 28.8 percent, and investments in equity securities represent 9.1 percent of the portfolio.

At 31 December 2014, the market value of the securities portfolio of Podravska banka amounts to HRK 274.1 million, while at 31 December 2013 it amounted to HRK 366.3 million. In terms of currency, euro-denominated debt securities make up 43 percent of the total portfolio, those denominated in the Croatia kuna account for 42 percent, the share of the Swiss franc-denominated portfolio is 2 percent, and 13 percent of the total portfolio is denominated in the US dollar.

In terms of geographic exposure, the majority of the issuers are from Croatia, followed by those from European countries and South-East Europe.

In 2014 the Bank generated net FX trading gains of HRK 5.9 million, while the figure for 2013 was HRK 5.8 million.

The 2014 gains of the Sales Desk from trading in currency pairs with customers amounts to HRK 1.87 million and is close to 2013 levels.

The market value of the equity portfolio at the end of 2014 amounts to 40.1 million, and decreased by HRK 13.3 million from the end of 2013. The year-end equity portfolio featured 55.2 percent of equity securities issued by domestic issuers, whereas those of foreign issuers accounted for 44.8 of the total portfolio.

Investments in investment funds increased from HRK 89.5 million at the end of 2013 to HRK 126.9 million at 31 December 2014.

At 31 December 2014 the value of assets placed under the Bank's custody increased to HRK 744.0 million, representing a significant increase of 87.2 percent from the end of the prior year. HRK 549.8 million of the assets consist of assets in the Croatian market, HRK 53.3 million are assets from the Montenegrin market and assets worth HRK 140.9 million originate from other foreign markets.

## PAYMENT OPERATIONS

The Bank's team of experts, the on-line access to the multi-currency account and the use of modern technologies, payment instruments, along with the availability of day-night safety vaults provide powerful support to Podravska banka in doing business with its clients. As a result, once the multi-currency account was opened, they have selected an expedient, safe and user-friendly option for their domestic and foreign payment operations.

Bearing in mind the costs of payment operations, the Bank offered its customers to conduct their payment operations at the most favourable cost. Thus, it generated a six-percent higher fee and commission income in the payment operations segment than in the previous year. The main characteristic of the payment operations performed in 2014 were the preserved overall volume of foreign payment operations, all payment operations on offer and a higher number of transactions. Foreign payment operations through Poba klik grew significantly (63 %).

Foreign payment operations were also 18 percent above the budgeted cash flows. The volume of the operations by corporate customers also increased, with the outflows being 24 percent and the inflows to business accounts 7 percent higher.

The value of the domestic payment operations declined from the prior year, but their number increased by 10 percent. External payments made using the Poba klik application increased 4 percent.

Total payment transactions performed via Poba klik were worth over HRK 7.5 billion for all currencies, accounting for 25 percent of the total volume of payment operations.

The successful business cooperation with Euroclear Bank Brussels continued, and the use of settlement and custody services for debt and equity securities form the Bank's portfolio, brokerage and custody operations, with the total volume of settlement comprising settlements of over EUR 83 million, USD 10 million as well as more than 2 million of settlements made in the Swiss franc and other currencies.

The Bank traded with over one hundred debt and equity securities of EU and non-EU issuers. The volume of payment operations performed through the Central Clearing and Depository Company (SKDD) in settling the contracted treasury transactions involving securities and fund units/shares was approximately HRK 536 million.

## BUSINESS NETWORK AND SALES CHANNELS

At the end of 2014 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 to its customers free-of-charge cash withdrawals at over 1,000 ATMs within the MB NET throughout Croatia.

The Bank has 680 installed EFTPOS terminals. There were 580,000 transactions through the Bank's EFTPOS terminals in 2014, or 854 transactions per EFTPOS terminal on average.

The number of the Bank's e-banking service (POBAklik) users also increased, and there were 7,438 users at the end of 2014. The number of users using m-POBA, which was introduced in 2014, also increased and reached 469, showing a steady growth along with an increasing volume and number of transactions. At the end of 2014 the Bank had a total of 11,727 POBAsms users.

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

Special attention is paid to managing the business network and adequately equipping the branches to improve the customer service quality. In 2014 the Bank opened in Zagreb, Cvjetni trg, its most modern branch whose unique design represents a shift from the traditional visual identity of a bank branch.

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

At 31 December 2014 Podravska banka had 275 employees, 2.5 percent less than at 31 December 2013. Of the total number of staff, 69 percent are female employees, and the front-office staff accounts for 60 percent of the total staff. The average age of the Bank's employees is 44.

The Bank's development caused certain organisational changes to increase efficiency and optimise the use of the technology and HR resources of the Bank.

Continuous education and professional training are the Bank's primary goals concerning its staff. In 2014 almost all the Bank's employees participated in internal training courses arranged from the various areas of the Bank's operations. At the same time, external education was arranged for around eighty employees.

In 2015 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, net of the 2014 loss, amounts to HRK 396.1 million. This represents an increase of 1.0 percent from 2013 and is mainly due to the Bank's 2013 profit being allocated to reserves. The Bank's shareholders' equity accounts for 13.0 percent of the total sources of funding.

At 31 December 2014 the share capital amounts to HRK 267.5 million and consists of 668,749 ordinary registered shares, each with a nominal value of HRK 400.00.

At 31 December 2014 the Bank held 9,203 treasury shares, which are carried at cost.

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

The Bank's regulatory capital at the end of 2014 amounted to HRK 428 million, of which HRK 322 million represent Tier 1 capital and HRK 106 million Tier 2 capital. Tier 2 capital includes subordinated bonds in the amount of HRK 53 million and hybrid bonds in the amount of HRK 55 million issued by the Bank in previous years.

The capital adequacy ratio (CAR) for 2014 is 16.39 percent.

## INCOME STATEMENT

In 2014 the Podravska Banka Group generated a pre-tax loss in the amount of HRK 13.9 million, whereas the loss attributable to the Bank amounts to HRK 15.3 million.

The loss was due to higher provisions for losses on loans to a single debtor which were brought to court. The impairment loss did not occur because of the irrecoverability of the loans, but rather because of the adoption of the regulatory requirement to form additional provisions due to the increased number of days in default, despite the expected recovery in the future.

The consolidated operating income for the year amounts to HRK 130.5 million, with the operating income of the Bank amounting to HRK 129.1 million, slightly below the figure of the previous year.

The consolidated net interest income increased 2 percent from 2013, and the net interest income of the Bank increased 2.3 percent from the end of the previous year. This is a result of the on-average lower interest rates on placements to customers, but mainly due to reduced interest expense on customer deposits.

Net interest income accounts for 66.1 percent of the Bank's operating income, net fee and commission income represents 18.6 percent, and net gains on the sale of available-for-sale securities, the net FX trading gains, rental and other income account in aggregate for 15.3 percent of the total operating income.

Operating expenses, which include depreciation and amortisation charge, amount to HRK 144.4 million and increased by 11.9 percent from the prior year, resulting also from the higher loan loss provisions. The share of administrative expenses decreased by HRK 0.5 million year-on-year, whereas the depreciation/amortisation charge decreased by HRK 2 million. As a result of applying a conservative policy and applicable regulations, the provisioning costs and impairment losses increased from HRK 17.7 million to HRK 35.6 million.

The share of the provisions in the gross loans increased from 8.7 percent in 2013 to 10.4 percent in 2014. At the end of 2014 the total loan provision increased by HRK 32 million from the prior year and reached HRK 212 million.

In 2014 the Bank generated a loss that will be covered from operations of future periods. We hereby present the unaudited financial information that the Bank would realise in 2014 if the previously mentioned court case had ended and the receivables had been collected prior to 31 December 2014.



Pro forma consolidated statement of comprehensive income for the year ended 31 December 2014

GROUP IN '000 HRK	AUDITED	ADJUSTMENT	PRO FORMA (UNAUDITED)
INTEREST AND SIMILAR INCOME	153,676	-	153,676
INTEREST AND SIMILAR EXPENSE	(67,240)	-	(67,240)
<b>NET INTEREST INCOME</b>	<b>86,436</b>	<b>-</b>	<b>86,436</b>
FEE AND COMMISSION INCOME	36,672	-	36,672
FEE AND COMMISSION EXPENSE	(12,388)	-	(12,388)
<b>NET FEE AND COMMISSION INCOME</b>	<b>24,284</b>	<b>-</b>	<b>24,284</b>
OTHER OPERATING INCOME, NET	19,740	-	19,740
<b>OPERATING INCOME</b>	<b>130,460</b>	<b>-</b>	<b>130,460</b>
IMPAIRMENT LOSSES AND PROVISIONS	(36,593)	(19,106)	(17,487)
ADMINISTRATIVE EXPENSES	(100,344)	-	(100,344)
DEPRECIATION AND AMORTISATION	(7,501)	-	(7,501)
<b>PROFIT BEFORE TAXATION</b>	<b>(13,978)</b>	<b>(19,106)</b>	<b>5,128</b>
INCOME TAX EXPENSE	2,651	3,821	(1,170)
<b>NET PROFIT FOR THE YEAR</b>	<b>(11,327)</b>	<b>(15,285)</b>	<b>3,958</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
NET INCREASE IN FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL ASSETS	2,296	-	2,296
DEFERRED TAX RECOGNISED IN EQUITY	(459)	-	(459)
<b>OTHER COMPREHENSIVE INCOME</b>	<b>1,837</b>	<b>-</b>	<b>1,837</b>
<b>TOTAL COMPREHENSIVE INCOME AFTER TAX</b>	<b>(9,490)</b>	<b>(15,285)</b>	<b>5,795</b>
ATTRIBUTABLE TO:			
- SHAREHOLDERS OF THE PARENT COMPANY	(9,490)	(15,285)	5,795
- NON-CONTROLLING INTERESTS	-	-	-
<b>EARNINGS PER SHARE FOR SHAREHOLDERS OF THE PARENT COMPANY</b>	<b>HRK (16.94)</b>		<b>HRK 5.92</b>

Pro forma consolidated statement of financial position as of 31 December 2014

GROUP IN '000 HRK	AUDITED	ADJUSTMENT	PRO FORMA (UNAUDITED)
<b>ASSETS</b>			
CASH AND AMOUNTS DUE FROM BANKS	230,254	-	230,254
BALANCES WITH THE CROATIAN NATIONAL BANK	199,831	-	199,831
PLACEMENTS WITH OTHER BANKS	47,901	-	47,901
LOANS AND ADVANCES TO CUSTOMERS	1,827,205	(19,106)	1,846,311
FINANCIAL ASSETS AVAILABLE FOR SALE	446,429	-	446,429
FINANCIAL ASSETS HELD TO MATURITY	88,896	-	88,896
INTANGIBLE ASSETS	48,131	-	48,131
PROPERTY AND EQUIPMENT	82,941	-	82,941
DEFERRED TAX ASSETS	8,148	3,143	5,005
OTHER ASSETS	64,305	678	63,627
<b>TOTAL ASSETS</b>	<b>3,044,041</b>	<b>(15,285)</b>	<b>3,059,326</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
AMOUNTS DUE TO OTHER BANKS	105,880	-	105,880
AMOUNTS DUE TO CUSTOMERS	2,255,603	-	2,255,603
OTHER BORROWED FUNDS	111,059	-	111,059
OTHER LIABILITIES	53,186	-	53,186
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	3,907	-	3,907
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,571	-	131,571
<b>TOTAL LIABILITIES</b>	<b>2,661,206</b>	<b>-</b>	<b>2,661,206</b>
<b>SHAREHOLDERS' EQUITY</b>			
SHARE CAPITAL	267,500	-	267,500
SHARE PREMIUM	3,015	-	3,015
TREASURY SHARES	(11,082)	-	(11,082)
OTHER RESERVES	134,729	-	134,729
PROFIT FOR THE YEAR	(11,327)	(15,285)	3,958
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK</b>	<b>382,835</b>	<b>(15,285)</b>	<b>398,120</b>
NON-CONTROLLING INTEREST	-	-	-
<b>TOTAL EQUITY</b>	<b>382,835</b>	<b>(15,285)</b>	<b>398,120</b>
<b>TOTAL LIABILITIES, AND EQUITY</b>	<b>3,044,041</b>	<b>(15,285)</b>	<b>3,059,326</b>

Pro forma unconsolidated statement of comprehensive income for the year ended 31 December 2014

BANK IN '000 HRK	AUDITED	ADJUSTMENT	PRO FORMA (UNAUDITED)
INTEREST AND SIMILAR INCOME	152,597	-	152,597
INTEREST AND SIMILAR EXPENSE	(67,258)	-	(67,258)
<b>NET INTEREST INCOME</b>	<b>85,339</b>	<b>-</b>	<b>85,339</b>
FEE AND COMMISSION INCOME	36,366	-	36,366
FEE AND COMMISSION EXPENSE	(12,388)	-	(12,388)
<b>NET FEE AND COMMISSION INCOME</b>	<b>23,978</b>	<b>-</b>	<b>23,978</b>
OTHER OPERATING INCOME, NET	19,788	-	19,788
<b>OPERATING INCOME</b>	<b>129,105</b>	<b>-</b>	<b>129,105</b>
IMPAIRMENT LOSSES AND PROVISIONS	(35,627)	(19,106)	(16,521)
ADMINISTRATIVE EXPENSES	(101,250)	-	(101,250)
DEPRECIATION AND AMORTISATION	(7,493)	-	(7,493)
<b>PROFIT BEFORE TAXATION</b>	<b>(15,265)</b>	<b>(19,106)</b>	<b>3,841</b>
INCOME TAX EXPENSE	2,651	3,821	(1,170)
<b>NET PROFIT FOR THE YEAR</b>	<b>(12,614)</b>	<b>(15,285)</b>	<b>2,671</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
NET INCREASE OF FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL ASSETS	2,296	-	2,296
DEFERRED TAX RECOGNISED IN EQUITY	(459)	-	(459)
<b>OTHER COMPREHENSIVE INCOME</b>	<b>1,837</b>	<b>-</b>	<b>1,837</b>
<b>TOTAL COMPREHENSIVE INCOME AFTER TAX</b>	<b>(10,777)</b>	<b>(15,285)</b>	<b>4,508</b>
<b>EARNINGS PER SHARE FOR SHAREHOLDERS OF THE PARENT COMPANY</b>	<b>HRK (18.86)</b>		<b>HRK 3.99</b>

Pro forma unconsolidated statement of financial position as of 31 December 2014

<b>BANK IN '000 HRK</b>	<b>AUDITED</b>	<b>ADJUSTMENT</b>	<b>PRO FORMA (UNAUDITED)</b>
<b>ASSETS</b>			
CASH AND AMOUNTS DUE FROM BANKS	230,253	-	230,253
BALANCES WITH THE CROATIAN NATIONAL BANK	199,831	-	199,831
PLACEMENTS WITH OTHER BANKS	47,901	-	47,901
LOANS AND ADVANCES TO CUSTOMERS	1,823,684	(19,106)	1,842,790
FINANCIAL ASSETS AVAILABLE FOR SALE	446,429	-	446,429
FINANCIAL ASSETS HELD TO MATURITY	88,896	-	88,896
INVESTMENTS IN SUBSIDIARIES	4,770	-	4,770
INTANGIBLE ASSETS	48,128	-	48,128
PROPERTY AND EQUIPMENT	82,941	-	82,941
DEFERRED TAX ASSETS	8,148	3,143	5,005
OTHER ASSETS	64,260	678	63,582
<b>TOTAL ASSETS</b>	<b>3,045,241</b>	<b>(15,285)</b>	<b>3,060,526</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
AMOUNTS DUE TO OTHER BANKS	105,880	-	105,880
AMOUNTS DUE TO CUSTOMERS	2,256,063	-	2,256,063
OTHER BORROWED FUNDS	111,059	-	111,059
OTHER LIABILITIES	53,282	-	53,282
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	3,907	-	3,907
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,571	-	131,571
<b>TOTAL LIABILITIES</b>	<b>2,661,762</b>	<b>-</b>	<b>2,661,762</b>
<b>SHAREHOLDERS' EQUITY</b>			
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)	(15,285)	2,671
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>383,479</b>	<b>(15,285)</b>	<b>398,764</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>3,045,241</b>	<b>(15,285)</b>	<b>3,060,526</b>

## BUSINESS PERFORMANCE OF POBA FAKTOR D.O.O.

POBA faktor d.o.o. is a financial institution engaged in factoring activities since 16 April 2012. The Company is fully owned by Podravska banka and its share capital amounts to HRK 3.0 million.

The total volume of transactions for 2014 amounts to HRK 71.5 million, of which HRK 35.0 million were generated from the domestic factoring activities and HRK 36.0 million from the bill-of-exchange discounting operations.

The total income of the company for the year 2014 amounts to HRK 4.2 million and its total expenses amount to HRK 2.9 million, and the profit for the year amounts to HRK 1.3 million.

Credit risk represents the key risk to which the company is exposed and is defined as the inability of a debtor to settle the amounts owed on maturity. The Company manages the risk by performing upfront analyses of the potential borrower's credit risk, monitoring credit risk and exposures, in accordance with the internal policies and rules of the Group.

Despite the unfavourable business environment in 2014, the company closed the year with a profit higher than the last year's figure. The synergies of doing business with Podravska banka d.d. continued to be felt, and the majority of the company's customers became also the customers of the Bank, as they opened their business accounts with the Bank and started using other services and products offered by the Bank.

The market surveying aimed at identifying and winning new customers as a key business priority, will continue in 2015.

The most significant event for the factoring company in 2014 was the adoption of the Factoring Act, which became effective on 8 August 2014. Factoring companies have been granted a transitory period of one year to full compliance with the Act, which expires on 8 August 2015. The Company has not initiated any changes to reflect the statutory changes pursuant to the provisions of the Act because of the intended merger with Podravska banka d.d., its parent.

# 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 2014 Annual Questionnaire is an inseparable part of this Statement and contains responses to the questions and the required explanations.

The information about the internal controls and risk management as well as about the Bank's shareholders are 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, the Management Board consists of three 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 cause 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.

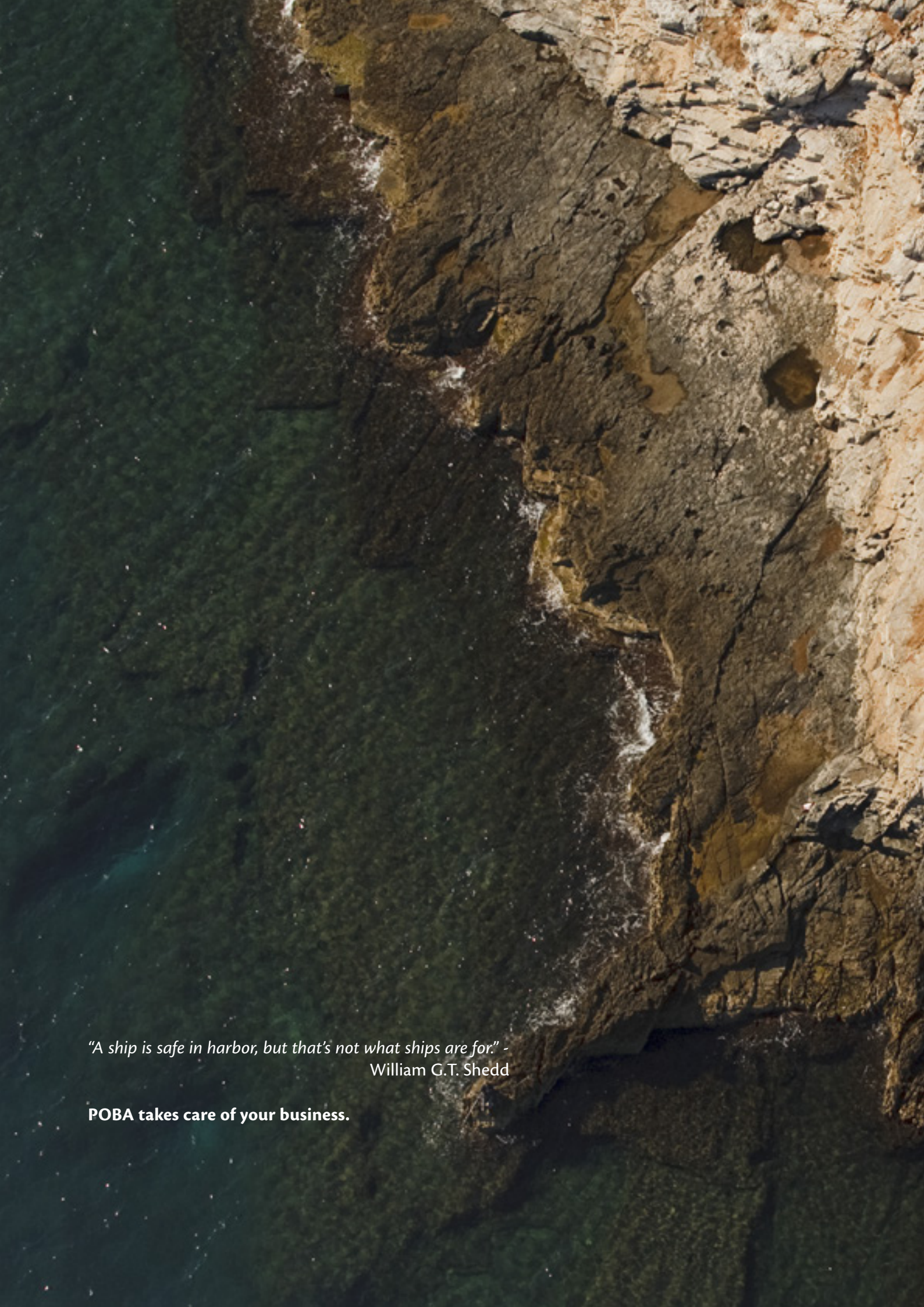
Rules applicable to amending the Bank's Statute are provided in the Statute. Decisions on such amendments are adopted by the Bank's General Shareholders' Assembly in accordance with the applicable legislation and the Statute by votes representing at least three-quarters of the share capital in a General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





An aerial photograph of a rugged coastline. The left side of the image shows dark, choppy water. The right side shows a steep, rocky cliff face with various shades of brown, tan, and grey. Waves are breaking against the base of the cliff, creating white foam. The overall scene is dramatic and emphasizes the harshness of the natural environment.

*"A ship is safe in harbor, but that's not what ships are for." -  
William G.T. Shedd*

**POBA takes care of your business.**





**CORPORATE  
GOVERNANCE  
CODE -  
ANNUAL  
QUESTIONNAIRE**



# CORPORATE GOVERNANCE CODE - ANNUAL QUESTIONNAIRE FOR 2014

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. Does the Company have adopted 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 and under equal conditions? (if not, please explain)

YES  NO

8. Has the procedure of issuing of attorney for voting at the general meeting been fully simplified and free of 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 general meeting 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 general meeting, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general meeting of the company, by setting that date prior to the day of holding the meeting and not earlier than six days prior to the day of holding the meeting? (if not, please explain)

YES  NO

11. Was the agenda of the general meeting, as well as all relevant data and documentation with explanations relating to the agenda, announced on the company's website 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 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 meeting 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 meeting by voting through proxy voting (irrespective of whether this is permitted pursuant to the law or the statute), 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 meeting?

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, Marijan Marušić, Board member, Davorka Jakir, 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; in 2014 a Board member Djuro Predovic resigned and his term was ended.

**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 rules of procedure? (if not, please explain)**

YES  NO

**21. Is the Supervisory Board composed of mostly independent members, i.e. 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 reward or remuneration received by 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 meeting or statute 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 the company's reports? (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, if prior approval is necessary  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. Were 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 the services provided by external auditors? (if not, please explain)

YES  NO

40. Did the committee monitor the 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 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 the 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 or the Management 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 its 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 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 company's own website? (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 company's annual report? (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 and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the company's annual report? (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 the company's reports? (if not, please explain)

YES  NO

52. Does the report to be submitted by the Supervisory or Management Board to the general meeting 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 annual, semi-annual and quarterly reports available to the shareholders?

YES  NO

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

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

60. Did the company establish mechanisms to ensure that persons who have access 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? (if so, please explain)**

YES     NO

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

YES     NO

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

YES     NO





*"Strive not to be a success, but rather to be of value." -*  
Albert Einstein

**POBA pays attention to every client.**





**CONSOLIDATED AND  
UNCONSOLIDATED FINANCIAL  
STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2014 TOGETHER  
WITH THE INDEPENDENT  
AUDITOR`S REPORT**



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

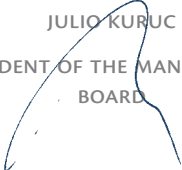

The Management Board of the Bank is required to prepare consolidated and unconsolidated financial statements for each financial year, which give a true and fair view of the financial position of the Bank and the Group and of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group 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 judgments 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 and the Group will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank and the Group together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements they are deemed confirmed by the Management Board and Supervisory Board.

The consolidated and unconsolidated financial statements set out on pages 4 to 99 were authorised by the Management Board on 29 April 2015 for issue to the Supervisory Board and are signed below to signify this.

Consolidated and unconsolidated financial statements were approved by the Management Board on 29 April 2015, and are signed by:

JULIO KURUC	DAVORKA JAKIR
PRESIDENT OF THE MANAGEMENT BOARD	MEMBER OF THE MANAGEMENT BOARD
	

Koprivnica, 29 April 2015

## INDEPENDENT AUDITOR'S REPORT

### *To the Owners of Podravska banka d.d.:*

We have audited the accompanying unconsolidated and consolidated financial statements of Podravska banka d.d. Koprivnica ("the Bank") and its subsidiaries (together "the Group") which comprise unconsolidated and consolidated statements of financial position as at 31 December 2014, the unconsolidated and consolidated statement of profit or loss, unconsolidated and consolidated statement of other comprehensive income, unconsolidated and consolidated statement of changes in equity and unconsolidated and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

The Management Board of the Bank is also responsible for the preparation and fair presentation of the unconsolidated and consolidated financial statements in accordance with statutory accounting requirements for banks in the Republic of Croatia, and for such internal controls the Management Board considers necessary for 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 unconsolidated and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated and consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the unconsolidated and consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group'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 unconsolidated and consolidated financial statements.

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

### *Opinion*

In our opinion, the unconsolidated and consolidated financial statements, present fairly, in all material respects, the financial position of the Bank and the Group at 31 December 2014, and the results of their operations and their 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**

- i. Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No. 62/08; hereinafter: "the Decision"). The Management Board of the Bank has prepared the reporting forms, set out on pages 103 to 120, which comprise the unconsolidated and consolidated balance sheet at 31 December 2014, the unconsolidated and consolidated income statement, the unconsolidated and consolidated statement of changes in equity and the unconsolidated and consolidated statement of cash flows for the year then ended, together with the notes about the reconciliations with the unconsolidated and consolidated statutory financial statements. 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 Croatia, which are set out on pages 4 to 99, but rather a requirement imposed by the above-mentioned decision. The financial information provided in those forms has been derived from the statutory financial statements of the Bank and the Group.
  
- ii. Pursuant to the Accounting Act, the Management Board is also responsible for preparing the Annual Report.  
Our responsibility is to issue an opinion on the consistency of the Annual Report with the unconsolidated and consolidated financial statements based on our audit. Our procedures have been conducted in accordance with the International Standards on Auditing and limited solely to assessing whether information disclosed in the Annual Report is consistent in all material respects with the information presented in the unconsolidated and consolidated financial statements. We have not audited any data or information other than the financial information obtained from the unconsolidated and consolidated financial statements and accounting ledgers. We believe that the performed audit provides a reasonable basis for our audit opinion.  
In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the above mentioned unconsolidated and consolidated financial statements at 31 December 2014.

Branislav Vrtačnik,  
President of the Management Board and Certified auditor  
Deloitte d.o.o.

Zagreb, 19 April 2014



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

IN '000 HRK	NOTES	GROUP 2014	GROUP 2013
INTEREST AND SIMILAR INCOME	3	153,676	157,663
INTEREST AND SIMILAR EXPENSE	3	(67,240)	(72,910)
<b>NET INTEREST INCOME</b>		<b>86,436</b>	<b>84,753</b>
FEE AND COMMISSION INCOME	4	36,672	34,457
FEE AND COMMISSION EXPENSE	4	(12,388)	(10,667)
<b>NET FEE AND COMMISSION INCOME</b>		<b>24,284</b>	<b>23,790</b>
OTHER OPERATING INCOME, NET	5	19,740	24,154
<b>OPERATING INCOME</b>		<b>130,460</b>	<b>132,697</b>
IMPAIRMENT LOSSES AND PROVISIONS	6	(36,593)	(19,061)
ADMINISTRATIVE EXPENSES	7	(100,344)	(100,912)
DEPRECIATION AND AMORTISATION	8	(7,501)	(9,572)
<b>PROFIT BEFORE TAXATION</b>		<b>(13,978)</b>	<b>3,152</b>
INCOME TAX EXPENSE	9	2,651	(822)
<b>NET PROFIT FOR THE YEAR</b>		<b>(11,327)</b>	<b>2,330</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
NET INCREASE OF FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL ASSETS		2,296	562
DEFERRED TAX RECOGNISED IN EQUITY		(459)	(112)
<b>OTHER COMPREHENSIVE INCOME</b>		<b>1,837</b>	<b>450</b>
<b>TOTAL COMPREHENSIVE INCOME AFTER TAX</b>		<b>(9,490)</b>	<b>2,780</b>
ATTRIBUTABLE TO:			
- SHAREHOLDERS OF THE PARENT COMPANY		(9,490)	2,780
- NON-CONTROLLING INTERESTS		-	-
<b>EARNINGS PER SHARE FOR SHAREHOLDERS OF THE PARENT COMPANY</b>	<b>10</b>	<b>HRK (16.94)</b>	<b>HRK 3.48</b>

The accompanying accounting policies and notes on pages 57 to 135 form an integral part of these financial statements.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2014

IN '000 HRK	NOTES	GROUP	GROUP
		31 DECEMBER 2014	31 DECEMBER 2013
<b>ASSETS</b>			
CASH AND AMOUNTS DUE FROM BANKS	11	230,254	268,487
BALANCES WITH THE CROATIAN NATIONAL BANK	12	199,831	212,678
PLACEMENTS WITH OTHER BANKS	13	47,901	62,682
LOANS AND ADVANCES TO CUSTOMERS	14	1,827,205	1,888,968
FINANCIAL ASSETS AVAILABLE FOR SALE	15	446,429	481,962
FINANCIAL ASSETS HELD TO MATURITY	16	88,896	27,191
INTANGIBLE ASSETS	17	48,131	40,765
PROPERTY AND EQUIPMENT	18	82,941	86,101
DEFERRED TAX ASSETS	9	8,148	5,957
OTHER ASSETS	20	64,305	24,622
<b>TOTAL ASSETS</b>		<b>3,044,041</b>	<b>3,099,413</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
AMOUNTS DUE TO OTHER BANKS	21	105,880	69,786
AMOUNTS DUE TO CUSTOMERS	22	2,255,603	2,206,983
OTHER BORROWED FUNDS	23	111,059	257,219
OTHER LIABILITIES	24	53,186	37,752
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	3,907	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	26	131,571	131,162
<b>TOTAL LIABILITIES</b>		<b>2,661,206</b>	<b>2,707,088</b>
<b>SHAREHOLDERS' EQUITY</b>			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(11,082)	(11,082)
OTHER RESERVES	28	134,729	130,562
PROFIT FOR THE YEAR		(11,327)	2,330
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK</b>		<b>382,835</b>	<b>392,325</b>
NON-CONTROLLING INTEREST		-	-
<b>TOTAL EQUITY</b>		<b>382,835</b>	<b>392,325</b>
<b>TOTAL LIABILITIES, AND EQUITY</b>		<b>3,044,041</b>	<b>3,099,413</b>

The accompanying accounting policies and notes on pages 57 to 135 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2014

IN '000 HRK	NOTES	GROUP 2014	GROUP 2013
<b>PROFIT FOR THE YEAR BEFORE TAXATION</b>	<b>9</b>	<b>(13,978)</b>	<b>3,152</b>
<b>ADJUSTMENTS FOR:</b>			
DEPRECIATION AND AMORTISATION	8	7,501	9,572
NET (LOSS)/GAINS ON SALE OF NON-CURRENT TANGIBLE ASSETS	5	(15)	140
INCREASE IN PROVISIONS FOR LOANS AND ADVANCES AND OTHER PROVISIONS	6	36,593	19,061
DIVIDEND INCOME	5	(957)	(1,479)
NET FOREIGN EXCHANGE GAIN FROM ISSUED HYBRID AND SUBORDINATED INSTRUMENTS		403	920
<b>PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS</b>		<b>29,547</b>	<b>31,366</b>
<b>CHANGES IN OPERATING ASSETS</b>			
NET DECREASE/(INCREASE) IN BALANCES WITH THE CROATIAN NATIONAL BANK		12,847	(842)
NET DECREASE/(INCREASE) IN LOANS AND ADVANCES TO CUSTOMERS		25,889	(138,539)
NET (INCREASE)/DECREASE IN PLACEMENTS WITH BANKS		(12,662)	25,729
NET INCREASE IN OTHER ASSETS		(40,672)	(13,159)
INCREASE IN OTHER LIABILITIES		14,293	11,077
INCREASE/(DECREASE) IN AMOUNTS DUE TO OTHER BANKS		36,094	(77,300)
INCREASE IN DEPOSITS		48,620	14,570
INCOME TAXES PAID		1,147	(2,911)
<b>NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES</b>		<b>115,103</b>	<b>(150,009)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
PURCHASES OF PROPERTY AND EQUIPMENT	17,18	(11,767)	(10,942)
CASH RECEIPTS FROM DISPOSAL OF PROPERTY AND EQUIPMENT		75	678
NET DECREASE / (INCREASE) IN FINANCIAL ASSETS AVAILABLE FOR SALE		37,821	(140,844)
CASH RECEIPTS FROM DIVIDEND		957	1,479
INVESTMENTS HELD TO MATURITY		(61,705)	290
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>		<b>(34,619)</b>	<b>(149,339)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
(DECREASE) / INCREASE IN BORROWED FUNDS		(146,160)	48,550
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS		-	52,867
<b>NET CASH (OUTFLOW)/ INFLOW FROM FINANCING ACTIVITIES</b>		<b>(146,160)</b>	<b>101,417</b>
<b>NET DECREASE IN CASH</b>		<b>(65,676)</b>	<b>(197,931)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>11</b>	<b>320,399</b>	<b>518,330</b>
<b>CASH AT END OF PERIOD</b>	<b>11</b>	<b>254,723</b>	<b>320,399</b>

The accompanying accounting policies and notes on pages 57 to 135 form an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

### ATTRIBUTED TO SHAREHOLDERS OF THE PARENT COMPANY

IN '000 HRK	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	PROFIT FOR THE YEAR	TOTAL
<b>BALANCE AT 1 JANUARY 2013</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>115,872</b>	<b>9,439</b>	<b>389,546</b>
ALLOCATION OF 2013 PROFIT	-	-	-	-	9,439	(9,439)	-
OTHER COMPREHENSIVE INCOME	-	-	-	-	449	-	449
PROFIT FOR THE YEAR	-	-	-	-	-	2,330	2,330
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>125,760</b>	<b>2,330</b>	<b>392,325</b>
ALLOCATION OF 2013 PROFIT	-	-	-	-	2,330	(2,330)	-
OTHER COMPREHENSIVE INCOME	-	-	-	-	1,837	-	1,837
LOSS FOR THE YEAR	-	-	-	-	-	(11,327)	(11,327)
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>129,927</b>	<b>(11,327)</b>	<b>382,835</b>

The accompanying accounting policies and notes on pages 57 to 135 form an integral part of these financial statements.

# UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

IN '000 HRK	NOTES	2014	2013
INTEREST AND SIMILAR INCOME	3	152,597	156,366
INTEREST AND SIMILAR EXPENSE	3	(67,258)	(72,940)
<b>NET INTEREST INCOME</b>		<b>85,339</b>	<b>83,426</b>
FEE AND COMMISSION INCOME	4	36,366	33,900
FEE AND COMMISSION EXPENSE	4	(12,388)	(10,667)
<b>NET FEE AND COMMISSION INCOME</b>		<b>23,978</b>	<b>23,233</b>
OTHER OPERATING INCOME, NET	5	19,788	24,181
<b>OPERATING INCOME</b>		<b>129,105</b>	<b>130,840</b>
IMPAIRMENT LOSSES AND PROVISIONS	6	(35,627)	(17,660)
ADMINISTRATIVE EXPENSES	7	(101,250)	(101,742)
DEPRECIATION AND AMORTISATION	8	(7,493)	(9,563)
<b>PROFIT BEFORE TAXATION</b>		<b>(15,265)</b>	<b>1,875</b>
INCOME TAX EXPENSE	9	2,651	(822)
<b>NET PROFIT FOR THE YEAR</b>		<b>(12,614)</b>	<b>1,053</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
NET INCREASE OF FAIR VALUE OF AVAILABLE FOR SALE FINANCIAL ASSETS		2,296	562
DEFERRED TAX RECOGNISED IN EQUITY		(459)	(112)
<b>OTHER COMPREHENSIVE INCOME</b>		<b>1,837</b>	<b>450</b>
<b>TOTAL COMPREHENSIVE INCOME AFTER TAX</b>		<b>(10,777)</b>	<b>1,503</b>
<b>EARNINGS PER SHARE FOR SHAREHOLDERS OF THE PARENT COMPANY</b>	<b>10</b>	<b>HRK (18.86)</b>	<b>HRK 1.57</b>

The accompanying accounting policies and notes on pages 57 to 135 form an integral part of these financial statements.

# UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2014

IN '000 HRK	NOTES	31 DECEMBER 2014	31 DECEMBER 2013
<b>ASSETS</b>			
CASH AND AMOUNTS DUE FROM BANKS	11	230,253	268,486
BALANCES WITH THE CROATIAN NATIONAL BANK	12	199,831	212,678
PLACEMENTS WITH OTHER BANKS	13	47,901	62,682
LOANS AND ADVANCES TO CUSTOMERS	14	1,823,684	1,887,966
FINANCIAL ASSETS AVAILABLE FOR SALE	15	446,429	481,962
FINANCIAL ASSETS HELD TO MATURITY	16	88,896	27,191
INVESTMENTS IN SUBSIDIARIES	19	4,770	4,770
INTANGIBLE ASSETS	17	48,128	40,754
PROPERTY AND EQUIPMENT	18	82,941	86,101
DEFERRED TAX ASSETS	9	8,148	5,957
OTHER ASSETS	20	64,260	24,580
<b>TOTAL ASSETS</b>		<b>3,045,241</b>	<b>3,103,127</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
AMOUNTS DUE TO OTHER BANKS	21	105,880	69,786
AMOUNTS DUE TO CUSTOMERS	22	2,256,063	2,208,746
OTHER BORROWED FUNDS	23	111,059	257,219
OTHER LIABILITIES	24	53,282	37,772
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	3,907	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	26	131,571	131,162
<b>TOTAL LIABILITIES</b>		<b>2,661,762</b>	<b>2,708,871</b>
<b>SHAREHOLDERS' EQUITY</b>			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(11,082)	(11,082)
OTHER RESERVES	28	136,660	133,770
PROFIT FOR THE YEAR		(12,614)	1,053
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>383,479</b>	<b>394,256</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>		<b>3,045,241</b>	<b>3,103,127</b>

The accompanying accounting policies and notes on pages 57 to 135 form an integral part of these financial statements.

# UNCONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2014

IN '000 HRK	NOTES	2014	2013
<b>PROFIT FOR THE YEAR BEFORE TAXATION</b>	<b>9</b>	<b>(15,265)</b>	<b>1,875</b>
<b>ADJUSTMENTS FOR:</b>			
DEPRECIATION AND AMORTISATION	8	7,493	9,563
NET GAINS ON SALE OF NON-CURRENT TANGIBLE ASSETS	5	(15)	140
INCREASE IN PROVISIONS FOR LOANS AND ADVANCES AND OTHER PROVISIONS	6	35,627	17,660
DIVIDEND INCOME	5	(957)	(1,479)
NET FOREIGN EXCHANGE GAIN FROM ISSUED HYBRID AND SUBORDINATED INSTRUMENTS		403	920
<b>PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS</b>		<b>27,286</b>	<b>28,679</b>
<b>CHANGES IN OPERATING ASSETS</b>			
NET INCREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		12,847	(842)
NET (INCREASE) / DECREASE IN LOANS AND ADVANCES TO CUSTOMERS		29,381	(130,899)
NET DECREASE / (INCREASE) IN PLACEMENTS WITH BANKS		(12,662)	25,729
NET INCREASE IN OTHER ASSETS		(40,676)	(14,397)
INCREASE IN OTHER LIABILITIES		14,369	12,315
DECREASE IN AMOUNTS DUE TO OTHER BANKS		36,094	(77,300)
INCREASE IN DEPOSITS		47,317	9,612
INCOME TAXES PAID		1,147	(2,911)
<b>NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES</b>		<b>115,103</b>	<b>(150,014)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
PURCHASES OF PROPERTY AND EQUIPMENT	17,18	(11,767)	(10,936)
CASH RECEIPTS FROM DISPOSAL OF PROPERTY AND EQUIPMENT		75	678
NET (INCREASE)/DECREASE IN FINANCIAL ASSETS AVAILABLE FOR SALE		37,821	(140,844)
CASH RECEIPTS FROM DIVIDEND		957	1,479
INVESTMENTS HELD TO MATURITY		(61,705)	290
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(34,619)</b>	<b>(149,333)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
BORROWED FUNDS		(146,160)	48,550
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS		-	52,867
<b>NET CASH (OUTFLOW)/ INFLOW FROM FINANCING ACTIVITIES</b>		<b>(146,160)</b>	<b>101,417</b>
<b>NET DECREASE IN CASH</b>		<b>(65,676)</b>	<b>(197,930)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>11</b>	<b>320,398</b>	<b>518,328</b>
<b>CASH AT END OF PERIOD</b>	<b>11</b>	<b>254,722</b>	<b>320,398</b>

The accompanying accounting policies and notes on pages 57 to 135 form an integral part of these financial statements.



## UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF 31 DECEMBER 2014

'000 HRK	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	PROFIT FOR THE YEAR	TOTAL
<b>BALANCE AT 1 JANUARY 2013</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>120,390</b>	<b>8,129</b>	<b>392,754</b>
ALLOCATION OF 2012 PROFIT	-	-	-	-	8,129	(8,129)	-
OTHER COMPREHENSIVE LOSS	-	-	-	-	449	-	449
PROFIT FOR THE YEAR	-	-	-	-	-	1,053	1,053
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>128,968</b>	<b>1,053</b>	<b>394,256</b>
ALLOCATION OF 2013 PROFIT	-	-	-	-	1,053	(1,053)	-
OTHER COMPREHENSIVE INCOME	-	-	-	-	1,837	-	1,837
LOSS FOR THE YEAR	-	-	-	-	-	(12,614)	(12,614)
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>131,858</b>	<b>(12,614)</b>	<b>383,479</b>

The accompanying accounting policies and notes on pages 57 to 135 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

## 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. The Bank and POBA faktor d.o.o. ("subsidiary") constitute the Group. These financial statements are the financial statements of the Bank and the Group as defined in International Accounting Standard 27: "Consolidated and Separate Financial Statements".

The principal accounting policies applied in the preparation of these financial statements are summarised below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards as adopted by the EU, reference may be made to certain Standards in describing the accounting policies of the Group; unless otherwise stated, these references are to Standards applicable at 31 December 2014.

### 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. In preparing the financial statements, management has made judgments estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and disclosure of commitments and contingencies 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 judgments 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. Judgments 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.

The Bank also 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 EU in periods commencing after 31 December 2014, and which may have an impact on the Bank and the Group.

#### ***Standards and Interpretations effective in the current period***

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- **IFRS 10 “Consolidated Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IFRS 11 “Joint Arrangements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IFRS 12 “Disclosures of Interests in Other Entities”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IAS 27 (revised in 2011) “Separate Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance**, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements” – Investment Entities**, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IAS 32 “Financial instruments: presentation” – Offsetting Financial Assets and Financial Liabilities**, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IAS 36 “Impairment of assets” – Recoverable Amount Disclosures for Non-Financial Assets**, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Novation of Derivatives and Continuation of Hedge Accounting**, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards has not led to any changes in the Bank's and the Group's accounting policies.

**Standards and Interpretations issued by the IASB and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU were in issue but not yet effective:

- **IFRIC 21 “Levies”** adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

**Standards and Interpretations issued by the IASB but not yet adopted by the EU**

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 29 April 2015.

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016).
- **IFRS 15 “Revenue from Contracts with Customers”** (effective for annual periods beginning on or after 1 January 2017).
- **IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IFRS 11 “Joint Arrangements”** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 19 “Employee Benefits”** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014).
- **IAS 27 “Separate Financial Statements”** - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).
- **Amendments to various standards “Improvements to IFRSs cycle 2010-2012”** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- **Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

The Management of the Bank and the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's and the Group's financial assets and financial liabilities (e.g. the Bank's investments in debt securities classified as available for sale to be measured at fair value at the end of the reporting period, of which the change in fair value 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 entity's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"**, would not significantly 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 effective exchange rate as at 31 December 2014 was 7.661471 HRK to 1EUR (2013: HRK 7.637643.); 6.302107 HRK to USD 1 (2013: HRK 5.549).

#### 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.

#### Basis of consolidation

##### **a) Consolidated and separate financial statements**

Financial statements are presented for the Bank and the Group. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiary entities (disclosed in Note 19). The separate, unconsolidated financial statements of the Bank are also presented. As set out in Note 19, "Investment in subsidiaries" the Parent has classified its 100% investment in POBA faktor d.o.o., as a subsidiary, whose financial statements are included in the consolidated financial statements of the Group, although the Parent does not have a majority share, but it is in accordance with the regulations of the CNB.

##### **b) Subsidiaries**

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

***c) Transactions with non-controlling interest***

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the statement of comprehensive income. Purchases from non-controlling interests may result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

***d) Associates***

Associates are all entities over which the Group has significant influence but not control. In the Group financial statements, investments in associates are accounted for using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

***e) Transactions eliminated on consolidation***

Intra-group balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of accounting

The Group maintains its accounting records in Croatian kuna (HRK) and in accordance with the Croatian law and the accounting principles and practices observed by financial enterprises 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 of fees receivable from enterprises for loans and guarantees granted and other services provided by the Group, 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 Group has receivables and liabilities originating in HRK, which are linked to foreign currencies with one-way currency clause. Due to this clause the Group 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 Group revalues its receivables and liabilities linked to this clause by the agreed reference 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 Group has a constructive obligation arising from a contract or past practice. A provision is made for accrued vacation days by reference to the unused vacation days at the reporting date.

### Personnel social contributions

According to local legislation, the Group 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:

	2014	2013
CONTRIBUTIONS FOR PENSION FUND	20%	20%
CONTRIBUTIONS FOR STATE HEALTH FUND	15%	13%
CONTRIBUTIONS FOR THE STATE EMPLOYMENT BUREAU	1.7%	1.7%
INJURIES AT WORK	0.5%	0.5%

The Group 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 Group 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 Group has no additional retirement benefit plan and, therefore, has no further obligations in respect of employee retirement benefits. In addition, the Group 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 differences 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 Group re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets.

The Group 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 Group'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 Group 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 Group are categorised into portfolios in accordance with the Group's intent on the acquisition and pursuant to the Group'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 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 Group 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 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 Group assesses on a regular basis whether there is any objective evidence that an investment held to maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at 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 Group 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 Group 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 Group upon initial recognition designates as available for sale; or (c) those for which the Group 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 Group 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 Group 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, initiation of bankruptcy proceedings and deterioration of the borrower's competitive position. If the Group determines that no objective evidence of impair-

ment exists for an individually assessed financial asset, whether significant or not, the Group 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.

### 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 portfolio 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 Group 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 "Reserves and retained profits", 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.

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 of the dividend, 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 Group 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 and loans and advances 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, property and equipment 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:

	2014	2013
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 enterprise 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 4 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 Group 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 Group 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 Group's statement of financial position (the details are set out in Note 29).

## Dividend policy

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

## Significant accounting judgements and estimates

### **Judgements**

The Group 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 Group'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 investments**

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances (such as selling an insignificant amount 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 adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### ***Allowances for impairment of loans and receivables***

The Group regularly reviews its loans and receivables to assess impairment. The Group 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 Group 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 Group uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

#### ***Provisions for court cases***

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are maintained at the level that the Group's management considers sufficient for absorption of incurred losses. Management 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 Group's profit is subject to corporate income tax in Croatia. The Group 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.

### 3. INTEREST AND SIMILAR INCOME AND EXPENSE

IN '000 HRK	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
<b>INTEREST INCOME</b>				
COMPANIES	86,260	93,303	85,181	92,006
CITIZENS	40,928	44,648	40,928	44,648
SECURITIES	17,569	13,442	17,569	13,442
BANKS	889	2,033	889	2,033
PUBLIC AND OTHER SECTORS	8,030	4,237	8,030	4,237
	<b>153,676</b>	<b>157,663</b>	<b>152,597</b>	<b>156,366</b>
<b>INTEREST EXPENSE</b>				
COMPANIES	(13,226)	(12,617)	(13,226)	(12,617)
CITIZENS	(44,362)	(50,175)	(44,362)	(50,175)
BANKS	(7,564)	(6,897)	(7,582)	(6,927)
PUBLIC AND OTHER SECTORS	(2,088)	(3,221)	(2,088)	(3,221)
	<b>(67,240)</b>	<b>(72,910)</b>	<b>(67,258)</b>	<b>(72,940)</b>
<b>NET INTEREST INCOME</b>	<b>86,436</b>	<b>84,753</b>	<b>85,339</b>	<b>83,426</b>

Interest income also includes deferred fees on loans in total amount of HRK 12,259 thousand (2013: HRK 13,615 thousand) which are recognised applying the effective interest rate methodology.

IN '000 HRK	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
<b>INTEREST INCOME ON:</b>				
SUBSTANDARD LOANS	3,983	2,688	3,983	2,688
NON-PERFORMING LOANS	746	348	746	348
	<b>4,729</b>	<b>3,036</b>	<b>4,729</b>	<b>3,036</b>



## 4. FEE AND COMMISSION INCOME AND EXPENSE

IN '000 HRK	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
<b>FEE AND COMMISSION INCOME</b>				
PAYMENT TRANSACTION FEES AND COMMISSIONS	13,635	12,840	13,635	12,840
FEES AND COMMISSIONS ON CREDIT CARD SERVICES	14,199	13,042	14,199	13,042
FEES AND COMMISSIONS FROM LENDING OPERATIONS	3,116	3,619	2,810	3,062
FEES AND COMMISSIONS ON SECURITIES TRADING	932	758	932	758
OTHER FEES AND COMMISSION INCOME	4,790	4,198	4,790	4,198
	<b>36,672</b>	<b>34,457</b>	<b>36,366</b>	<b>33,900</b>
<b>FEE AND COMMISSION EXPENSE</b>				
CASH OPERATION FEES AND COMMISSIONS	(5,038)	(5,432)	(5,038)	(5,432)
PAYMENT TRANSACTION CHARGES	(2,918)	(2,658)	(2,918)	(2,658)
INTERBANK SERVICE FEES	(593)	(494)	(593)	(494)
OTHER FEE AND COMMISSION EXPENSE	(3,839)	(2,083)	(3,839)	(2,083)
	<b>(12,388)</b>	<b>(10,667)</b>	<b>(12,388)</b>	<b>(10,667)</b>
<b>NET FEE AND COMMISSION INCOME</b>	<b>24,284</b>	<b>23,790</b>	<b>23,978</b>	<b>23,233</b>

Other fee and commission income consist mainly of fees collected on the Bank's counters from customers for the payments made and amounts to HRK 2,654 thousand (2013: HRK 2,022 thousand).

## 5. OTHER OPERATING INCOME, NET

IN '000 HRK	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
FOREIGN EXCHANGE TRADING GAIN	5,916	5,795	5,916	5,795
REFUND OF COURT COSTS	2,636	1,088	2,636	1,088
NET GAIN / (LOSS) ON DEALINGS IN AVAILABLE-FOR-SALE SECURITIES	6,936	5,809	6,936	5,809
DIVIDEND INCOME	957	1,479	957	1,479
LEASE INCOME	1,775	919	1,823	964
NET GAIN ON DISPOSAL OF PROPERTY AND EQUIPMENT	15	(140)	15	(140)
NET GAIN / (LOSS) ON SALE OF REPOSSESSED ASSETS	-	4,972	-	4,972
INCOME ON SUBSEQUENT COLLECTION OF LOANS PREVIOUSLY WRITTEN OFF	4	20	4	20
FOREIGN EXCHANGE REVALUATION	356	688	356	688
<b>OTHER INCOME</b>	<b>1,145</b>	<b>3,524</b>	<b>1,145</b>	<b>3,506</b>
	<b>19,740</b>	<b>24,154</b>	<b>19,788</b>	<b>24,181</b>

## 6. IMPAIRMENT LOSSES AND PROVISIONS

IN '000 HRK	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS (NOTE 14D)	(35,874)	(17,327)	(34,901)	(15,949)
IMPAIRMENT OF EQUITY SECURITIES (NOTE 15E)	(9)	(37)	(9)	(37)
COLLECTION OF SUSPENDED INTEREST RECEIVABLES (NOTE 14D)	-	371	-	371
PROVISIONS FOR GUARANTEES AND COMMITMENTS (NOTE 25)	359	640	359	640
OTHER ASSETS (NOTE 20)	(989)	(2,708)	(996)	(2,685)
PROVISIONS FOR LEGAL CASES (NOTE 25)	(80)	-	(80)	-
	<b>(36,593)</b>	<b>(19,061)</b>	<b>(35,627)</b>	<b>(17,660)</b>

## 7. ADMINISTRATIVE EXPENSES

IN '000 HRK	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
STAFF COSTS	50,971	50,984	50,202	50,034
MATERIALS AND SERVICES	32,502	34,401	32,346	34,242
RENTALS	10,130	6,585	10,130	8,563
DEPOSIT INSURANCE PREMIUM	5,027	4,749	5,027	4,749
TAXES AND CONTRIBUTIONS	1,429	1,461	1,429	1,461
OTHER EXPENSES	285	2,732	2,116	2,693
	<b>100,344</b>	<b>100,912</b>	<b>101,250</b>	<b>101,742</b>

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

### Staff costs

IN '000 HRK	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
NET SALARIES	27,581	28,814	27,183	28,320
PENSION INSURANCE COSTS	7,286	7,413	7,156	7,083
HEALTH INSURANCE COSTS	6,174	5,790	6,081	5,664
OTHER COMPULSORY CONTRIBUTIONS	936	959	922	959
TAXES AND SURTAXES	7,677	8,166	7,556	8,166
PROVISIONS FOR EMPLOYEE BENEFITS	(1,371)	(1,664)	(1,384)	(1,664)
OTHER STAFF COSTS	2,688	1,506	2,688	1,506
	<b>50,971</b>	<b>50,984</b>	<b>50,202</b>	<b>50,034</b>

At 31 December 2014, the number of staff employed by the Group was 278 (2013: 286 employees).

## 8. DEPRECIATION AND AMORTISATION

IN '000 HRK	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
DEPRECIATION OF PROPERTY AND EQUIPMENT	6,012	7,654	6,012	7,654
DEPRECIATION OF LEASEHOLD IMPROVEMENTS	430	856	430	856
AMORTISATION OF INTANGIBLE ASSETS	1,059	1,062	1,051	1,053
	<b>7,501</b>	<b>9,572</b>	<b>7,493</b>	<b>9,563</b>

## 9. INCOME TAX EXPENSE

Income tax is determined by applying the rate of 20% to taxable profits (2013: 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 '000 HRK	GROUP AND BANK 2014	GROUP AND BANK 2013
CURRENT TAX EXPENSE	-	272
DEFERRED TAX EXPENSE/ (INCOME)	(2,651)	550
<b>INCOME TAX EXPENSE</b>	<b>(2,651)</b>	<b>822</b>

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

IN '000 HRK	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
PROFIT BEFORE TAXATION	(13,978)	3,152	(15,265)	1,875
STATUTORY TAX RATE	20%	20%	20%	20%
INCOME TAX CALCULATED AT 20%	-	630	-	375
<b>TEMPORARY DIFFERENCES</b>				
<b>UNREALISED LOSS ON FINANCIAL ASSETS</b>	<b>(19)</b>	<b>-</b>	<b>(19)</b>	<b>-</b>
DEFERRED LOAN ORIGATION FEES	1,196	(667)	1,196	(667)
IMPAIRMENT OF FINANCIAL ASSETS	10	37	10	37
DEFERRED TERMINATION BENEFITS	(1,335)	(2,119)	(1,335)	(2,119)
<b>PROVISIONS FOR LEGAL COSTS</b>	<b>100</b>	<b>-</b>	<b>100</b>	<b>-</b>
<b>NET TEMPORARY DIFFERENCES</b>	<b>(2,460)</b>	<b>(2,749)</b>	<b>(2,460)</b>	<b>(2,749)</b>
<b>PERMANENT DIFFERENCES</b>				
<b>TAX EFFECT OF NON-TAXABLE INCOME</b>	<b>957</b>	<b>(1,479)</b>	<b>957</b>	<b>(1,479)</b>
DIVIDENDS RECEIVED	957	(1,479)	957	(1,479)
<b>TAX EFFECT OF EXPENSES NOT RECOGNISED FOR TAX PURPOSES</b>	<b>2,986</b>	<b>3,746</b>	<b>2,967</b>	<b>3,714</b>
ENTERTAINMENT AND PERSONAL TRANSPORTATION	556	449	537	449
DEPRECIATION ABOVE PRESCRIBED AMOUNTS	312	312	312	312
INTEREST BETWEEN RELATED PARTIES	750		750	
WRITE-OFFS	1,240	1,012	1,240	1,012
OTHER	128	1,973	128	1,941
<b>NET PERMANENT DIFFERENCES</b>	<b>2,029</b>	<b>2,267</b>	<b>2,010</b>	<b>2,235</b>
TAX EFFECT OF LOSS OF CONSOLIDATED COMPANIES	(1,306)	(1,309)	-	-
TAXABLE PROFIT	(15,715)	1,361	(15,716)	1,361
TAX BASE	(15,715)	1,361	(15,716)	1,361
TAX RATE	20%	20%	20%	20%
TAX LIABILITY	-	272	-	272
<b>CURRENT TAX EXPENSE</b>	<b>-</b>	<b>272</b>	<b>-</b>	<b>272</b>
<b>EFFECTIVE TAX RATE</b>	<b>0.00%</b>	<b>8.63%</b>	<b>0.00%</b>	<b>14.51%</b>
TAX LOSSES BROUGHT FORWARD FROM PREVIOUS PERIOD	4,159	5,971	-	-
TAX LOSSES FOR THE PERIOD	15,715	-	15,715	-
USED IN YEAR	(1,344)	(1,812)	-	-
TAX LOSSES AVAILABLE FOR CARRY FORWARD	18,530	4,159	15,715	-

As at 31 December 2014 the Bank and the subsidiary POBA faktor d.o.o. have unused gross tax losses, which are disclosed below. Such tax losses may only be used by the company that incurred the loss to reduce taxable profits of the following five years.

The expiry dates for unused tax losses were as follows:

	POBA FAKTOR GROSS TAX LOSSES '000 HRK	POBA FAKTOR TAX BENEFIT '000 HRK
31 DECEMBER 2014	4,159	1,344
31 DECEMBER 2015	2,815	1,608
31 DECEMBER 2016	1,207	1,207
31 DECEMBER 2017	-	-
31 DECEMBER 2018	-	-
	<b>8,181</b>	<b>4,159</b>

	BANK GROSS TAX LOSSES IN HRK 000	BANK TAX RELIEF IN HRK 000
31 DECEMBER 2015	15,715	-
31 DECEMBER 2016	15,715	-
31 DECEMBER 2017	15,715	-
31 DECEMBER 2018	15,715	-
31 DECEMBER 2019	15,715	15,715
	<b>78,575</b>	<b>15,715</b>

Movements in deferred tax assets are as follows:

2014

GROUP IN '000 HRK	OPENING BALANCE	CHARGED TO INCOME STATEMENT	CHARGED TO OTHER COMPREHENSIVE INCOME	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	2,650	-	(459)	2,191
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
	<b>5,956</b>	<b>2,651</b>	<b>(459)</b>	<b>8,148</b>



2013

<b>GROUP IN '000 HRK</b>	<b>OPENING BALANCE</b>	<b>CHARGED TO INCOME STATEMENT</b>	<b>CHARGED TO OTHER COMPREHENSIVE INCOME</b>	<b>CLOSING BALANCE</b>
LOSSES ON FINANCIAL ASSETS	610	-	-	610
LOSSES ON OTHER INVESTMENTS	43	-	-	43
DEFERRED LOAN ORIGINATION FEES	1,895	(133)	-	1,762
FINANCIAL ASSETS AVAILABLE FOR SALE	2,762	-	(112)	2,650
IMPAIRMENT OF FINANCIAL ASSETS	614	7	-	621
DEFERRED TERMINATION BENEFITS	695	(424)	-	271
	<b>6,619</b>	<b>(550)</b>	<b>(112)</b>	<b>5,957</b>

2014

<b>BANK IN '000 HRK</b>	<b>OPENING BALANCE</b>	<b>CHARGED TO INCOME STATEMENT</b>	<b>CHARGED TO OTHER COMPREHENSIVE INCOME</b>	<b>CLOSING BALANCE</b>
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	2,650	-	(459)	2,191
FINANCIAL ASSETS AVAILABLE FOR SALE	621	2	-	623
DEFERRED TERMINATION BENEFITS	271	(271)	-	-
PROVISIONS FOR LEGAL CASES-INTEREST	-	20	-	20
TAX LOSSES	-	3,143	-	3,143
	<b>5,956</b>	<b>2,651</b>	<b>(459)</b>	<b>8,148</b>

2013

<b>BANK IN '000 HRK</b>	<b>OPENING BALANCE</b>	<b>CHARGED TO INCOME STATEMENT</b>	<b>CHARGED TO OTHER COMPREHENSIVE INCOME</b>	<b>CLOSING BALANCE</b>
LOSSES ON FINANCIAL ASSETS	610	-	-	610
LOSSES ON OTHER INVESTMENTS	43	-	-	43
DEFERRED LOAN ORIGINATION FEES	1,895	(133)	-	1,762
FINANCIAL ASSETS AVAILABLE FOR SALE	2,762	-	(112)	2,650
IMPAIRMENT OF FINANCIAL ASSETS	614	7	-	621
DEFERRED TERMINATION BENEFITS	695	(424)	-	271
	<b>6,619</b>	<b>(550)</b>	<b>(112)</b>	<b>5,957</b>

## 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.

	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
PROFIT FOR THE YEAR (IN HRK '000)	(11,327)	2,330	(12,614)	1,053
WEIGHTED AVERAGE NUMBER OF SHARES	668,749	668,749	668,749	668,749
<b>EARNINGS PER SHARE (IN HRK) – BASIC AND DILUTED</b>	<b>(16.94)</b>	<b>3.48</b>	<b>(18.86)</b>	<b>1.57</b>

## 11. CASH AND AMOUNTS DUE FROM BANKS

IN '000 HRK	GROUP 31 DECEMBER 2014	GROUP 31 DECEMBER 2013	BANK 31 DECEMBER 2014	BANK 31 DECEMBER 2013
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	99,412	81,015	99,412	81,015
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	63,828	113,566	63,828	113,566
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	12,488	18,779	12,488	18,779
CASH IN HAND	41,709	42,736	41,708	42,735
OTHER ITEMS	12,817	12,391	12,817	12,391
	<b>230,254</b>	<b>268,487</b>	<b>230,253</b>	<b>268,486</b>

Cash and cash equivalents included in the cash flow statement:

IN '000 HRK	GROUP 31 DECEMBER 2014	GROUP 31 DECEMBER 2013	BANK 31 DECEMBER 2014	BANK 31 DECEMBER 2013
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	99,412	81,015	99,412	81,015
CASH EQUIVALENTS - DEPOSITS WITH OTHER BANKS (NOTE 13)	24,469	51,912	24,469	51,912
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	63,828	113,566	63,828	113,566
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	12,488	18,779	12,488	18,779
CASH IN HAND	41,709	42,736	41,708	42,735
OTHER ITEMS	12,817	12,391	12,817	12,391
	<b>254,723</b>	<b>320,399</b>	<b>254,722</b>	<b>320,398</b>

## 12. BALANCES WITH THE CROATIAN NATIONAL BANK

IN '000 HRK	GROUP AND BANK 31 DECEMBER 2014	GROUP AND BANK 31 DECEMBER 2013
OBLIGATORY AND MARGINAL RESERVE	197,984	189,513
TREASURY BILLS, MANDATORY ENROLMENT	1,847	23,165
	<b>199,831</b>	<b>212,678</b>

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 kuna-treasury bills of the Croatian National Bank to the extent of the difference compared to the calculation of the kuna-denominated mandatory reserve at a reduced rate relative to the previous calculation. The mandatory reserve allocation rate of 12% remained unchanged throughout 2014.

Of the total balance of the calculated mandatory reserve funds, 70 percent of the kuna-denominated reserve funds and 60 percent 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 percent of the mandatory reserves in Croatian kuna. Balances with the Croatian National Bank are not interest-bearing.

## 13. PLACEMENTS WITH OTHER BANK

IN '000 HRK	GROUP AND BANK 31 DECEMBER 2014	GROUP AND BANK 31 DECEMBER 2013
TERM DEPOSITS	24,469	51,912
REVERSE REPO LOANS	24,032	-
LOANS TO OTHER BANKS	-	11,370
	<b>48,501</b>	<b>63,282</b>
IMPAIRMENT ALLOWANCE	(600)	(600)
	<b>47,901</b>	<b>62,682</b>

Term deposits with banks amount to HRK 24,469 thousand and refer to term deposits with foreign banks bearing an interest rate of 0.00% to 4.40% (in 2013: 0.05% to 0.80%). Of the total term deposits with other banks, deposits with foreign banks in 2013 amount to HRK 7,629 thousand and with domestic banks amount to HRK 44,283 thousand.

### *Movements in impairment allowance*

<b>IN '000 HRK</b>	<b>GROUP AND BANK 2014</b>	<b>GROUP AND BANK 2013</b>
AT 1 JANUARY	600	600
WRITE OFF	-	-
<b>AT 31 DECEMBER</b>	<b>600</b>	<b>600</b>

The impairment allowance presented above relates to domestic banks in bankruptcy.

### *Geographical analysis*

The analysis includes term deposits and current accounts with foreign banks:

<b>IN '000 HRK</b>	<b>GROUP AND BANK 31 DECEMBER 2014</b>	<b>GROUP AND BANK 31 DECEMBER 2013</b>
GERMANY	30,058	71,583
ITALY	25,000	1,867
BELGIUM	10,333	31,017
UNITED STATES OF AMERICA	8,788	954
MONTE NEGRO	3,358	2,480
AUSTRIA	2,733	1,142
SPAIN	2,263	3,194
AUSTRALIA	1,907	793
GREAT BRITAIN	1,417	1,412
CANADA	1,019	334
SLOVENIA	741	2,299
SWEDEN	596	642
DENMARK	84	77
NETHERLANDS	-	1,420
SWITZERLAND	-	1,980
	<b>88,297</b>	<b>121,194</b>

## 14. LOANS TO CUSTOMERS

### a) Analysis by type of customer

IN '000 HRK	GROUP	GROUP	BANK	BANK
	31 DECEMBER 2014	31 DECEMBER 2013	31 DECEMBER 2014	31 DECEMBER 2013
<b>CITIZENS</b>				
- HRK DENOMINATED	555,300	562,752	555,300	562,752
- FOREIGN CURRENCY DENOMINATED	26,187	26,467	26,187	26,467
	<b>581,487</b>	<b>589,219</b>	<b>581,487</b>	<b>589,219</b>
<b>COMPANIES</b>				
- HRK DENOMINATED	1,286,551	1,262,311	1,280,679	1,259,931
- FOREIGN CURRENCY DENOMINATED	173,786	218,559	173,786	218,559
	<b>1,460,337</b>	<b>1,480,870</b>	<b>1,454,465</b>	<b>1,478,490</b>
	<b>2,041,824</b>	<b>2,070,089</b>	<b>2,035,952</b>	<b>2,067,709</b>
IMPAIRMENT ALLOWANCE	(214,619)	(181,121)	(212,268)	(179,743)
	<b>1,827,205</b>	<b>1,888,968</b>	<b>1,823,684</b>	<b>1,887,966</b>

### b) Analysis by sector

IN '000 HRK	GROUP	GROUP	BANK	BANK
	31 DECEMBER 2014	31 DECEMBER 2013	31 DECEMBER 2014	31 DECEMBER 2013
CITIZENS	581,487	589,219	581,487	589,219
WHOLESALE AND RETAIL TRADE	471,128	427,960	468,341	427,960
FOOD AND BEVERAGE INDUSTRY	197,657	213,306	196,384	213,306
PROCESSING INDUSTRY	181,435	199,235	179,580	199,235
CONSTRUCTION	116,396	101,327	112,377	101,327
HOTELS AND RESTAURANTS	98,562	95,481	96,441	95,481
AGRICULTURE AND FORESTRY	93,489	83,684	93,148	83,684
TRANSPORT, STORAGE AND COMMUNICATION	45,358	44,843	45,358	44,843
REAL ESTATE ACTIVITIES	41,217	14,483	41,217	14,483
ENERGY (ELECTRICITY, GAS, WATER)	16,859	3,105	16,859	3,105
OTHER	198,236	297,446	204,760	295,066
	<b>2,041,824</b>	<b>2,070,089</b>	<b>2,035,952</b>	<b>2,067,709</b>
IMPAIRMENT ALLOWANCE	(214,619)	(181,121)	(212,268)	(179,743)
	<b>1,827,205</b>	<b>1,888,968</b>	<b>1,823,684</b>	<b>1,887,966</b>



c) Changes in principal of substandard and bad loans

GROUP IN '000 HRK	2014		2013	
	SUBSTANDARD LOANS	BAD LOANS	SUBSTANDARD LOANS	BAD LOANS
<b>AS OF 1 JANUARY</b>	<b>246,410</b>	<b>117,286</b>	<b>216,029</b>	<b>10,945</b>
TRANSFER FROM PERFORMING LOANS	54,962	1,163	60,628	1,948
TRANSFER FROM BAD LOANS	196	(196)	719	(719)
TRANSFER FROM SUBSTANDARD LOANS	(22,137)	22,137	(13,051)	13,051
TRANSFER TO PERFORMING LOANS	(4,257)	-	1,488	85
AMOUNTS COLLECTED	(51,805)	(5,568)	(19,403)	(6,876)
AMOUNTS WRITTEN OFF	-	(2,774)	-	(1,148)
<b>AS OF 31 DECEMBER</b>	<b>223,369</b>	<b>132,048</b>	<b>246,410</b>	<b>117,286</b>

On 31 December 2014, the gross principal amount of non-performing loans was HRK 132,048 thousand (2013: HRK 117,286 thousand). During 2014 HRK 5,568 thousand of non-performing loans was collected (2013: HRK 6,876 thousand). Also, during 2014 the amount of HRK 46,629 thousand of loans to companies and sole traders were re-negotiated (in 2013: HRK 20,649 thousand).

BANK IN '000 HRK	2014		2013	
	SUBSTANDARD LOANS	BAD LOANS	SUBSTANDARD LOANS	BAD LOANS
<b>AS OF 1 JANUARY</b>	<b>245,170</b>	<b>116,528</b>	<b>216,029</b>	<b>110,945</b>
TRANSFER FROM PERFORMING LOANS	53,833	1,140	59,388	1,190
TRANSFER FROM BAD LOANS	196	(196)	719	(719)
TRANSFER FROM SUBSTANDARD LOANS	(20,897)	20,897	(13,051)	13,051
TRANSFER TO PERFORMING LOANS	(4,257)	-	1,488	85
AMOUNTS COLLECTED	(51,805)	(5,568)	(19,403)	(6,876)
AMOUNTS WRITTEN OFF	-	(2,774)	-	(1,148)
<b>AS OF 31 DECEMBER</b>	<b>222,240</b>	<b>130,027</b>	<b>245,170</b>	<b>116,528</b>

On 31 December 2014, the gross principal amount of non-performing loans was HRK 130,027 thousand (2013: HRK 116,528 thousand). During 2014, HRK 5,568 thousand of non-performing loans was collected (2013: HRK 6,876 thousand). Also, during 2014 the amount of HRK 46,629 thousand of loans to companies and sole traders were re-negotiated (in 2013: HRK 20,649 thousand).

*d) Provisions for losses*

<b>GROUP IN '000 HRK</b>	<b>2014</b>	<b>2013</b>
<b>BALANCE AT 1 JANUARY</b>	<b>181,121</b>	<b>164,984</b>
NEW PROVISIONS MADE	102,879	61,796
AMOUNTS COLLECTED	(67,477)	(45,756)
FOREIGN EXCHANGE DIFFERENCES	472	916
WRITE OFFS	(2,376)	(1,190)
INCREASE OF PROVISIONS FOR INTEREST RECEIVABLES	-	371
<b>BALANCE AT 31 DECEMBER</b>	<b>214,619</b>	<b>181,121</b>

The Group 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 Group obtains acceptable collateral to reduce the level of credit risk.

<b>BANK IN '000 HRK</b>	<b>2014</b>	<b>2013</b>
<b>BALANCE AT 1 JANUARY</b>	<b>179,743</b>	<b>164,984</b>
NEW PROVISIONS MADE	101,906	60,418
AMOUNTS COLLECTED	(67,477)	(45,756)
FOREIGN EXCHANGE DIFFERENCES	472	916
WRITE OFFS	(2,376)	(1,190)
INCREASE OF PROVISIONS FOR INTEREST RECEIVABLES	-	371
<b>BALANCE AT 31 DECEMBER</b>	<b>212,268</b>	<b>179,743</b>

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

GROUP AND BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
BONDS	278,856	241,051
UNITS IN INVESTMENT FUNDS	126,964	89,462
EQUITY SECURITIES	44,955	57,775
TREASURY BILLS OF THE REPUBLIC OF CROATIA	-	96,123
COMMERCIAL BILLS	-	1,888
	<b>450,775</b>	<b>486,299</b>
IMPAIRMENT IN FINANCIAL ASSETS AVAILABLE FOR SALE	(4,346)	(4,337)
	<b>446,429</b>	<b>481,962</b>

Investments in debt securities are shown as follows:

### a) Treasury bills of the Republic of Croatia

GROUP AND BANK IN '000 HRK	2014	2013
<b>BALANCE AT 1 JANUARY</b>	<b>96,123</b>	<b>29,563</b>
PURCHASE	2,457	106,214
COLLECTION	(99,866)	(39,071)
REALISED GAIN	703	-
CHANGES IN FAIR VALUE	583	(583)
<b>BALANCE AT 31 DECEMBER</b>	<b>-</b>	<b>96,123</b>

### b) Commercial bills

GROUP AND BANK IN '000 HRK	2014	2013
<b>BALANCE AT 1 JANUARY</b>	<b>1,888</b>	-
PURCHASE	48	2,033
COLLECTION	(1,926)	(155)
CHANGES IN FAIR VALUE	(10)	10
<b>BALANCE AT 31 DECEMBER</b>	<b>-</b>	<b>1,888</b>

### c) Bonds

GROUP AND BANK IN '000 HRK	2014	2013
<b>BALANCE AT 1 JANUARY</b>	<b>241,051</b>	<b>208,665</b>
PURCHASE	384,057	284,977
COLLECTION	(348,495)	(253,032)
REALISED GAIN / (LOSS)	5,425	4,933
CHANGES IN FAIR VALUE	(3,182)	(4,492)
<b>BALANCE AT 31 DECEMBER</b>	<b>278,856</b>	<b>241,051</b>

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

IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
<b>BONDS OF DOMESTIC ISSUERS</b>		
- MINISTRY OF FINANCE OF THE REPUBLIC OF CROATIA	112,920	30,978
- FINANCIAL INSTITUTIONS	5,609	9,731
- NON FINANCIAL INSTITUTIONS	49,569	66,456
	<b>168,098</b>	<b>107,165</b>
<b>BONDS OF FOREIGN ISSUERS</b>		
- FOREIGN GOVERNMENTS	56,330	74,487
- FINANCIAL INSTITUTIONS	32,431	33,900
- NON FINANCIAL INSTITUTIONS	21,996	25,499
	<b>110,757</b>	<b>133,886</b>
	<b>278,855</b>	<b>241,051</b>

Investments in equity securities are shown as follows:

*d) Units in investment funds*

GROUP AND BANK IN '000 HRK	2014	2013
<b>BALANCE AT 1 JANUARY</b>	<b>89,462</b>	<b>53,655</b>
PURCHASE	157,560	120,105
COLLECTION	(122,175)	(89,249)
REALISED GAIN / (LOSS)	440	1,452
CHANGES IN THE FAIR VALUE	1,677	3,499
<b>BALANCE AT 31 DECEMBER</b>	<b>126,964</b>	<b>89,462</b>

*e) Equity securities*

GROUP AND BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
QUOTED SECURITIES	36,457	51,917
UNQUOTED SECURITIES	8,498	5,858
	<b>44,955</b>	<b>57,775</b>
IMPAIRMENT IN EQUITY SECURITIES	(4,346)	(4,337)
<b>TOTAL</b>	<b>40,609</b>	<b>53,438</b>

Changes in equities during the year:

<b>GROUP AND BANK IN '000 HRK</b>	<b>2014</b>	<b>2013</b>
<b>BALANCE AT 1 JANUARY</b>	<b>53,439</b>	<b>48,710</b>
PURCHASES	47,277	193,009
DISPOSALS	(63,694)	(189,795)
REALISED GAIN	368	(576)
MOVEMENT IN THE FAIR VALUE	3,228	2,127
IMPAIRMENT IN EQUITY SECURITIES	(9)	(37)
<b>BALANCE AT 31 DECEMBER</b>	<b>40,609</b>	<b>53,438</b>

The table below discloses details of the equity investment portfolio:

<b>GROUP AND BANK IN '000 HRK</b>	<b>31 DECEMBER 2014</b>	<b>31 DECEMBER 2013</b>
<b>EQUITY INVESTMENTS OF DOMESTIC ISSUERS</b>		
- FINANCIAL INSTITUTIONS	493	410
- NON FINANCIAL INSTITUTIONS	23,237	17,328
	<b>23,730</b>	<b>17,738</b>
<b>EQUITY INVESTMENTS OF FOREIGN ISSUERS</b>		
- FINANCIAL INSTITUTIONS	15,880	33,395
- NON FINANCIAL INSTITUTIONS	5,345	6,642
	<b>21,225</b>	<b>40,037</b>
	<b>44,955</b>	<b>57,775</b>
IMPAIRMENT IN EQUITY SECURITIES	(4,346)	(4,337)
	<b>40,609</b>	<b>53,438</b>

*f) Revaluation reserve for financial assets available for sale*

<b>TYPE OF SECURITY GROUP AND BANK IN '000 HRK</b>	<b>31 DECEMBER 2014</b>	<b>31 DECEMBER 2013</b>
DEBT SECURITY	(4,686)	(2,077)
INVESTMENT IN INVESTMENT FUNDS	2,439	762
EQUITY SECURITY	(8,706)	(11,934)
CALCULATED DEFERRED TAX (NOTE 9)	2,191	2,650
<b>TOTAL REVALUATION RESERVE</b>	<b>(8,762)</b>	<b>(10,599)</b>



*Movements in the revaluation reserve*

<b>GROUP AND BANK IN '000 HRK</b>	<b>2014</b>	<b>2013</b>
<b>BALANCE AT 1 JANUARY</b>	<b>(10,599)</b>	<b>(11,048)</b>
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	(2,609)	(5,065)
CHANGE IN FAIR VALUE OF INVESTMENT IN INVESTMENT FUNDS	1,677	3,499
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	3,228	2,127
DEFERRED TAX RECOGNISED IN EQUITY (NOTE 9)	(459)	(112)
<b>BALANCE AT 31 DECEMBER</b>	<b>(8,762)</b>	<b>(10,599)</b>

## 16. FINANCIAL ASSETS HELD TO MATURITY

<b>GROUP AND BANK IN '000 HRK</b>	<b>31 DECEMBER 2014</b>	<b>31 DECEMBER 2013</b>
BONDS OF THE REPUBLIC OF CROATIA	26,872	27,191
BONDS OF FOREIGN FINANCIAL INSTITUTIONS	62,024	-
	<b>88,896</b>	<b>27,191</b>

*Movements in held-to-maturity assets*

<b>GROUP AND BANK IN '000 HRK</b>	<b>2014</b>	<b>2013</b>
<b>BALANCE AT 1 JANUARY</b>	<b>27,191</b>	<b>27,481</b>
PURCHASE	93,507	-
PAYMENT	(31,484)	-
CHANGES IN VALUE	(318)	(290)
<b>BALANCE AT 31 DECEMBER</b>	<b>88,896</b>	<b>27,191</b>

## 17. INTANGIBLE ASSETS

GROUP IN '000 HRK	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
<b>COST OR VALUATION</b>				
<b>BALANCE AT 1 JANUARY 2013</b>	<b>14,324</b>	<b>16,867</b>	<b>11,224</b>	<b>42,415</b>
ADDITIONS	21	-	10,005	10,026
TRANSFER FROM ASSETS UNDER DEVELOPMENT	314	-	(314)	-
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>14,659</b>	<b>16,867</b>	<b>20,915</b>	<b>52,441</b>
ADDITIONS	247	-	8,178	8,425
TRANSFER FROM ASSETS UNDER DEVELOPMENT	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>14,906</b>	<b>16,867</b>	<b>29,093</b>	<b>60,866</b>
<b>ACCUMULATED AMORTISATION</b>				
<b>BALANCE AT 1 JANUARY 2013</b>	<b>10,614</b>	-	-	<b>10,614</b>
CHARGE FOR THE YEAR	1,062	-	-	1,062
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>11,676</b>	-	-	<b>11,676</b>
CHARGE FOR THE YEAR	1,059	-	-	1,059
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>12,735</b>	-	-	<b>12,735</b>
<b>NET BOOK VALUE</b>				
<b>AT 31 DECEMBER 2014</b>	<b>2,171</b>	<b>16,867</b>	<b>29,093</b>	<b>48,131</b>
<b>AT 31 DECEMBER 2013</b>	<b>2,983</b>	<b>16,867</b>	<b>20,915</b>	<b>40,765</b>

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 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.

BANK IN '000 HRK	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
<b>COST OR VALUATION</b>				
<b>BALANCE AT 1 JANUARY 2013</b>	<b>14,122</b>	<b>16,867</b>	<b>11,224</b>	<b>42,213</b>
ADDITIONS	15	-	10,005	10,020
TRANSFER FROM ASSETS UNDER DEVELOPMENT	314	-	(314)	-
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>14,451</b>	<b>16,867</b>	<b>20,915</b>	<b>52,233</b>
ADDITIONS	247	-	8,178	8,425
TRANSFER FROM ASSETS UNDER DEVELOPMENT	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>14,698</b>	<b>16,867</b>	<b>29,093</b>	<b>60,658</b>
<b>ACCUMULATED AMORTISATION</b>				
<b>BALANCE AT 1 JANUARY 2013</b>	<b>10,426</b>	-	-	<b>10,426</b>
CHARGE FOR THE YEAR	1,053	-	-	1,053
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>11,479</b>	-	-	<b>11,479</b>
CHARGE FOR THE YEAR	1,051	-	-	1,051
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>12,530</b>	-	-	<b>12,530</b>
<b>NET BOOK VALUE</b>				
<b>AT 31 DECEMBER 2014</b>	<b>2,168</b>	<b>16,867</b>	<b>29,093</b>	<b>48,128</b>
<b>AT 31 DECEMBER 2013</b>	<b>2,972</b>	<b>16,867</b>	<b>20,915</b>	<b>40,754</b>

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 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.

## 18. PROPERTY AND EQUIPMENT

GROUP IN '000 HRK COST OR VALUATION	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
<b>BALANCE AT 1 JANUARY 2013</b>	<b>123,419</b>	<b>46,116</b>	<b>4,356</b>	<b>42,844</b>	<b>11,149</b>	<b>419</b>	<b>228,303</b>
ADDITIONS	-	-	-	159	38	719	916
TRANSFER FROM ASSETS UNDER CONSTRUCTION	218	148	-	772	-	(1,138)	-
DISPOSALS AND RETIREMENTS	(1,233)	(795)	(1,257)	-	-	-	(3,285)
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>122,404</b>	<b>45,469</b>	<b>3,099</b>	<b>43,775</b>	<b>11,187</b>	<b>-</b>	<b>225,934</b>
ADDITIONS	-	1,469	-	43	1,830	-	3,342
DISPOSALS AND RETIREMENTS	(189)	(1,165)	-	(11,075)	(2,861)	-	(15,290)
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>122,215</b>	<b>45,773</b>	<b>3,099</b>	<b>32,743</b>	<b>10,156</b>	<b>-</b>	<b>213,986</b>
<b>ACCUMULATED DEPRECIATION</b>							
<b>BALANCE AT 1 JANUARY 2013</b>	<b>44,026</b>	<b>42,390</b>	<b>2,932</b>	<b>34,747</b>	<b>9,695</b>	<b>-</b>	<b>133,790</b>
CHARGE FOR THE YEAR	2,342	1,396	501	3,415	856	-	8,510
DISPOSALS AND RETIREMENTS	(418)	(792)	(1,257)	-	-	-	(2,467)
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>45,950</b>	<b>42,994</b>	<b>2,176</b>	<b>38,162</b>	<b>10,551</b>	<b>-</b>	<b>139,833</b>
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)
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>48,146</b>	<b>42,775</b>	<b>2,648</b>	<b>29,356</b>	<b>8,120</b>	<b>-</b>	<b>131,045</b>
<b>NET BOOK VALUE</b>							
<b>AT 31 DECEMBER 2014</b>	<b>74,069</b>	<b>2,998</b>	<b>451</b>	<b>3,387</b>	<b>2,036</b>	<b>-</b>	<b>82,941</b>
<b>AT 31 DECEMBER 2013</b>	<b>76,454</b>	<b>2,475</b>	<b>923</b>	<b>5,613</b>	<b>636</b>	<b>-</b>	<b>86,101</b>

The Group has no tangible assets pledged as collateral for deposits from corporate customers (2013: The Group has no tangible assets pledged as collateral for deposits from corporate customers).

BANK IN '000 HRK COST OR VALUATION	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVEMENTS	ASSETS UNDER CONSTRUCTION	TOTAL
<b>BALANCE AT 1 JANUARY 2013</b>	<b>123,419</b>	<b>46,116</b>	<b>4,222</b>	<b>42,691</b>	<b>11,149</b>	<b>419</b>	<b>228,016</b>
ADDITIONS	-	-	-	159	38	719	916
TRANSFER FROM ASSETS UNDER CONSTRUCTION	218	148	-	772	-	(1,138)	-
DISPOSALS AND RETIREMENTS	(1,233)	(795)	(1,257)	-	-	-	(3,285)
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>122,404</b>	<b>45,469</b>	<b>2,965</b>	<b>43,622</b>	<b>11,187</b>	<b>-</b>	<b>225,647</b>
ADDITIONS	-	1,469	-	43	1,830	-	3,342
DISPOSALS AND RETIREMENTS	(189)	(1,165)	-	(11,075)	(2,861)	-	(15,290)
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>122,215</b>	<b>45,773</b>	<b>2,965</b>	<b>32,590</b>	<b>10,156</b>	<b>-</b>	<b>213,699</b>
<b>ACCUMULATED DEPRECIATION</b>							
<b>BALANCE AT 1 JANUARY 2013</b>	<b>44,026</b>	<b>42,390</b>	<b>2,798</b>	<b>34,594</b>	<b>9,695</b>	<b>-</b>	<b>133,503</b>
CHARGE FOR THE YEAR	2,342	1,396	501	3,415	856	-	8,510
DISPOSALS AND RETIREMENTS	(418)	(792)	(1,257)	-	-	-	(2,467)
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>45,950</b>	<b>42,994</b>	<b>2,042</b>	<b>38,009</b>	<b>10,551</b>	<b>-</b>	<b>139,546</b>
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)
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>48,146</b>	<b>42,775</b>	<b>2,514</b>	<b>29,203</b>	<b>8,120</b>	<b>-</b>	<b>130,758</b>
<b>NET BOOK VALUE</b>							
<b>AT 31 DECEMBER 2014</b>	<b>74,069</b>	<b>2,998</b>	<b>451</b>	<b>3,387</b>	<b>2,036</b>	<b>-</b>	<b>82,941</b>
<b>AT 31 DECEMBER 2013</b>	<b>76,454</b>	<b>2,475</b>	<b>923</b>	<b>5,613</b>	<b>636</b>	<b>-</b>	<b>86,101</b>

The Bank has no tangible assets pledged as collateral for deposits from corporate customers (2013: The Bank has no tangible assets pledged as collateral for deposits from corporate customers).

## 19. INVESTMENTS IN SUBSIDIARIES

GROUP AND BANK IN '000 HRK	2014	2013
BALANCE 1 JANUARY	4,770	4,770
INVESTMENT	-	-
<b>BALANCE 31 DECEMBER</b>	<b>4,770</b>	<b>4,770</b>

At the end of 2014 the Bank held all of the equity shares in POBA faktor d.o.o.. The subsidiary has been consolidated in these financial statements

The following key data was reported by POBA faktor d.o.o. at 31 December:

IN '000 HRK	2014	2013
TOTAL ASSETS	17,617	35,446
TOTAL NET ASSETS	4,124	2,839
NET GAIN / (LOSS) FOR YEAR	1,287	1,277

## 20. OTHER ASSETS

GROUP IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
FORECLOSED ASSETS	44,223	16,418
ACCRUED FEES AND COMMISSIONS	5,587	4,967
PREPAID EXPENSES	2,582	1,619
OTHER ADVANCES MADE	264	373
INCOME TAX REFUND	3,622	2,907
OTHER ASSETS	13,243	2,963
	<b>69,521</b>	<b>29,247</b>
IMPAIRMENT ALLOWANCE	(5,216)	(4,625)
	<b>64,305</b>	<b>24,622</b>

Foreclosed property and equipment are assets not used by the Group and amounted to HRK 44,223 thousand at 31 December 2014 (2013: HRK 16,418 thousand). They are carried by the Group at cost.



<b>BANK IN '000 HRK</b>	<b>31 DECEMBER 2014</b>	<b>31 DECEMBER 2013</b>
FORECLOSED ASSETS	44,223	16,418
ACCRUED FEES AND COMMISSIONS	5,587	4,967
PREPAID EXPENSES	2,582	1,619
OTHER ADVANCES MADE	264	373
INCOME TAX REFUND	3,622	2,907
OTHER ASSETS	13,183	2,899
	<b>69,461</b>	<b>29,183</b>
IMPAIRMENT ALLOWANCE	(5,201)	(4,603)
	<b>64,260</b>	<b>24,580</b>

Foreclosed property and equipment are assets not used by the Bank and amounted to HRK 44,223 thousand at 31 December 2014 (2013: HRK 16,418 thousand). They are carried by the Bank at cost.

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

<b>GROUP IN '000 HRK</b>	<b>2014</b>	<b>2013</b>
<b>BALANCE AT 1 JANUARY</b>	<b>4,625</b>	<b>1,989</b>
ADDITIONS	2,519	3,084
AMOUNTS COLLECTED	(1,534)	(381)
AMOUNTS WRITTEN OFF	(398)	(72)
EXCHANGE DIFFERENCES	4	5
<b>BALANCE AT 31 DECEMBER</b>	<b>5,216</b>	<b>4,625</b>

<b>BANK IN '000 HRK</b>	<b>2014</b>	<b>2013</b>
<b>BALANCE AT 1 JANUARY</b>	<b>4,602</b>	<b>1,989</b>
ADDITIONS	2,519	3,061
AMOUNTS COLLECTED	(1,527)	(381)
AMOUNTS WRITTEN OFF	(398)	(71)
EXCHANGE DIFFERENCES	4	5
<b>BALANCE AT 31 DECEMBER</b>	<b>5,201</b>	<b>4,603</b>

## 21. AMOUNTS DUE TO OTHER BANKS

GROUP AND BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
FOREIGN CURRENCY DEMAND DEPOSITS	4,548	18,936
DOMESTIC CURRENCY DEMAND DEPOSITS	13	11
FOREIGN BANK TERM DEPOSITS IN FOREIGN CURRENCY	66,309	45,839
DOMESTIC CURRENCY TERM DEPOSITS IN HRK	35,010	5,000
	<b>105,880</b>	<b>69,786</b>

The interest rate on received term deposits foreign banks range from 1.00% to 2.80% (2013: from 1.00% to 2.00%). The interest rate on received term deposits domestic banks range from 0.50% to 0.70% (2013: from 0.01% to 0.50%).

## 22. AMOUNTS DUE TO CUSTOMERS

GROUP IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
<b>CITIZENS</b>		
<b>DEMAND DEPOSITS</b>		
- HRK DENOMINATED	233,380	219,223
- FOREIGN CURRENCY DENOMINATED	162,651	151,584
<b>TERM DEPOSITS</b>		
- HRK DENOMINATED	358,373	362,715
- FOREIGN CURRENCY DENOMINATED	917,248	927,042
<b>TOTAL CITIZENS</b>	<b>1,671,652</b>	<b>1,660,564</b>
<b>LEGAL ENTITIES</b>		
<b>DEMAND DEPOSITS</b>		
- HRK DENOMINATED	195,911	201,694
- FOREIGN CURRENCY DENOMINATED	27,698	81,006
<b>TERM DEPOSITS</b>		
- HRK DENOMINATED	299,300	219,405
- FOREIGN CURRENCY DENOMINATED	61,042	44,314
<b>TOTAL LEGAL ENTITIES</b>	<b>583,951</b>	<b>546,419</b>
<b>TOTAL DEPOSITS FROM CUSTOMERS</b>	<b>2,255,603</b>	<b>2,206,983</b>

BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
<b>CITIZENS</b>		
DEMAND DEPOSITS		
- HRK DENOMINATED	233,380	219,223
- FOREIGN CURRENCY DENOMINATED	162,651	151,584
TERM DEPOSITS		
- HRK DENOMINATED	358,373	362,715
- FOREIGN CURRENCY DENOMINATED	917,248	927,042
<b>TOTAL CITIZENS</b>	<b>1,671,652</b>	<b>1,660,564</b>
<b>LEGAL ENTITIES</b>		
DEMAND DEPOSITS		
- HRK DENOMINATED	196,371	203,457
- FOREIGN CURRENCY DENOMINATED	27,698	81,006
TERM DEPOSITS		
- HRK DENOMINATED	299,300	219,405
- FOREIGN CURRENCY DENOMINATED	61,042	44,314
<b>TOTAL LEGAL ENTITIES</b>	<b>584,411</b>	<b>548,182</b>
<b>TOTAL DEPOSITS FROM CUSTOMERS</b>	<b>2,256,063</b>	<b>2,208,746</b>

## 23. OTHER BORROWED FUNDS

GROUP AND BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
HBOR LOANS	84,242	144,327
REPO-LOANS FROM DOMESTIC BANKS, FOREIGN CURRENCY DENOMINATED	26,817	49,488
REPO LOANS FROM DOMESTIC BANKS, HRK DENOMINATED	-	63,404
	<b>111,059</b>	<b>257,219</b>

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 more repo loan arrangements entered into with interest rates ranging from 0.5% annually.

As a basis of repo agreement, Croatian government bonds RHMF-15CA market value – HRK 27,414 thousand were pledged.

Received repo agreements of domestic banks in HRK were returned with a simultaneous repurchase of previously pledged securities on the maturity date.

Loans from 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

GROUP IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
PENDING DISBURSEMENTS UNDER LOAN COMMITMENTS	26,356	15,569
ITEMS IN COURSE OF PAYMENT	12,187	1,476
AMOUNTS DUE TO EMPLOYEES	4,073	3,971
AMOUNTS DUE TO SUPPLIERS	3,588	3,923
OTHER DOMESTIC CURRENCY LIABILITY	2,258	4,586
ACCRUALS IN RESPECT OF RECEIVED FUNDS	1,453	3,550
DEFERRED FEES AND COMMISSIONS	1,329	901
ACCRUED PREMIUMS FOR INSURING TERM DEPOSITS PAYABLE	1,253	1,237
RETIREMENT AND OTHER EMPLOYEE BENEFITS	550	1,934
DIVIDENDS PAYABLE	119	120
OTHER FOREIGN CURRENCY DENOMINATED LIABILITIES	20	216
CURRENT INCOME TAX LIABILITY	-	269
	<b>53,186</b>	<b>37,752</b>

BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
PENDING DISBURSEMENTS UNDER LOAN COMMITMENTS	26,356	15,569
ITEMS IN COURSE OF PAYMENT	12,187	1,476
AMOUNTS DUE TO EMPLOYEES	4,046	3,971
AMOUNTS DUE TO SUPPLIERS	3,788	4,151
OTHER DOMESTIC CURRENCY LIABILITY	2,181	4,586
ACCRUALS IN RESPECT OF RECEIVED FUNDS	1,453	3,550
DEFERRED FEES AND COMMISSIONS	1,329	901
ACCRUED PREMIUMS FOR INSURING TERM DEPOSITS PAYABLE	1,253	1,237
RETIREMENT AND OTHER EMPLOYEE BENEFITS	550	1,934
DIVIDENDS PAYABLE	119	120
OTHER FOREIGN CURRENCY DENOMINATED LIABILITIES	20	8
CURRENT INCOME TAX LIABILITY	-	269
	<b>53,282</b>	<b>37,772</b>

## 25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

### a) Analysis

GROUP AND BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
PROVISIONS FOR OVERDRAFT LOANS	2,709	2,986
PROVISIONS FOR GUARANTEES	487	453
PROVISIONS FOR LEGAL CASES	330	250
PROVISION FOR UNCOVERED LETTERS OF CREDIT	229	216
PROVISIONS FOR OTHER CONTINGENT LIABILITIES	152	281
	<b>3,907</b>	<b>4,186</b>

### b) Movements in provisions

GROUP AND BANK IN '000 HRK	2014	2013
<b>BALANCE AT 1 JANUARY</b>	<b>4,186</b>	<b>4,826</b>
INCREASE DURING THE YEAR TO PROVISIONS FOR CREDIT RISK	11,424	7,595
INCREASE DURING THE YEAR TO PROVISIONS FOR LEGAL CASES	80	-
DECREASE DURING THE YEAR TO PROVISIONS FOR CREDIT RISK	(11,783)	(8,235)
<b>BALANCE AT 31 DECEMBER</b>	<b>3,907</b>	<b>4,186</b>

## 26. ISSUED HYBRID AND SUBORDINATED INSTRUMENTS

GROUP AND BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
ISSUED HYBRID AND SUBORDINATED BONDS	131,571	131,162

On 22 August 2011 the Group and the Bank subscribed hybrid instruments 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 7.00% per annum, payable on a semi-annual basis. The principal is due on a one-off basis in 2018.

On 23 December 2013 the Group and the Bank subscribed subordinated instruments by issuing bonds with a ticker symbol PDBA-O-21CA. ISIN: HRPDBAO21CA3. The bonds are registered bonds in the non-material form in the total amount of the kuna-equivalent issue of EUR 6.9 million, 1-euro denomination. They bear interest at a fixed rate of 6.5% annually, with semi-annual payments. The principal is due on a one-off basis in 2021.

## 27. SHARE CAPITAL

The Group's share capital consists of ordinary shares. The total number of ordinary shares in issue at the end of 2014 was 668,749 (2013: 668,749 shares) with a nominal value of HRK 400.00 per share.

At 31 December 2014, the Bank held 9,203 treasury shares which it carries at cost (2013: 9,203 treasury shares).

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

GROUP AND BANK IN '000 HRK	2014		2013	
	NUMBER OF SHARES	ORDINARY SHARES IN %	NUMBER OF SHARES	ORDINARY SHARES IN %
ANTONIA GORGONI	66,278	9.91	65,336	9.77
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	38,526	5.76
GIOVANNI SEMERARO	27,494	4.11	27,494	4.11
MIROSLAV BLAŽEV	25,509	3.81	-	-
MARIO GORGONI	20,670	3.09	-	-
ZAGREBAČKA BANKA D,D, ZBIRNI	-	-	38,515	5.76
OTHER SHAREHOLDERS (INDIVIDUALLY BELOW 3%)	125,454	18.77	172,575	25.81
	<b>668,749</b>	<b>100</b>	<b>668,749</b>	<b>100</b>



## 28. OTHER RESERVES

GROUP IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
LEGAL RESERVES	116,755	114,425
RESERVES FOR TREASURY SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
<b>UN-DISTRIBUTABLE RESERVES</b>	<b>138,689</b>	<b>136,359</b>
CAPITAL GAINS ON TRADING IN TREASURY SHARES	4,802	4,802
FAIR VALUE RESERVE	(8,762)	(10,599)
DISTRIBUTABLE RESERVES	(3,960)	(5,797)
	<b>134,729</b>	<b>130,562</b>

In accordance with the Croatian Companies Act, groups are 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 Group's statute. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for the year 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Group'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 Group have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
LEGAL RESERVES	118,686	117,633
RESERVES FOR TREASURY SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
<b>UN-DISTRIBUTABLE RESERVES</b>	<b>140,620</b>	<b>139,567</b>
CAPITAL GAINS ON TRADING IN TREASURY SHARES	4,802	4,802
FAIR VALUE RESERVE	(8,762)	(10,599)
DISTRIBUTABLE RESERVES	(3,960)	(5,797)
	<b>136,660</b>	<b>133,770</b>

In accordance with the Croatian Companies Act, banks are 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 the year 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Group'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 Group 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 Group and the Bank manages significant funds for and on behalf of third parties, entities and individuals. Those assets are accounted for separately from those of the Group and 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 Group and the Bank are compensated for their services by fees chargeable to the funds.

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

GROUP AND BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
<b>ASSETS</b>		
LOANS TO INDIVIDUALS	15,855	17,111
LOANS TO CORPORATE ENTITIES	1,107	1,107
CASH	816	1,102
<b>TOTAL ASSETS:</b>	<b>17,778</b>	<b>19,320</b>
<b>LIABILITIES</b>		
PUBLIC SECTOR	5,993	7,090
CORPORATE ENTITIES	2,904	2,799
FINANCIAL INSTITUTIONS	8,881	9,431
<b>TOTAL LIABILITIES:</b>	<b>17,778</b>	<b>19,320</b>

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

BANK IN '000 HRK	31 DECEMBER 2014	31 DECEMBER 2013
VALUE OF FINANCIAL INSTRUMENTS	743,764	397,378

### 30. CONTINGENT LIABILITIES AND COMMITMENTS

#### *Legal actions*

At 31 December 2014 there were several legal actions outstanding against the Group. Based on the management's estimate, HRK 330 thousand is provided for the potential losses in legal actions (2013: HRK 250 thousand).

#### *Commitments to extend credit, guarantees and other financial instruments*

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

<b>GROUP IN '000 HRK</b>	<b>31 DECEMBER 2014</b>	<b>31 DECEMBER 2013</b>
COMMITMENTS – UNDRAWN LOANS	164,263	192,197
COMMITMENTS – UNDRAWN OVERDRAFT FACILITIES ON TRANSACTION ACCOUNTS	87,202	91,963
GUARANTEES	48,440	44,825
FOREIGN CURRENCY LETTERS OF CREDIT	21,810	20,646
LETTER OF INTENT	3,781	-
	<b>325,496</b>	<b>349,631</b>

<b>BANK IN '000 HRK</b>	<b>31 DECEMBER 2014</b>	<b>31 DECEMBER 2013</b>
COMMITMENTS – UNDRAWN LOANS	164,263	192,207
COMMITMENTS – UNDRAWN OVERDRAFT FACILITIES ON TRANSACTION ACCOUNTS	113,909	109,663
GUARANTEES	48,440	44,825
FOREIGN CURRENCY LETTERS OF CREDIT	21,810	20,646
LETTER OF INTENT	3,781	-
	<b>352,203</b>	<b>367,341</b>

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:

<b>GROUP AND BANK IN '000 HRK</b>	<b>31 DECEMBER 2014</b>	<b>31 DECEMBER 2013</b>
UP TO 1 YEAR	5,560	6,591
FROM 2 TO 5 YEARS	12,849	10,780
OVER 5 YEARS	1,332	3,448
<b>TOTAL</b>	<b>19,741</b>	<b>20,819</b>

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.

Parties related to the Group include the Group's Management Board, its officers with the general power of attorney, members of the Supervisory Board and their related persons. Related party transactions at the year end were as follows:

GROUP IN '000 HRK	KEY MANAGEMENT AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2014	2013	2014	2013
<b>LOANS</b>				
OPENING BALANCE	4,207	4,358	23,240	22,034
INCREASE DURING THE YEAR	(1,432)	(151)	112	1,206
<b>CLOSING BALANCE</b>	<b>2,775</b>	<b>4,207</b>	<b>23,352</b>	<b>23,240</b>
INTEREST INCOME	118	200	1,454	1,440
<b>DEPOSITS RECEIVED</b>				
OPENING BALANCE	7,265	7,078	897	2,194
INCREASE / (DECREASE) DURING THE YEAR	73	187	(297)	(1,297)
<b>CLOSING BALANCE</b>	<b>7,338</b>	<b>7,265</b>	<b>600</b>	<b>897</b>
INTEREST EXPENSE	280	264	-	1

#### *Key management remuneration*

	IN '000 HRK	2014	2013
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS		11,141	13,427

BANK IN '000 HRK	KEY MANAGEMENT AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2014	2013	2014	2013
<b>LOANS</b>				
OPENING BALANCE	3,198	3,324	23,240	22,034
INCREASE DURING THE YEAR	(441)	(126)	112	1,206
<b>CLOSING BALANCE</b>	<b>2,757</b>	<b>3,198</b>	<b>23,352</b>	<b>23,240</b>
INTEREST INCOME	118	160	1,454	1,440
<b>DEPOSITS RECEIVED</b>				
OPENING BALANCE	6,780	6,594	897	2,194
INCREASE / (DECREASE) DURING THE YEAR	558	186	(297)	(1,297)
<b>CLOSING BALANCE</b>	<b>7,338</b>	<b>6,780</b>	<b>600</b>	<b>897</b>
INTEREST EXPENSE	280	249	-	1

#### *Key management remuneration*

IN '000 HRK	2014	2013
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	10,814	13,066

The Management Board consists of three members.

Key transactions with related parties were as follows:

IN '000 HRK	ASSETS		LIABILITIES	
	2014	2013	2014	2013
POBA FAKTOR D.O.O.	17,617	35,446	13,492	32,607
	INCOME		EXPENSE	
	2014	2013	2014	2013
INTEREST INCOME/EXPENSE	2,075	2,625	979	1,298

## 32. FINANCIAL RISK MANAGEMENT POLICIES

This section provides details of the Group's exposure to risk and describes the methods used by the management to control the risk.

The Group'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 Group's aim is to achieve an appropriate balance between the risk and return, whilst minimising potential negative effects on its financial performance.

The Group's 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 Group 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 Group 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 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 Group 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 Group. Major changes in the economy or the status of an industry in which the Group's 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 and control have been centralised within the Risk Management Division.

The Group manages credit risk in accordance with its policies, procedures and other internal guidelines. The Group 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 Board'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 individuals and legal entities. Credit risk is reviewed on an ongoing basis and reported on regularly to promptly identify any indication of impairment in the loan portfolio. The Group 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 Group's internal decision. In assessing each individual customer, the Group considers the credit rating of the borrower, the past debt service history and the collaterals obtained for loans, guarantees and other placements.

The Group 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.

The note below analyses the financial information that the Bank would have in 2014 if an additional provision of amounts approved to a one debtor had not been recognised. These receivables are under litigation and in legal proceeding were brought first non – final decisions in favour of the Bank. After the judgment becomes final, the Bank expects to collect the full amount of the receivables.

If the legal case had ended and if the collection of receivables took place before 31 December 2014, the financial information would be as follows:

	<b>GROUP</b>	<b>BANK</b>
	<b>31 DECEMBER</b>	<b>31 DECEMBER</b>
<b>ASSETS</b>	<b>2014</b>	<b>2014</b>
LOANS TO CUSTOMER	1,846,311	1,842,790
<b>TOTAL ASSETS</b>	<b>3,059,326</b>	<b>3,060,526</b>
	<b>2014</b>	<b>2014</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
IMPAIRMENT LOSSES AND PROVISIONS	(17,487)	(16,521)
<b>NET PROFIT FOR THE YEAR</b>	<b>3,958</b>	<b>2,671</b>

## Liquidity risk

Liquidity risk arises in the general funding of the Group'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 Group 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. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as a part of its liquidity risk management.

The Group 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 Group's Management Board on a monthly level.

In addition to the regulatory requirements set out above, the Group has the obligation to monitor the structural indicators of the liquidity and concentration levels, which have been set in the internal regulations of the Group.

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 or more onerous. Market risks represent potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Group. 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 revaluation reserves. The Group manages its use of trading instruments in response to changing market conditions.

The limits are defined in accordance with the Group'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 Group resorts to various strategies. Value-at-risk (VaR) methodology is applied to the Group'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 Group 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 of the Group 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 Group has the obligation to adjust its foreign currency position in line with the currency risk to ensure that the foreign exchange open position does not exceed 30% of the Group's regulatory capital as determined by the CNB.

## Interest rate risk

The interest rate risk is the sensitivity of the Group'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 re-price in a given period generate interest rate risk.

The Group'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 of the Group are also exposed to the basis risk which is the difference in re-pricing characteristics of the various floating rate indices.

Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using re-pricing 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 Group'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 instruments

The Group enters into derivative financial instruments primarily to satisfy the needs and requirements of the customers. Derivative financial instruments used by the Group 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 at the Group and the underlying root causes, as well as to provide information that will allow operational risk at the Group to be managed efficiently.

Operational risk events are aggregated in a single data base 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 Group 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 Group'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 Group's operational risk appetite are defined in the Operational Risk Management Policy and other internal by-laws of the Group.

For the purpose of protection against operational risk, the Group 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 1st January 2014 credit institutions 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 European Authority ("EBA") and local regulator CNB. 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 Author-

ity. On 31 December 2014, the total capital adequacy ratio is 16.39%, and the basic and basic share capital rate amounts 12.32 percent.

The Bank meet all of the limits prescribed in Article 92 of Directives (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 Directives (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, Bank's capital is covered by a protective layer for the preservation of capital, and that under Article 117 of the Credit Institutions Act (Official Gazette no. 159/2013) amounts 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 no. 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 Bank's debt securities - subordinated bonds in the amount of HRK 52,947 thousand and issue of hybrid bonds in the amount of HRK 55,804 thousand. The deductions of regular core capital and supplementary capital include total investment in a subsidiary POBA faktor d.o.o.

Adequacy of regulatory capital in 2014 was lower than the comparable rate of regulatory capital in 2013 mainly due to the application of the new provisions of other intangible assets as a deductible item and reported a loss for the current financial year.

	<b>2014 BANK</b>	<b>2013 BANK</b>
	<b>IN '000 HRK</b>	<b>IN '000 HRK</b>
<b>REGULATORY CAPITAL</b>		
SHARE CAPITAL	321,842	369,406
BASIC SHARE CAPITAL	321,843	369,406
SUPPLEMENTARY CAPITAL	106,366	129,159
ITEMS DEDUCTIBLE FROM REGULATORY CAPITAL	-	(4,770)
<b>TOTAL REGULATORY CAPITAL</b>	<b>428,208</b>	<b>493,795</b>
<b>RATE OF TOTAL REGULATORY CAPITAL</b>	<b>16.39%</b>	<b>19.12%</b>
<b>MINIMUM RATE OF TOTAL REGULATORY CAPITAL</b>	<b>8.00%</b>	<b>12.00%</b>

### 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 Group 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's of level 3, are input data on the asset or liability that are not noticed.

#### Fair value of financial instruments not measured at fair value

The table below shows 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 2014	31 DECEMBER 2013	31 DECEMBER 2014	31 DECEMBER 2013
<b>FINANCIAL ASSETS</b>				
PLACEMENTS WITH OTHER BANKS	47,901	62,682	47,901	62,682
LOANS AND ADVANCES TO CUSTOMERS	1,823,684	1,887,966	1,825,395	1,892,759
FINANCIAL ASSETS HELD TO MATURITY	88,896	27,191	89,619	27,548
<b>FINANCIAL LIABILITIES</b>				
AMOUNTS DUE TO OTHER BANKS	105,880	69,786	105,880	69,786
AMOUNTS DUE TO OTHER CUSTOMERS	2,256,063	2,208,746	2,261,407	2,213,110
OTHER BORROWED FUNDS	111,059	257,219	111,059	257,219



**FAIR VALUE**

2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>FINANCIAL ASSETS</b>				
PLACEMENTS WITH OTHER BANKS	-	47,901	-	<b>47,901</b>
LOANS AND ADVANCES TO CUSTOMERS	-	-	1,825,395	<b>1,825,395</b>
FINANCIAL ASSETS HELD TO MATURITY	27,414	-	62,205	<b>89,619</b>
<b>FINANCIAL LIABILITIES</b>				
AMOUNTS DUE TO OTHER BANKS	-	105,880	-	<b>105,880</b>
AMOUNTS DUE TO OTHER CUSTOMERS	-	-	2,261,407	<b>2,261,407</b>
OTHER BORROWED FUNDS	-	-	111,059	<b>111,059</b>

**FAIR VALUE**

2013	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>FINANCIAL ASSETS</b>				
PLACEMENTS WITH OTHER BANKS	-	62,682	-	<b>62,682</b>
LOANS AND ADVANCES TO CUSTOMERS	-	-	1,892,759	<b>1,892,759</b>
FINANCIAL ASSETS HELD TO MATURITY	27,548	-	-	<b>27,548</b>
<b>FINANCIAL LIABILITIES</b>				
AMOUNTS DUE TO OTHER BANKS	-	69,786	-	<b>69,786</b>
AMOUNTS DUE TO OTHER CUSTOMERS	-	-	2,213,110	<b>2,213,110</b>
OTHER BORROWED FUNDS	-	-	257,219	<b>257,219</b>

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 the CBRD 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).

#### 2014

IN '000 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
<b>TOTAL</b>	<b>421,278</b>	<b>-</b>	<b>25,151</b>	<b>446,429</b>

The fair value level 3 includes investments in shares of companies HROK d.o.o., Središnje klirinško depozitarno društvo, Tržište novca d.d., Zagrebačka burza d.d., S.W.I.F.T Belgium, Centralna depozitarna agencija ad Podgorica Franck d.d., Oroplet d.d. u stečaju, Western Balkan Investment Fund, Podgorica i Atlasmont banka a.d Podgorica which are carried at cost. Level 3 debt securities consist of the securities issued by Jadrolinija Rijeka. During the year, JGL dd Rijeka and HEP-Croatian Electricity dd Zagreb were reclassified from level 3 to level 1.

#### 2013

IN '000 HRK	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
AVAILABLE-FOR-SALE FINANCIAL ASSETS				
EQUITY SECURITIES	114,185	-	28,716	142,901
DEBT SECURITIES	210,373	98,010	30,678	339,061
<b>TOTAL</b>	<b>324,558</b>	<b>98,010</b>	<b>59,394</b>	<b>481,962</b>

Level 3 are equity securities of companies HROK d.o.o., Središnje klirinško depozitarno društvo, Tržište novca d.d., Zagrebačka burza d.d., 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 and Atlas banka a.d Podgorica, which are valued at purchase cost. From debt securities in level 3 is Jadrolinija Rijeka and JGL d.d. Rijeka, Odašiljači i veze d.o.o. Zagreb i HEP- Hrvatska elektroprivreda d.d. Zagreb.

There were no changes in levels during 2013.

### Fair value measurement

FINANCIAL ASSETS/ FINANCIAL LIABILITIES	FAIR VALUE AS AT (HRK '000)		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	RELATIONSHIP OF SIGNIFICANT UNOBSERVABLE INPUTS TO FAIR VALUE	
	31/12/2014	31/12/2013			UNOBSERVABLE INPUT(S)	UNOBSERVABLE INPUTS TO FAIR VALUE
EQUITY SECURITIES	143,996	114,185	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	NOT- APPLICABLE	NOT- APPLICABLE
EQUITY SECURITIES	23,578	28,716	LEVEL 3	IMPAIRMENT TEST (NO TRADING OR LIQUIDITY ON THE MARKET FOR THIS SHARES) OR VALUATION AT COST SINCE THIS IS NOT MATERIAL INVESTMENT	NOT- APPLICABLE	NOT- APPLICABLE
<b>TOTAL EQUITY SECURITIES</b>	<b>167,574</b>	<b>142,901</b>				
DEBT SECURITIES	277,282	210,373	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	NOT- APPLICABLE	NOT- APPLICABLE
DEBT SECURITIES		98,010	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	NOT- APPLICABLE
DEBT SECURITIES	1,573	30,678	LEVEL 3	VALUATION IN ACCORDANCE WITH THE EFFECTIVE INTEREST RATE (NO PRICE OR MARKET FOR THESE SECURITIES, ILLIQUID SECURITIES)	NOT- APPLICABLE	NOT- APPLICABLE
<b>TOTAL DEBT SECURITIES</b>	<b>278,855</b>	<b>339,061</b>				
<b>TOTAL SECURITIES</b>	<b>446,429</b>	<b>481,962</b>				

### 34. INTEREST RATE RISK

The tables below provide the Group's interest rate sensitivity position at 31 December 2014 and 2013 based upon the known re-pricing dates of fixed and floating rate assets and liabilities and the assumed re-pricing dates of other items.

AT 31 DECEMBER 2014 IN '000 HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON – INTEREST BEARING	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	230,254	<b>230,254</b>
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	199,831	<b>199,831</b>
PLACEMENTS WITH OTHER BANKS	24,849	23,052	-	-	-	<b>47,901</b>
LOANS AND ADVANCES TO CUSTOMERS	1,342,240	239,106	181,687	43,993	20,179	<b>1,827,205</b>
FINANCIAL ASSETS AVAILABLE FOR SALE	26,564	549	46,752	204,990	167,574	<b>446,429</b>
FINANCIAL ASSETS HELD TO MATURITY	62,024	-	26,872	-	-	<b>88,896</b>
INTANGIBLE ASSETS	-	-	-	-	48,131	<b>48,131</b>
PROPERTY AND EQUIPMENT	-	-	-	-	82,941	<b>82,941</b>
DEFERRED TAX ASSETS	-	-	-	-	8,148	<b>8,148</b>
OTHER ASSETS	-	-	-	-	64,305	<b>64,305</b>
<b>TOTAL ASSETS</b>	<b>1,455,677</b>	<b>262,707</b>	<b>255,311</b>	<b>248,983</b>	<b>821,363</b>	<b>3,044,041</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	58,725	24,815	22,340	-	-	<b>105,880</b>
AMOUNTS DUE TO CUSTOMERS	797,758	363,175	878,830	215,840	-	<b>2,255,603</b>
OTHER BORROWED FUNDS	28,130	15,183	20,681	47,065	-	<b>111,059</b>
OTHER LIABILITIES	-	-	-	-	53,186	<b>53,186</b>
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	3,907	<b>3,907</b>
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	2,667	6,009	122,895	-	<b>131,571</b>
<b>TOTAL LIABILITIES</b>	<b>884,613</b>	<b>405,840</b>	<b>927,860</b>	<b>385,800</b>	<b>57,093</b>	<b>2,661,206</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	<b>267,500</b>
SHARE PREMIUM	-	-	-	-	3,015	<b>3,015</b>
TREASURY SHARES	-	-	-	-	(11,082)	<b>(11,082)</b>
OTHER RESERVES	-	-	-	-	134,729	<b>134,729</b>
PROFIT FOR THE YEAR	-	-	-	-	(11,327)	<b>(11,327)</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>382,835</b>	<b>382,835</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>884,613</b>	<b>405,840</b>	<b>927,860</b>	<b>385,800</b>	<b>439,928</b>	<b>3,044,041</b>
<b>NET INTEREST GAP</b>	<b>571,064</b>	<b>(143,133)</b>	<b>(672,549)</b>	<b>(136,817)</b>	<b>381,435</b>	<b>-</b>

AT 31 DECEMBER 2013 IN '000 HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON – INTEREST BEARING	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	268,487	268,487
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	212,678	212,678
PLACEMENTS WITH OTHER BANKS	32,168	24,229	6,154	-	131	62,682
LOANS AND ADVANCES TO CUSTOMERS	1,584,370	138,675	77,950	67,792	20,181	1,888,968
FINANCIAL ASSETS AVAILABLE FOR SALE	-	15,247	124,858	194,469	147,388	481,962
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	27,126	65	27,191
INTANGIBLE ASSETS	-	-	-	-	40,765	40,765
PROPERTY AND EQUIPMENT	-	-	-	-	86,101	86,101
DEFERRED TAX ASSETS	-	-	-	-	5,957	5,957
OTHER ASSETS	-	-	-	-	24,622	24,622
<b>TOTAL ASSETS</b>	<b>1,616,538</b>	<b>178,151</b>	<b>208,962</b>	<b>289,387</b>	<b>806,375</b>	<b>3,099,413</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	46,106	23,636	-	-	44	69,786
AMOUNTS DUE TO CUSTOMERS	839,634	318,944	834,819	188,194	25,392	2,206,983
OTHER BORROWED FUNDS	89,252	33,859	58,755	75,039	314	257,219
OTHER LIABILITIES	-	-	-	-	37,752	37,752
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,186	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	-	129,159	2,003	131,162
<b>TOTAL LIABILITIES</b>	<b>974,992</b>	<b>376,439</b>	<b>893,574</b>	<b>392,392</b>	<b>69,691</b>	<b>2,707,088</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	130,562	130,562
PROFIT FOR THE YEAR	-	-	-	-	2,330	2,330
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>392,325</b>	<b>392,325</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>974,992</b>	<b>376,439</b>	<b>893,574</b>	<b>395,392</b>	<b>462,016</b>	<b>3,099,413</b>
<b>NET INTEREST GAP</b>	<b>641,546</b>	<b>(198,288)</b>	<b>(684,612)</b>	<b>(103,005)</b>	<b>344,359</b>	<b>-</b>

The tables below provide the Bank's interest rate sensitivity position at 31 December 2014 and 2013 based upon the known re-pricing dates of fixed and floating rate assets and liabilities and the assumed re-pricing dates of other items.

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



AT 31 DECEMBER 2013 IN '000 HRK	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON – INTEREST BEARING	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	268,486	268,486
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	212,678	212,678
PLACEMENTS WITH OTHER BANKS	31,899	24,437	6,215	-	131	62,682
LOANS AND ADVANCES TO CUSTOMERS	900,160	235,115	664,718	67,792	20,181	1,887,966
FINANCIAL ASSETS AVAILABLE FOR SALE	-	15,247	124,858	194,469	147,388	481,962
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	27,126	65	27,191
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	4,770
INTANGIBLE ASSETS	-	-	-	-	40,754	40,754
PROPERTY AND EQUIPMENT	-	-	-	-	86,101	86,101
DEFERRED TAX ASSETS	-	-	-	-	5,957	5,957
OTHER ASSETS	-	-	-	-	24,580	24,580
<b>TOTAL ASSETS</b>	<b>932,059</b>	<b>274,799</b>	<b>795,791</b>	<b>289,387</b>	<b>811,091</b>	<b>3,103,127</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	46,106	23,636	-	-	44	69,786
AMOUNTS DUE TO CUSTOMERS	844,987	315,366	838,875	184,126	25,392	2,208,746
OTHER BORROWED FUNDS	97,321	26,589	58,206	74,789	314	257,219
OTHER LIABILITIES	-	-	-	-	37,772	37,772
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,186	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	-	129,159	2,003	131,162
<b>TOTAL LIABILITIES</b>	<b>988,414</b>	<b>365,591</b>	<b>897,081</b>	<b>388,074</b>	<b>69,711</b>	<b>2,708,871</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	133,770	133,770
PROFIT FOR THE YEAR	-	-	-	-	1,053	1,053
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>394,256</b>	<b>394,256</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>988,414</b>	<b>365,591</b>	<b>897,081</b>	<b>388,074</b>	<b>463,967</b>	<b>3,103,127</b>
<b>NET INTEREST GAP</b>	<b>(56,355)</b>	<b>(90,792)</b>	<b>(101,290)</b>	<b>(98,687)</b>	<b>347,124</b>	<b>-</b>

During 2014, the weighted average effective interest rate on loans and advances to customers was 7.27% (2013: 7.74%).

During 2014, the weighted average effective interest rate on deposits from customers was 2.38% (2013: 2.78%).

The Table below presents the sensitivity of Group's and the Bank's variable rate assets and liabilities to the fluctuations in interest rates assuming the maximum recorded increase or decrease in the interest rates during 2014 and 2013. Changes in interest rates have a direct impact on net interest income. In case of a decrease interest rate in the same percentage, there would be interest expense in the same amount.

<b>GROUP AND BANK IN '000 HRK</b>	<b>ASSUMED</b>	<b>IMPACT ON 2014 PROFIT AND LOSS</b>	<b>IMPACT ON 2013 PROFIT AND LOSS</b>
	<b>INCREASE OF THE INTEREST RATE</b>		
ASSETS	5%	3,813	6,529
LIABILITIES	5%	(427)	(1,002)
IMPACT ON NET INTEREST INCOME		3,386	5,527

## 35. CURRENCY RISK

The Group manages its exposure to currency risk through a variety of measures, including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies.

GROUP IN '000 HRK AT 31 DECEMBER 2014	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	59,670	12,216	17,084	88,970	141,284	<b>230,254</b>
BALANCES WITH THE CROATIAN NATIONAL BANK	17,698	4,216	-	21,914	177,917	<b>199,831</b>
PLACEMENTS WITH OTHER BANKS	45,549	-	-	45,549	2,352	<b>47,901</b>
LOANS AND ADVANCES TO CUSTOMERS	932,268	9,361	-	941,629	885,576	<b>1,827,205</b>
FINANCIAL ASSETS AVAILABLE FOR SALE	225,852	33,791	7,822	267,465	178,964	<b>446,429</b>
FINANCIAL ASSETS HELD TO MATURITY	62,024	-	-	62,024	26,872	<b>88,896</b>
INTANGIBLE ASSETS	-	-	-	-	48,131	<b>48,131</b>
PROPERTY AND EQUIPMENT	-	-	-	-	82,941	<b>82,941</b>
DEFERRED TAX ASSETS	-	-	-	-	8,148	<b>8,148</b>
OTHER ASSETS	3,426	-	7	3,433	60,872	<b>64,305</b>
<b>TOTAL ASSETS</b>	<b>1,346,487</b>	<b>59,584</b>	<b>24,913</b>	<b>1,430,984</b>	<b>1,613,057</b>	<b>3,044,041</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	60,978	9,879	-	70,857	35,023	<b>105,880</b>
AMOUNTS DUE TO CUSTOMERS	1,144,812	24,132	21,154	1,190,098	1,065,505	<b>2,255,603</b>
OTHER BORROWED FUNDS	24,047	26,818	-	50,865	60,194	<b>111,059</b>
OTHER LIABILITIES	4,530	39	19	4,588	48,598	<b>53,186</b>
PROVISIONS FOR CONTINENT LIABILITIES AND CHARGES	857	54	-	911	2,996	<b>3,907</b>
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,571	-	-	131,571	-	<b>131,571</b>
<b>TOTAL LIABILITIES</b>	<b>1,366,795</b>	<b>60,922</b>	<b>21,173</b>	<b>1,448,890</b>	<b>1,212,316</b>	<b>2,661,206</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	<b>267,500</b>
SHARE PREMIUM	-	-	-	-	3,015	<b>3,015</b>
TREASURY SHARES	-	-	-	-	(11,082)	<b>(11,082)</b>
OTHER RESERVES	-	-	-	-	134,729	<b>134,729</b>
PROFIT FOR THE YEAR	-	-	-	-	(11,327)	<b>(11,327)</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>382,835</b>	<b>382,835</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,366,795</b>	<b>60,922</b>	<b>21,173</b>	<b>1,448,890</b>	<b>1,595,151</b>	<b>3,044,041</b>
<b>NET FX GAP</b>	<b>(20,308)</b>	<b>(1,338)</b>	<b>3,740</b>	<b>(17,906)</b>	<b>17,906</b>	<b>-</b>

GROUP IN '000 HRK AT 31 DECEMBER 2013	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	119,361	4,075	21,999	145,435	123,052	268,487
BALANCES WITH THE CROATIAN NATIONAL BANK	18,109	4,245	-	22,354	190,324	212,678
PLACEMENTS WITH OTHER BANKS	36,669	11,012	-	47,681	15,001	62,682
LOANS AND ADVANCES TO CUSTOMERS	1,016,506	8,725	-	1,025,231	863,737	1,888,968
FINANCIAL ASSETS AVAILABLE FOR SALE	224,267	57,235	6,384	287,886	194,076	481,962
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	27,191	27,191
INTANGIBLE ASSETS	-	-	-	-	40,765	40,765
PROPERTY AND EQUIPMENT	-	-	-	-	86,101	86,101
DEFERRED TAX ASSETS	-	-	-	-	5,957	5,957
OTHER ASSETS	127	-	-	127	24,495	24,622
<b>TOTAL ASSETS</b>	<b>1,415,039</b>	<b>85,292</b>	<b>28,383</b>	<b>1,528,714</b>	<b>1,570,699</b>	<b>3,099,413</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	33,873	30,902	-	64,775	5,011	69,786
AMOUNTS DUE TO CUSTOMERS	1,185,361	25,411	22,592	1,233,364	973,619	2,206,983
OTHER BORROWED FUNDS	56,267	25,002	-	81,269	175,950	257,219
OTHER LIABILITIES	3,480	773	12	4,265	33,487	37,752
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,186	4,186
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,162	-	-	131,162	-	131,162
<b>TOTAL LIABILITIES</b>	<b>1,410,143</b>	<b>82,088</b>	<b>22,604</b>	<b>1,514,835</b>	<b>1,192,253</b>	<b>2,707,088</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	130,562	130,562
PROFIT FOR THE YEAR	-	-	-	-	2,330	2,330
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>392,325</b>	<b>392,325</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,410,143</b>	<b>82,088</b>	<b>22,604</b>	<b>1,514,835</b>	<b>1,584,578</b>	<b>3,099,413</b>
<b>NET FX GAP</b>	<b>4,896</b>	<b>3,204</b>	<b>5,779</b>	<b>13,879</b>	<b>(13,879)</b>	<b>-</b>

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

<b>BANK IN '000 HRK AT 31 DECEMBER 2014</b>	<b>EUR</b>	<b>USD</b>	<b>OTHER CURRENCIES</b>	<b>TOTAL FOREIGN CURRENCIES</b>	<b>HRK</b>	<b>TOTAL</b>
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	59,670	12,216	17,084	88,970	141,283	<b>230,253</b>
BALANCES WITH THE CROATIAN NATIONAL BANK	17,698	4,216	-	21,914	177,917	<b>199,831</b>
PLACEMENTS WITH OTHER BANKS	45,549	-	-	45,549	2,352	<b>47,901</b>
LOANS AND ADVANCES TO CUSTOMERS	932,268	9,361	-	941,629	882,055	<b>1,823,684</b>
FINANCIAL ASSETS AVAILABLE FOR SALE	225,852	33,791	7,822	267,465	178,964	<b>446,429</b>
FINANCIAL ASSETS HELD TO MATURITY	62,024	-	-	62,024	26,872	<b>88,896</b>
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	<b>4,770</b>
INTANGIBLE ASSETS	-	-	-	-	48,128	<b>48,128</b>
PROPERTY AND EQUIPMENT	-	-	-	-	82,941	<b>82,941</b>
DEFERRED TAX ASSETS	-	-	-	-	8,148	<b>8,148</b>
OTHER ASSETS	3,426	-	7	3,433	60,827	<b>64,260</b>
<b>TOTAL ASSETS</b>	<b>1,346,487</b>	<b>59,584</b>	<b>24,913</b>	<b>1,430,984</b>	<b>1,614,257</b>	<b>3,045,241</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	60,978	9,879	-	70,857	35,023	<b>105,880</b>
AMOUNTS DUE TO CUSTOMERS	1,144,812	24,132	21,154	1,190,098	1,065,965	<b>2,256,063</b>
OTHER BORROWED FUNDS	24,047	26,818	-	50,865	60,194	<b>111,059</b>
OTHER LIABILITIES	4,530	39	19	4,588	48,694	<b>53,282</b>
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	857	54	-	911	2,996	<b>3,907</b>
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,571	-	-	131,571	-	<b>131,571</b>
<b>TOTAL LIABILITIES</b>	<b>1,366,795</b>	<b>60,922</b>	<b>21,173</b>	<b>1,448,890</b>	<b>1,212,872</b>	<b>2,661,762</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	<b>267,500</b>
SHARE PREMIUM	-	-	-	-	3,015	<b>3,015</b>
TREASURY SHARES	-	-	-	-	(11,082)	<b>(11,082)</b>
OTHER RESERVES	-	-	-	-	136,660	<b>136,660</b>
PROFIT FOR THE YEAR	-	-	-	-	(12,614)	<b>(12,614)</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>383,479</b>	<b>383,479</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,366,795</b>	<b>60,922</b>	<b>21,173</b>	<b>1,448,890</b>	<b>1,596,351</b>	<b>3,045,241</b>
<b>NET FX GAP</b>	<b>(20,308)</b>	<b>(1,338)</b>	<b>3,740</b>	<b>(17,906)</b>	<b>17,906</b>	<b>-</b>

<b>BANK IN '000 HRK AT 31 DECEMBER 2013</b>	<b>EUR</b>	<b>USD</b>	<b>OTHER CURRENCIES</b>	<b>TOTAL FOREIGN CURRENCIES</b>	<b>HRK</b>	<b>TOTAL</b>
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	119,361	4,075	21,999	145,435	123,051	<b>268,486</b>
BALANCES WITH THE CROATIAN NATIONAL BANK	18,109	4,245	-	22,354	190,324	<b>212,678</b>
PLACEMENTS WITH OTHER BANKS	36,669	11,012	-	47,681	15,001	<b>62,682</b>
LOANS AND ADVANCES TO CUSTOMERS	1,016,506	8,725	-	1,025,231	862,735	<b>1,887,966</b>
FINANCIAL ASSETS AVAILABLE FOR SALE	224,267	57,235	6,384	287,886	194,076	<b>481,962</b>
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	27,191	<b>27,191</b>
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	4,770	<b>4,770</b>
INTANGIBLE ASSETS	-	-	-	-	40,754	<b>40,754</b>
PROPERTY AND EQUIPMENT	-	-	-	-	86,101	<b>86,101</b>
DEFERRED TAX ASSETS	-	-	-	-	5,957	<b>5,957</b>
OTHER ASSETS	127	-	-	127	24,453	<b>24,580</b>
<b>TOTAL ASSETS</b>	<b>1,415,039</b>	<b>85,292</b>	<b>28,383</b>	<b>1,528,714</b>	<b>1,574,413</b>	<b>3,103,127</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	33,873	30,902	-	64,775	5,011	<b>69,786</b>
AMOUNTS DUE TO CUSTOMERS	1,185,361	25,411	22,592	1,233,364	975,382	<b>2,208,746</b>
OTHER BORROWED FUNDS	56,267	25,002	-	81,269	175,950	<b>257,219</b>
OTHER LIABILITIES	3,480	773	12	4,265	33,507	<b>37,772</b>
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,186	<b>4,186</b>
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,162	-	-	131,162	-	<b>131,162</b>
<b>TOTAL LIABILITIES</b>	<b>1,410,143</b>	<b>82,088</b>	<b>22,604</b>	<b>1,514,835</b>	<b>1,194,036</b>	<b>2,708,871</b>
<b>SHAREHOLDERS' EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	<b>267,500</b>
SHARE PREMIUM	-	-	-	-	3,015	<b>3,015</b>
TREASURY SHARES	-	-	-	-	(11,082)	<b>(11,082)</b>
OTHER RESERVES	-	-	-	-	133,770	<b>133,770</b>
PROFIT FOR THE YEAR	-	-	-	-	1,053	<b>1,053</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>394,256</b>	<b>394,256</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,410,143</b>	<b>82,088</b>	<b>22,604</b>	<b>1,514,835</b>	<b>1,588,292</b>	<b>3,103,127</b>
<b>NET FX GAP</b>	<b>4,896</b>	<b>3,204</b>	<b>5,779</b>	<b>13,879</b>	<b>(13,879)</b>	<b>-</b>

The Table below presents the sensitivity of the Group's and the Bank's net assets and profit and loss to an increase in the CNB's middle exchange rate. 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 the year 2014 and as an income for the year 2014. The results of fluctuations in exchange rates are reported in the income statement as foreign exchange gains or losses.

CURRENCY ON 31 DECEMBER 2014	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	INFLUENCE ON	INFLUENCE ON	INFLUENCE ON
		PROFIT AND LOSS	PROFIT AND LOSS	PROFIT AND LOSS
'000 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)

CURRENCY ON 31 DECEMBER 2013	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	INFLUENCE ON	INFLUENCE ON	INFLUENCE ON
		PROFIT AND LOSS	PROFIT AND LOSS	PROFIT AND LOSS
'000 HRK		ASSETS	LIABILITIES	NET
ASSETS	2.00%	30,574	-	30,574
LIABILITIES	2.00%	-	30,297	(30,297)
NET ASSETS / (LIABILITIES)		30,574	30,297	277



## 36. LIQUIDITY RISK

GROUP IN '000 HRK AT 31 DECEMBER 2014	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	230,254	-	-	-	-	<b>230,254</b>
BALANCES WITH THE CROATIAN NATIONAL BANK	197,984	-	-	1,847	-	<b>199,831</b>
PLACEMENTS WITH OTHER BANKS	24,849	23,052	-	-	-	<b>47,901</b>
LOANS AND ADVANCES TO CUSTOMERS	396,509	337,756	520,202	253,094	319,644	<b>1,827,205</b>
FINANCIAL ASSETS AVAILABLE FOR SALE	168,425	619	46,920	154,808	75,657	<b>446,429</b>
FINANCIAL ASSETS HELD TO MATURITY	62,024	-	26,872	-	-	<b>88,896</b>
<b>FINANCIAL ASSETS</b>	<b>1,080,045</b>	<b>361,427</b>	<b>593,994</b>	<b>409,749</b>	<b>395,301</b>	<b>2,840,516</b>

### LIABILITIES

AMOUNTS DUE TO OTHER BANKS	58,725	24,815	22,340	-	-	<b>105,880</b>
AMOUNTS DUE TO CUSTOMERS	792,726	363,338	880,969	196,102	22,468	<b>2,255,603</b>
OTHER BORROWED FUNDS	28,133	15,183	20,681	28,619	18,443	<b>111,059</b>
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	2,667	6,009	17,351	105,544	<b>131,571</b>
<b>FINANCIAL LIABILITIES</b>	<b>879,584</b>	<b>406,003</b>	<b>929,999</b>	<b>242,072</b>	<b>146,455</b>	<b>2,604,113</b>

GROUP IN '000 HRK AT 31 DECEMBER 2013	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
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### ASSETS

CASH AND AMOUNTS DUE FROM BANKS	268,487	-	-	-	-	<b>268,487</b>
BALANCES WITH THE CROATIAN NATIONAL BANK	189,513	-	-	23,165	-	<b>212,678</b>
PLACEMENTS WITH OTHER BANKS	32,299	24,229	6,154	-	-	<b>62,682</b>
LOANS AND ADVANCES TO CUSTOMERS	426,567	308,620	498,220	321,611	333,950	<b>1,888,968</b>
FINANCIAL ASSETS AVAILABLE FOR SALE	137,161	15,655	131,707	95,313	102,126	<b>481,962</b>
FINANCIAL ASSETS HELD TO MATURITY	-	-	65	27,126	-	<b>27,191</b>
<b>FINANCIAL ASSETS</b>	<b>1,054,027</b>	<b>348,504</b>	<b>636,146</b>	<b>467,215</b>	<b>436,076</b>	<b>2,941,968</b>

### LIABILITIES

AMOUNTS DUE TO OTHER BANKS	46,150	23,636	-	-	-	<b>69,786</b>
AMOUNTS DUE TO CUSTOMERS	847,627	321,575	845,610	176,123	16,048	<b>2,206,983</b>
OTHER BORROWED FUNDS	89,566	33,859	58,755	46,543	28,496	<b>257,219</b>
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	1,918	85	-	129,159	<b>131,162</b>
<b>FINANCIAL LIABILITIES</b>	<b>983,343</b>	<b>380,988</b>	<b>904,450</b>	<b>222,666</b>	<b>173,703</b>	<b>2,665,150</b>

BANK IN '000 HRK AT 31 DECEMBER 2014	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	230,253	-	-	-	-	<b>230,253</b>
BALANCES WITH THE CROATIAN NATIONAL BANK	197,984	-	-	1,847	-	<b>199,831</b>
PLACEMENTS WITH OTHER BANKS	24,849	23,052	-	-	-	<b>47,901</b>
LOANS AND ADVANCES TO CUSTOMERS	402,605	335,889	512,858	252,688	319,644	<b>1,823,684</b>
FINANCIAL ASSETS AVAILABLE FOR SALE	168,425	619	46,920	154,809	75,656	<b>446,429</b>
FINANCIAL ASSETS HELD TO MATURITY	62,024	-	26,872	-	-	<b>88,896</b>
<b>FINANCIAL ASSETS</b>	<b>1,086,140</b>	<b>359,560</b>	<b>586,650</b>	<b>409,344</b>	<b>395,300</b>	<b>2,836,994</b>

#### LIABILITIES

AMOUNTS DUE TO OTHER BANKS	58,725	24,815	22,340	-	-	<b>105,880</b>
AMOUNTS DUE TO CUSTOMERS	793,186	363,338	880,969	196,102	22,468	<b>2,256,063</b>
OTHER BORROWED FUNDS	28,133	15,183	20,681	28,619	18,443	<b>111,059</b>
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	2,667	6,009	17,351	105,544	<b>131,571</b>
<b>FINANCIAL LIABILITIES</b>	<b>880,044</b>	<b>406,003</b>	<b>929,999</b>	<b>242,072</b>	<b>146,455</b>	<b>2,604,573</b>

BANK IN '000 HRK AT 31 DECEMBER 2013	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 TO 3 YEARS	OVER 3 YEARS	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	268,486	-	-	-	-	<b>268,486</b>
BALANCES WITH THE CROATIAN NATIONAL BANK	189,513	-	-	23,165	-	<b>212,678</b>
PLACEMENTS WITH OTHER BANKS	32,299	24,229	6,154	-	-	<b>62,682</b>
LOANS AND ADVANCES TO CUSTOMERS	426,567	307,618	498,220	321,611	333,950	<b>1,887,966</b>
FINANCIAL ASSETS AVAILABLE FOR SALE	137,161	15,655	131,707	95,313	102,126	<b>481,962</b>
FINANCIAL ASSETS HELD TO MATURITY	-	-	65	27,126	-	<b>27,191</b>
<b>FINANCIAL ASSETS</b>	<b>1,054,026</b>	<b>347,502</b>	<b>636,146</b>	<b>467,215</b>	<b>436,076</b>	<b>2,940,965</b>

#### LIABILITIES

AMOUNTS DUE TO OTHER BANKS	46,150	23,636	-	-	-	<b>69,786</b>
AMOUNTS DUE TO CUSTOMERS	849,390	321,575	845,610	176,123	16,048	<b>2,208,746</b>
OTHER BORROWED FUNDS	89,566	33,859	58,755	46,543	28,496	<b>257,219</b>
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	1,918	85	-	129,159	<b>131,162</b>
<b>FINANCIAL LIABILITIES</b>	<b>985,106</b>	<b>380,988</b>	<b>904,450</b>	<b>222,666</b>	<b>173,703</b>	<b>2,666,913</b>

## 37. CREDIT RISK

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

GROUP IN '000 HRK AS AT 31 DECEMBER 2014	GROSS PLACEMENTS	PROVISIONS		NET PLACEMENTS
		INDIVIDUAL BASIS	ON GENERAL BASIS	
<b>A. BALANCE SHEET EXPOSURE</b>				
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 AND ADVANCES TO CUSTOMERS				
- PERFORMING	1,671,908	-	(20,633)	1,651,275
- SUBSTANDARD	229,125	(53,195)	-	175,930
- NON-PERFORMING (BAD)	140,791	(140,791)	-	-
<b>OVERALL BALANCE SHEET EXPOSURE</b>	<b>2,829,826</b>	<b>(198,931)</b>	<b>(20,633)</b>	<b>2,610,262</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>				
CUSTOMERS				
- PERFORMING	352,188	-	(3,567)	348,621
- SUBSTANDARD	5	(1)	-	4
- NON-PERFORMING (BAD)	9	(9)	-	-
<b>OVERALL OFF-BALANCE SHEET EXPOSURE</b>	<b>352,202</b>	<b>(10)</b>	<b>(3,567)</b>	<b>348,625</b>
<b>OVERALL EXPOSURE (A+B)</b>	<b>3,182,028</b>	<b>(198,941)</b>	<b>(24,200)</b>	<b>2,958,887</b>

GROUP IN '000 HRK AS AT 31 DECEMBER 2013	GROSS PLACEMENTS	PROVISIONS		NET PLACEMENTS
		INDIVIDUAL BASIS	ON GENERAL BASIS	
<b>A. BALANCE SHEET EXPOSURE</b>				
BALANCES WITH THE CROATIAN NATIONAL BANK	212,678	-	-	212,678
PLACEMENTS WITH OTHER BANKS	63,282	(600)	-	62,682
ASSETS AVAILABLE FOR SALE	486,298	(4,336)	-	481,962
ASSETS HELD TO MATURITY	27,191	-	-	27,191
LOANS AND ADVANCES TO CUSTOMERS				
- PERFORMING	1,690,590	-	(20,393)	1,670,197
- SUBSTANDARD	254,230	(35,459)	-	218,771
- NON-PERFORMING (BAD)	125,269	(125,269)	-	-
<b>OVERALL BALANCE SHEET EXPOSURE</b>	<b>2,859,538</b>	<b>(165,664)</b>	<b>(20,393)</b>	<b>2,673,481</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>				
CUSTOMERS				
- PERFORMING	349,269	-	(3,712)	345,557
- SUBSTANDARD	191	(53)	-	138
- NON-PERFORMING (BAD)	171	(171)	-	-
<b>OVERALL OFF-BALANCE SHEET EXPOSURE</b>	<b>349,631</b>	<b>(224)</b>	<b>(3,712)</b>	<b>345,695</b>
<b>OVERALL EXPOSURE (A+B)</b>	<b>3,209,169</b>	<b>(165,888)</b>	<b>(24,105)</b>	<b>3,019,176</b>

BANK IN '000 HRK AS AT 31 DECEMBER 2014	GROSS PLACEMENTS	PROVISIONS ON INDIVIDUAL BASIS	PROVISIONS ON GENERAL BASIS	NET PLACEMENTS
<b>A. BALANCE SHEET EXPOSURE</b>				
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 AND ADVANCES 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)	-	-
<b>OVERALL BALANCE SHEET EXPOSURE</b>	<b>2,823,953</b>	<b>(196,579)</b>	<b>(20,633)</b>	<b>2,606,741</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>				
CUSTOMERS				
- PERFORMING	352,188	-	(3,567)	348,621
- SUBSTANDARD	5	(1)	-	4
- NON-PERFORMING (BAD)	9	(9)	-	-
<b>OVERALL OFF-BALANCE SHEET EXPOSURE</b>	<b>352,202</b>	<b>(10)</b>	<b>(3,567)</b>	<b>348,625</b>
<b>OVERALL EXPOSURE (A+B)</b>	<b>3,176,155</b>	<b>(196,589)</b>	<b>(24,200)</b>	<b>2,955,366</b>

BANK IN '000 HRK AS AT 31 DECEMBER 2013	GROSS PLACEMENTS	PROVISIONS ON INDIVIDUAL BASIS	PROVISIONS ON GENERAL BASIS	NET PLACEMENTS
<b>A. BALANCE SHEET EXPOSURE</b>				
BALANCES WITH THE CROATIAN NATIONAL BANK	212,678	-	-	212,678
PLACEMENTS WITH OTHER BANKS	63,282	(600)	-	62,682
ASSETS AVAILABLE FOR SALE	486,298	(4,336)	-	481,962
ASSETS HELD TO MATURITY	27,191	-	-	27,191
LOANS AND ADVANCES TO CUSTOMERS				
- PERFORMING	1,690,208	-	(20,393)	1,669,815
- SUBSTANDARD	252,990	(34,839)	-	218,151
- NON-PERFORMING (BAD)	124,511	(124,511)	-	-
<b>OVERALL BALANCE SHEET EXPOSURE</b>	<b>2,857,158</b>	<b>(164,286)</b>	<b>(20,393)</b>	<b>2,672,479</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>				
CUSTOMERS				
- PERFORMING	366,979	-	(3,712)	363,267
- SUBSTANDARD	191	(53)	-	138
- NON-PERFORMING (BAD)	171	(171)	-	-
<b>OVERALL OFF-BALANCE SHEET EXPOSURE</b>	<b>367,341</b>	<b>(224)</b>	<b>(3,712)</b>	<b>363,405</b>
<b>OVERALL EXPOSURE (A+B)</b>	<b>3,224,499</b>	<b>(164,510)</b>	<b>(24,105)</b>	<b>3,035,884</b>

**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.

<b>GROUP AND BANK IN '000 HRK AS AT 31 DECEMBER 2014</b>	<b>PAST DUE UP TO 30 DAYS</b>	<b>PAST DUE BETWEEN 31 AND 90 DAYS</b>	<b>PAST DUE BETWEEN 91 AND 180 DAYS</b>	<b>PAST DUE BETWEEN 181 AND 365 DAYS</b>	<b>PAST DUE BETWEEN 1 AND 2 YEARS</b>	<b>PAST DUE BETWEEN 2 AND 3 YEARS</b>	<b>PAST DUE OVER 3 YEARS</b>
PLACEMENTS WITH OTHER BANKS	-	-	-	-	-	-	600
LOANS AND ADVANCES 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
<b>TOTAL PAST DUE CLAIMS</b>	<b>31,621</b>	<b>26,750</b>	<b>21,337</b>	<b>11,020</b>	<b>14,153</b>	<b>93,208</b>	<b>148,299</b>

<b>GROUP AND BANK IN '000 HRK AS AT 31 DECEMBER 2013</b>	<b>PAST DUE UP TO 30 DAYS</b>	<b>PAST DUE BETWEEN 31 AND 90 DAYS</b>	<b>PAST DUE BETWEEN 91 AND 180 DAYS</b>	<b>PAST DUE BETWEEN 181 AND 365 DAYS</b>	<b>PAST DUE BETWEEN 1 AND 2 YEARS</b>	<b>PAST DUE BETWEEN 2 AND 3 YEARS</b>	<b>PAST DUE OVER 3 YEARS</b>
PLACEMENTS WITH OTHER BANKS	-	-	-	-	-	-	600
LOANS AND ADVANCES TO CUSTOMERS							
CITIZENS	8,124	2,329	2,024	2,538	6,541	3,973	48,425
COMPANIES	11,724	11,609	3,742	11,980	112,791	21,458	99,353
PUBLIC AND OTHER SECTORS	-	-	-	-	-	-	-
OTHER PAST DUE CLAIMS	2,123	216	202	471	756	635	1,755
<b>TOTAL PAST DUE CLAIMS</b>	<b>21,971</b>	<b>14,154</b>	<b>5,968</b>	<b>14,989</b>	<b>120,088</b>	<b>26,066</b>	<b>150,133</b>

c) Placements covered by collaterals

GROUP IN '000 HRK AS AT 31 DECEMBER 2014	DEPOSIT	HOUSING MORTGAGES	BUSINESS MORTGAGES	OTHER COLLATERALS	NO COLLATERAL
<b>A. BALANCE SHEET EXPOSURE</b>					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	199,831
PLACEMENTS WITH OTHER BANKS	-	-	-	-	47,901
LOANS AND ADVANCES TO CUSTOMERS	32,379	135,523	332,538	97,416	1,229,349
ASSETS AVAILABLE FOR SALE	-	-	-	-	446,429
ASSETS HELD TO MATURITY	-	-	-	-	88,896
<b>OVERALL BALANCE SHEET EXPOSURE</b>	<b>32,379</b>	<b>135,523</b>	<b>332,538</b>	<b>97,416</b>	<b>2,012,406</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>					
CUSTOMERS	7,780	5,498	47,239	5,691	259,288
OVERALL OFF-BALANCE SHEET EXPOSURE	7,780	5,498	47,239	5,691	259,288
<b>OVERALL EXPOSURE (A+B)</b>	<b>40,159</b>	<b>141,021</b>	<b>379,777</b>	<b>103,107</b>	<b>2,271,694</b>
<b>AS AT 31 DECEMBER 2013</b>					
<b>A. BALANCE SHEET EXPOSURE</b>					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	212,678
PLACEMENTS WITH OTHER BANKS	-	-	-	-	62,682
LOANS AND ADVANCES TO CUSTOMERS	26,464	126,726	148,691	101,304	1,485,783
ASSETS AVAILABLE FOR SALE	-	-	-	-	481,962
ASSETS HELD TO MATURITY	-	-	-	-	27,191
<b>OVERALL BALANCE SHEET EXPOSURE</b>	<b>26,464</b>	<b>126,726</b>	<b>148,691</b>	<b>101,304</b>	<b>2,270,296</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>					
CUSTOMERS	2,414	2,611	1,089	5,577	337,940
OVERALL OFF-BALANCE SHEET EXPOSURE	2,414	2,611	1,089	5,577	337,940
<b>OVERALL EXPOSURE (A+B)</b>	<b>28,878</b>	<b>129,337</b>	<b>149,780</b>	<b>106,881</b>	<b>2,608,236</b>

<b>BANK IN '000 HRK AS AT 31 DECEMBER 2014</b>	<b>DEPOSIT</b>	<b>HOUSING MORTGAGES</b>	<b>BUSINESS MORTGAGES</b>	<b>OTHER COLLATERALS</b>	<b>NO COLLATERAL</b>
<b>A. BALANCE SHEET EXPOSURE</b>					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	199,831
PLACEMENTS WITH OTHER BANKS	-	-	-	-	47,901
LOANS AND ADVANCES 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
<b>OVERALL BALANCE SHEET EXPOSURE</b>	<b>32,379</b>	<b>135,523</b>	<b>332,538</b>	<b>97,416</b>	<b>2,008,885</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>					
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
<b>AS AT 31 DECEMBER 2013</b>					
<b>A. BALANCE SHEET EXPOSURE</b>					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	212,678
PLACEMENTS WITH OTHER BANKS	-	-	-	-	62,682
LOANS AND ADVANCES TO CUSTOMERS	26,464	126,726	148,691	101,304	1,484,781
ASSETS AVAILABLE FOR SALE	-	-	-	-	481,962
ASSETS HELD TO MATURITY	-	-	-	-	27,191
<b>OVERALL BALANCE SHEET EXPOSURE</b>	<b>26,464</b>	<b>126,726</b>	<b>148,691</b>	<b>101,304</b>	<b>2,269,294</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>					
CUSTOMERS	2,414	2,611	1,089	5,577	355,650
<b>OVERALL OFF-BALANCE SHEET EXPOSURE</b>	<b>2,414</b>	<b>2,611</b>	<b>1,089</b>	<b>5,577</b>	<b>355,650</b>
<b>OVERALL EXPOSURE (A+B)</b>	<b>28,878</b>	<b>129,337</b>	<b>149,780</b>	<b>106,881</b>	<b>2,624,944</b>



d) Provision ratio in performing and non-performing loans

GROUP	2014		2013	
	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)
IN '000 HRK				
PERFORMING LOANS	81.9	1.2	81.7	1.2
SUBSTANDARD LOANS	11.2	23.2	12.3	13.9
NON-PERFORMING LOANS	6.9	100	6.1	100
<b>TOTAL</b>	<b>100</b>		<b>100</b>	

BANK	2014		2013	
	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)	LOANS AND ADVANCES TO CUSTOMERS (%)	PROVISION RATIO (%)
IN '000 HRK				
PERFORMING LOANS	82.0	1.2	81.7	1.2
SUBSTANDARD LOANS	11.2	23.2	12.2	13.8
NON-PERFORMING LOANS	6.8	100	6.0	100
<b>TOTAL</b>	<b>100</b>		<b>100</b>	

## 38. PRICE RISK

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

GROUP AND BANK IN '000 HRK	ASSUMED PRICE CHANGE	INFLUENCE OF PRICE INCREASE ON REVALUATION RESERVES
AT 31 DECEMBER 2014	3%	13,393
AT 31 DECEMBER 2013	3%	14,459

### 39. CONCENTRATIONS OF ASSETS AND LIABILITIES

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

<b>GROUP AND BANK IN '000 HRK</b>	<b>2014</b>	<b>2013</b>
MANDATORY RESERVE WITH THE CROATIAN NATIONAL BANK	199,831	212,678
BONDS OF THE REPUBLIC OF CROATIA	139,793	58,169
CURRENT ACCOUNT WITH THE CROATIAN NATIONAL BANK	99,412	81,015
OTHER CASH RESERVE FUNDS	10,000	10,000
OTHER ASSETS	3,618	2,944
DEPOSITS RECEIVED	(697)	(559)
CURRENT TAX LIABILITY	-	(272)
TREASURY BILLS OF THE REPUBLIC OF CROATIA	-	96,123
	<b>451,957</b>	<b>460,098</b>

At 31 December 2014, the Group's and the Bank's indirect exposure to the Republic of Croatia in respect of debt securities issued by local and municipal authorities, loans and other exposures were as follows:

<b>GROUP AND BANK IN '000 HRK</b>	<b>2014</b>	<b>2013</b>
OTHER LOANS	19,171	103,986
CUSTOMER LOANS GURANTEED BY THE STATE	18,727	21,225
OTHER LIABILITIES	(895)	(3,067)
STATE AGENCY FOR DEPOSIT INSURANCE AND BANK REHABILITATION	(1,253)	(1,237)
DEPOSITS RECEIVED	(53,151)	(60,732)
LOANS RECEIVED FROM HBOR	(84,242)	(144,327)
	<b>(101,643)</b>	<b>(84,152)</b>

## 40. SUBSEQUENT EVENTS

On 16 April 2015, mandates of the members of the Board expired for: President of the Management Board Julio Kuruc and members of the Board Davorka Jakir and Marijan Marušić.

From April 17, 2015 Management Board members are: CEO Julio Kuruc and members of the Board are Davorka Jakir, Daniel Unger and Goran Varat.

On April 2, 2015 the Bank publically announced that the Management Board of Podravska banka d.d. and Kreditna banka Zagreb d.d. received the consent from the Supervisory Boards to initiate preparatory activities for the purpose of corporate connection of these two banks.

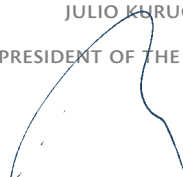
Both banks have appointed advisory teams and started the preparation of the necessary activities for the implementation of the planned corporate action.

Management considers that from the balance sheet date to the date of issuance of the report for the Bank and the Group, no business events have not been reported that could significantly cause changes in the regular business of the Bank and the Group.

## 41. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 29 April 2014 and were signed on its behalf by:

JULIO KURUC  
PRESIDENT OF THE BOARD



DAVORKA JAKIR  
MEMBER OF THE BOARD







*"In a balanced organization, working towards a common objective, there is success." - Arthur Helps*

**POBA is strongly committed to first understanding and then supporting its customers.**





**ABOUT THE BANK**



# BANK'S MANAGEMENT AND ORGANISATIONAL STRUCTURE

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

## Supervisory Board

Miljan Todorovic, Chairman  
Sigilfredo Montinari, Deputy Chairman  
Maurizio Dallochio, Member  
Filippo Disertori, Member  
Dario Montinari, Member  
Dolly Predovic, Member  
Djuro Predovic, Member until 1.6.2014

## 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

## Chief Executive Officer

Moreno Marson

## Units

Internal Audit Unit – Krunoslav Vnučec  
Compliance Monitoring Unit – Mario Brajnić  
Risk Control Unit – Vesna Laloš  
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  
Payments & back offices Division – Snježana Pobi  
Operations & Supports Department – Marko Žigmund



Legend

 Commercial center

 Branches



## RETAIL CENTRES

### Commercial Centre Zagreb

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

**Zagreb, Nova galerija - Zagrebačka avenija 104,**  
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**Zagreb, Trg Petra Preradovića 3,**  
tel. 072 655 400, fax. 072 655 409

### Commercial Centre Koprivnica

**Koprivnica, Opatička 1a,**  
tel. 072 655 000, fax. 072 655 200

**Koprivnica, Trg bana Jelačića 10,**  
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**Koprivnica, Trg Eugena Kumičića 11,**  
tel. 072 655 330, fax. 072 655 339

**Koprivnica, Ivana Meštrovića bb,**  
tel. 072 655 340, fax. 072 655 349

**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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**Ludbreg, Petra Zrinskog 32,**  
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### Commercial Centre Bjelovar

**Bjelovar, Trg Eugena Kvaternika 12,**  
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**Grubišno Polje, 77. samostalnog bataljuna ZNG 1,**  
tel. 072 655 820, fax. 072 655 829

**Veliki Grđevac, Kralja Tomislava 26,**  
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**Đurđevac, Stjepana Radića 16,**  
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**Commercial Centre  
Osijek**

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**Commercial Centre  
Požega**

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**Požega, Trg Svetog Trojstva 8,**  
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**Velika, Bana Josipa Jelačića 24,**  
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**Pleternica, Ivana Šveara 4,**  
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**Kutjevo, Kralja Tomislava 2,**  
tel. 072 655 780, fax. 072 655 789

**Commercial Centre  
Rijeka**

**Rijeka, Ivana Zajca 18,**  
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**Commercial Centre  
Split**

**Split, Ulica slobode 33,**  
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**Commercial Centre  
Varaždin**

**Varaždin, Trg slobode 2,**  
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**Commercial Centre  
Zadar**

**Zadar, Stjepana Radića 2f,**  
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info@poba.hr**





**APPENDIX 1**

**SUPPLEMENTARY  
REPORTS FOR  
THE CROATIAN  
NATIONAL BANK**



Pursuant to the Croatian Accounting Act (Official Gazette No. 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:

## CONSOLIDATED INCOME STATEMENT

	2014 UNAUDITED HRK '000	2013 UNAUDITED HRK '000
1. INTEREST INCOME	153,636	157,086
2. INTEREST EXPENSES	(72,357)	(77,907)
<b>3. NET INTEREST INCOME</b>	<b>81,279</b>	<b>79,179</b>
4. COMMISSION AND FEE INCOME	36,673	34,458
5. COMMISSION AND FEE EXPENSES	(12,388)	(10,667)
<b>6. NET COMMISSION AND FEE INCOME</b>	<b>24,285</b>	<b>23,791</b>
7. GAIN/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
8. GAIN/(LOSS) FROM TRADING ACTIVITIES	5,916	5,795
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	6,936	5,809
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	957	1,479
16. GAIN/(LOSS) FROM FOREIGN EXCHANGE DIFFERENCES	485	1,512
17. OTHER INCOME	5,571	11,182
18. OTHER EXPENSES	(6,654)	(6,133)
19. GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(96,244)	(100,421)
<b>20. NET INCOME BEFORE VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES</b>	<b>22,531</b>	<b>22,193</b>
21. EXPENSES FROM VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	(36,509)	(19,041)
<b>22. PROFIT/(LOSS) BEFORE TAX</b>	<b>(13,978)</b>	<b>3,152</b>
23. INCOME TAX	2,651	(822)
<b>24. CURRENT YEAR PROFIT/(LOSS)</b>	<b>(11,327)</b>	<b>2,330</b>
25. EARNINGS PER SHARE	(16.94)	3.48

## APPENDIX TO THE INCOME STATEMENT

	2014 HRK '000	2013 HRK '000
CURRENT YEAR PROFIT/(LOSS)	(11,327)	2,330
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	(11,327)	2,330
MINORITY INTEREST	-	-

## CONSOLIDATED BALANCE SHEET

	2014 UNAUDITED HRK '000	2013 UNAUDITED HRK '000
<b>ASSETS</b>		
1. CASH AND DEPOSITS WITH THE CNB	351,482	346,849
1.1. CASH	42,239	43,156
1.2. DEPOSITS WITH THE CNB	309,243	303,693
2. DEPOSITS WITH BANKING INSTITUTIONS	100,718	184,204
3. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	-	96,123
4. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	673,449	654,759
6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	154,970	96,510
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	23,447	-
10. LOANS TO OTHER CLIENTS	1,511,532	1,541,122
11. INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
12. REPOSSESSED ASSETS	44,223	16,418
13. TANGIBLE AND INTANGIBLE ASSETS (MINUS DEPRECIATION AND AMORTISATION)	80,991	126,970
14. INTERESTS, FEES AND OTHER ASSETS	103,229	36,458
<b>A. TOTAL ASSETS</b>	<b>3,044,041</b>	<b>3,099,413</b>
<b>LIABILITIES AND EQUITY</b>		
1. BORROWINGS FROM FINANCIAL INSTITUTIONS	110,943	256,905
1.1. SHORT-TERM BORROWINGS	39,234	120,582
1.2. LONG-TERM BORROWINGS	71,709	136,323
2. DEPOSITS	2,333,427	2,232,292
2.1. DEPOSITS ON GIRO-ACCOUNTS AND CURRENT ACCOUNTS	402,930	442,546
2.2. SAVINGS DEPOSITS	217,412	210,197
2.3. TERM DEPOSITS	1,713,085	1,579,549
3. OTHER BORROWINGS	-	-
3.1. SHORT-TERM BORROWINGS	-	-
3.2. LONG-TERM BORROWINGS	-	-
4. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING FINANCIAL LIABILITIES	-	-
5. ISSUED DEBT SECURITIES	-	-
5.1. ISSUED SHORT-TERM DEBT SECURITIES	-	-
5.2. ISSUED LONG-TERM DEBT SECURITIES	-	-
6. ISSUED SUBORDINATED INSTRUMENTS	52,947	52,783
7. ISSUED SUBORDINATED DEBT	76,615	76,376
8. INTERESTS, FEES AND OTHER LIABILITIES	86,523	88,037
<b>B. TOTAL LIABILITIES</b>	<b>2,660,455</b>	<b>2,706,393</b>
<b>EQUITY</b>		
1. SHARE CAPITAL	259,433	259,433
2. CURRENT YEAR GAIN/LOSS	(11,327)	2,330
3. RETAINED EARNINGS/(LOSS)	-	-
4. LEGAL RESERVES	116,756	114,426
5. STATUTORY AND OTHER CAPITAL RESERVES	29,676	30,080
6. UNREALISED GAIN /(LOSS) FROM AVAILABLE FOR SALE FAIR VALUE ADJUSTMENT	(10,952)	(13,249)
<b>C. TOTAL EQUITY</b>	<b>383,586</b>	<b>393,020</b>
<b>D. TOTAL LIABILITIES AND EQUITY</b>	<b>3,044,041</b>	<b>3,099,413</b>

## APPENDIX TO THE BALANCE SHEET

	2014 HRK '000	2013 HRK '000
TOTAL EQUITY	383,586	393,020
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	383,586	393,020
MINORITY INTEREST	-	-



## CONSOLIDATED CASH FLOW STATEMENT

	2014 UNAUDITED HRK '000	2013 UNAUDITED HRK '000
<b>OPERATING ACTIVITIES</b>		
1.1. GAIN/(LOSS) BEFORE TAX	(13,978)	3,152
1.2. VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	36,509	19,041
1.3. DEPRECIATION AND AMORTISATION	7,501	9,572
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	(15)	140
1.6. OTHER (GAINS)/LOSSES		
<b>1. OPERATING CASH FLOW BEFORE CHANGES IN OPERATING ASSETS</b>	<b>30,017</b>	<b>31,905</b>
2.1. DEPOSITS WITH THE CNB	12,847	(842)
2.2. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	96,123	(66,560)
2.3. DEPOSITS WITH BANKING INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	(23,447)	18,925
2.4. LOANS TO OTHER CLIENTS	(6,919)	30,268
2.5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
2.6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	(16,393)	(195,140)
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	(66,771)	(4,336)
<b>2. NET (INCREASE)/DECREASE IN OPERATING ASSETS</b>	<b>(4,560)</b>	<b>(217,685)</b>
<b>INCREASE/(DECREASE) IN OPERATING LIABILITIES</b>		
3.1. DEMAND DEPOSITS	(39,616)	77,250
3.2. SAVINGS AND TERM DEPOSITS	140,751	(134,911)
3.3. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING LIABILITIES	-	-
3.4. OTHER LIABILITIES	1,018	(9,314)
<b>3. NET INCREASE/(DECREASE) IN OPERATING LIABILITIES</b>	<b>102,153</b>	<b>(66,975)</b>
<b>4. NET CASH FLOW FROM OPERATING ACTIVITIES BEFORE PROFIT TAX</b>	<b>127,610</b>	<b>(252,755)</b>
5. PROFIT TAX PAID	(897)	(272)
<b>6. NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>126,713</b>	<b>(253,027)</b>
<b>INVESTING ACTIVITIES</b>		
7.1. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF TANGIBLE AND INTANGIBLE ASSETS	38,478	(10,102)
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	(58,460)	(29,051)
7.4. DIVIDENDS RECEIVED	957	1,479
7.5. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	(27,805)	(9,670)
<b>7. NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(46,830)</b>	<b>(47,344)</b>
<b>FINANCING ACTIVITIES</b>		
8.1. NET INCREASE/(DECREASE) IN BORROWINGS	(145,962)	48,749
8.2. NET INCREASE/(DECREASE) IN ISSUED DEBT SECURITIES	-	-
8.3. NET INCREASE/(DECREASE) IN SUBORDINATED DEBT AND HYBRID AND SUBORDINATED INSTRUMENTS	403	53,703
8.4. RECEIPTS FROM ISSUED SHARE CAPITAL	-	-
8.5. (DIVIDENDS PAID)	-	-
8.6. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	-	(12)
<b>8. NET CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>(145,559)</b>	<b>102,440</b>
<b>9. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(65,676)</b>	<b>(197,931)</b>
<b>10. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>320,399</b>	<b>518,330</b>
<b>11. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>254,723</b>	<b>320,399</b>

## CONSOLIDATED 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 HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000
<b>1. BALANCE AT 1 JANUARY 2014</b>	<b>270,515</b>	<b>(11,082)</b>	<b>141,855</b>	<b>2,330</b>	-	<b>(10,598)</b>	-	<b>393,020</b>
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
<b>3. RESTATED CURRENT YEAR BALANCE</b>	<b>270,515</b>	<b>(11,082)</b>	<b>141,855</b>	<b>2,330</b>	-	<b>(10,598)</b>	-	<b>393,020</b>
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
<b>8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES</b>	-	-	-	-	-	<b>1,837</b>	-	<b>1,837</b>
9. CURRENT YEAR GAIN/ (LOSS)	-	-	-	-	(11,327)	-	-	(11,327)
<b>10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR</b>	-	-	-	-	<b>(11,327)</b>	<b>1,837</b>	-	<b>(9,490)</b>
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	56	-	-	-	-	56
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
<b>16. ALLOCATION OF PROFIT</b>	-	-	<b>2,330</b>	<b>(2,330)</b>	-	-	-	-
<b>17. BALANCE AT 31 DECEMBER 2014</b>	<b>270,515</b>	<b>(11,082)</b>	<b>144,241</b>	-	<b>(11,327)</b>	<b>(8,761)</b>	-	<b>383,586</b>

	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 HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000
<b>1. BALANCE AT 1 JANUARY 2013</b>	<b>270,515</b>	<b>(11,082)</b>	<b>132,428</b>	<b>9,439</b>	<b>-</b>	<b>(11,048)</b>	<b>-</b>	<b>390,252</b>
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
<b>3. RESTATED CURRENT YEAR BALANCE</b>	<b>270,515</b>	<b>(11,082)</b>	<b>132,428</b>	<b>9,439</b>	<b>-</b>	<b>(11,048)</b>	<b>-</b>	<b>390,252</b>
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5. FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	562	-	562
6. TAX ON ITEMS RECOGNISED DIRECTLY IN. OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	(112)	-	(112)
7. OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	-
<b>8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>450</b>	<b>-</b>	<b>450</b>
9. CURRENT YEAR GAIN/ (LOSS)	-	-	-	-	2,330	-	-	2,330
<b>10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,330</b>	<b>450</b>	<b>-</b>	<b>2,780</b>
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	(12)	-	-	-	-	(12)
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
<b>16. ALLOCATION OF PROFIT</b>	<b>-</b>	<b>-</b>	<b>9,439</b>	<b>(9,439)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>17. BALANCE AT 31 DECEMBER 2013</b>	<b>270,515</b>	<b>(11,082)</b>	<b>141,855</b>	<b>-</b>	<b>2,330</b>	<b>(10,598)</b>	<b>-</b>	<b>393,020</b>

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 2014 and 2013:

	2014 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK '000	2014 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK '000	2014 DIFFERENCE HRK '000	2013 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK '000	2013 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK '000	2013 DIFFERENCE HRK '000
INTEREST AND SIMILAR INCOME	153,636	153,676	(40)	157,086	157,663	(577)
INTEREST AND SIMILAR EXPENSE	(72,357)	(67,240)	(5,117)	(77,907)	(72,910)	(4,997)
<b>NET INTEREST INCOME</b>	<b>81,279</b>	<b>86,436</b>	<b>(5,157)</b>	<b>79,179</b>	<b>84,753</b>	<b>(5,574)</b>
FEE AND COMMISSION INCOME	36,673	36,672	1	34,458	34,457	1
EXPENSE FOR FEES AND COMMISSIONS	(12,388)	(12,388)	-	(10,667)	(10,667)	-
<b>NET FEE AND COMMISSION INCOME</b>	<b>24,285</b>	<b>24,284</b>	<b>1</b>	<b>23,791</b>	<b>23,790</b>	<b>1</b>
NET TRADING GAIN	5,916	5,916	-	5,795	5,795	-
GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-	-	-	-	-
GAIN/(LOSS) FROM ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	-	-
GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	6,936	6,936	-	5,809	5,809	-
INCOME FROM OTHER INVESTMENTS IN EQUITY SECURITIES	957	957	-	1,479	1,479	-
NET FOREIGN EXCHANGE DIFFERENCES	485	356	129	1,512	688	824
OTHER OPERATING INCOME	5,571	5,575	(4)	11,182	10,383	799
<b>TOTAL OTHER INCOME</b>	<b>19,865</b>	<b>19,740</b>	<b>125</b>	<b>25,777</b>	<b>24,154</b>	<b>1,623</b>
GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(96,244)	(107,845)	11,601	(100,421)	(110,484)	10,063
IMPAIRMENT ALLOWANCE AND PROVISIONS	(36,509)	(36,593)	84	(19,041)	(19,061)	20
OTHER OPERATING EXPENSES	(6,654)	-	(6,654)	(6,133)	-	(6,133)
<b>TOTAL OTHER EXPENSES</b>	<b>(139,407)</b>	<b>(144,438)</b>	<b>5,031</b>	<b>(125,595)</b>	<b>(129,545)</b>	<b>3,950</b>
<b>PROFIT BEFORE TAX</b>	<b>(13,978)</b>	<b>(13,978)</b>	<b>-</b>	<b>3,152</b>	<b>3,152</b>	<b>-</b>
INCOME TAX EXPENSE	2,651	2,651	-	(822)	(822)	-
<b>NET PROFIT FOR THE YEAR</b>	<b>(11,327)</b>	<b>(11,327)</b>	<b>-</b>	<b>2,330</b>	<b>2,330</b>	<b>-</b>
<b>EARNINGS PER SHARE (IN HRK)</b>	<b>(16.94)</b>	<b>(16.94)</b>	<b>-</b>	<b>3.48</b>	<b>3.48</b>	<b>-</b>

The difference of HRK 40 thousand (2013: HRK 577 thousand) for the year ended 31 December 2014 on the line item Interest and similar income relates to exchange differences on interest income.

The difference of HRK 5,117 thousand (2013: HRK 4,997 thousand) on the line item Interest and similar expense relates mainly to savings deposit insurance premiums, which amount to HRK 5,027 thousand (2013: HRK 4,749 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 90 thousand.

The difference in "Other non-interest income", except for exchange differences, refers to the reclassification of collected written off debts from impairment in other operating income in the amount of 4 thousand HRK.

The difference in "General and administrative expenses", 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 7,501 thousand HRK 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 80 thousand HRK and other non-interest expenses in the amount of 6,574 thousand HRK in general and other administrative expenses.

	2014 CROATIAN NATIONAL BANK UNAUDITED HRK '000	2014 ACCOUNTING REQUIREMENTS FOR BANKS HRK '000	2014 DIFFERENCE HRK '000	2013 CROATIAN NATIONAL BANK UNAUDITED HRK '000	2013 ACCOUNTING REQUIREMENTS FOR BANKS HRK '000	2013 DIFFERENCE HRK '000
<b>ASSETS</b>						
CASH AND DEPOSITS WITH THE CROATIAN NATIONAL BANK	351,482	430,085	(78,603)	346,849	481,165	(134,316)
TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	-	-	-	96,123	-	96,123
FINANCIAL ASSETS AVAILABLE FOR SALE	673,449	446,429	227,020	654,759	481,962	172,797
FINANCIAL ASSETS HELD TO MATURITY	154,970	88,896	66,074	96,510	27,191	69,319
PLACEMENTS WITH AND LOANS TO OTHER BANKS	124,165	47,901	76,264	184,204	62,682	121,522
LOANS AND RECEIVABLES	1,511,532	1,827,205	(315,673)	1,541,122	1,888,968	(347,846)
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	-	-
REPOSSESSED ASSETS	44,223	-	44,223	16,418	-	16,418
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	80,991	131,072	(50,081)	126,970	126,866	104
DEFERRED TAX ASSETS	8,148	8,148	-	5,957	5,957	-
OTHER ASSETS	95,081	64,305	30,776	30,501	24,622	5,879
<b>TOTAL ASSETS</b>	<b>3,044,041</b>	<b>3,044,041</b>	<b>-</b>	<b>3,099,413</b>	<b>3,099,413</b>	<b>-</b>
<b>LIABILITIES</b>						
DUE TO OTHER BANKS AND DEPOSITS FROM CUSTOMERS	2,444,370	2,472,542	(28,172)	2,489,197	2,533,988	(44,791)
PROVISIONS FOR LIABILITIES AND CHARGES	3,936	3,907	29	3,936	4,186	(250)
OTHER LIABILITIES	82,587	53,186	29,401	84,101	37,752	46,349
<b>TOTAL LIABILITIES</b>	<b>2,530,893</b>	<b>2,529,635</b>	<b>1,258</b>	<b>2,577,234</b>	<b>2,575,926</b>	<b>1,308</b>
HYBRID AND SUBORDINATED INSTRUMENTS	129,562	131,571	(2,009)	129,159	131,162	(2,003)
<b>SHAREHOLDERS' EQUITY</b>						
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	(11,327)	(11,327)	-	2,330	2,330	-
UNREALISED GAIN / (LOSS) FROM FAIR VALUE ADJUSTMENT OF AVAILABLE FOR SALE ASSETS	(10,952)	-	(10,952)	(13,249)	(13,249)	-
RESERVES	146,432	134,729	11,703	144,506	143,811	695
<b>TOTAL EQUITY</b>	<b>383,586</b>	<b>382,835</b>	<b>751</b>	<b>393,020</b>	<b>392,325</b>	<b>695</b>
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>3,044,041</b>	<b>3,044,041</b>	<b>-</b>	<b>3,099,413</b>	<b>3,099,413</b>	<b>-</b>



The most significant differences on balance positions arise from different classification of interest receivables and interest payables. In the balance sheet, according to CNB Decision on the structure and content of annual financial statements, interest receivables and interest payables are presented in position "Other assets" and "Other liabilities", while in the balance sheet, in accordance with statutory accounting requirements for banks in Croatia, are presented on 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 188,015 thousand (2013: HRK 134,316 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 financial statements, placements with customers represent placements on the basis of discounted bills of exchange and receivables from factoring in the total amount of HRK 299,310 thousand (2013: HRK 342,164 thousand) 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 232,323 thousand of discounted bills are included into available-for-sale assets (2013: HRK 272,780 thousand) and HRK thousand into financial assets held to maturity (2013: HRK 3,050 thousand), whereas receivables from factoring in the amount of HRK 66,987 thousand (2013: HRK 66,334 thousand) are included in financial assets held to maturity.

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 amount HRK 44.223. Small inventories of HRK 83 thousand (2013: HRK 104 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 8,148 thousand (2013: HRK 5,597 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 capital

According to the CNB Decision, "Other liabilities" include provisions for contingent liabilities and legal cases, which have been presented separately in the audited accounts in the amount of HRK 3,907 thousand (2013: HRK 4,186 thousand).

According to the CNB requirements, the position "Statutory and other capital reserves" include reserves of HRK 751 thousand, formed in respect of flats with tenancy rights not sold (2013: HRK 695 thousand), which are included in the audited accounts within "Other liabilities".

## UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2014 UNAUDITED HRK '000	2013 UNAUDITED HRK '000
1. INTEREST INCOME	152,557	155,789
2. INTEREST EXPENSES	(72,375)	(77,937)
<b>3. NET INTEREST INCOME</b>	<b>80,182</b>	<b>77,852</b>
4. COMMISSION AND FEE INCOME	36,367	33,901
5. COMMISSION AND FEE EXPENSES	(12,388)	(10,667)
<b>6. NET COMMISSION AND FEE INCOME</b>	<b>23,979</b>	<b>23,234</b>
7. GAIN/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	-	-
8. GAIN/(LOSS) FROM TRADING ACTIVITIES	5,916	5,795
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	6,936	5,809
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	957	1,479
16. GAIN/(LOSS) FROM FOREIGN EXCHANGE DIFFERENCES	485	1,512
17. OTHER INCOME	5,619	11,209
18. OTHER EXPENSES	(6,654)	(6,133)
19. GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(97,142)	(101,242)
<b>20. NET INCOME BEFORE VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES</b>	<b>20,278</b>	<b>19,515</b>
21. EXPENSES FROM VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	(35,543)	(17,640)
<b>22. PROFIT/(LOSS) BEFORE TAX</b>	<b>(15,265)</b>	<b>1,875</b>
23. INCOME TAX	2,651	(822)
<b>24. CURRENT YEAR PROFIT/(LOSS)</b>	<b>(12,614)</b>	<b>1,053</b>
25. EARNINGS PER SHARE	(18,86)	1,57

## APPENDIX TO THE INCOME STATEMENT

	2014 HRK '000	2013 HRK '000
CURRENT YEAR PROFIT/(LOSS)	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

## UNCONSOLIDATED BALANCE SHEET

	2014 UNAUDITED HRK '000	2013 UNAUDITED HRK '000
<b>ASSETS</b>		
1. CASH AND DEPOSITS WITH THE CNB	351,481	346,849
1.1. CASH	42,238	43,156
1.2. DEPOSITS WITH THE CNB	309,243	303,693
2. DEPOSITS WITH BANKING INSTITUTIONS	100,718	184,203
3. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	-	96,123
4. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	663,843	634,075
6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	147,712	84,793
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	23,447	-
10. LOANS TO OTHER CLIENTS	1,524,875	1,572,521
11. INVESTMENTS IN SUBSIDIARIES, AFFILIATED COMPANIES AND JOINT VENTURES	4,770	4,770
12. REPOSSESSED ASSETS	44,223	16,418
13. TANGIBLE AND INTANGIBLE ASSETS (MINUS DEPRECIATION AND AMORTISATION)	80,988	126,959
14. INTERESTS, FEES AND OTHER ASSETS	103,184	36,416
<b>A. TOTAL ASSETS</b>	<b>3,045,241</b>	<b>3,103,127</b>
<b>LIABILITIES AND EQUITY</b>		
1. BORROWINGS FROM FINANCIAL INSTITUTIONS	110,943	256,905
1.1. SHORT-TERM BORROWINGS	39,234	120,582
1.2. LONG-TERM BORROWINGS	71,709	136,323
2. DEPOSITS	2,333,887	2,234,055
2.1. DEPOSITS ON GIRO-ACCOUNTS AND CURRENT ACCOUNTS	403,390	444,309
2.2. SAVINGS DEPOSITS	217,412	210,197
2.3. TERM DEPOSITS	1,713,085	1,579,549
3. OTHER BORROWINGS	-	-
3.1. SHORT-TERM BORROWINGS	-	-
3.2. LONG-TERM BORROWINGS	-	-
4. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING FINANCIAL LIABILITIES	-	-
5. ISSUED DEBT SECURITIES	-	-
5.1. ISSUED SHORT-TERM DEBT SECURITIES	-	-
5.2. ISSUED LONG-TERM DEBT SECURITIES	-	-
6. ISSUED SUBORDINATED INSTRUMENTS	52,947	52,783
7. ISSUED SUBORDINATED DEBT	76,615	76,376
8. INTERESTS, FEES AND OTHER LIABILITIES	86,619	88,057
<b>B. TOTAL LIABILITIES</b>	<b>2,661,011</b>	<b>2,708,176</b>
<b>EQUITY</b>		
1. SHARE CAPITAL	259,433	259,433
2. CURRENT YEAR GAIN/LOSS	(12,614)	1,053
3. RETAINED EARNINGS/(LOSS)	-	-
4. LEGAL RESERVES	118,687	117,634
5. STATUTORY AND OTHER CAPITAL RESERVES	29,676	30,080
6. UNREALISED GAIN /(LOSS) FROM AVAILABLE FOR SALE FAIR VALUE ADJUSTMENT	(10,952)	(13,249)
<b>C. TOTAL EQUITY</b>	<b>384,230</b>	<b>394,951</b>
<b>D. TOTAL LIABILITIES AND EQUITY</b>	<b>3,045,241</b>	<b>3,103,127</b>

## APPENDIX TO THE BALANCE SHEET

	2014 HRK '000	2013 HRK '000
TOTAL EQUITY	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

## UNCONSOLIDATED CASH FLOW STATEMENT

	2014 UNAUDITED HRK '000	2013 UNAUDITED HRK '000
<b>OPERATING ACTIVITIES</b>		
1.1. GAIN/(LOSS) BEFORE TAX	(15,265)	1,875
1.2. VALUE ADJUSTMENTS AND PROVISIONS FOR LOSSES	35,543	17,640
1.3. DEPRECIATION AND AMORTISATION	7,493	9,563
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	(15)	140
1.6. OTHER (GAINS)/LOSSES		
<b>1. OPERATING CASH FLOW BEFORE CHANGES IN OPERATING ASSETS</b>	<b>27,756</b>	<b>29,218</b>
2.1. DEPOSITS WITH THE CNB	12,847	(842)
2.2. TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	96,123	(66,560)
2.3. DEPOSITS WITH BANKING INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	(23,447)	18,925
2.4. LOANS TO OTHER CLIENTS	12,103	30,369
2.5. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
2.6. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	(27,471)	(189,539)
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	(66,768)	(5,574)
<b>2. NET (INCREASE)/DECREASE IN OPERATING ASSETS</b>	<b>3,387</b>	<b>(213,221)</b>
INCREASE/(DECREASE) IN OPERATING LIABILITIES		
3.1. DEMAND DEPOSITS	(40,919)	72,292
3.2. SAVINGS AND TERM DEPOSITS	140,751	(134,911)
3.3. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING LIABILITIES	-	-
3.4. OTHER LIABILITIES	1,094	(8,076)
<b>3. NET INCREASE/(DECREASE) IN OPERATING LIABILITIES</b>	<b>100,926</b>	<b>(70,695)</b>
<b>4. NET CASH FLOW FROM OPERATING ACTIVITIES BEFORE PROFIT TAX</b>	<b>132,069</b>	<b>(254,698)</b>
5. PROFIT TAX PAID	(897)	(272)
<b>6. NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>131,172</b>	<b>(254,970)</b>
<b>INVESTING ACTIVITIES</b>		
7.1. PROCEEDS FROM SALE/(PAYMENTS ON PURCHASES) OF TANGIBLE AND INTANGIBLE ASSETS	38,478	(10,096)
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	(62,919)	(27,113)
7.4. DIVIDENDS RECEIVED	957	1,479
7.5. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	(27,805)	(9,670)
<b>7. NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(51,289)</b>	<b>(45,400)</b>
<b>FINANCING ACTIVITIES</b>		
8.1. NET INCREASE/(DECREASE) IN BORROWINGS	(145,962)	48,749
8.2. NET INCREASE/(DECREASE) IN ISSUED DEBT SECURITIES	-	-
8.3. NET INCREASE/(DECREASE) IN SUBORDINATED DEBT AND HYBRID AND SUBORDINATED INSTRUMENTS	403	53,703
8.4. RECEIPTS FROM ISSUED SHARE CAPITAL	-	-
8.5. (DIVIDENDS PAID)	-	-
8.6. OTHER RECEIPTS/(PAYMENTS) FROM FINANCIAL ACTIVITIES	-	(12)
<b>8. NET CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>(145,559)</b>	<b>102,440</b>
<b>9. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(65,676)</b>	<b>(197,930)</b>
<b>10. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>320,398</b>	<b>518,328</b>
<b>11. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>254,722</b>	<b>320,398</b>

## UNCONSOLIDATED 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 HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000
<b>1. BALANCE AT 1 JANUARY 2014</b>	<b>270,515</b>	<b>(11,082)</b>	<b>145,063</b>	<b>1,053</b>	<b>-</b>	<b>(10,598)</b>	<b>-</b>	<b>394,951</b>
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
<b>3. RESTATED CURRENT YEAR BALANCE</b>	<b>270,515</b>	<b>(11,082)</b>	<b>145,063</b>	<b>1,053</b>	<b>-</b>	<b>(10,598)</b>	<b>-</b>	<b>394,951</b>
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
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
<b>8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,837</b>	<b>-</b>	<b>1,837</b>
9. CURRENT YEAR GAIN/ (LOSS)	-	-	-	-	(12,614)	-	-	(12,614)
<b>10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,614)</b>	<b>1,837</b>	<b>-</b>	<b>(10,777)</b>
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	56	-	-	-	-	56
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
<b>16. ALLOCATION OF PROFIT</b>	<b>-</b>	<b>-</b>	<b>1,053</b>	<b>(1,053)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>17. BALANCE AT 31 DECEMBER 2014</b>	<b>270,515</b>	<b>(11,082)</b>	<b>146,172</b>	<b>-</b>	<b>(12,614)</b>	<b>(8,761)</b>	<b>-</b>	<b>384,230</b>

	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 HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000	UNAUDITED HRK '000
<b>1. BALANCE AT 1 JANUARY 2013</b>	<b>270,515</b>	<b>(11,082)</b>	<b>136,946</b>	<b>8,129</b>	-	<b>(11,048)</b>	-	<b>393,460</b>
2. CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	-	-	-	-	-	-
<b>3. RESTATED CURRENT YEAR BALANCE</b>	<b>270,515</b>	<b>(11,082)</b>	<b>136,946</b>	<b>8,129</b>	-	<b>(11,048)</b>	-	<b>393,460</b>
4. SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5. FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	562	-	562
6. TAX ON ITEMS RECOGNISED DIRECTLY IN, OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	(112)	-	(112)
7. OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN CAPITAL AND RESERVES	-	-	-	-	-	-	-	-
<b>8. NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES</b>	-	-	-	-	-	<b>450</b>	-	<b>450</b>
9. CURRENT YEAR GAIN/(LOSS)	-	-	-	-	-	-	-	-
<b>10. TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR</b>	-	-	-	-	-	<b>450</b>	-	<b>450</b>
11. INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12. PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13. OTHER CHANGES	-	-	(12)	-	-	-	-	(12)
14. TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15. DIVIDENDS PAID	-	-	-	-	-	-	-	-
<b>16. ALLOCATION OF PROFIT</b>	-	-	<b>8,129</b>	<b>(8,129)</b>	-	-	-	-
<b>17. BALANCE AT 31 DECEMBER 2013</b>	<b>270,515</b>	<b>(11,082)</b>	<b>145,063</b>	-	-	<b>(10,598)</b>	-	<b>393,898</b>

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. Set out below are the comparative figures.

Comparatives for the income statement ended 31 December 2014 and 2013:

	2014 CROATIAN NATIONAL BANK DECISION  UNAUDITED HRK '000	2014 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA  HRK '000	2014 DIFFERENCE  HRK '000	2013 CROATIAN NATIONAL BANK DECISION  UNAUDITED HRK '000	2013 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA  HRK '000	2013 DIFFERENCE  HRK '000
INTEREST AND SIMILAR INCOME	152,557	152,597	(40)	155,789	156,366	(577)
INTEREST AND SIMILAR EXPENSE	(72,375)	(67,258)	(5,117)	(77,937)	(72,940)	(4,997)
<b>NET INTEREST INCOME</b>	<b>80,182</b>	<b>85,339</b>	<b>(5,157)</b>	<b>77,852</b>	<b>83,426</b>	<b>(5,574)</b>
FEE AND COMMISSION INCOME	36,367	36,366	1	33,901	33,900	1
EXPENSE FOR FEES AND COMMISSIONS	(12,388)	(12,388)	-	(10,667)	(10,667)	-
<b>NET FEE AND COMMISSION INCOME</b>	<b>23,979</b>	<b>23,978</b>	<b>1</b>	<b>23,234</b>	<b>23,233</b>	<b>1</b>
NET TRADING GAIN	5,916	5,916	-	5,795	5,795	-
GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-	-	-	-	-
GAIN/(LOSS) FROM ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	-	-
GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	6,936	6,936	-	5,809	5,809	-
INCOME FROM OTHER INVESTMENTS IN EQUITY SECURITIES	957	957	-	1,479	1,479	-
NET FOREIGN EXCHANGE DIFFERENCES	485	356	129	1,512	688	824
OTHER OPERATING INCOME	5,619	5,623	(4)	11,209	10,410	799
<b>TOTAL OTHER INCOME</b>	<b>19,913</b>	<b>19,788</b>	<b>125</b>	<b>25,804</b>	<b>24,181</b>	<b>1,623</b>
GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(97,142)	(108,743)	11,601	(101,242)	(111,305)	10,063
IMPAIRMENT ALLOWANCE AND PROVISIONS	(35,543)	(35,627)	84	(17,640)	(17,660)	20
OTHER OPERATING EXPENSES	(6,654)	-	(6,654)	(6,133)	-	(6,133)
<b>TOTAL OTHER EXPENSES</b>	<b>(139,339)</b>	<b>(144,370)</b>	<b>5,031</b>	<b>(125,015)</b>	<b>(128,965)</b>	<b>3,950</b>
<b>PROFIT BEFORE TAX</b>	<b>(15,265)</b>	<b>(15,265)</b>	<b>-</b>	<b>1,875</b>	<b>1,875</b>	<b>-</b>
INCOME TAX EXPENSE	2,651	2,651	-	(822)	(822)	-
NET PROFIT FOR THE YEAR	(12,614)	(12,614)	-	1,053	1,053	-
<b>EARNINGS PER SHARE (IN HRK)</b>	<b>(18,86)</b>	<b>(18,86)</b>	<b>-</b>	<b>1,57</b>	<b>1,57</b>	<b>-</b>



The difference of HRK 40 thousand (2013: HRK 577 thousand) on the line-item Interest and similar income relates to the exchange differences on interest income.

The difference of HRK 5,117 thousand (2013: HRK 4,997 thousand) on the line item Interest and similar expense relates mainly to savings deposit insurance premiums, which amount to HRK 5,027 thousand (2013: HRK 4,749 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 90 thousand.

The difference in "Other non-interest income", except for exchange differences, refers to the reclassification of collected written off debts from impairment in other operating income in the amount of 4 thousand HRK.

The difference in "General and administrative expenses", 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 7,493 thousand HRK 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 80 thousand HRK and other non-interest expenses in the amount of 6,574 thousand HRK in general and other administrative expenses.

Comparatives for the balance sheet at 31 December 2014 and 31 December 2013:

	2014 CROATIAN NATIONAL BANK  UNAUDITED HRK '000	2014 ACCOUNTING REQUIREMENTS FOR BANKS  HRK '000	2014 DIFFERENCE  HRK '000	2013 CROATIAN NATIONAL BANK  UNAUDITED HRK '000	2013 ACCOUNTING REQUIREMENTS FOR BANKS  HRK '000	2013 DIFFERENCE  HRK '000
<b>ASSETS</b>						
CASH AND DEPOSITS WITH THE CROATIAN NATIONAL BANK	351,481	430,084	(78,603)	346,849	481,164	(134,315)
TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	-	-	-	96,123	-	96,123
FINANCIAL ASSETS AVAILABLE FOR SALE	663,843	446,429	217,414	634,075	481,962	152,113
FINANCIAL ASSETS HELD TO MATURITY	147,712	88,896	58,816	84,793	27,191	57,602
PLACEMENTS WITH AND LOANS TO OTHER BANKS	124,165	47,901	76,264	184,203	62,682	121,521
LOANS AND RECEIVABLES	1,524,875	1,823,684	(298,809)	1,572,521	1,887,966	(315,445)
INVESTMENTS IN SUBSIDIARIES	4,770	4,770	-	4,770	4,770	-
REPOSSESSED ASSETS	44,223	-	44,223	16,418	-	16,418
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	80,988	131,069	(50,081)	126,959	126,855	104
DEFERRED TAX ASSETS	8,148	8,148	-	5,957	5,957	-
OTHER ASSETS	95,036	64,260	30,776	30,459	24,580	5,879
<b>TOTAL ASSETS</b>	<b>3,045,241</b>	<b>3,045,241</b>	<b>-</b>	<b>3,103,127</b>	<b>3,103,127</b>	<b>-</b>
<b>LIABILITIES</b>						
DUE TO OTHER BANKS AND DEPOSITS FROM CUSTOMERS	2,444,830	2,473,002	(28,172)	2,490,960	2,535,751	(44,791)
PROVISIONS FOR LIABILITIES AND CHARGES	3,936	3,907	29	3,936	4,186	(250)
OTHER LIABILITIES	82,683	53,282	29,401	84,121	37,772	46,349
<b>TOTAL LIABILITIES</b>	<b>2,531,449</b>	<b>2,530,191</b>	<b>1,258</b>	<b>2,579,017</b>	<b>2,577,709</b>	<b>1,308</b>
HYBRID AND SUBORDINATED INSTRUMENTS	129,562	131,571	(2,009)	129,159	131,162	(2,003)
<b>SHAREHOLDERS' EQUITY</b>						
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	(12,614)	(12,614)	-	1,053	1,053	-
UNREALISED GAIN / (LOSS) FROM FAIR VALUE ADJUSTMENT OF AVAILABLE FOR SALE ASSETS	(10,952)	-	(10,952)	(13,249)	(13,249)	-
RESERVES	148,363	136,660	11,703	147,714	147,019	695
<b>TOTAL EQUITY</b>	<b>384,230</b>	<b>383,479</b>	<b>751</b>	<b>394,951</b>	<b>394,256</b>	<b>695</b>
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>3,045,241</b>	<b>3,045,241</b>	<b>-</b>	<b>3,103,127</b>	<b>3,103,127</b>	<b>-</b>

The most significant differences on the balance-sheet items arise from the different classification of interest receivable and payable. In the balance sheet prepared under the CNB Decision on the Structure and Content of the Annual Financial Statements of Banks, interest receivable and payable is presented under the line items Other assets and Other liabilities, respectively, whereas in the statutory balance sheet under the accounting requirements for banks in the Republic of Croatia they are presented as asset and liability items 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 188,015 thousand (2013: HRK 134,316 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 financial statements, placements with customers represent placements on the basis of discounted bills of exchange and receivables from factoring in the total amount of HRK 282,446 thousand (2013: HRK 309,763 thousand) 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 222,717 thousand of discounted bills are included into available-for-sale assets (2013: HRK 252,096 thousand) whereas receivables from factoring in the amount of HRK 59,729 thousand (2013: HRK 54,617 thousand) are included in financial assets held to maturity.

Under the CNB requirements, foreclosed assets are reported separately, whereas in the audited financial statements they are included in Other assets in the amount of HRK 44,223 thousand. In the audited financial statements, small inventory in the amount of HRK 83 thousand (2013: HRK 104 thousand) is included in Other assets, whereas under the CNB Decision it is included in the line item Property, plant and equipment, and intangible assets.

Deferred tax assets of HRK 8,148 thousand (2013: HRK 5,957 thousand) are reported separately in the audited financial statements, but are included in Other assets according to the CNB Decision.

## Liabilities and equity

Under the CNB Decision, the line-item Other liabilities includes provisions for contingent liabilities and court costs, which are presented in the audited financial statements as a separate line item in the total amount of HRK 3,907 thousand (2013: HRK 4,186 thousand).

Under the CNB requirements, the line-item Statutory and other capital reserves includes reserves formed on the basis of unsold flats with tenancy rights in the amount of HRK 751 thousand (2013: HRK 695 thousand), which are included in the audited financial statements in Other liabilities.





